



Lutheran Church of Australia



## **Audit procedures for LCA organisations (Financial)**

It is the opinion of the Finance Advisory Committee that the financial affairs of all entities should be managed and conducted in a businesslike manner.

### **Background**

The LCA model constitution and by-laws for Districts state:

“The Finance Council (or equivalent) shall prescribe the accounting procedures to be followed by any committee which keeps its own books of account, and appoint an auditor of such books upon the nomination of the committee.”

The LCA Loan Rules state:

Audited financial statements for at least the two years prior to the date of the loan application, and budget projections or business plan for at least the following three years, shall be submitted with all applications. At any time during the term of the loan, the Loan Management Committee may request from the borrowing body a copy of the audited financial statements (carried out by an auditor with appropriate qualifications) together with a copy of the auditor's report, and borrowers shall provide that information immediately when requested.

These two extracts make it clear LCA entities at all levels have a responsibility to ensure that financial accounts are audited in an appropriate manner by auditors with appropriate qualifications.

It is the responsibility of every governing body at every level in the church to ensure that the funds of the entity are secure, that proper accounting records are being kept, that proper reporting processes are in place and that an audit is conducted at least annually.

Development of policy

This document concerns itself with the audit procedures that should be followed throughout the LCA. Whether or not a District has adopted the above model as is, or in some modified form, it is responsible for ensuring proper audit procedures are in place and that audits are carried out by itself and by all boards, councils committees and auxiliaries operating within the District.

We believe there are two aspects to the audit process.

#### **1. Regular reporting to the governing body.**

**The governing body must meet its responsibilities at law and its obligations to the Church to ensure the funds for which it is responsible are secure and that the books of account are being kept in a proper manner so that proper and accurate reports can be and are being submitted to them on a regular basis.**

##### **Management.**

The governing body must ensure that it receives a financial report from the officer or employee responsible for financial issues at least every three months.

The financial report should comprise:

- A receipts and payments statement for the period in a form readily understandable to the members of the governing body and containing meaningful indicators and comparisons against the budget figures.
- A bank reconciliation together with the original, or a copy, of the final page of the bank statement which shows the bank balance on the date to which the reconciliation has been done, i.e. the last day of the period.
- The minutes of the governing body's meeting must record that the above were tabled and endorsed by the body.

#### **2. The Audit**

**The audit must be carried out by an auditor with appropriate qualifications.**

- At each Annual General meeting of the entity an auditor with appropriate qualifications must be appointed.

- It is the responsibility of the Auditor to ensure that the accounts of the entity are audited at least annually, and, in consultation with the officer or employee responsible for financial issues, at times and in a manner which the Auditor deems appropriate.
- The officer or employee responsible for financial issues shall ensure that the accounts are available for audit on request and shall cooperate with the Auditor at all times.
- If the officer or employee responsible for financial issues does not cooperate as required by the Auditor, the Auditor shall immediately report the situation to the Chairperson of the entity requiring the audit. The Chairperson shall take appropriate action to ensure that the audit can take place immediately.
- The officer or employee responsible for financial issues shall submit the audited statement of Income and Expenditure, a Balance Sheet and an insurance schedule to the AGM of the entity.
- The Auditor shall present an audit report to the Annual General Meeting of the entity. The audit report must include a report on the state of the accounts and whether or not they portray a true and fair of the financial affairs of the entity and provide an opinion on the adequacy of insurance cover for assets. The audit report should also highlight any recommendations, discrepancies or errors and, if necessary, suggestions to improve the accounting procedures and financial reporting for the entity.

**The audit must satisfy the auditor that the financial statements present a true and accurate record of what has been entered into the books of account.**

Generally the auditor must verify that:

- Transactions in the books of account have been entered correctly and are verified by supporting documentation e.g. receipts, invoices, credits shown on monthly statements (eg electricity, telephone accounts) etc.
- Cash (bank, investments), debtors and creditors and loan balances from the bank or other financial institution (eg LLL) are as specified in the accounts.
- Salaries (including fringe benefits) are paid correctly and that all liabilities have been met (taxation, superannuation)
- Correct bookkeeping/accounting procedures have been adopted
- The asset register (checking of titles, fixed assets) is accurate and complete.
- Adequate insurances (property, public liability, workers compensation) are in place.
- That the procedures laid down by the governing body for financial transactions are followed in the processing of all payments and receipts.
- That all accounts signatories are current and are proper persons as specified in the Constitution or By-laws of the entity being audited.

**RECOMMENDATION:**

That FAC recommend to GCC that:

1. All districts, boards, councils, congregations, committees and auxiliaries of the church maintain accurate, current financial accounts and those accounts be audited annually in line with legal requirements, standard business practice and the requirements of their, LCA and District constitutions and by-laws.
2. Audited figures together with audit reports and comments be presented to the governing body within one month of the auditor's report being completed.
3. These requirements apply to all districts, boards, councils, congregations, committees and auxiliaries of the LCA whether or not they are separately incorporated.
4. Unless otherwise specified or required by law, the books of any district, board, council, committee or auxiliary with an annual turnover of less than \$25,000 may be audited by properly elected voluntary auditors. Where the annual turnover is \$25,000 or greater the audit must be carried out by an appropriately qualified person.
5. Up-to-date books of account and audit reports and recommendations are to be provided by the governing body if requested by the District of which the board, council, congregation, committee or auxiliary is part or, by General Church Council in the case of Districts and national boards, councils, committees and auxiliaries.