

LUTHERAN CHURCH OF AUSTRALIA,
SOUTH AUSTRALIA AND NORTHERN TERRITORY DISTRICT INC.**AUDITS OR REVIEWS OF SMALL CONGREGATIONS AND PARISHES AND THEIR
ASSOCIATED ENTITIES**

Introduction

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 or review is conducted at least annually, also noting ACNC requirements.

Small and medium charities who have an annual turnover of less than \$250,000 are not legally bound to have an annual audit but must have an annual financial review. (ACNC Act 2012 60-20). This is dependent on the governing rules (constitution) of the entity.

Note that if the congregation or parish receives grant monies, it may be a condition of the grant that their finances are audited and not reviewed, regardless of their size.

At the Annual General Meeting of the congregation or organisation they may appoint an auditor or reviewer with appropriate qualifications. Alternatively this may be done by the Church Council, depending on what the constitution says. The ACNC Act 2012 provides requirements of the qualifications of an auditor. They must be someone from one of the following groups:

- Registered Company Auditor (*as per Corporations Act 2001*)
- A firm that is appointed by the entity and at least one member of the firm is a registered company auditor
- An authorised audit company

In the case of a reviewer, they must be one of the following groups of people:

- Any of the above OR
- A member of a professional accounting body

They must be someone who is independent of the decision-making body of the entity, eg they cannot be a member of the Church Council

It is important for congregations and parishes to understand that an audit or review is not a guarantee that the financial statements are 100% correct. The auditor or 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 or parish at a given date.

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

- Balance Sheet
- Income & Expenditure Statement
- Trial Balance
- Bank reconciliations
- Transaction Report for the year (spreadsheet, cash book or finance package reports)
- Supporting documentation for transactions (e.g. invoices, deposit slips, bank statements, cheque butts, loan statements, investment statements, term deposit statements)

Generally, the auditor or reviewer must verify that:

- Transactions in the books of account have been entered correctly and are verified by supporting documentation eg receipts, invoices, bank statements etc.
- Cash (bank accounts, investments), debtors and creditors and loan balances from financial institutions are as specified in the accounts.
- Salaries (including fringe benefits) are paid correctly and that all liabilities have been met (eg PAYG returns)
- Correct bookkeeping/accounting procedures have been adopted
- That accurate end-of-year financial reports (Profit/Loss and Balance Sheet) have been prepared for presentation to the Annual General Meeting.

Sample Checklists

The example checklists below are provided to give a sample of what to expect or what is expected during a financial review. The lists are certainly not exhaustive but are intended to provide guidance to auditors/reviewers on the tests which could be performed during the audit or review of a small congregation or parish. It is intended that these checklists be tailored to suit the circumstances of each congregation or parish, taking into account factors such as the following:

- the complexity of the accounting system and associated records; and
- the volume of transactions and scale of operations.

The checklists have been grouped by financial statement elements. Not all elements will be relevant to all congregations or parishes (e.g. payroll, debtors, creditors, property/plant/equipment). Where a congregation or parish does not have these elements to account for that section of the check list may be disregarded. Where a congregation or parish 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 falls below the amount specified by ACNC regulations.



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We hope these checklists will assist auditors/reviewers to follow a structured approach to checking the congregation's or parish's accounts, and to document their processes and findings. They should be retained by the 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 attached in order to provide sufficient detail. If this is the case, auditors/reviewers should ensure their comments are adequately referenced to the relevant section of the checklist.

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Example Audit checklists

The Auditor

ITEMS TO BE TESTED	YES	NO	N/A	DETAILS
Is the gross income less than \$250,000?				
Are you appointed for all the sub-entities also?				
Is there a fee being charged, if so what amount?				

Income and Cash Receipts

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
<p>Select a sample of receipts from the bank statement or Cash Receipts Journal and test as follows:</p> <p>i. agree details to supporting documentation</p> <p>ii. ensure the funds have been allocated correctly</p> <p>iii. agree amounts to stamped bank deposit slips and trace through to bank statements.</p>				
Conclusion on accuracy of income & cash receipts				

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PURCHASES AND CASH PAYMENTS

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
Select a sample of payments made from the records, bank statement or Cash Payments Journal and test as follows:				
i. agree to supporting documentation, i.e. invoice, supplier statement etc.				
ii. ensure the payment is authorised by two signatories				
iii. trace amounts through to bank statements				
iv. ensure the payment/s have been allocated correctly				
Conclusion on accuracy of purchases & cash payments				

CASH/BANK/DEPOSITS

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
Review the bank reconciliation at reporting date as follows:				
i. check that the opening balance matches the closing balance from the previous period				
ii. check the additions				
iii. obtain a listing of unrepresented cheques and trace to bank statements				
Where petty cash balances are material, verify the balance at the end of the reporting period.				
Conclusion on accuracy of Cash Balances				

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INVESTMENTS

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
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.				
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)				
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.				
Confirm the income earned from the investments to supporting documentation.				
Conclusion on accuracy of investments				

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)

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INCOME AND EXPENDITURE REVIEW

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
Review items included in the repairs and maintenance expenses, ensuring that no items of a capital nature have been expensed.				
Check all additions on Income & Expenditure Statement to ensure totals are correct.				
Conclusion on accuracy of Income & Expenditure Statement				

GST AND BAS

ITEMS TO BE TESTED	YES	NO	N/A	RESULT OF TESTING COMMENTS
Has GST been handled correctly?				
Has the congregation lodged their BAS returns and paid any amounts due on time				
Check 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 has not been claimed iii. Any transactions between the sub entity and the congregation have had GST applied (if it is income to the congregation)				
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				



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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)				
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 pastor is equivalent to the housing allowance as listed in the Pastor's Remuneration Schedule)				
Check that GST has been handled correctly on any fundraising income and expenditure				
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.				
Conclusion on accuracy of GST & BAS				



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OTHER ITEMS

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

AUDIT/REVIEW CONCLUSIONS AND REPORTING

ITEMS	COMPLETED
Prepare a summary of the findings of the audit and conclude on overall results in light of the materiality of the matters found.	
Prepare and issue relevant communication to Church Council.	



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Pro Forma Reviewer's Report

To the members of [name of Congregation]

I have reviewed the annual financial records of [name of Congregation] for the period ended XXXXXXX, which comprises the balance sheet as at [year end date], and the income and expenditure statement for the year ended on that date.

In conducting my review, I have complied with the independence requirements of Lutheran Church of Australia Regulations.

Conclusion *(select the most appropriate paragraph for your findings)*

1. Based on my review, which is not an audit, nothing has come to my attention that causes me 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.

OR

2. Based on my review, which is not an audit, the following items have come to my attention that cause me 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 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 ...

[Signature]

[Name]

[Qualification]

[Date]

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