

## THE FINANCIAL AUDIT

Canon SIX 2(1)(d) states that financial statements are to be “duly audited by a professional accountant or by two competent persons”. There are essentially two reasons for this requirement. The first is to provide a second look at the financial information that is being presented to the congregation at the annual meeting. It is a verification that information being presented accurately reflects the true financial picture of the corporation. In this sense the audit is of benefit to the parish.

The second reason for an audit is to provide treasurers with assurances that their work is correctly represented in the financial statements. In this sense the audit is of benefit to the Treasurer, as an officer of the corporation.

The audit is not a “questioning” of the integrity of the treasurer, nor does it reflect a concern over the veracity of the financial statements. It is simply a device to provide independent opinion on the statements themselves.

There are essentially three areas that the audit will focus on; disbursements, receipts, and miscellaneous financial transactions. There is also a degree to which an audit can look at the administrative operation of the Parish in general although that may be beyond the scope of the audit envisioned in the Canon.

Simply carrying out the audit in itself is but one part of the process. The other is to report and to that end there must be a statement signed by the auditors attesting to the fact that the audit has been carried out. The auditors may also wish to report to the corporation with respect to weaknesses observed in the systems being used or in the overall administrative processes which are in place.

The following pages outline some of the necessary steps in doing a basic financial audit. It is designed to be a guideline for the use of the persons appointed to carry out the audit function. It should not be considered a definitive list of “things to do” and the auditors should not feel themselves restricted to these steps.

In summary the treasurers’ function in dealing with the financial life of the Parish is one of great importance. The audit provides piece of mind for the treasurers and gives assurances to the congregation that the financial statements accurately reflect the financial picture of the Corporation.

### GENERAL INSTRUCTIONS AND COMMENTS:

Carrying out an audit does not entail doing the treasurer’s work over again. Nor does it entail a check of every single transaction the treasurer has recorded. It is necessary for the auditors to do checks on random samples of transactions. This may mean choosing certain months and doing an exhaustive check on transactions processed in those months. It may include a detailed check of certain types of transactions such as all offering deposits and recording of same. It may be that the auditors will divide the work with one doing disbursements, another doing receipts. The important point is that no matter what form or scope the audit takes it must be more than a perfunctory effort. It must be detailed enough to be reliable and thorough enough to provide the desired level of assurances that are implicit in the Canon.

## **AUDIT CHECK LIST - DISBURSEMENTS:**

- [ ] Ensure there are adequate source documents (invoices, memos, budget etc) for all disbursements and that the corporation is appropriately named in those documents. Note: statements are not considered an adequate source documents without the accompanying invoices.
- [ ] Ensure source documents are adequately authorized by the Corporation for payment (via initials by authorized parties, reference to minutes, budget etc) and marked "paid" with reference to appropriate cheque number.
- [ ] Ensure all cheques are signed by two persons, duly authorized by the Corporation to serve as signing officers.
- [ ] Ensure all cheque numbers are accounted for (even those that were cancelled).
- [ ] Ensure expenses are paid on a timely basis so that any discounts are maximized and penalties avoided.
- [ ] Ensure payroll remittances are processed on a timely basis (employees paid when due, withholdings remitted to Revenue Canada and Synod within the legislated time frames, and if applicable central payroll assessments paid to Synod within the established time limit).
- [ ] Ensure the disbursements journal is properly added and balances carried forward.
- [ ] Ensure the total of expenses is properly noted in the financial statements.
- [ ] Ensure any purchases of a major nature or any investment purchases are adequately authorized and reflected in statements.

## **AUDIT CHECK LIST - RECEIPTS**

- [ ] Ensure deposits of offerings and other income are properly recorded in the cash journal and are in agreement with the bank statements.
- [ ] Ensure all income is deposited in a timely manner.
- [ ] Ensure adequate records are kept regarding envelope offerings so that individuals receive proper credit for their gifts.
- [ ] Ensure cheques are immediately endorsed to prevent loss or theft.
- [ ] Ensure contributions to special funds are properly allocated in the books of account.
- [ ] Ensure donations received via mail or personal delivery are receipted and recorded.

## **AUDIT CHECK LIST - MISCELLANEOUS**

- [ ] Ensure that a monthly reconciliation is done on all bank accounts and that it includes a listing of outstanding cheques and deposits.
- [ ] Ensure there are no cash withdrawals from bank accounts and that non-cheque entries are properly authorized .
- [ ] Ensure all non-cheque/non-deposit entries are appropriately recorded in the books of account.
- [ ] Ensure signing officers have been updated and that bank account agreements are current.
- [ ] Ensure cheques are not signed in advance.
- [ ] Ensure offerings are counted by two persons, recorded in the Vestry Book, and banked immediately.
- [ ] Ensure any debt is approved by the Corporation and is accurately reported in the financial statements. ]
- [ ] Ensure that any mortgages, or other debt instruments have been properly signed by appropriate parties, including the Bishop/Diocese where applicable, and the corporate seal affixed where necessary.
- [ ] Ensure investments held by the Parish, including those in the Diocesan Consolidated Investment Fund, are properly valued and recorded in the financial statements.
- [ ] Ensure proper authorization is in place for any withdrawal of investment fund(s) capital

## **AUDIT CHECK LIST - TAX RECEIPTS**

As a registered charity, parishes may issue tax receipts to acknowledge gifts from individuals and corporations. Those receipts are then used by the donors, to reduce their income tax. The issuing of receipts is a privilege that is to be very carefully guarded and is not to be taken lightly. Adequate controls must be in place to ensure the accuracy and validity of all receipts issued. The audit should include a check in this area of parish administration to help safeguard the tax exempt status of the Parish Corporation.

- [ ] Ensure that envelope records are maintained and tax receipts are issued on a timely basis.
- [ ] Ensure tax receipts are numbered, that all numbers are accounted for and that copies are kept on file.
- [ ] Ensure tax receipts contain all required information
- [ ] Ensure that no tax receipt is issued for any gift that cannot be directly attributed to a specific donor.
- [ ] Ensure tax receipts are signed only by duly authorized persons and that tax receipts are not signed in advance of being completed.

- [ ] Ensure there is a specific process for replacing lost receipts.
- [ ] Ensure that the amounts showing on receipts can be matched to funds recorded in the parish books.
- [ ] Ensure that any tax receipts for "gifts in kind" (ie. gifts other than money) are issued for amounts that are readily verifiable.
- [ ] Ensure that when it is necessary to issue a receipt for funds other than a gift (eg., an insurance settlement), that counter receipts (as opposed to tax receipts) are issued.

December 2005

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**AUDITORS CERTIFICATION**

To: The Parish of \_\_\_\_\_

Re: Fiscal Year ending December 31, \_\_\_\_\_

I/We, the undersigned, having been duly appointed, have reviewed the financial accounts and the statements submitted to the Annual Meeting of the Parish of \_\_\_\_\_. In addition, we have reviewed any applicable certificates of investment.

In our opinion, the records maintained by the Treasurer are properly represented in the Year End Financial Statements presented to the Annual Meeting and accurately reflect the financial transactions of the Parish. The cash and investment balances properly state the financial position of the Parish.

Our review examined only the recording of the various transactions and does not purport to pass any judgement on the merit of the expenditures.

Respectfully submitted,

\_\_\_\_\_ Auditor

\_\_\_\_\_ Auditor

Date: \_\_\_\_\_

Notes:

This form should accompany the financial statements presented to the annual meeting. If the auditors are to on any observations regarding processes and procedures then that report should be made to the Corporation.

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