

# **Diocese of Newark**

## **Requirements for Annual Financial Audits**

### Background Information

Congregations are required by The Episcopal Church to have an audit completed each year. There are some that regard it as an obligation—an arbitrary requirement that puts an undue and unfair burden on congregations, many of which may feel they don't have the resources needed to comply. In some cases, it may not even be clear why congregations are required to comply.

The requirement for each congregation to conduct an audit each year, however, is more appropriately considered to be a part of our stewardship of the assets given to us to manage. Each of us is a steward of the many assets that God has given to us and, as stewards, we need to effectively exercise our responsibilities.

Exercising good stewardship begins with being accountable for the assets entrusted to our care, and an annual audit helps all of us to be accountable.

### Purpose for Audits and General Instructions

The Canons of The Episcopal Church requires that all accounts of parishes and missions “be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant, or such audit committee as shall be authorized by the . . . appropriate diocesan authority.”

The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him or her against suspicion of mishandling those assets. Similarly, Clergy, Vestries, Treasurers and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

In addition, an announcement to the congregation that a completed audit revealed that all monies and investments have been properly accounted for can have a positive impact on stewardship, as well as their confidence in the leadership of the church.

### Types of Acceptable Audits Audits by Independent CPAs

While the Canons permit audits (“Committee Audits”) to be performed by members of the church (the “Parish Audit Committee”) – see below – there are certain churches that, due to their size or complexity of operations (e.g., those with schools), should have an audit performed by an independent CPA because such an audit will generally provide a higher level of assurance than a Committee Audit.

CPAs that perform audits may also provide other types of services, including ones termed “reviews” or “compilations.” Note that neither reviews nor compilations alone are acceptable as substitutes for an audit, as they do not include steps required such as routine audit procedures; in fact, the CPAs themselves will issue a report that specifically indicates that such a service is not an audit. If a church determines that it would still like to retain the services of a CPA firm to perform a review or compilation, it must also have the CPA complete the Audit Checklist (see below) or have a Parish Audit Committee complete the Audit Checklist.

Audits performed by independent CPAs are encouraged. CPAs should be provided the Supplemental Checklist for CPA’s, which ensures that the outside auditor reviews certain Episcopal Church-specific requirements in addition to routine audit procedures.

#### Audits using the Audit Checklist

As noted above, Alternative Audit Procedures may be performed by Parish Audit Committees or a paid professional. The latter is necessary when there is no independent, financially savvy individual available in the congregation to carry out the Alternative Audit Procedures.

At a minimum the following would comprise the contents of a complete Audit Report under the Alternative Audit Procedure:

- A copy of the Audit Checklist, with any necessary attachments;
- A copy of the Statement of Activity (the Income & Expense Statement) for the year audited;
- A copy of the Statement of Financial Position (the Balance Sheet) or, if a Balance Sheet is not available, a listing of all cash and bank accounts, investments and endowments, liabilities and amounts owed to others, loans, and other debts as of December 31 of the year audited;
- The Audit Committee Report and Findings;
- Referral Agreement and General Release (if the audit is performed by volunteers).

#### Members of the Parish Audit Committee

Parish Audit Committee members should be independent of the decision-making and financial record keeping functions of the congregation. The audit may be completed by an accountant who is competent to perform an audit alone (e.g., a person who has past auditing experience) or it should be performed by two or more members, at least one of whom is a financial expert. You may find it preferable to have three or more members, depending on the size, number, and complexity of the accounts to be audited. Individuals who were members of the executive committee during the year being audited should not be members of the Parish Audit committee.

At least one member of the Audit Committee conducting a Committee Audit must be qualified by the CFO as “audit trained.” Any individual licensed as a CPA or CMA is automatically qualified. All others must undergo diocesan training, either in person at a seminar or by watching a training video.

Information Regarding Committee Audits and Audits by Independent CPAs  
Accounts to be Audited

All accounts must be audited. This audit requirement covers not only the operating accounts of the church, but all of its restricted, endowment, property, and other funds. No church money is exempt from the requirement of an audit. As an example, some churches have an Altar Guild account, an ECW account, a rector's discretionary account, and the like. *All of these accounts are to be audited.*

Review of Audit and Findings by Vestry

One of the purposes for conducting an annual audit is to provide assurance that the financial books and records, and the financial reports generated from those books and records, are reasonably accurate. Since the Vestry is responsible for the proper and accurate maintenance of records and oversight of the assets of the congregation, the completed audit helps to ensure that they are carrying out their fiduciary responsibilities as Vestry members.

As part of the audit, it is common to find areas of possible improvement in the policies and procedures that are in place to make the maintenance of the records more efficient and to ensure, for example, that there are adequate controls in place with regards to cash receipts and disbursements.

*It is the responsibility of the Vestry to receive and review the completed audit report, together with all of the required documents, prior to it being submitted to the Diocese. This review and acceptance of the report should be documented in the Vestry meeting minutes.*

Deadline for Submission of Completed Audits

Completed audits, whether a Committee Audit or one performed by independent CPAs, are due to be submitted no later than September 30<sup>th</sup> of each year. In practice, this means that the audit must be complete in advance of the vestry's September meeting, so that the report can be reviewed and accepted prior to submission to the diocese.

*Please be sure that all required documents are submitted.*

Assistance

If you have any questions about the requirements for the annual audit, who can be a member of the Parish Audit Committee, or other matters, you should contact the Chief Financial Officer.

If you have questions about specific audit steps included in the Audit Checklist, contact the Chief Financial Officer. There are individuals in the Diocese who have expertise in performing audits, and we want to assist you in any way we can.