

BMW PUBLISHES INTERNAL FINANCIAL AUDIT CHECKLISTS FOR SMALL CHURCHES AND OTHER SMALL NONPROFIT ORGANIZATIONS

By Batts Morrison Wales & Lee

NONPROFIT SPECIAL ALERT™



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS®

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Nonprofit organizations looking to employ accountability measures concerning their financial operations have various approaches they can utilize, depending on their size, scope, and complexity. One of those options is an audit. Audits are conducted by parties who are either external or internal to the organization.

Smaller organizations tend to utilize internal accountability processes typically performed by members of the organization's governing body, by its finance committee or equivalent, or by volunteer supporters of the organization. Larger organizations (often those with annual revenues exceeding \$3 million) commonly engage external auditors.

For those organizations with simple financial structures and operations, BMWL has published two very basic internal financial audit checklists as educational resources for consideration.

Those checklists are available as complimentary downloads from the News and Resources page of our website.¹

Regardless of who leads and carries out an internal audit process for a church or other nonprofit organization, certain attributes should exist with respect to any internal audit activity for the activity to be useful and credible:

- An internal audit process should be overseen by a person or group [the oversight body] that is independent with respect to the issues being addressed.
- The person or group performing the internal audit procedures and issuing the related reports [the internal auditor] should also be independent with respect to the issues being addressed.
- The internal auditor should report directly to the oversight body and not to the organization's management. While the internal auditor will certainly interact with the organization's management and employees in performing audit procedures, the internal auditor must issue and present reports directly to the oversight body in order for an internal audit process to maintain credibility. [Practical note – if an internal auditor is an employee of the organization, he or she is subject to the organization's applicable employment and other policies (e.g., payroll matters, employee benefits matters, etc.). With respect to such matters, an employee-internal auditor is subject to the authority of the organization's management, so long as management's oversight does not interfere with or impede the objectivity of the internal auditor's work and reporting responsibilities.]
- The oversight body should establish and formally approve specific objectives of the internal audit process, the methodologies to be used, and the timing and nature of the reports to be issued.
- The internal auditor should conduct the internal audit procedures and prepare the related reports pursuant to the objectives and methodologies approved by the oversight body described in the preceding sentence.
- The internal auditor's reports should provide an objective description of findings. The quality and credibility of an internal auditor's reports can be severely compromised when the internal auditor's report goes beyond reporting

¹ Source: <https://nonprofitcpa.com/news-resources/>

objective findings to drawing personal conclusions or making subjective statements of opinion regarding the matters subject to the audit. [For example, if an internal auditor were to note in his/her report that the auditor observed certain children's classrooms being supervised by only one adult, in violation of the organization's two-adult protocol, reporting such a finding in and of itself would be objective. If the internal auditor were to add a subjective statement such as, "These violations jeopardized the safety of our children," or "The teachers responsible for these violations should be disciplined," the credibility and objectivity of the internal auditor's report would be compromised. Further, such statements could increase the organization's legal risks.]

If you lead a smaller church or other nonprofit organization, we hope you find these resources valuable.

Alternatively, if you are a larger church or other nonprofit organization (with annual revenues exceeding \$3 million) and are looking to engage a firm to assist you in conducting an external audit, please contact us at Info@NonprofitCPA.com. We would be honored to begin that conversation with you.

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