

Policy on Audits and other Financial Examinations of the Diocese of Arkansas

As Approved by Executive Council November 30, 2023

The diocesan canons require that an annual audit of parishes, missions and other institutions of the diocese be submitted to the Office of the Bishop, such examination being conducted by an agency permitted by Executive Council. The canonical deadline for filing the examination report with the Office of the Bishop is September 1 of each year unless permission to extend is granted by the Bishop or Diocesan Treasurer. The requirement can be met as follows:

1) For congregations or institutions with an annual income exceeding \$250,000 per year:

Each year an independent CPA or CPA firm will be engaged to perform one of the following engagements: 1) an audit in accordance with generally accepted auditing standards expressing an opinion on the institution's financial statements; 2) a Review; or 3) an engagement commonly known as an Agreed Upon Procedures ("AUP") engagement. Each congregation or institution will forward a copy of the entire report, the supporting management letter if applicable, and the Vestry's or board's response to issues raised by the accounting firm to the Office of the Bishop.

In the case of 3) above, an engagement letter setting forth the procedures contemplated will be executed between the institution and CPA firm. These procedures will be determined in consultation with the CPA firm after determining the needs of the institution. At a minimum, the AUP engagement will include a review of the institution's fiscal year-end financial statements, internal controls and procedures related to cash disbursements, including check writing and electronic banking, a review and testing of revenue and expenses to test whether they were accounted for properly and in the case of expenses, properly authorized in accordance with best practices for internal controls. In addition, a review shall be performed of all balance sheet activity, including checking and investment accounts, liabilities, and net assets, both unrestricted and restricted.

2) For congregations or institutions with an annual income of less than \$250,000 per year:

Using the internal audit questionnaire contained the internal controls section of the latest edition of the Manual of Business Methods in Church Affairs, a review/testing will be conducted by persons(s) approved by the Office of the Bishop, usually from among a list of people who are not members of the congregation or institution being audited. Forward a copy of the entire report, the supporting management letter if applicable and the Vestry's or board's response to issues raised by the internal auditors to the Office of the Bishop. The current edition of the Manual of Business Methods in Church Affairs is available online at: <https://www.episcopalchurch.org/finance-office/manual-of-business-methods/>

In instances when a congregation or institution has experienced a loss due to fraud, an AUP engagement is recommended in order to identify the internal control deficiencies that contributed to the loss and to estimate the amount of losses sustained by the fraud for purposes of insurance reimbursement or criminal prosecution.

Note: Congregations with loans should check with their lender on audit requirements that the lender might have that are more stringent than the requirements of this policy.