



Diocese of Southern Ohio

Diocese of Southern Ohio (DSO) Process

Pre-Audit Actions Using Outside Auditor: If you are having an external audit done, when meeting with the auditors, be prepared to discuss your plans and objectives. Auditors are in the position to advise you and serve your interest when they understand the goals you have set and when you can clearly explain what you expect and hope to get from their services.

Keep good records and do not use professional time for routine work, such as gathering information. Keep your auditor informed of changes and new directions in the congregation. The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

A copy of the *Manual of Business Methods in Church Affairs* should be made available to the auditors.

Parishes in Transition: If your parish is between rectors then you are required to have a CPA audit of all of your accounts. The audit should take place for the year the rector leaves the parish. See the special audit procedures for a parish in transition.

Note: the transitional audit is ONLY required for churches who are seeking a new full time rector, not churches who experience changeover due to use of supply priests or congregations without a rector.

Blended Congregation Parishes: The Diocese is experiencing the dynamic of parishes with blended congregations. This situation presents a unique opportunity for the parish to establish agreed upon procedures for annual audits that meet the needs of the parish and are acceptable to both denominations. DSO encourages these type of parishes to address their audit processes with both denomination oversight bodies prior to moving forward to complete their audit.

The Committee Examination: Diocesan Canons permit a parish to undertake an audit by committee. To accommodate parishes with varying financial resources, the DSO Finance Committee has prepared workbooks based on three conditions:

- a. parishes with total expenses less than \$150,000;
- b. parishes with total expenses less than \$600,000 but greater than \$150,000;
- c. parishes with total expenses greater than \$600,000.

Audit committee members will be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should include at least one financial expert or person with auditing experience. An audit committee may consist of two or more individuals. A typical audit committee has three or four members. The actual number of members should be determined by the size and scope of the audit.

Scope of the Committee Examination: The scope of the audit shall include:

- a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
- b. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in the Manual of Business Methods in Church Affairs – Bookkeeping Section.

Statements to be Audited: All accounts related to the parish must be audited.

Certified Public Accountant: Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements not only the operating accounts of the organization, but also all of its restricted, endowment, and property funds, and the accounts, if any, of its affiliated organizations. **No church money is exempt from the requirement of an audit.** If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.

Objectives of the Audit: The major objectives of an audit of the financial statements of a congregation are to ascertain the following:

- a. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
- b. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
- c. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no “off the books” accounts or activity;
- d. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;
- e. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
- f. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of Timing of the Audit: The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year. The engagement of the auditor should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures that can only be performed at year-end.

Contents of the Audit Report: The auditor/committee is responsible for submitting an audit report to the Vestry of the church. The Audit Report, due by September 1, shall consist of:

- a. The Report of the Independent Auditor (or Audit Committee Certificate in the case of a Committee Examination);
- b. The Statement of Financial Position (Balance Sheet);
- c. The Statement of Activities (Profit and Loss Statement);
- d. The Audit Committee Findings/Recommendations;
- e. The Audit Report of the Rector's Discretionary Fund; and
- f. A corrected parochial report as a result of audit adjustments, if applicable.

Filing of the Audit:

- a. If an external auditor is used, prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been made available for audit and there are no funds omitted.
- b. Upon completion, the Audit Committee shall present the audit report to the Senior/Junior wardens, the Rector and Treasurer, if applicable.
- c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer or other responsible persons and within 30 days their written response, attached to the audit report, is presented to the Vestry.

Audit Guidelines for Congregations

The Vestry receives the audit report upon completion.

A copy of the audit report should be filed, either electronically or through regular post, with the Financial Offices of the DSO not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the DSO.

If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, including the Vestry and the Finance Officer of the DSO.