

Date

The Rector, Warden and Vestry  
\_\_\_\_\_ Episcopal Church  
Address

Dear Ladies and Gentlemen:

As you probably know, National Canon I.7.1(f) provides, in part, as follows: “All accounts of each parish or mission shall be audited annually by either an independent certified public accountant, independent licensed accountant, or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.” This requirement is repeated in our own Canon 15.2 for the Diocese of Kentucky (“CDK”). Annual audits and a copy of recommended corrective actions are technically required to be filed with the Bishop’s office not later than September 1 of the following year. You have asked the undersigned members of the Parish Audit Committee (“Committee”) to perform an audit of your parish for calendar year \_\_\_\_\_. The Committee may consist of members of your parish, members of a parish receiving a reciprocal audit, other parish members trained and suggested by the diocesan audit committee, or a combination thereof. We would like to outline for you the information we need to access, the services we can not provide and those we expect to provide, and finally to ask you to acknowledge the process we expect to follow.

*Financial records*

The accounts referenced above are typically summarized for a nonprofit entity in financial statements comprising a statement of financial position (balance sheet) and combined statements of activities and changes in net assets (income statement). Where those statements are prepared on the accrual rather than cash basis there is often a related statement of cash flows as well. Those financial statements should be prepared in accordance with the principles adopted and approved by the General Convention of the Episcopal Church and contained in the version of the *Manual of Business Methods in Church Affairs* effective January 1, 2000 (the “Manual”), which your treasurer or staff should already have. You are responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Attached you will find the Diocese’s standard list of those records and accounts which you should have available for the Committee to complete the audit efficiently. The Committee may be providing parish staff members certain audit forms for their completion to expedite the assembly and presentation of some of that information. The Manual and many of the forms we will use are available on the diocesan web site ([www.episcopalky.org](http://www.episcopalky.org)). It is also possible that some of the information will not apply to your parish, in which case we would look to you to tell us which items those might be.

*Disclaimers and Responsibilities*

We are not certified public accountants (“CPA”) or otherwise licensed or professional auditors. Unlike an independent CPA performing services in a professional capacity, we can not and will not render an opinion that your financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Nor will our testing of your accounting records and other procedures necessarily comply in all respects with U.S. generally

accepted auditing standards which require that the auditor plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. Only an external audit performed for a fee by such a CPA can render that opinion and give you assurance that such auditing standards have been followed.

Because any audit is designed to provide only reasonable but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect violations of law or governmental regulations that do not have a direct and material impact on the financial statements, and it is your responsibility to insure compliance with all such laws and regulations. However, we will certainly inform you of any material errors or violations of law or regulations as well as any fraudulent financial reporting or misappropriation of assets that come to our attention.

You are responsible for designing and implementing programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud involving any parishioner, staff members who have significant roles in internal controls, or others where the fraud might have a material impact on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the parish received in any communication from a current or former staff member, parishioner or any regulator.

#### *Scope of Services*

We will perform our audit activity in accordance with standards developed for use in the Episcopal Church, including but not limited to the checklists contained in Chapters 2 and 6 of the Manual on internal controls and audit guidelines, respectively. In the course of our investigation we expect to complete those checklists as well as some additional forms that we have developed for use in prior audits. Our audit will include obtaining an understanding of internal controls sufficient to plan the audit and to determine the nature, timing and extent of the audit procedures to be performed. Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, which may involve select correspondence or confirmation with selected creditors, financial institutions and funding sources, including pledge units. We will also examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and as such our audit will involve judgments about the number of transactions to be examined and the areas to be tested.

As the completed audit work papers we develop are confidential, proprietary and constitute the property of the diocese, we will forward them to the bishop's office for its permanent records (except for any individual pledge information which will not be retained, copied or disclosed beyond Committee members), and in accordance with standard practice we will not be able to provide a copy to the vestry. At the conclusion of our audit we expect to issue a letter to the vestry summarizing the inspections we have made. Prior to issuing that letter the standard procedure is for members of the Committee to meet with staff and/or vestry members to discuss our findings on an informal basis. In the event we detect any policies or procedures not in accordance with the current accounting practices in the Episcopal Church, we will also issue a separate letter detailing such findings and including therein any related adjusting journal entries and recommendations for change or correction.

CDK 15.2 also requires that the parish or mission make the Committee's inspection report and any findings on policies and procedures available to any of its members upon request. In further compliance with CDK 15.2 we will provide copies of our inspection certificate and any findings on

policies and procedures to both the Bishop and the diocesan treasurer. The vestry should plan to respond in writing to the Committee point by point with regard to any findings on policies and procedures, and that response will also be forwarded to the Bishop and treasurer, either of whom may be in contact with the parish as they so determine.

All Committee members are volunteers willing to donate their time to facilitate this important parish or mission function. As such, our services will be rendered without a fee. We do ask that you assist us in minimizing our out-of-pocket expenses by making available for our use your copier, miscellaneous office supplies, and postage for routine mailings and confirmations (which if sent we may also ask you to help us prepare). As far as we have been able to determine to this point, no member of the Committee, as listed below, is related by blood or marriage to the management of your congregation (here defined to be clergy, staff, wardens and treasurer), nor are there any material business or other relationships between any Committee member and any member of your congregation. We are relying on you to provide us with any information to the contrary as soon as any such information may come to your attention.

If the above summary of our engagement meets with your approval please have the junior or senior warden sign the acknowledgement below and return a copy of this letter to the undersigned. We would then like to meet with the treasurer and appropriate parish staff at their earliest convenience. We would appreciate your contacting the Committee member signing below if you have any questions and/or to indicate which dates and times would be most convenient for the initial staff and treasurer meeting. We anticipate that during the course of the audit we will need to have several such meetings to assist us in completing some of the required audit forms and to answer some routine questions.

Thank you for your assistance with these matters, and we look forward to working with you and your staff to complete this audit as quickly and efficiently as possible.

Very truly yours,

By: \_\_\_\_\_ (parish)  
Address: \_\_\_\_\_  
\_\_\_\_\_

(on behalf of other Committee members (and parish) \_\_\_\_\_ (\_\_\_\_\_), \_\_\_\_\_  
(\_\_\_\_\_), and \_\_\_\_\_ (\_\_\_\_\_) )

Enclosures  
Cc (w/o Encl.):  
Rev. Jay Magness, Canon to the Ordinary  
Becky Meyer, Diocesan Controller  
Jim Hill, Chair, Diocesan Audit Committee

*Acknowledgement*

The vestry has read and upon motion and majority vote acknowledges and agrees to all the terms and representations contained herein. Executed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Signed by: \_\_\_\_\_  
Title: \_\_\_\_\_

/dkaudit13 (7/9/07)