



Episcopal Diocese of North Dakota

Audit Policy and Guidelines

The Constitution and Canons of the Episcopal Diocese of North Dakota (as amended and re-enacted by Diocesan Convention, October 29, 2011) states, in [Canon 10: Business Methods, Section 1](#), "The Diocese, and every Congregation, must observe and comply with the 'standard business methods' as set out in Canon I.7.1 of the Canons of the Episcopal Church."

[Title I, Canon 7, Section 1 \(f\)](#) of The Constitution and Canons of the Episcopal Church, 2012 states that "All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant. All accounts of Parishes, missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority."

Continuing, [Section 1\(g\)](#) states that "All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year."

Which Accounts Shall be Audited?

All accounts of the institution include:

1. Operating Accounts
2. Restricted or Trust Accounts
3. Discretionary Accounts
4. Parish/Mission Organizations
5. Any other accounts using the church's ID number.

Who May Perform the Audit for Parishes, missions and other Institutions?

1. An independent Certified public Accountant
2. A Licensed public Accountant
3. An audit committee of two or more members of the parish/mission or of another parish/mission, appointed by the Vestry/Bishop's Committee, none of whom shall have acted as Treasurer or the person handling receipts or keeping the records of original entry during the period being audited.

When Must the Audit be Completed?

1. The audit should be scheduled by February 1st, and the scheduled date of the audit and identity of the auditor should be noted on the annual Parochial Report. Generally, the engagement of the auditor should be done prior to the end of the period being audited. This permits the auditor to include certain audit procedures which can only be performed at period end.
2. Upon completion, the audit report shall be submitted to the Vestry or Bishop's Committee for approval.
3. A copy of the audit report, including the Checklists completed during a Committee Audit, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations made by the auditors or Audit committee, shall be filed with the Diocesan Bishop not later than September 1st of each year.

What is the Purpose of an Audit?

1. Any person handling monies of the church needs an audit to protect the church assets and him/herself against suspicion of mishandling of funds. Similarly, Rectors, Vestries, Vicars, Bishop's Committees, treasurers and other persons in positions of responsibility are 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.
2. The audit should determine that transactions made during the year are recorded in proper amounts and accounts and documented appropriately and that financial statements present fairly the financial position of the congregation.
3. The audit should ensure that, to the extent feasible, adequate internal control procedures were and continue to be in effect. A common misconception is that the only function of an audit is to detect a current, on-going embezzlement. The corollary to this misconception is that an audit is unnecessary if you don't believe that such an embezzlement is taking place. Actually, the best way to prevent and detect fraud is to have in place an adequate accounting system and good internal control. A function of the audit is to ensure that the components of the accounting system and the internal control are in place and in good working order, establishing an atmosphere in which the temptation for embezzlement is less likely to exist.
4. The congregation's knowledge that an audit has been completed and that monies are being managed properly may have a positive influence on stewardship.

What is the End Product of an Audit?

1. A set of financial statements that give a picture of what happened, financially, in the parish or mission during the year and indicate their financial position at year-end.
2. A report expressing the auditor's opinion about the financial statements: that, to the best of his/her knowledge, they present accurately the result of the financial activities for that year. In the case of an audit by committee, this document is referred to as the "Audit Committee Certificate." (See [Chapter VI: Audit Guidelines for Congregations, Section B, page VI-12](#), in the Manual of Business Methods in Church Affairs, 2013.)
3. An internal control letter in which the auditor reports his or her opinion about the control systems in place: the systems that ensure that all income received is properly recorded and deposited in the bank, that expenditures are taking place only when appropriate and properly authorized and that adequate care is being taken of assets, including cash, investments and fixed assets. The letter should include an opinion on the adequacy of the internal controls and may also include suggestions of whether internal controls could be improved. When the audit is done by committee, this document is referred to as the "Committee Audit Findings on Policies and Procedures." (See [Chapter VI: Audit Guidelines for Congregations, Section C, page VI-12](#), in the Manual of Business Methods in Church Affairs, 2013.)

What Procedures Should Be Followed in a Committee Audit?

The Committee shall use the "Audit Program Checklist" ([Chapter VI, Section B, page VI-6](#) of the above referenced Manual) as a guide. [Chapter V: Clergy Discretionary Funds](#), should also be reviewed prior to the audit.

Individuals conducting a committee audit should observe a policy of strict confidentiality with regard to their examination of the church's accounts.

Sources:

[The Constitution and Canons of the Episcopal Diocese of North Dakota, 2011](#)

[The Constitution and Canons of the Episcopal Church, 2012](#)

[Manual of Business Methods in Church Affairs, 2013](#)

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