



# Why a Church Audit?

## The Benefits of an Outside Perspective on the Financial Statements

by Vonna Laue, CPA

**MENTION THE WORD “AUDIT,” AND YOU WILL GET SEVERAL REACTIONS. (SELDOM IS IT MET WITH OVEREXUBERANCE!) HOWEVER, HAVING AN INDEPENDENT SOURCE INVOLVED IN THE CHURCH’S ACCOUNTING SYSTEMS AND PROCESSES AS WELL AS THE FINANCIAL REPORTING HAS MANY BENEFITS.**

Having served in public accounting for 20 years and being the outside perspective for many ministries, I clearly understand the reaction some people have regarding the idea of an audit. It was

always my desire to see those individuals understand the benefits and realize that CPAs and churches can work together and be great ministry partners.

Now, in my role at ECFA, I continue to appreciate the function that an audit plays in enhancing trust. A church should be the most trusted place people can go with their problems, their needs, their talents, and their money.

### WHY AN AUDIT?

There are several reasons a church would consider paying someone to perform an audit.

- One of the most common requirements comes from the bank in the form of a loan covenant.
- A requirement may also be included in the church’s bylaws. If that is true, the church should make sure it is following all portions of its governing documents or that it works with an attorney to make necessary changes.
- The governing board may require an audit simply because it is another internal control and provides a level of accountability.
- Finally, ECFA members and prospective members with annual

budgets over \$3 million are required to have an audit annually as part of their commitment to adhere to financial standards of integrity and accountability (see [ECFA.church/Standards.aspx](http://ECFA.church/Standards.aspx)).

### WHY NOT AN AUDIT?

If there are such good reasons to have an audit, why do many churches choose not to have one? Time and cost are two reasonable and often-communicated reasons.

Church staff are busy, and audits require a great deal of preparation. Audits also can be cost-prohibitive for some congregations. It is also possible in some scenarios that staff are intimidated by what the results may show.

Audits can be like going to the doctor. An annual checkup can help deter bigger issues later, and sometimes the fear of the unknown is worse than understanding the issues and dealing with them.

### SOMETHING OTHER THAN AN AUDIT?

Audits are the highest level of assurance services a CPA offers. An audit includes reviewing the internal controls of the organization and looking at actual documentation to gain comfort that the financial statements are correct within a certain materiality level. Auditors cannot look at every transaction and will limit their opinion related to their specific responsibilities.

A financial Review is like an audit but with less testing and a lower level of assurance as a result. Finally, a Compilation is the lowest level of service. The CPA will consider the financial information you report and only address areas where they may see discrepancies. There is little work done in a compilation to understand the church's internal controls.

### WHERE DO WE START?

All things considered, it may not be best to jump into an audit initially. CPA firms have a variety of services they offer, and working with your professional to determine what meets the needs of your church will be helpful. It may be best to start with a lesser service and work up to a full audit.

If you choose a lower level of service, you may be able to add some additional services for the same or less money than a full audit and have specific insight into areas such as internal controls, financial reporting, ministerial taxes, or other areas of financial interest.

### WHAT ABOUT CASH VS. ACCRUAL?

It is likely your church operates and manages activities on a cash basis. You recognize income and expenses when money comes in or goes out. There are valid reasons to track finances that way for many churches.

When you are preparing financial statements for outside readers and having an independent party involved with a service such as a review or audit, the accounting should be done on the accrual basis. This will reflect all the assets and liabilities of the church. Many times a church may choose just to make those adjustments annually to reflect the change from cash to accrual, strictly for audit purposes. That is fine and may work well. It allows you to operate throughout the year with a simple perspective focused on the importance of cash but also allows an annual perspective as to what is owned and what is owed which you should not lose sight of either.

### WHAT ABOUT INTERNAL AUDIT?

Some denominations require an annual internal audit in place of, or in addition to, engaging an independent CPA. If your congregation participates in this type of activity, be sure the individuals involved are knowledgeable in accounting matters and preferably nonprofit accounting. It is also important to set expectations from the start. When volunteers are involved, it can be difficult to push for results and to wrap up the process timely. If your church has an internal audit, a helpful resource is the "Internal Control and Internal Audit Guidelines" found in ECFA's *Zondervan Church and Nonprofit Tax & Financial Guide*.

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## HOW DO WE PREPARE?

If your church has never engaged an outside party to perform any level of service related to the financial statements, it can seem overwhelming. It does not need to be!


The CPA will give you a list of items to prepare. Be sure that you take the list seriously. Ask questions and communicate well throughout the process, and understand that the more you prepare in advance the easier it will be during the engagement.

Preparation is also key for those churches that have been involved with financial audits, reviews, or compilations for years. Administrators find that if they keep up reconciliations such as the donor system, payroll, and bank accounts on a consistent basis, the actual “event” is easier. You will also begin to understand what information is requested and may even create a folder where you keep copies of materials you know will be useful.

## HOW DO WE KEEP COSTS DOWN?

Good stewards are always looking at how they can get the best service for the lowest cost. This is true of financial services as well. Preparation, as noted above, will be helpful to minimize cost overruns. It is also advisable to get quotes for the services every 3-5 years. Keep in mind that the lowest cost is not always best. You do need to make sure the outside CPA is very competent in matters of church finance.

Understand the value in partnering with someone to make sure your financial reporting is accurate. If results and recommendations are taken seriously, the information obtained from an audit can help protect a church from possible fraud. There are often other benefits such as compliance-related matters that may have a tax impact for staff or internal control suggestions that can protect those involved with finances from opportunities or perceptions of wrongdoing in the future.

PROVERBS 11:14 (NASB) says, *Where there is no guidance the people fall, but in abundance of counselors there is victory.* Some ministries have fallen because of financial pressures or problems. Having an outside perspective on your financial statements is one more counselor to help your church be victorious. 

## Author

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The National Conference the one conference I can attend that gives me the opportunity to connect and fellowship with other administrators.

## “I Don’t Go It Alone.”

When I started working in the church, I quickly realized that I needed to gain a better understanding of how my business experience was going to work and blend into the church environment. The annual conference is where I am able to learn from the best administrator and professionals in the country. It is where I can get resources, talk to people who understand the struggles and problems I am facing.

For learn more, go to [www.thechurchnetwork.com/conference](http://www.thechurchnetwork.com/conference).



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