

Financial Governance and best practice for Trustees.

There have been a number of incidents and concerns in the London District regarding the use and safeguarding of funds within the Methodist Church. This paper is for Trustees of Methodist Churches and Circuits in London (i.e. ministers, stewards, treasurers, etc.). It is an overview of Methodist financial governance and good practice to help trustees consider their shared responsibilities for church and/or circuit.

It aims to consider the health and well-being of not only the finances but those directly undertaking financial tasks, through: i) the fair sharing of tasks and prevention of overload and undue stress on any one person such as the treasurer. ii) creating an open and considerate environment where information is freely available and members feel able to ask questions about and understand the accounts and other financial issues in the church.

1. The role of Trustees (Church Council and Circuit Meeting members)

- 1.1 The Church Council has 'authority and oversight over whole area of the ministry of the church' [CPD: S.O.603], and since churches are now recognised as Charities (although not all are registered) the duties and responsibilities include not only the description given in CPD but also the duties of Charity Trustees. These duties include the good governance of the Charity/Church and in particular the safeguarding of the assets.
- 1.2 This is a collective responsibility shared by all members of a Church Council/Circuit Meeting and whilst some may have specific roles and skills, all must show due diligence to ensure the church pursues its charitable objectives without loss or hindrance. The Trustees must also ensure that undue burden is not placed on one individual and that support is provided as needed either internally or externally.
- 1.3 It is usually, the responsibility of the Treasurer to keep the account books, prepare the financial plans, budgets, financial monitoring and annual accounts and present the reports and accounts to the trustee body in such a way that the trustees understand.

2. Governance controls (by Church Council or Circuit Meeting)

Must :

- 2.1 **The Church Council must appoint** the following roles: Treasurer (annually - S.O.635), Independent Examiner or Auditor (annually – S.O.636), collection counting stewards, stewardship recorder,
- 2.2 The **independent examiner or auditor must be independent** of the Church council or in the case of the Circuit, the Circuit Meeting.

2.3 **Comments from the examiner or auditor** on the financial controls should be passed to the Church Council and appropriate steps agreed where action is needed.

2.4 The **process for authorisation of payments** must be agreed by the Church Council on whose behalf all payments are made. e.g.

- i) A budget is prepared each year and agreed by the trustees, who then authorise the treasurer and signatories to pay for items covered by the budget.
- ii) An alternative is that the Trustees agree authority levels up to certain amounts that the treasurer and other signatories can pay.

For both these approaches, it must be made clear at what point payments need to be referred back to the Church Council or Circuit Meeting, e.g. a costly boiler replacement not allowed for in the budget

If emergency powers are to be given to any two people or group, e.g. to cope with an urgent decision for a boiler replacement after a breakdown, then the use of these powers must be regularly monitored by the Church Council.

2.5 **An annual budget** should be prepared with appropriate stakeholder consultation and access to the current year's figures, e.g. allowing for agreed work highlighted in the quinquennial inspection. The annual budget should be presented and agreed by the church or circuit meeting.

2.6 **Expenditure against restricted funds** must be properly applied for the purpose to which it was intended, e.g. from the benevolence fund or from an endowment fund.

2.7 **Accounting records must be maintained for 6 years** and the location must be known to trustees and / church officers.

2.8 **If paid staff are employed**, all appropriate taxes and national insurance must be declared and paid to HMRC.

Should :

2.9 **New trustees** should be given some induction and access provided to appropriate documentation, e.g. Managing Methodist Money on the Methodist Website, Charity Commission guidance, copies of the latest church & circuit accounts.

2.10 The existing Church Council/Circuit Meeting should be **reminded regularly** of its financial (and property) responsibilities.

2.11 The **spreading of financial duties** should be considered so they are not all in the hands of one person, and no one person is overloaded.

- 2.12 The **number of quotes** required for certain services or works should be agreed and who is authorised to make the choice of quote and commit the church / circuit to expenditure. When is professional advice taken? e.g. from a surveyor.
- 2.13 **Potential risks** should be considered, documented and evaluated. e.g. using a Risk Register setting out what steps are taken to mitigate the risks identified

3. Accounting for Income

Must :

- 3.1 **At least two people** must together count the Sunday offerings, and other cash takings from special events, then sign an analysis sheet or other record of the amount tallied (and by stewardship number where appropriate).
- 3.2 **Bankings** should be carried out regularly and security and personal safety issues (including insurance for these) considered when cash is taken to the bank.
- 3.3 **Any material discrepancies** between the total on a collection analysis sheet and the amount banked should be investigated.
- 3.4 **Lettings agreements, licenses or leases** must be in place and conform to Methodist/LEP requirements, if the church or circuit own properties which yield income. Processes should be in place for reconciling the rents received with the amount that should be due under the agreements (at least annually, but ideally monthly).
- 3.5 **Gift Aid claims** should be calculated and claimed as soon as possible after April each year, but **must** be claimed within 5 years; otherwise the money is lost.

Should :

- 3.6 **Casual lettings and cash receipts** need to be controlled. E.g. by checks made between the booking register and rents or fees received.
- 3.7 If **tenants use church facilities such as photocopiers** consideration should be given to the cost and a recharge arrangement put in place if it is material.

4. Expenditure authorisation & payment

Must :

- 4.1 Incomplete cheques or without accompanying payment detail such as a bill or invoice **MUST NOT be signed** by the two signatories required for every cheque.
- 4.2 **ONLY Dual Authorisation** facilities can be used for internet banking, just as with cheques.

4.3 **All cheque signatories must be clear** on what has been authorised for payment by the church or circuit meeting. A written guidance note is helpful, particularly for new signatories.

Should :

4.4 A clear written procedure, and expense form, may be desirable for any reimbursement of expenses incurred by members on behalf of the church or circuit.

4.5 A petty cash imprest system is found helpful by many churches with a float held by the treasurer or other officer. This may be preferable to taking small expenses directly out of the church collection, even assuming well documented, as the latter can cause accounting complications.

4.6 It is good practice to present to Church Council/Circuit Meeting a list of contractors awarded contracts in the year, number of contracts awarded to each contractor that year, and total value of the contracts with comparative values for the year.

4.7 Auditors are likely to require a declaration of any interest or the relationships members of Church Council/Circuit Meeting have with contractors used or other bodies to which payments have been made.

4.8 Benevolence Fund expenditure should be properly recorded and approved, even though confidentiality will restrict those who may see the details (S.O.651)

5. Monitoring of the church/circuit's financial affairs

Must :

5.1 Bank reconciliations must be performed to ensure that the accounting records agree with the actual balances held at bank. This must be demonstrated at the end of year, but must also be carried out regularly (at least monthly), in order to identify any potential issues, e.g. banking errors, which may need attention.

5.2 **Monitoring of actual income and expenditure against the budget** provides valuable information and should be done regularly, e.g. quarterly, half yearly, and differences investigated. Who is responsible for this monitoring and investigation ?

5.3 **Financial reports must be made available** in time for the relevant church or circuit meeting decisions on significant expenditure to be made. E.g. for consideration of a new project to employ a youth worker or refurbish a hall or building.

Should :

5.4 **Outstanding debts due to the church / circuit e.g. of tenants or hirers** of church premises must be managed, chased when appropriate and if persistent reported to the church / circuit.

- 5.5 If money is ‘tight’, it is a sensible idea to prepare a **cash flow forecast** for a rolling six months forward (or longer).
- 5.6 Churches should consider whether bank and Central Finance Board statements should be received (or accessible if on-line) by two independent persons. Where appropriate the second person could be the auditor or independent examiner.

6. Statutory reporting and year end procedures

Must

- 6.1 All Churches and circuits must annually complete **the Methodist Standard Form of Accounts** or present accounts meeting the Charity Commission **Statement of Recommended Practice** incorporating the items shown in the Methodist Standard Form of Accounts. Notes to the accounts must record any capital expenditure commitments at the year end, and also any contingent liabilities (monies that will be spent if a future event takes place)
- 6.2 Churches and circuits must prepare a **reserves policy** indicating the basis for what are considered to be the desirable reserves (e.g. six months operations expenditure), and make a note on the purpose of any additional reserves held
- 6.3 **Relevant financial thresholds** must be adhered to for: i) Method of accounting (receipts and payments or accruals) ii) External Scrutiny (independent examiner or auditor)
- 6.4 **Audited / examined accounts** must be received before the Spring meeting or Synod:
- From each Church to the Circuit Treasurer
 - From each Circuit to the District Treasurer
- Those not received must be reported to the meeting.

Should :

- 6.5 A timetable, working backwards from the annual meeting dates will help in timely account preparation and examination/audit and presentation.

7. Assets and investments

Must :

- 7.1 An officer of the church/circuit must ensure that building properties are adequately insured, and that other necessary forms of insurance (e.g. public liability, employer liability) are adequate and up to date.

Should

- 7.2 Tangible Assets of the church or circuit may include large items of furniture, computers or other equipment. Notes to the accounts should identify the level of expenditure at which an item will be 'capitalised' (and then depreciated in the accounts), rather than written off as part of the year's expenditure, and the basis on which it is depreciated. (Methodist buildings are not usually depreciated).
- 7.3 The treasurer of the church/circuit should be involved with the results and costings of the quinquennial review of properties, and be in a position to advise on the resources available to meet the commitments recommended.
- 7.4 If the church/circuit has surplus funds on an ongoing basis it should consider establishing an approved investment policy, taking advice as necessary.

8. Lay Staff

If the church/circuit employ **lay staff**, a number of considerations arise, as well as the need to have up to date lay employment policies and any consultation necessary with the District lay employment adviser

Must :

- 8.1 Methodist Standing Orders state all employees must be paid a living wage
- 8.2 Job descriptions / person specifications / salary and other changes in terms and conditions of employment must be prepared and agreed by the Church Council/ Circuit Meeting or delegated sub-committee.
- 8.3 Staff must be auto-enrolled into a pension scheme at the appropriate date.

Should :

- 8.4 How, and how often, are salaries and other terms and conditions of employment reviewed, and what factors are considered?
- 8.5 Leave and sickness records must be maintained and monitored.