

September 2019 revised edition (original was DC14/7:4)

## **London Methodist District**

### **Financial Governance and best practice for Trustees.**

#### **Introduction**

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. We hope that it will be of considerable help to churches and circuits in establishing their own good practice and procedures.

In a paper of this sort we need to note that the guidance should not be relied on as definitive. Church officers should not necessarily rely on it and seek their own professional advice where necessary (e.g from their auditor or examiner). The Charity Commission has published a substantial amount of advice in this area, and relevant documents are listed at the end of the paper.

To avoid the need to distinguish where necessary between the guidance for Churches and that for Circuits, the remainder of this paper is for Church treasurers and other Church officers, and an Appendix sets out areas where Circuits should also review their practices.

The paper 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.

Some of the guidance is mandatory, and this is generally included in the **Must** sections with the authority in brackets. Other 'musts' represent the views of the compilers of this guidance, endorsed by the District Council. Some guidance is included as good practice, recognised hopefully by the majority of Churches – and this is detailed in the **Should** sections.

The paper you are reading is a revised edition of original guidance issued in 2014 when there had been a number of incidents and concerns in the London District regarding the use and safeguarding of funds within the Methodist Church. Churches and circuits need to be on their guard against recurrence, and it is hoped this revised paper will help in that task.

#### **1. The role of Trustees (Church Council members)**

1.1 The Church Council has 'authority and oversight over the 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 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 Church Treasurer, in addition to or as part of their mandatory duties (S.O.012A, 635), 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)**

### **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 (the responsibilities officially of the church stewards and communion stewards (S.O.s 634 and 637), stewardship recorder,

2.2 The **independent examiner or auditor must be appointed** in accordance with S.O.012(3) and be independent of the Church Council and its members. The Superintendent must ensure that these appointments are made and also that a report is received after each examination or audit (S.O.012(4))

2.3 **Comments from the examiner or auditor** on the financial controls must be passed to the Church Council and appropriate steps agreed where action is needed. Any qualification in the auditor's report must be recorded in the minutes of the meeting at which the audited accounts are presented (S.O.012(5))

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, 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. If so prepared the annual budget must be presented to and agreed by the Church Council.

2.6 A **reserves policy** for each of the funds established must be set out with the annual accounts (S.O.012(6), Charity Commission CC19)

2.7 **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.

2.8 **Accounting records must be maintained for 6 years** and their location must be known to appropriate trustees and church officers.

2.9 **If paid staff are employed**, all appropriate taxes and national insurance must be declared and paid to HMRC. Auto-enrolment of eligible staff into a pension scheme must take place (Pensions Act 2008).

### **Should :**

2.10 **New trustees** should be given some induction and access should be provided to appropriate documentation, e.g. Managing Trustees and Methodist Money on the Methodist Website

(<https://www.methodist.org.uk/for-ministers-and-office-holders/office-holders/managing-trustees/managing-trustees-and-methodist-money/> - last updated 2010), Charity Commission guidance, copies of the latest church & circuit accounts. (See Useful documents below)

2.11 The existing Church Council should be **reminded regularly** of its financial (and property) responsibilities. Trustees should be able to obtain on request any reasonably available financial information.

2.12 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. The Charity Commission state (CC8) : *Segregation of duties - A key feature of internal financial controls is to ensure that no single individual has sole responsibility for any single transaction from authorisation to completion and review. It is important where the trustees administer the charity personally, more likely in smaller charities, that there is sufficient segregation of duties amongst them, so that no one trustee is overburdened or exercises sole responsibility.*

2.13 The **number of quotations** required for certain services or works and who is authorised to make the choice of quote and commit the church to expenditure should be agreed by the Church Council. The Church Council should also agree on when professional advice should be taken e.g. from a surveyor.

2.14 **Potential risks (not just financial)** 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** must 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 must be investigated.

3.4 **Lettings agreements, licenses or leases** must be in place and conform to Methodist/LEP requirements, if the church owns properties which yield income. See TMCP :

<https://www.t MCP.org.uk/property/letting-property-and-third-party-use> 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 **Sales of property** may require a levy to be paid to the Methodist Church under the Connexional Priority Fund (S.O.970-978). There are detailed provisions relating to this and the S.O.s must be consulted.

3.6 **Gift Aid claims** should be calculated and claimed as soon as possible after each year end, but **must** be claimed within 4 years of the end of the financial period in which the donation was received; otherwise the money is lost. For cash donations under the small gifts scheme the claim must be made within 2 years of the end of the tax year in which donations were made.

#### 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 **Cheque signing** must require two authorised signatories (S.O.012(1)). Incomplete cheques or cheques without accompanying payment detail such as a bill or invoice **MUST NOT be signed** by the two signatories.

4.2 **ONLY Dual Authorisation** facilities can be used for internet banking, just as with cheques (S.O.012(1)). Telephone banking involving just one person giving instructions must not be used.

4.3 **All cheque signatories must be clear** on what can be authorised for payment and by whom as agreed by the Church Council. A written guidance note is helpful, particularly for new signatories.

4.4 A clear written procedure, and expense form, must be provided for any **reimbursement of expenses** incurred by members on behalf of the church.

### Should :

4.5 A **petty cash imprest** system is found helpful by many churches with a float held by the treasurer or other officer. This is desirable in preference to taking small expenses directly out of the church collection, even assuming well documented, as the latter can cause accounting complications. The church could also consider introducing a card system with appropriate controls for many of the transactions otherwise needing petty cash.

4.6 It is good practice to present to Church Council 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 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 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 **Financial reports must be made available** in time for the relevant Church Council 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.

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

### Should :

5.4 **Monitoring of actual income and expenditure against budget** provides valuable information and should be done regularly, e.g. quarterly, and differences investigated. The Church Council should designate those responsible for this monitoring and investigation, for example through a Finance Committee.

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 and reviewed (or accessible if on-line) by two persons not directly involved with Church finances, one of whom should be the Church minister. Where appropriate the second person could be the auditor or independent examiner.

## 6. Statutory reporting and year end procedures

### Must :

6.1 All Churches 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 (S.O.012(2)). 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 must prepare a **reserves policy** which describes what the reserves are held for and the justification for holding them (S.O.012(6), Charity Commission CC19). It may also indicate what are considered to be the desirable level of reserves (e.g. six months operations expenditure.

6.3 **Relevant financial thresholds (see CC15(d))** 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** of the Church must be received by the Circuit before the Spring meeting of Synod.

6.5 **Charity Commission** reporting must be complied with. All registered charities with an income of over £25,000 must file their accounts and an annual report online with the Commission.

### Should :

6.6 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 (S.O.951(1)(i)).

7.2 A **quinquennial inspection** of all Church property must be arranged by the Circuit meeting (S.O.952(1))

### Should :

7.3 **Tangible Assets** of the church 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).

7.4 The treasurer of the church should be involved with the results and costings of the **quinquennial inspection** of properties, and be in a position to advise on the resources available to meet the commitments recommended.

7.5 If the church has **surplus funds** on an ongoing basis it should consider how this relates to its reserves policy and consider supporting wider Methodism or other charitable causes within its powers with any excess funds. It may also consider establishing an approved investment policy especially where funds may be required e.g. for a future building project, taking advice as necessary.

## 8. Lay Staff

If the church employs **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.

Reference must be made to the Methodist Church guidelines in the Lay Employment Advisory Pack -

<https://www.methodist.org.uk/for-ministers-and-office-holders/employees-and-volunteers/lay-employment-advisory-information/>

**Must :**

8.1 Methodist Conference policy states all employees must be paid a **living wage** under the Living Wage Foundation definition <https://www.methodist.org.uk/about-us/news/latest-news/all-news/methodist-church-becomes-first-major-denomination-to-pay-living-wage/>

8.2 Policies for **staff salary reviews** and **terms and conditions of employment** must be created, regularly reviewed and actioned. Job descriptions / person specifications / salary and other changes in terms and conditions of employment must be prepared and agreed by the Church Council or delegated sub-committee.

8.3 Eligible staff must be **auto-enrolled** into a pension scheme at the appropriate date.

8.4 **Leave and sickness records** must be maintained and monitored. Liability for outstanding leave must be monitored.

**USEFUL DOCUMENTS :**

Charity Commission Guidance:

The Essential Trustee – CC3 - <https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3>

Charity Reporting and Accounting – CC15d - <https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d/charity-reporting-and-accounting-the-essentials-november-2016-cc15d--2>

Internal Financial Controls for Charities – CC8 (and accompanying checklist) - <https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8>

Reserves and reserves policies – CC19 - <https://www.gov.uk/government/publications/charities-and-reserves-cc19>

Independent Examination of Charity Accounts – CC31 for trustees - <https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31>  
and CC32 for examiners - <https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-examiners-cc32>

Methodist Church Guidance

Lay Employment Advisory Information Pack (328 pages!) - <https://www.methodist.org.uk/for-ministers-and-office-holders/employees-and-volunteers/lay-employment-advisory-information/>

Methodist Standard Form of Accounts - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/standard-form-of-accounts/>

Stipends and lay employment rates - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/stipends-and-payroll/stipends-and-lay-employment-rates/>

Gift Aid - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/gift-aid/>

Charity Commission Annual Return - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/charity-commission-annual-return/>

Guidance on internet banking - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/guidance-on-internet-banking/>

Managing Trustees and Methodist Money - <https://www.methodist.org.uk/for-ministers-and-office-holders/office-holders/managing-trustees/managing-trustees-and-methodist-money/> (last revised 2010)

Taxation Directory (primarily to assist Circuits needing to complete Forms P11D for ministers) - <https://www.methodist.org.uk/for-ministers-and-office-holders/finance/taxation-directory/>

### **London Methodist District Guidance**

The District website under Guidance for Churches has a **Financial Guidance** section - <https://www.methodistlondon.org.uk/financialguidance>

As well as the document you are reading the guidance documents provided include :

Guidance based on the Charity Commission's CC19 -Charity reserves : building resilience (January 2016) – a brief summary of CC19.

The terms of reference of the District Financial Resources Group are also given. This group may be able to help individual circuits with training and more specific assistance.

### **London Methodist District**

#### **Financial Governance and best practice for Trustees.**

#### **Appendix - Governance and best practice for Circuits**

**Please read the Introduction to the main paper.**

Most of what has been written in the main paper for Churches also applies to Circuits. This appendix highlights some additional points, and also the parts in the Churches guidance which may have less relevance.

#### **1. The role of Trustees (Circuit meeting members)**

The following sections replace sections 1.1 to 1.3 of the main paper.

- 1.1. The Circuit Meeting is the principal meeting responsible for the affairs of the Circuit and the development of Circuit policy [ S.O.515], and since circuits 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/Circuit and in particular the safeguarding of the assets which in this case is likely primarily to be the manses.

1.2. This is a collective responsibility shared by all members of a Circuit Meeting and whilst some may have specific roles and skills, all must show due diligence to ensure the circuit 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. The circuit stewards are the treasurers of the circuit fund (S.O.532). There is thus no formal position of Circuit treasurer (whereas there is for Church treasurer). The circuit stewards may designate one of their number to administer the fund and report as necessary to Circuit Meeting. In practice this person may be named the 'Circuit treasurer'.

## **2. Governance controls (by Circuit Meeting)**

2.1 The Circuit Meeting must annually appoint at least two circuit stewards (S.O.530) who will then assume financial duties for the Circuit (see 1.3 above).

2.2 to 2.14 of the main paper will be relevant to circuits, but substituting Circuit Meeting for Church Council (in all later sections as well as this one).

## **3. Accounting for Income**

3.2, 3.4 and 3.6 may have relevance for circuits, especially if manses are used temporarily for purposes other than for housing a presbyter or deacon. Other sections are unlikely to be relevant.

## **4. Expenditure authorisation & payment**

4.1 to 4.3 and 4.7 of the main paper will be relevant to circuits and the other sections may be in some circumstances.

## **5. Monitoring of the Circuit's financial affairs**

5.1 to 5.6 of the main paper will be relevant to circuits. Under 5.6 it is recommended that the Circuit Superintendent and the senior circuit steward (if not also the treasurer) should receive and review bank and Central Finance Board statements.

## **6. Statutory reporting and year end procedures**

6.1 to 6.6 of the main paper will be relevant to Circuits. Under 6.4 examined or audited Circuit accounts must be sent to the District Treasurer before Spring Synod.

## **7. Assets and investments**

7.1 to 7.5 of the main paper will be relevant to Circuits. As regards 7.2 on quinquennial inspections, the Circuit Meeting is responsible for arranging inspections of not only Circuit property but all properties for which its churches are managing trustees (S.O.952 (1) and (2)).

## **8. Lay Staff**

8.1 to 8.4 of the main paper will be relevant to Circuits.

## **USEFUL DOCUMENTS**

Please see listing at end of main paper.