

Hope Lutheran Church Nanaimo Policies

Our Mission: To live Christ's teachings and share them with others,
to nurture and strengthen spiritual growth to embody Christ in the world.

D – 006 Guidelines for Annual Church Audit

Draft: Jan Nilsson January 4, 2004

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1. INTRODUCTION

Hope church council shall "appoint annually an **auditing committee** which shall make report to the annual meeting." When properly done, an audit will assure members of the congregation that their money was used for its intended purpose. Improper recording or reporting will be detected so it can be corrected. It will point to errors in judgment and poor organization. A non-professional audit may be a sharing of uncertainty, but sometimes it's the only alternative available.

2. PRINCIPLES

To ensure congregational funds are used for their intended purpose.

3. APPLICATIONS AND PRACTICES

Guidelines for auditing procedure:

3.1. Income.

Check for proper accounting and control of offerings, rental income, and other income.

3.2. Expenditures

Check for proper accounting and control of expenditures.

3.3. Petty Cash Funds

Check for control of Petty Cash Funds. Examine disbursement vouchers.

3.4. Debt Retirement

Debt balances to all lenders should be verified in writing. Examine loan conditions and repayment schedules.

3.5. Insurance Policies

Check policies' coverage, premium, payment terms and expiration date. Does the coverage appear adequate? Is the treasurer bonded? Presently, the ELCIC has a blanket bond covering the elected treasurers and financial secretary.

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3.6. Investments

Check amounts, interest, and conditions of all such accounts. Has interest been recorded? Are securities on hand and in a safe place?

3.7. Government Reports

Check that the Registered Charity Information Return and Public Information Return have been filed with the Charitable and Non-Profit Organizations Section and that the annual report, financial statements and fees have been filed under the Corporations Act of the province, if applicable.

3.8. Minutes

Church Council minutes usually authorize certain expenditures and financial activity. The committee should review the minutes.

3.9. Test Checking

- a. If the auditing committee were to examine every entry in the records and every document supporting those entries, it would involve a tremendous amount of time. Such a thorough examination may not be necessary. The committee is primarily concerned about control and accuracy. When internal control centers on one person, the risk for problems is higher.
 - More than one person should count the offerings.
 - The treasurer (or the individual preparing and recording church expenditures) should not be involved in counting offerings and preparing bank deposits.
 - Records of individual contributions should not be kept by the same people who count the offering and make the deposit nor the one who writes the cheques.
 - Bank statements and cancelled cheques should be mailed to (and reviewed by) a separate person other than the treasurer (i.e., the Secretary of the Congregational Council).
 - Regular monthly reporting of church receipts and disbursements is important. The timeliness of the reporting is critical.
- b. Instead of going through every item in detail, the committee can check the accuracy of the financial records through TESTS & SAMPLES. To test the financial records means to examine a part of or a sample of all the financial transactions to determine accuracy. By examining a part of the records, the committee can draw conclusions about the whole set. A BLOCK SAMPLE usually includes all the items in one section or sequence. For example, in checking the cash expenditures, the committee might decide to examine all cheques numbered 500-650, or all cheques issued in December and May. They could verify the pledges and amounts received from all contributors whose last names begin with J-M.

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- c. Another method is RANDOM SAMPLING. For example, the committee may wish to examine fifty cheques out of the 500 which were written. An easy way would be to examine every 10th cheque.
- d. In STRATIFIED SAMPLING the material is divided into groups. A guideline for stratified sampling might read: The committee will examine all expenditures over \$3000 and 5 of those under \$3000 in the months of September and July.
- e. Stratified sampling is preferable.
- f. When samples detect numerous errors, or errors which are serious in nature, the committee will want to expand it's testing. The sampling technique will work and save time, but it also requires judgment on the part of the committee.

3.10. Audit Report

THE AUDITOR'S REPORT to the Congregational Council or congregation should be complete and fair. Errors in recording and reporting are not necessarily indicators of fraud. Many church treasurers are untrained, but willing to give of their time. A kind word and a helpful suggestion will go a long way in improving their skill. When properly done, the Annual Audit signals to the congregation that their leadership takes its stewardship responsibility seriously.

4. REFERENCES

Document "Guidelines are offered for annual church audit" by Dan Skaret, Office for Finance & Management ELCIC, Winnipeg, Manitoba