



Policy Number: FIN0002	Ministry: Stewardship
Internal Financial Audits	

# Revision History

Revision	Changes	Date
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## **I. Introduction**

The Constitution and By-Laws of Ridgeview Baptist Church require an annual Internal Audit of Financial Processes, to be conducted by the Stewardship Committee. This policy defines the process for conducting the annual Internal Financial Audit.

## **II. Purpose**

The purpose of the internal audit is to ensure that the organization's system of internal controls is operating as intended and to verify that policies are being followed.

### **1. Benefits of Conducting an Audit**

- Protect the persons your elected to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- Build the trust and confidence of the financial supporters of Ridgeview in the way their money is being accounted for;
- Set habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability;
- Assure that contributions made with special conditions attached are consistently administered in accordance with the donors' instructions, and thereby letting donors know their contributions are being used as intended;
- Provide checks and balances for sums received and expended.

*An audit is not a reflection on the competence or integrity of our financial staff. Rather, it is a routine procedure designed to protect both the staff and Ridgeview*

### **2. Audit Achievements**

An audit will:

- Independently verify the reports of the treasurer(s);
- Follow the funds and see if proper steps are being taken in handling them;
- Document that donated funds have been used as stipulated by the donors.

In addition to tracking the cash through the system, an auditor typically will evaluate:

- Accounting controls (systems that reduce the possibility of loss or errors.);
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances);
- Reasonableness of systems and procedures in the light of all factors, including the size of Ridgeview and its budget;
- Adequacy of insurance coverage;
- Provide records that show donors' stipulations for the use of contributions

### **3. Audit Frequency**

The Constitution and By-Laws of Ridgeview Baptist Church requires the Stewardship Committee to conduct a Financial Audit annually. This annual requirement will be considered the minimum frequency for conducting financial audits.

## **III. Pre-Audit Planning**

The following are suggested guidelines for conducting an audit. The audit team will determine the amount of information they require and may not include each item listed.

- Obtain copies policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
- Obtain a listing of all bank and investment accounts, including the person authorized to sign on each, and including any special use accounts under the control of the pastor(s) or administrator and in the name of the Ridgeview.
- Identify the individuals with responsibility for financial operations and decisions by name and position.
- Identify Committee chair holders.
- Obtain a copy of the previous audit. This will enable you to verify the beginning balances of the assets, liabilities, and net assets.
- Obtain financial reports for the current year
- Obtain bank reconciliations and bank statements for December.
- Obtain original books of entry, which will be the general and subsidiary journals; for those books that are computerized, a print-out of all transactions by account for the entire year.
- Perform a preliminary analytical review of the financial statements. This may consist of a comparison of the current accounts to the previous year balances and to the budgeted amounts. After this is done, arrange a meeting with the Treasurer. Inquire as to any significant variances noted in the preliminary analytical review. Also ask the Treasurer about any matters noted in the reading of the minutes and ask about any other matters, which may have occurred during the year in which you should be aware of before beginning the audit.
- Refer to Section IV for Sample audit questions.

#### IV. Sample Audit Questionnaire

The following are suggestion audit points for conducting the Financial Audit. Actual statements may vary as determined by the Stewardship Committee.

Mark each question, statement with either a Y for Yes, a N for No and a N/A for Not Applicable.

##### 1. FINANCIAL STATEMENTS

- \_\_\_ Are monthly financial statements prepared on a timely basis and submitted to the church board or appropriate person or committee?
- \_\_\_ Do the financial statements include all funds (unrestricted, temporarily restricted, and permanently restricted)?
- \_\_\_ Are account balances in the financial records reconciled with amounts presented in financial reports?

##### 2. CASH RECEIPTS

###### *General*

- \_\_\_ Are cash handling procedures in writing?
- \_\_\_ Are procedures established to care for offerings and/or monies delivered or mailed to the church office between services?

###### *Offering counting for Churches*

- \_\_\_ Are at least two unrelated members of the counting committee present when offerings are counted?
- \_\_\_ Do money counters verify that the contents of the offering envelopes are identical to the amounts written on the outside of the envelopes?
- \_\_\_ Are money counters rotated so the same people are not handling the funds each week?
- \_\_\_ Are donor-restricted funds properly identified during the process of counting offerings?

###### *Depositing of funds*

- \_\_\_ Are two members of the offering counting team in custody of the offering until it is deposited in the bank, placed in a night depository, or the church's safe?
- \_\_\_ Are all funds promptly deposited? Compare offering and other receipt records with bank deposits.
- \_\_\_ Are all receipts deposited intact? Receipts should not be used to pay cash expenses.

###### *Restricted funds*

- \_\_\_ Are donations for restricted purposes properly recorded in the accounting records?
- \_\_\_ Are restricted funds held for the intended purpose(s) and not spent on operating needs?

### **3. DONATION RECORDS/RECEIPTING**

- \_\_\_Are individual donor records kept as a basis to provide donor acknowledgments for all contributions?
- \_\_\_If no goods or services were provided (other than intangible religious benefits) in exchange for a contribution, does the receipt include a statement to this effect?
- \_\_\_If goods or services (other than intangible religious benefits) were provided in exchange for a contribution, does the receipt inform the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of the amount of any money and the value of any property contributed by the donor over the value of the goods and services provided by the organization, and provide the donor with a good faith estimate of the value of such goods and services?
- \_\_\_Although not required by the IRS, has your organization adopted a policy of issuing an annual contribution report to donors listing at least each week's donations, if not each donation?
- \_\_\_Are the donations traced from the weekly counting sheets to the donor records for a selected time period by the audit committee?

### **4. CASH DISBURSEMENTS**

- \_\_\_Are all disbursements paid by check except for minor expenditures paid through the petty cash fund?
- \_\_\_Is written documentation available to support all disbursements?
- \_\_\_If a petty cash fund is used, are vouchers prepared for each disbursement from the fund?
- \_\_\_Are pre-numbered checks used? Account for all the check numbers including voided checks?

### **5. PETTY CASH FUNDS**

- \_\_\_Is a petty cash fund used for disbursements of a small amount? If so, is the fund periodically reconciled and replenished based on proper documentation of the cash expenditures?

### **6. BANK STATEMENT RECONCILIATION**

- \_\_\_Are written bank reconciliations prepared on a timely basis? Test the reconciliation for the last month in the fiscal year. Trace transactions between the bank and the books for completeness and timeliness.
- \_\_\_Are the bank reconciliation reports signed and dated?
- \_\_\_Are there any checks that have been outstanding over three months?

### **7. SAVINGS AND INVESTMENT ACCOUNTS**

- \_\_\_Are all savings and investment accounts recorded in the financial records? Compare monthly statements to the books.
- \_\_\_Are earnings or losses from savings and investment accounts recorded in the books?

## **8. LAND, BUILDINGS, AND EQUIPMENT RECORDS**

- \_\_\_ Are there detailed records of land, buildings, and equipment including date acquired, description, and cost or fair market value at date of acquisition?
- \_\_\_ Was an equipment physical inventory taken at year-end?
- \_\_\_ Have the property records been reconciled to the insurance coverages?

## **9. ACCOUNTS PAYABLE**

- \_\_\_ Is there a schedule of unpaid invoices including vendor name, invoice date, and due date?
- \_\_\_ Are any of the accounts payable items significantly past-due?
- \_\_\_ Are there any disputes with vendors over amounts owed?

## **10. INSURANCE POLICIES**

- \_\_\_ Is there a schedule of insurance coverage in force? Reflect effective and expiration dates, kind and classification of coverages, maximum amounts of each coverage, premiums, and terms of payment.
- \_\_\_ Is Workers' Compensation insurance being carried if your state requires it?

## **11. AMORTIZATION OF DEBT**

- \_\_\_ Is there a schedule of debt such as mortgages and notes?
- \_\_\_ Have the balances owed to all lenders been confirmed directly in writing?
- \_\_\_ Have the balances owed to all lenders been compared to the obligations recorded on the balance sheet?

## **12. SECURITIES AND OTHER NEGOTIABLE DOCUMENTS**

- \_\_\_ Does the organization own any marketable securities or bonds? If so, are they kept in a safety deposit box?
- \_\_\_ Have the contents of the safety deposit box been examined and recorded?

## **13. PERSONNEL MATTERS**

*Does the organization maintain the following documents?*

- \_\_\_ Applications for employment
- \_\_\_ W-4 forms for each employee
- \_\_\_ Personnel files
- \_\_\_ Performance appraisal and evaluation forms
- \_\_\_ Employee handbook
- \_\_\_ Immigration I-9 form



- \_\_\_\_Are time sheets kept for hourly employees and are they signed by at least one other individual, preferably an immediate supervisor.

#### **14. FEDERAL REPORTING OBLIGATIONS**

- \_\_\_\_Does the organization file on a timely basis the following forms if applicable? Federal payroll tax forms (Form 941, Form W-2, Form W-3, Form 1099-MISC

#### **V. Process**

Take a random sample of all transactions and follow them from point A to point Z. This along with the questionnaire will allow the audit committee to find areas of with weak internal controls, if any exists, and to make recommendations on establishing additional policies, recommend adjustments in procedure, or to simply assure that everything is being handled as intended and it is effective, efficient, legal, and what is best for the good of the church.

#### **VI. Audit Report – Preparation**

Findings may be prepared as a separate report or as part of the audit report. Provide findings and recommendations to the pastor, treasurers, secretary, and have them sign off that they acknowledge the findings and will work to correct them in the future. A summary of the findings should be included in the audit report to be included in the financials presented to the church. . This final step is accomplished in the form of an audit report signed by the members of the Audit Committee and attached to the annual financial reports. The language of the report should consider the following:

- 1) the subject of the audit report, namely the annual financial reports;
- 2) what the Committee did, namely audit the records and reports;
- 3) the limitations of the Committee’s work, namely that it is not a guarantee of accuracy; and
- 4) an opinion on the fairness of the records and reports.

The Committee may also wish to include in its report a word of commendation for the tireless work of the church treasurer and financial secretary. This would certainly be in the Christian spirit of lifting up the efforts of these individuals before the congregation they serve. A sample audit report is presented below.

#### **VII. Audit Report Example**

Report of the Audit  
Committee

To:                   The Church Leadership and Membership

Date:

We have audited the records and the financial reports of Ridgeview Baptist Church dated xx/xx/xxxx and contained herein. While our audit was limited to testing the transactions and balances and would not necessarily disclose all errors, we found no evidence of significant errors or omissions. In our opinion, the financial reports mentioned above are fairly stated.

We wish to commend the treasurer, financial secretary, and assistant treasurer for their fine work during the year. On behalf of the congregation, we thank them for the gift of their time and talent.

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John Smith - Auditor

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Mary Jones - Auditor

## VIII. References

<http://www.freechurchaccounting.com/churchaudit.html>

<http://www.freechurchaccounting.com/internalauditchecklist.html>

<http://www.ctconfucc.org/resources/pdfs/auditprogramsec10901.pdf>

[http://macucc.s3.amazonaws.com/299EE33F55604F28B198F259B11FC324 Handbook%20for%20Church%20Audit%20Comm..pdf](http://macucc.s3.amazonaws.com/299EE33F55604F28B198F259B11FC324%20Handbook%20for%20Church%20Audit%20Comm..pdf)