

# Small Church Annual Internal Financial Audit Checklist

For Small Churches with Simple Financial Activities and Structure

Church Name \_\_\_\_\_

For the Year Ended \_\_\_\_\_

Members of Internal Audit Team \_\_\_\_\_

Date Internal Audit Started \_\_\_\_\_

Date Internal Audit Completed \_\_\_\_\_

Date Results Reported to Board or Governing Body \_\_\_\_\_

## Disclaimer

*This checklist is an educational guide only and is provided only for general informational purposes. No part of this document constitutes professional advice or services and this document as a whole does not constitute professional advice or services. This checklist is not intended to be comprehensive or exhaustive in scope. It is not a substitute for appropriate judgement. The use of appropriate judgment could result in performance of procedures other than those described in this checklist. The use of this checklist (or any variation of it) is not a substitute for professional accounting, auditing, legal, or other services. The authors of this checklist make no warranties whatsoever regarding the adequacy or propriety of the checklist for any purpose.*

### 1. Verify that the actual number of directors/trustees/and officers in place complies with the requirements of the Bylaws (or other official governing documents).

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

### 2. Verify that all elections and meetings required by the Bylaws (or other official governing documents) were held as required.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

### 3. Verify that all reports required to be submitted to denominational organizations were submitted on a timely basis.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

#### 4. **Bank accounts:**

**a. Obtain the year-end financial reports used by the board/finance committee and identify all of the cash balances reported thereon.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**b. Match the cash balances on the financial reports obtained in Step 4.a. to bank reconciliations prepared by the accounting team as of the same date.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**c. Compare the bank balances in the reconciliations to the balances as of the same date in the original bank statement (not a copy - use either original bank statement or verify balances online directly with the bank). For any significant items treated as deposits in transit or otherwise added to the bank balance to reconcile to the balance per books, verify that the reconciling items are valid and correct. Scan the list of any outstanding disbursements for unusual or unexpected activity.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**d. Investigate any significant discrepancies or unusual items.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_

## 5. Investment accounts:

### a. Obtain the year-end financial reports used by the board/finance committee and identify the investment account balances reported thereon.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_

### b. Match the investment balances on the reports obtained in Step 5.a. to original statements (not copies) from the investment custodian or to online balances obtained directly from the custodian.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_

### c. Investigate any significant discrepancies or unusual items.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_

## 6. Dual control:

### a. Verify that the process of collecting offerings involves at least two unrelated people working together in the presence of each other at all times while handling or processing funds until the

funds are fully processed, copies of the documentation have been provided to the accounting team, and a deposit has been prepared for the bank.

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**b. If funds are stored in a safe or other device before they are deposited with the bank, verify that access to the storage safe or device physically requires at least two unrelated people to open it and access funds, and that no overrides of that practice occur.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**c. Verify that no persons who handle incoming funds have:**

**i. the ability to modify donor contribution records after initial input,**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**ii. any responsibilities related to issuing donor acknowledgments, receipts, or statements, or**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**iii. the ability to post or modify accounting records.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

## 7. Segregation of duties:

- a. **Verify that no person who is an authorized signer on any of the church's bank or investment accounts (or otherwise has any authority or ability to disburse church funds) has any ability to post or modify accounting records or financial reports, including payroll records.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

## 8. Activity reviews:

- a. **Verify that an appropriate official knowledgeable about the church's financial activities [other than an accounting team member] reviews the original bank statements (including the names of payees on canceled check images) or online banking activity reports every month to scan for unusual, unrecognized, or unauthorized disbursements. The reviewer should document the review performed each month.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

- b. **Verify that an appropriate official knowledgeable about the church's financial activities [other than an accounting team member and other than the person who processes payroll] reviews the actual payroll disbursement reports immediately after each payroll for propriety. The reviewer should document the review performed each month.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**9. If the church has credit cards, obtain a sample of credit card statements from three months during the year and verify that proper documentation is kept to support the nature and amount of the expenditures in the credit card statement. (Make sure for travel, meals, and hospitality-type expenses, the documentation indicates the people involved and the business purpose of each expenditure).**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**10. Select a sample of expenses incurred during the year for travel, meals, and hospitality-type activities that are not charged to a church credit card (e.g., that were reimbursed to individuals or paid directly by the church) and verify that proper documentation is kept to support the nature and amount of the expenditures. (Make sure for travel, meals, and hospitality-type expenses, the documentation indicates the people involved and the business purpose of each expenditure).**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**11. Verify that clergy housing allowances were properly designated in writing and in advance for each minister prior to the year to which they applied.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**12. Verify that clergy housing allowances were approved by the board or governing body, or by a committee specifically authorized in writing by the board or governing body to do so.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**13. By checking a sample of four payroll periods during the year (including the final pay period for the year), verify that payroll tax deposits (for employee payroll taxes withheld and employer payroll taxes) were made by the deadline required by federal law. (See IRS Circular E for information about timing requirements for payroll tax deposits).**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**14. Scan a list of all disbursements for the year for unrecognized vendors, unusual items, or questionable items and address any items identified as necessary and appropriate.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**15. Verify that all significant variances between actual amounts and budgeted amounts for each revenue and expense account for the year are adequately investigated and properly explained.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_

Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**16. Inquire of each member of the accounting and finance team (including volunteers, board members, officers, or anyone having accounting or finance responsibilities) as to whether any of them is aware of or suspects any fraud or financial impropriety of any type in the church. Document who was asked, when they were asked, and their responses. Investigate any expressed concerns.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_

**17. Inquire of each member of the accounting and finance team (including volunteers, board members, officers, or anyone having accounting or finance responsibilities) as to whether any of them is aware of any IRS or other regulatory or legal compliance deficiencies in the church. Document who was asked, when they were asked, and their responses. Investigate any expressed concerns.**

Not applicable to this church (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons) \_\_\_\_\_

Addressed by: \_\_\_\_\_ Date \_\_\_\_\_

Results/notes \_\_\_\_\_