

Uniting Church SA

Audits (reviews) of small congregations



Introduction

Uniting Church in Australia Regulation 3.8.7 (e) (2012 edition) provides that “Where the gross receipts of a Congregation or body or fund in the year is below a figure that equates to 2.5 times the notional stipend the books of account may be audited and certified by two person who are not qualified in terms of (d) above, but who are, in the opinion of the body responsible, fit and proper persons to undertake the responsibility. Notional stipend for the purpose of this Regulation means the amount determined for the year by the Board of Directors of Benefund Limited.”

Note that Regulation 3.8.7 (f) states “The auditor appointed shall not be a member of the board, council or committee whose accounts are being audited unless a Presbytery with respect to accounts of Congregations or Congregational organizations within its bounds, or the Synod Property Board with respect to accounts of other councils or organisations, determines, at the request of the appointing body, that special circumstances exist. In such case a member of the board, council or committee may be appointed to be auditor.”

Note that if the congregation receives grant monies, it may be a condition of the grant that their books are audited by a qualified auditor, so even if the congregation would otherwise meet the requirements of 3.8.7 (e), it may still need to find a qualified auditor.

It is important for congregations and their reviewers to understand that an audit or review is not a guarantee that the financial statements are 100% correct. The auditor/reviewer does not usually check every individual transaction, but rather a representative sample. The purpose of an audit or review is for an independent person or persons to form a view on whether the information presented in the financial report, taken as a whole, accurately reflects the financial position of the congregation at a given date.

The reports and documents that should be provided to the auditor for review include, but are not limited to:

- Balance Sheet
- Income & Expenditure Statement
- Trial Balance
- General Ledger Detail report (or cash book)
- Bank reconciliations
- If using MYOB, General Journal Report for the year
- Any notes comprising a summary of significant accounting policies and other explanatory notes
- Supporting documentation for transactions (e.g. invoices, deposit slips, bank statements, cheque butts, loan statements, investment statements, term deposit statements)

Materiality is a concept that recognizes the relative importance of certain information to the decision making of the users of that information. The assessment of materiality is a matter of professional judgment, and the auditor or reviewer will take into account the dollar value, the nature of the items or transactions concerned, and the surrounding circumstances. Generally accepted accounting and auditing guidelines suggest that items with a greater than 10% variance are material. This could be individual items, or a number of items that when aggregated create a variance of greater than 10% of the total of that account, category or financial statement. The auditor, after considering all relevant circumstances may determine a different (lower) materiality level. The basis of materiality should be documented.

The example checklists below are based on information contained in the Small Entities Audit Manual published by CPA Australia.

These example audit checklists provide guidance to unqualified auditors/reviewers on the audit tests which may be performed during the audit or review of a small congregation.

It is intended that these checklists be tailored to suit the circumstances of each congregation, taking into account factors such as the following:

- internal controls as a whole and whether these are adequate to ensure that all transactions are properly recorded;

- complexity of the accounting system and associated records;
- volume of transactions and scale of operations;
- risk associated with the entity;
- auditor's/reviewer's knowledge of the congregation.

These recommended procedures are based on the most common account balances and risks for small congregations. Additional procedures will be required where there are additional risks or account balances.

The checklists have been grouped by Financial Statement Elements. Not all elements will be relevant to all congregations (e.g. payroll, receivables, payables, property/plant/equipment). Where a congregation does not have these elements to account for, that section of the check list may be disregarded. Where a congregation *does* have these more complex elements to account for, they should consider whether it would be more appropriate to use a qualified auditor, even if their income does fall below the amount specified in Regulation 3.8.7 (e).

These checklists will assist the unqualified auditors/reviewers to follow a structured approach to checking the congregation's accounts, and to document their processes and findings. They should be retained by the unqualified auditors/reviewers. They do not need to be provided to the Church Council, but any irregularities found should be formally communicated to Church Council in writing.

Additional pages may be required to be attached in order to provide sufficient detail for the "result of testing". If this is the case, auditors/reviewers should ensure their comments are adequately referenced to the relevant section of the checklist.

Example Audit checklists

ITEMS THAT WILL APPLY TO MOST CONGREGATIONS

The Auditor

Items to be tested	YES	NO	N/A	Details
1. Is the gross income of the congregation over 2.5 times the notional stipend? (for 2018, \$140,570)				
2. What are your qualifications i. CPA or CA; or ii. 2 persons as set out in the Uniting Church Regulations (This only applies if gross income of the congregation is less than 2.5 times the notional stipend)				
3. Has your appointment been minuted by the church council?				
4. Are you appointed for all the subentities also?				
5. Is there a fee being charged? If so what is the amount?				
Print Name..... Sign..... Date.....	Print Name..... Sign..... Date.....			

Income and cash receipts

Items to be tested	YES	NO	N/A	Result of testing/Comments
<p>1. Document your understanding of the process involved in recording revenue and receiving payment for all significant revenue streams.</p> <p>Note any weaknesses and report to church council, together with recommendations. Consider audit implications.</p>				
<p>2. Select a sample of receipts from the cash receipts book (or Cash Receipts Journal if using MYOB) and test as follows:</p> <ul style="list-style-type: none"> i. agree details to supporting documentation ii. ensure the receipt is classified correctly iii. agree amounts to stamped bank deposit slips and trace through to bank statements. 				
<p>3. Is Offerings income reasonable by reference to membership numbers and trends from prior years?</p> <ul style="list-style-type: none"> i. count the number of offerings deposits for the year. If this is not 52, determine the reasons. 				
<p>4. Additional procedures deemed necessary to obtain sufficient, appropriate audit evidence.</p>				
<p>Conclusion on accuracy of income & cash receipts.</p>				
<p>Print Name.....</p> <p>Sign.....</p> <p>Date.....</p>	<p>Print Name.....</p> <p>Sign.....</p> <p>Date.....</p>			

Purchases and cash payments

Items to be tested	YES	NO	N/A	Result of testing/Comments
<p>1. Document the system for:</p> <ul style="list-style-type: none"> • Initiating purchases • Confirming receipts of goods/services • Paying creditors. <p>Note any weaknesses and report to church council, together with recommendations. Consider audit implications.</p>				
<p>2. Select a sample of payments made from the cash payments book (or Cash Payments Journal if using MYOB) and test as follows:</p> <ul style="list-style-type: none"> i. agree to supporting documentation, i.e. invoice, supplier statement etc. ii. trace evidence of delivery/receipts of goods iii. ensure the payment is authorised by two signatories iv. trace amounts through to bank statements v. consider appropriateness of account classification 				
<p>3. Review the cash payments book for any large and unusual items and assess overall reasonableness of the payment. Inspect supporting documentation.</p>				
<p>4. Check for the occurrence of payments that should normally be made by most churches e.g. copyright licences, performing rights licences, insurance, fire protection service where applicable</p>				
<p>5. Additional procedures deemed necessary to obtain sufficient, appropriate audit evidence.</p>				
<p>Conclusion on accuracy of purchases & cash payments.</p>				
<p>Print Name..... Sign..... Date.....</p>	<p>Print Name..... Sign..... Date.....</p>			

Cash/bank/deposits

Items to be tested	YES	NO	N/A	Result of testing/Comments
<p>1. Review the bank reconciliation at reporting date as follows:</p> <ul style="list-style-type: none"> i. check that the opening balance matches the closing balance from the previous period ii. check the additions iii. are there any large and unusual reconciling items iv. obtain a listing of unpresented cheques and trace to cash book prior to reporting date and to bank statements subsequent to year end to ensure they are presented in a timely manner (if cheques have remained unpresented for 15 months or more, they should be reversed and payment stopped (if economic to do so) v. review subsequent bank statements for unusual payments or receipts and inspect supporting documentation 				
<p>2. Where petty cash balances are material, verify the balance at the end of the reporting period.</p>				
<p>3. Additional procedures needed as determined by the auditor to obtain sufficient, appropriate audit evidence.</p>				
<p>Conclusion on accuracy of Cash Balances</p>				
<p>Print Name..... Sign..... Date.....</p>	<p>Print Name..... Sign..... Date.....</p>			

Investments

Items to be tested	YES	NO	N/A	Result of testing/Comments
1. Determine whether investments are being carried at cost ¹ or fair value ² . If fair value, then ensure the recorded value reflects fair value at the end of the reporting period.				
2. Obtain a list of investments and agree balances to the Balance Sheet. (ensure opening balance for the period matches the closing balance from the previous period)				
3. Ensure any profit/loss on disposal of investments has been correctly treated and any cumulative amounts recorded in equity have been recycled into the profit and loss account.				
4. Confirm the income earned from the investments to supporting documentation.				
5. Additional procedures needed as determined by the auditor to obtain sufficient, appropriate audit evidence.				
Conclusion on accuracy of investments				
Print Name..... Sign..... Date.....	Print Name..... Sign..... Date.....			

1. Cost – The purchase price, at the date of purchase.
2. Fair Value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:
 - (a) the condition and location of the asset; and
 - (b) restrictions, if any, on the sale or use of the asset. (AASB 13)

Income and Expenditure Statement review

Items to be tested	YES	NO	N/A	Result of testing/Comments
<p>1. Perform variance analysis, with particular attention to items that have a variance of greater than 10% compared to the previous year.</p> <p>Corroborate treasurer's explanations where applicable.</p>				
<p>2. Match to supporting documentation a sample of expense and revenue items as considered necessary.</p>				
<p>3. Review items included in the repairs and maintenance expenses, ensuring that no items of a capital nature have been expensed.</p>				
<p>4. Ensure that there are no amounts in the clearing/suspense accounts at reporting date. If there are, ask the treasurer to reconcile the account and transfer the items to the correct accounts.</p>				
<p>5. Cross-reference profit and loss items where applicable to other work areas, e.g. payroll, depreciation, interest.</p>				
<p>6. Check all additions on Income & Expenditure Statement to ensure totals are correct.</p>				
<p>7. Additional procedures needed as determined by the auditor to obtain sufficient, appropriate audit evidence.</p>				
<p>Conclusion on accuracy of Income & Expenditure Statement</p>				
<p>Print Name..... Sign..... Date.....</p>	<p>Print Name..... Sign..... Date.....</p>			

GST and BAS

Items to be tested	YES	NO	N/A	Result of testing/Comments
1. Has GST been handled as per the Uniting Church GST manual?				
2. Has the Congregation Lodged the BAS Returns and paid any tax due on time.				
3. Check that Non Profit Sub entities that are not registered for GST been treated properly. i. GST has not been applied to income ii. GST on expenses have not been claimed iii. Any transactions between the sub entity and the congregation have had GST applied (if it is income to the congregation)				
4. Has GST been treated correctly for weddings,funerals etc? i. GST Free religious services ii. Items that are not integral to the practice of religion are not GST free				
5. Check that the market value tests have been applied to non commercial transactions (e.g. sales for less than 50% of market value, or sales for less than 75% of the cost to supply, or sales relating to minuted input taxed fundraising events) i. Does proper documentation exist?				
6. Has residential rent on manses and associated costs been properly classified for GST purposes? i. Residential Rent is generally an input taxed transaction, unless the transaction has been classified as non commercial (see ii) ii. Is the rent received less than 75% of the market rate rent for the property? (Notional rent where the manse is occupied by the minister is equivalent to the accommodation allowance as listed on the stipends sheet)				
7. Check that the balances in any GST accounts agree with (or can be reconciled to) the amounts claimed on the BAS submitted to the Australian Taxation Office for the end of the financial year.				

8. Additional procedures needed as determined by the auditor to obtain sufficient, appropriate audit evidence.				
Conclusion on accuracy of GST & BAS				
Print Name..... Sign..... Date.....	Print Name..... Sign..... Date.....			

Other Items

Items to be tested	YES	NO	N/A	Result of testing/Comments
1. Liquidity – Does the congregation have adequate funds to meet current commitments? (Review balance sheet items)				
2. Insurance – Does the congregation hold adequate coverage?				

Does the congregation have the following items?

Receivables/prepayments (congregation accounts on an accruals basis)	YES / NO
Property, plant and equipment	YES / NO
Payables (congregation accounts on an accruals basis)	YES / NO
Payroll (where payroll is processed in-house)	YES / NO
Commitments and contingencies	YES / NO
Loans	YES / NO
Reserves/Provisions	YES / NO

If you have answered yes to any of these, please see the checklists in the supplementary document.

If you have answered no to all of these items, you have now completed the recommended checklists.

Audit conclusions and reporting

Items	Completed
<p>1. Prepare a summary of the findings of the audit and conclude on overall results in light of the materiality of the matters found.</p>	
<p>2. Prepare and issue relevant communication to Church Council.</p>	
<p>Conclusion In respect of the objectives of the audit procedures subject to any audit differences documented in the working papers, the recorded amounts are materially correct</p>	
<p>Print Name..... Sign..... Date.....</p>	<p>Print Name..... Sign..... Date.....</p>

Pro Forma Reviewer's Report

To the members of [name of Congregation]

Report on the financial report

We have reviewed the accompanying annual financial report of [name of Congregation], which comprises the balance sheet as at [year end date], and the income and expenditure statement for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information.

[Church Council/Finance Committee's]¹ Responsibility for the financial report

[Those charged with governance] of the Congregation are responsible for the preparation of the annual financial report that gives a true and fair view of the Congregation's financial position and operations. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Reviewer's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the policies, Uniting Church Regulations, and/or Australian Accounting Standards to the extent noted in Note [x].

A review of an annual financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of The Uniting Church in Australia Regulations.

Conclusion (select the most appropriate paragraph for your findings)

1. Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the annual financial report of [name of Congregation] does not present fairly, in all material respects, the [name of Congregation]'s financial position as at [year end date] and of its financial performance and its cash flows for the year ended on that date in accordance with the policies and/or Australian Accounting Standards as noted in note [x].

OR

2. Based on our review, which is not an audit, but for the following items, nothing has come to our attention that causes us to believe that the annual financial report of [name of Congregation] does not present fairly, in all material respects, the [name of Congregation]'s financial position as at [year end date] and of its financial performance and its cash flows for the year ended on that date in accordance with the policies and/or Australian Accounting Standards as noted in note [x].

Item 1 [Detail items where results of testing have indicated material inconsistencies/inaccuracies]

Item 2

Item 3 ...

OR

3. Based on our review, which is not an audit, the following items have come to our attention that cause us to believe that the annual financial report of [name of Congregation] does not present fairly, the [name of Congregation]'s financial position as at [year end date] and of its

1. Select the relevant committee

financial performance and its cash flows for the year ended on that date in accordance with the policies and/or Australian Accounting Standards as noted in note [x].

Item 1 [Detail items where results of testing have indicated material inconsistencies/inaccuracies]

Item 2

Item 3 ...

Basis of accounting

Without modifying our conclusion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling [those charged with governance]¹ reporting responsibilities. As a result, the financial report may not be suitable for another purpose.

[Signature]

[Signature]

[Name]

[Name]

[Address]

[Address]

[Date]

[Date]