

**QUESTIONS AND ANSWERS IN RELATION TO THE
FINANCES OF THE BAPTIST UNION**

Before dealing with specific questions, it will be useful to explain various terms that will be used below.

Term	Explanation	Examples
Income	Funds received that are used to finance the running of the Union	Membership fees, donations, giving, interest received
Expenses	Amounts payable for goods and services received while running the Union	Employee costs, property costs, printing and stationery, travel costs
Surplus/ loss	A surplus is income less expenses, but if expenses are more than income then that is termed a loss	
Assets	Items and amounts that are owned by the Union and which it can benefit from	Bank balances, property and equipment, amounts receivable
Liabilities	Amounts owing, including amounts that need to be repaid. Liabilities is the total of current and non-current liabilities	See below
Current liabilities	Liabilities expected to be paid in the next year	Amounts payable, provisions, designated amounts
Non-current liabilities	Liabilities not due to be paid in the next year	Loans from Baptist Union Trust funds
Equity	There are 2 ways of determining equity and they result in the same amount 1. Assets less liabilities 2. Equity at the beginning of the year plus surplus for the year	

Now let's see what amounts are shown in the 2018 financial statements of the Baptist Union for the above terms.

Term	Amount
Income	Revenue + other income 3 037 818 + 134 191 = 3 172 009
Expenses	Operating expenses + finance costs 3 686 061 + 98 912 = 3 784 973
Loss (as expenses exceed income)	Expenses – income 3,784 973 – 3 172 009 = 612 964
Assets	5 291 265
Current liabilities	2 354 662
Non- current liabilities	1 142 641

Total liabilities	Current liabilities + non-current liabilities 2 354 662 + 1 142 641 = 3 497 303
Equity	Method 1 - Assets – liabilities 5 291 265 – 3 497 303 = 1 793 962 Method 2 – Equity at beginning of year less loss 2 406 926 – 612 964 = 1 793 962

In addition, the following amounts were used elsewhere in the financial statements.

Term	Amount
The excess of total liabilities over assets	Liabilities – assets 3 497 303 – 5 291 265 = (1 793 962)
The excess of current liabilities over total assets	Current liabilities – assets 2 354 662 – 5 291 265 = (2 936 603)

1. Did the 2018 financial statements of the Baptist Union include mistakes and inconsistencies:

- a. **The audit report says the current liabilities exceeded total assets by (2 936 603) – isn't this amount a mistake?**
- b. **The executive report said the total liabilities exceeded assets by 1 793 962 while the auditor said current liabilities exceeded total assets by (2 936 603) – didn't the executive use different wording from the auditor to soften the blow about the state of finances?**

Answer

First of all, it needs to be understood that the financial statements were not prepared by the Baptist Union itself, but by a person who the auditor asked to prepare them. As far as is known the executive didn't make any changes to the financial statements as drafted by this person and so the wording was prepared by this person without any input from the executive. Accordingly, the executive didn't use any wording to soften the state of the finances.

Some of the wording used in the financial could have been improved as it has been incorrectly interpreted. As can be seen above, the equity of the Baptist Union was 1 793 962 while the excess of total liabilities over assets was (1 793 962). This 2nd number is the same as the first, but with brackets around it, meaning it is a negative number. It appears some have not understood the significance of this as they think the total liabilities exceeded assets by 1 793 962, when it didn't. When it said total liabilities exceeded assets by (1 793 962), it actually means assets exceed liabilities (i.e. equity) is 1 793 962. This is a subtlety that many would not have appreciated, which is why with the benefit of hindsight it is stated that the wording could have been improved.

It also needs to be appreciated that the terms *'total liabilities exceeded assets'* and *'current liabilities exceeded total assets'* as used in part b of the question above have different meanings. Total liabilities includes both current and non-current liabilities, while current liabilities exclude non-current liabilities. How these amounts were calculated is shown above. In this case *'assets'* and *'total assets'* mean the same amount.

While the executive report said the total liabilities exceeded assets by 1 793 962, the same sentence said the Union had accumulated losses of (1 793 962). Again, this is an issue with the use of a negative amount as it didn't have accumulated losses of 1 793 962. A negative accumulated loss is retained income, which is the term used within equity in the financial statements. The executive should have stated that the total liabilities exceeded assets by (1 793 962), which is the same as saying that assets exceed total liabilities by 1 793 962. As noted above assets less liabilities is the same as equity.

Accordingly, the answer to both questions above is no. However, the wording used led to it been misunderstood by many and this has been attended to in the drafting of the 2020 financial statements.

- 2. The financial statements referred to going concern in a few places. Didn't the executive underplay this because their report makes the statement of the about the ability of the Union to continue operating conditional on a number of things, while the auditor's wording is without condition highlighting the severity of the financial situation of the audit?**

Answer

The actual wording used to support the above contention was as follows:

'Executive report: "The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the executive continues to procure funding for the ongoing operations for the entity"

Auditor report: "...a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

It needs to be appreciated that the following wording preceded the above quote from the audit report: *'As stated in note 19, these events or conditions, along with other matters as set forth in note 19, indicate that...'*

Now the wording in note 19 is repeated in the executive report as quoted above. This means that the auditor acknowledged that going concern was dependent on a number of factors.

In addition, as noted in the answer to question 1 above, it needs to be noted that the executive report wasn't drafted by the executive but by the person who drafted the financial statements.

Furthermore, the wording in both the executive report and the audit report is commonly used in many financial statements that have going concern issues. The wording used in the audit report is in line with the wording provided in auditing standards.

Based on this it is not believed that the executive underplayed the going concern issues.

3. When the 2018 financial statements were originally prepared for the 2019 Baptist Union Assembly, it didn't include one page of the audit report. Was this done to hide the severity of the going concern issues?

Answer

The reality of what happened in 2019 needs to be understood. The audited financial statements were originally printed on A4 pages, but the booklet prepared for the Assembly consisted of the audited financial statements being printed on A5 pages, which is half the size of the A4 pages. Accordingly, the pages weren't just copied to be half the previous size, but in some cases some of the information was rearranged, without being altered.

This is illustrated by the audit executives' approval of the financial statements referring to the financial statements appearing on pages 7 to 18, while in the booklet they appear on pages 2 to 14.

It appears, however, that the financial statement booklet was only prepared close to the Assembly and that in the rush to distribute the booklet there hadn't been a thorough enough check to ensure it was complete. It was only noticed later that one page of the audit report was missing and when this was realised the missing page was distributed to the assembly delegates. However, this was not the only page that was missing from the booklet. Pages were also missing from the financial statements of the Baptist Theological College of Southern Africa (including the audit report) and Baptist Trust and Special Purpose Funds.

There is no evidence to suggest the missing page of the audit report was deliberately not included in the booklet. Any fairly financial literate reader would have realised from reading the audit report included in the booklet that it excluded an audit opinion, which is the main reason for it to be provided and so would have known something was missing.

4. Why are the financial statements audited and who is to prepare the financial statements?

Answer

The Baptist Union is a registered Non-Profit Organisation (NPO) and such organisations are required to be audited.

This means such organisations are required to be audited regardless of whether they have used their assets to raise loans or not and regardless of whether they have going concern issues or not.

In the past it was common practice for auditors to both prepare and audit financial statements, but in recent years it has become less acceptable as it can be perceived that they are auditing what they have themselves prepared. The executive of an NPO is responsible to prepare the financial statements, but they often don't have the necessary skills to do that, nor do any of their employees. As a result, some auditors have developed relationships with those who prepare financial statements and who are not employed by the auditor, and suggest that this person/organisation can prepare the financial statements for the NPO, other organisation or company.

This is how the 2018 and 2019 financial statements of the Baptist Union were prepared. The 2020 financial statements of the Baptist Union were prepared by a chartered accountant who is a member of the Baptist Union finance committee.

The term '*audited financial statements*' doesn't refer to financial statements prepared by the auditors, but to the financial statements of a NPO/organisation/company as prepared by the executive or those they have delegated this task to and then when the audit is complete the audit report is added to the rest of the financial statements.

5. What is an audit?

Answer

While this answer can be long and complex, a brief answer is provided.

In essence the executive of an organisation makes what is termed a number of assertions when financial statements are prepared. For example:

- It received revenue of Rx
- It incurred expenses of Rx
- It has cash in bank of Rx
- It owes Rx
- It owns property and equipment with a value of Rx

The auditor then carries out tests to check whether the assertions are correct. For example, it will consider whether amounts are complete (e.g. has all income been reported), reported in the correct period (e.g. are there amounts after the year end that should be reported in the previous period), do they own the assets (e.g. does the organisation actually own the bank balances), are the amounts shown at the correct value (e.g. have the specified criteria to determine the amounts to be used for property and equipment been followed correctly) and are amounts shown appropriately (e.g. are they correctly summarised and presented, including providing additional explanations).

The auditor is required to consider whether the NPO/organisation/company being audited is a going concern, and for this purpose firstly requires the executive to consider whether it is a going concern and will take this into account in deciding whether to agree with this consideration or not.

6. What was the issue regarding going concern in the 2018 financial statements?

Answer

As noted in the answer above the executive and auditor were required to consider whether the Baptist Union was a going concern. Financial statements are prepared on the assumption that an NPO/organisation/company is a going concern, but if this assumption is not appropriate then this needs to be brought to the readers of the financial statements. This includes if there are uncertainties about it being a going concern. In essence a going concern consideration is concerned with whether the entity intends to liquidate or to cease trading, or has no realistic alternative to do so, within twelve months of the year end.

For this purpose, the following are the type of issues that are considered:

- Has the entity incurred losses in a number of recent years?
- Do the liabilities of the entity exceed its assets?
- Do current liabilities exceed current assets?
- Are loans required to be repaid without it being known where the funds will come from?
- Has the entity prepared a budget for the next year and is it realistic and does it show that the financial situation will improve or not?
- What do the projections about future cash balances show?

Going concern is a subjective consideration as there can be a number of matters to consider which might give different views and some might be more likely than others, or be of more importance. Factors considered are likely to focus on solvency (do assets exceed liabilities?) and liquidity (will there be cash available when amounts fall due for payment?). For example, if a loan is required to be repaid, the entity to whom it is payable might be related to the entity and so might not insist on repayment yet. An entity might have assets it is in the process of selling at a profit and this will result in a healthy cash injection into the entity. The losses could be due to certain factors which are not expected to recur again. An entity might know that its revenue will be substantially higher in the future (e.g. a company winning a new profitable client). A company can raise funds by issuing shares to shareholders in exchange for cash.

In the case of the Baptist Union the issues that worried the auditor were the following:

- It had incurred another loss that was substantial and so this might continue
- The current liabilities exceeded the current assets and so it might not have cash to pay amounts when they fall due.

As noted above the executive weren't involved in drafting the financial statements and so there doesn't appear to have been any discussion by the executive about these concerns and so this view was included in the financial statements. It is important to note that while the auditor was concerned about whether the Baptist Union was a going concern, the wording in this regard concludes '*Our opinion is not modified in respect of this matter.*' In essence this means the auditor was bringing this to the attention of the reader and not that there was anything wrong with the financial statements.

This is standard practice if the auditor thinks there is uncertainty about whether the entity will continue as a going concern. It is also possible for an auditor to be more convinced that the entity will not be a going concern, in which case the auditor will use different wording which will result in a modified audit opinion. This could occur if liquidation was in the process of happening.

It is possible for an executive to contend that an entity is a going concern and to persuade the auditor of this. No such approach was followed in preparing the 2018 financial statements of the Baptist Union as far as is known. As noted above, the financial statements were drafted by a person associated with the auditor and so that person is not likely to have known any relevant information that wasn't included in the financial statements which could have changed the assessment. Thus, it might have been possible to avoid the auditor referring to the going concern issue if the executive had been aware of the concern this issue was going to cause at the Assembly and that they didn't have to just accept what the auditor was wanting to report. This is not to say that the auditor would have agreed with any contention, but additional information could have included in the financial statements for the readers to consider.

In response to this, while the issues that were of concern to the auditor have now been resolved, some additional relevant information is being included in the 2020 financial statements to explain why it is regarded as being a going concern.

7. When will the next Baptist Union financial statement be available?

Answer

The 2019 financial statements have been audited and are available for distribution. The Baptist Union will make them available before the 2021 Assembly.

The 2020 financial statements of the Baptist Union have been drafted and have been sent to the finance committee and to the auditor. The finance committee is planning to meet soon to approve them. The financial statements will be available to be distributed once the audit is complete which is envisaged as being before the 2021 Assembly.

8. What is the position regarding amounts given to the Baptist Union by way of a Christmas Appeal for retired pastors?

Answer

Previously, when the Baptist Union was cash strapped it was using whatever cash there was to pay salaries and other running costs. While the cash received for the Christmas Appeal might have been diverted for this reason, this doesn't mean the cash was just absorbed for the Baptist Union's purposes. The amounts received continued to be recorded as a liability.

In 2020, when the cash situation of the Baptist Union had improved a bit, most of the amounts received previously were paid out to the pensioners. In accordance with previous practice, some of the amount was retained so that there were funds available, when needed, to assist with the funeral costs of retired pastors.

9. At one stage there was consideration of developing a retirement village on part of the land owned by the Baptist Union, for which the Baptist Union received certain amounts. Is there pressure on the Baptist Union to repay this?

Answer

The terms of the agreement expire at the end of 2021. If the developer proceeds before then the amount received (namely R250,000) will be deducted from the purchase price payable to the Baptist Union.

If the Baptist Union cancels the agreement, then it will be required to repay this amount.

If the agreement lapses because neither party takes action before the expiry date, then the Baptist Union can retain the amount received without a need to repay it. Until then the amount received is shown as a liability in the financial statements.

10. What amounts have been recorded in the Baptist Union Trust Funds as opposed to the Baptist Union?

The amounts deposited into the Baptist Union Trust Funds consist of the following:

- Bequests
- Once off donations

Normal giving, other than bequests and once off donations that were large at the time of giving, have been recorded in the Baptist Union financial statements and not in the Baptist Union trust Funds.

These bequests and large once off donations include the following:

- Amounts given for specific projects as specified by the donor (e.g. bequests and trust funds for missions and bursaries)
- Amounts given where the Baptist Union specified the project it should be allocated to (e.g. unspecified bequests and trust funds allocated to missions and bursaries)
- Amounts raised for specific projects from appeals by the Baptist Union (e.g. Centenary, Extension and SA Baptist Property Investment Corporation funds).

The Trust Funds are administered separately from those of the Baptist Union, with some of the funds distributed to the Baptist Union each year. At one stage in the past some of these funds were included in the Baptist Union financial statements before they were transferred to the Trust Funds.

11. Has the doubling of membership fees (R30 to R60 per member) actually made any difference to the finances of the BU?

The new R60 membership fee is made up as follows:

- R40 to run BU Office
- R10 to reduce internal debt
- R10 to put aside for the call of an NML

So far, between Jan 2020 and Jul 2021 we have set aside R238,206 towards the NML fund. Furthermore, we have paid back/reduced the BU loan account at the Trust funds by R166,447.

12. Has there been an increase in the number of churches giving (this double amount) or are the stats remaining the same - ie The wealthier churches are now giving more and those churches who were not giving are still not giving. (I find it difficult in these times to see a church that was struggling to give R30 / member now giving R60 / member)

Membership fees 2019 – R 811,144

Membership fees 2020 – R1,134,389

Increase of 39%.

Total church giving 2019 – R2,080,745

Total church giving 2020 – R1,821,797

Decrease of 12,4%

The increased fee has led to a leap in church (and fellowship) membership fees being paid in 2020. However, Covid and no assembly in 2020 has led to giving being down overall.

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