

Topic	London Conference Policy on External Review of Financial Statements for Incorporated Ministries (IM's)
Ref.	<i>Section 429 Guidelines</i> , page 7, point 3
Date	September 2010

London Conference requires that the financial statements of Incorporated Ministries (IM's) be independently reviewed. This policy will be communicated to all IM's and verified in Conference's reviews of annual documents. Audits and independent reviews are evidence of the strong accountability and stewardship by IM's to their members, program participants, funding partners, donors, and the broader community. The policy takes effect for fiscal years beginning October 1, 2010.

SUMMARY

Independent reviews of financial statements are an accepted practice and a vital accountability measure. Taken together, United Church policy, government funders and regulators require such a practice for all categories of incorporated ministries.

London Conference has adopted this policy requiring an annual independent audit or review engagement by a qualified audit professional of the financial statements and related material for all incorporated ministries.

This policy statement covers the requirements of London Conference for the incorporated ministries it supports and supervises. This policy statement will be reviewed on a regular basis and revised as required.

General Requirement for Reporting by all IM's to Conferences:

The *Section 429 Guidelines* policy statement approved by General Council Executive includes this requirement:

“There shall be annual reporting to the supervising Conference ... [including] financial statements (audited/independently reviewed by a qualified person)...”

This language replaces “audited statements” in the previous church policy for incorporated ministries (Formerly Appendix IV to *The Manual*) and provides more flexibility for IM's in allowing a “review engagement” instead of a full audit.

For newly incorporated ministries, the *Guidelines* document also includes that this financial practice be included in the corporation's by-laws:

“8c. a formal budget includes an indication of how the incorporated ministry will meet generally accepted accounting principles and practices appropriate to the size, scope, and assets of the incorporated ministry, and includes the identity of the person or firm that will audit or review the books.” (Steps to Incorporation -- category 1, page 12).

Two types of independent reviews of financial statements and related IM practices can be done before the statements and the audit/review results are sent to Conference:

- o A *full audit*, done by a licensed individual or audit firm, or
- o An *independent review engagement*, preferably done by a licensed auditor or by a designated professional (CA, CMA, CGA).

In both cases, “independent” means outside the control and influence of the IM being reviewed. People otherwise qualified must not be IM members/board members or staff/volunteers and not relatives or friends or donors to the IM. The auditor or reviewer is appointed annually by the whole membership, at the annual general meeting (AGM).

(See the attachments for descriptions and definitions of the various levels of financial review of an organization’s financial statements.)

London Conference supports the *Guidelines* and the benefits to all of independent review of financial statements. Work done to prepare or present financial statements outside the professional protocols of independent audits or reviews may not have been done independently, has no verification against “generally accepted accounting principles” (GAAP), and provides no assurances of controls or even financial position.

Incorporated ministries in London Conference that prepare only limited financial statements, usually issued with a *notice to readers*, will be required to have an independent review of their financial statements.

This policy takes effect with financial statements for fiscal years starting October 1, 2010.

Administrative Standards for Duty of Care Program

This program covers 15 of the 19 incorporated ministries in London Conference (20 including the unincorporated Camp Tanner in Oxford Presbytery). All of the following categories required an independent review of financial statements (none require a full audit although larger ministries follow this practice):

Camps: Annual report to the General Council Office includes “an audited or independently reviewed financial statement” (*Camping Standards Manual*, 2010, p. 13)

Seniors Facilities: “The organization submits the required reports to its supervising court” (*Seniors’ Facilities Standards*, 2006, p. 14) and “The governing body (or its representative) ensures that the following documentation is prepared and kept: ... audited financial statement or independently verified financial statement” (p. 15)

Community Outreach Ministries: Among the documents that “the community ministry’s governing body prepares and keeps” is “a current audited financial statement or an independently verified financial statement” (*Community Ministry Standards and Best Practices*, 2007, p. 13)

Regulators and Funders

Depending on their category, funding and provincial law, incorporated ministries will be required either to have a full audit or just an independent review. Some examples:

- o Ontario’s *Corporations Act* requires full financial audits of all not-for-profit corporations above \$100K in annual income; smaller corporations can only be exempt from having an audit if all members agree to this in writing
- o Corporations funded and regulated by government to provide *non-profit housing and long-term care facilities* are required to undertake full audits

- and other reporting, both to calculate funding and to check performance and quality standards set for these sectors; and
- *Charities* in other categories are not required by Canada Revenue Agency (CRA) to have full audits, although CRA's charities directorate recommends one for charities with incomes over \$250K.

Good accountability and stewardship principles

Organizations hoping to attract community and individual donors, grants, and experienced board members will benefit from having independent financial reviews. As the United Church of Canada's Financial Handbook for Congregations states, audits are good stewardship, not a symbol of distrust.

Recommended by Incorporated Ministries Committee: September 13, 2010

Approved by London Conference Executive: September 15, 2010

Effective date: October 1, 2010

For further information about this policy, please contact the London Conference Executive Secretary at 519-672-1930 or office@londonconference.ca.

Appendix I

Excerpts from Glossary

financial audit

An independent examination of financial records to determine the accuracy of financial statements, to determine whether financial transactions have been properly recorded, and to identify potential weaknesses in accounting and control systems. Such an examination may be conducted by a certified and licensed accountant as a “full audit” or an **independent review engagement**. Audits are required for some kinds and sizes of corporations and show accountability and good stewardship to donors, funders, lenders and community stakeholders. A more detailed definition appears in *The Manual* for audits of congregations and pastoral charges, including a useful list of required audit activities and procedures.

financial statements

Documents that together show an organization’s financial situation. The key documents for reporting and demonstrating financial position for a fiscal period are the **income statement** and the **balance sheet**. A financial statement is prepared for and approved by the organization’s governing body. Many organizations prepare interim statements for each quarter (three months) as well as at year-end in order to track their financial position against the budget. Audited financial statements are generally required by government funders and regulators, and for registered charities (see also **auditor’s report**).

independent review engagement

A service provided by a chartered accountant in accordance with accounting review standards that provides some assurance to an organization’s board of directors and other interested parties of the reliability of financial data and the conformity of such data to **Generally Accepted Accounting Principles (GAAP)**. A review is based on a limited review of key documents and representations made by management and is of a more limited scope than a **financial audit**, which requires detailed review and verification of accounts, documents and financial transactions and an appraisal of internal controls, among other activities.

notice to readers

A letter attached to an organization’s financial statement signed by a third party, normally a qualified accountant, indicating the results of a limited review of the group’s financial statements and related financial information (e.g., bank reconciliations). The review does not include review and sampling of files, documents, and processes required for a full audit and for independent review engagements. No opinion is provided by the reviewer of whether the financial statements meet **GAAP** or other accounting standards.

Appendix II

Independent Review Engagement:

Here is an example of a typical covering letter reporting on the results of a review engagement:

REVIEW ENGAGEMENT REPORT

I have reviewed the statement of financial position of ----- Corporation as of December 31, 2010 and the statements of operations and changes in net assets for the year then ended [this will vary with the kinds of financial statements presented]. My review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by the organization.

A review does not constitute an audit and consequently I do not express an audit opinion on these statements.

Based on my review [adding "except for the effect of" if there are observations to make], nothing has come to my attention that causes me to believe that these statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

[signed and dated by qualified accounting professional]
