

Financial Governance and good practice for Church and Circuit Trustees

Introduction

This paper is intended to provide guidance and support for all trustees of Methodist churches and circuits in the Northampton District. It is an overview of Methodist financial governance and good practice to help all trustees consider their shared responsibilities, but it is more likely to be useful for those directly involved in financial matters. It will provide details of additional information that may be obtained and will assist churches and circuits establish their own procedures. It may be useful when recruiting new Trustees or encouraging existing Trustees to take on additional roles as it indicates where additional guidance may be obtained.

The guidance should not be relied upon as definitive and professional advice should be sought where necessary (e.g. from the auditor or examiner). A list of documents providing additional advice is provided in Appendix 2.

There are some items that are mandatory and these will be included in the “Must” sections with the relevant authority identified in brackets. The abbreviation “SO” refers to Standing Orders in Volume 2 of The Constitutional Practice and Discipline of the Methodist Church (CPD) and “CC” refers to the Charity Commission. Some other “musts” represent the views of the compilers of this guidance and are endorsed by the Northampton District Executive. Some guidance is included as good practice and is detailed in the “Should” sections. It is important that Trustees are aware of the need for internal control and adapt the procedures where practicable.

This document aims to consider the health and well-being, not only of the finances, but also of those individuals directly undertaking financial tasks, through:

- the fair sharing of tasks and prevention of overload and undue stress on any single person such as the treasurer.
- creating an open and considerate environment where information is freely available and members feel able to ask questions about any financial issues in the church and circuit

To avoid the need to differentiate between the guidance for churches and that for circuits, the remainder of this paper is for church trustees and Appendix 1 sets out differences applicable to circuits.

1. The Role of Trustees (Church Council members)

1.1 The Church Council has “authority and oversight over whole area of the ministry of the church” (SO 603). Churches are recognised as Charities, although not all are registered, and 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 Church and the safeguarding of the assets.

1.2 This is a collective responsibility shared by all members of the Church Council and whilst some individuals 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 In addition to the duties described in SOs 012A and 635, it is usually the responsibility of the Church Treasurer to keep the account books, prepare the financial plans, budgets, financial monitoring and annual accounts and present the reports and accounts to the Church Council in such a way that the trustees understand.

2. Governance Controls (by Church Council)

Must:

2.1 **The Church Council must annually appoint** the following:

- Treasurer (SOs 012A and 635)
- Independent examiner or auditor (SOs 012(3) and 636). This individual must be independent of the Church Council and its members. It is the responsibility of the Superintendent Minister to ensure that these appointments are made and that a report is received after each examination or audit (SO 012(4))
- Church stewards (SO 632). The church stewards and communion stewards, if appointed, are responsible for counting and recording all collections (SOs 634(3) and 637(4))

2.2 **Comments from the examiner or auditor** must be passed to the Church Council and appropriate step agreed where action is required. Any qualification in the auditor's report must be recorded in the minutes of the meeting at which the audited accounts are presented. (SO 012(5)).

2.3 **The process for the authorisation of payments** must be agreed by the Church Council on whose behalf all payments are made. For example

- 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.
- An alternative is that the Trustees agree authority levels up to certain amounts that the treasurer and signatories can pay.

It must be clear at what point payments need to be referred to the Church Council. For example, a boiler replacement that was not allowed for in the budget.

2.4 **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 Council. For further guidance, see Chapter 4 (Budgets) in the Association of Church Accountants and Treasurers (ACAT) Handbook.

2.5 **A reserves policy** for each of the funds established must be set out with the annual accounts. (SO 012(6) and CC19)

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 appropriate trustees and officers

2.8 **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:

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

<https://www.methodist.org.uk/for-churches/office-holders/managing-trustees/managing-trustees-and-methodist-money/> (last updated 2010) or Charity Commission guidance (CC3).

2.10 The members of the **Church Council should be reminded regularly** of their financial (and property) responsibilities. Trustees should be able to obtain on request any reasonable available financial information.

2.11 **The spreading of financial duties** should be considered so they are not all in the hands of one person and no single person is overloaded. The Charity Commission guidance (CC8) states: *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.*

2.12 **The number of quotations** required for services or works and who is authorised to make the choice of supplier should be agreed by the Church Council, before any commitment of expenditure is made. The Church Council should also agree on when professional advice should be taken (e.g. from a surveyor)

2.13 **Potential risks** (not just financial) should be considered, documented and evaluated. e.g. using a Risk Register to set out what steps are taken to mitigate the risks that have been identified.

3. Accounting for Income

Must:

- 3.1 **At least two people** must together count and sign an analysis sheet or other record of the Sunday offerings and other cash takings from special events. (ACAT Handbook Chapter 3)
- 3.2 **Cash must be banked** frequently and security and personal safety issues, including insurance, must be considered.
- 3.3 **Discrepancies** between the total on a collection analysis sheet and the amount banked must be investigated immediately
- 3.4 **Letting agreements, licenses or leases** must be in place and conform to Methodist or LEP requirements, if the church owns properties which yield income. See The Trustees for Methodist Church Purposes (TMCP): <https://www.t MCP.org.uk/property/letting-property-and-third-party-use> Processes should be in place for reconciling the amounts received with the amount due under the agreements (at least annually, but ideally monthly).
- 3.5 **Cash and cheques received** should be banked gross and incoming cash should not be used to make cash payments. Expenses should be paid by cheque or electronic transfer.
- 3.6 **Gift Aid claims** should be calculated and claimed as soon as possible. They must be made within 4 years of the end of the financial period in which the donation was received, or the money will be 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.
- 3.7 **Sales of property** may require a levy to be paid to the Methodist Church under the Connexional Priority Fund (SOs 970 to 978). CPD makes detailed provisions and the Standing Orders must be consulted.

Should:

- 3.8 **The responsibility for counting and recording cash** as described in 3.1 should be rotated rather than carried out by the same people each week. The pair should not be related (e.g. husband and wife) and should not include the treasurer.
- 3.9 **Casual lettings and cash receipts** should be controlled e.g. by reconciling the booking register and the rents or fees received.
- 3.10 **If tenants use facilities or equipment** such as photocopiers, consideration should be given to the cost and a recharge arrangement put in place if appropriate.

4. Expenditure authorisation and payment.

Must:

- 4.1 **Cheques** must be signed by two authorised signatories. SO 012(1) states that Methodist money shall not be held in private accounts, but in official bank accounts requiring the signatures of, or electronic authorisation by, two persons for withdrawals.
- 4.2 **Incomplete cheques** or those without accompanying payment detail, such as a bill or invoice, must not be signed.
- 4.3 **Dual Authorisation facilities** must be used for internet banking as indicated above. Telephone banking involving just one person giving instructions must not be used.
- 4.4 **All cheque signatories**, and those people able to authorise electronic payments, **must be clear on what has been authorised** for payment by the church council. A written guidance note is useful, particularly for new signatories. It is good practice to ensure that there is occasional change in those authorised to make payments.

Should:

- 4.5 A written procedure and expense form should be provided for the **reimbursement of expenses** incurred on behalf of the church.
- 4.6 Incoming cash should not be used to make **cash payments**. If cash payments are made regularly a Petty Cash facility should be authorised. If it is necessary to use incoming cash to make payments, then a clear record must be prepared and signed by the recipient.
- 4.7 **A list of contractors** awarded contracts should be presented to the Church Council indicating

the number of contracts and the total value for the year.

4.8 **Any relationships that Trustees have with contractors** used or other organisations to which payments have been made should be declared.

4.9 **Benevolence Fund** expenditure should be properly recorded and approved, although confidentiality will restrict those who may see the details.

5. Monitoring of Financial Affairs

Must:

5.1 **Bank reconciliations** must be completed regularly to ensure that the accounting records agree with the actual balances held at the bank(s). This must be demonstrated at the end of the financial year, but may be carried out more frequently to identify any potential issues such as banking errors that need attention.

5.2 **Financial reports** must be made available in good time for Church Council Meetings, so that informed decisions can be taken on significant expenditure. For example, when considering the appointment of a lay worker or undertaking a property project.

5.3 **Outstanding debts** due to the church must be managed in an appropriate manner and reported to the Church Council if persistent.

Should:

5.4 **Monitoring of actual income and expenditure** against the budget provides valuable information and should be done regularly. Significant differences should be investigated and reported to the Church Council.

5.5 **A cash flow forecast** may be prepared to ensure that sufficient funds are readily available to meet ongoing costs.

5.6 **Bank statements** should be received, or viewed online, regularly to enable reconciliations to be carried out (see note 5.1). They should be made available to the Superintendent Minister and a senior steward each month and should be checked by someone in addition to the treasurer as described in the Superintendents' Handbook. <https://www.methodist.org.uk/media/16169/3356-superintendents-handbook-2020-6.pdf>

5.7 **Restricted Funds**, such as grants and donations for specific purposes, should be clearly identified, but funds that have been designated for a specific use by the Trustees should be classified as unrestricted.

6. Statutory Reporting and year end procedures

Must:

6.1 All local churches are required by the Methodist Conference to submit their **annual accounts** to the Circuit Treasurer by 31st March. This requirement is fulfilled by the completion of the Standard Form of Accounts or a set of accounts audited by a Registered Auditor together with a Declaration form signed by the Treasurer and Chair of the Trustees. (SO 012(2)) and Notes for the Standard Form of Accounts Receipts and Payments https://www.methodist.org.uk/media/12404/church_r_and_p_notes.pdf

6.2 Churches must prepare a **reserves policy** which describes what the reserves are held for and the justification for holding them (SO 012(6) and CC19). It may also indicate what the desirable level of reserves are (e.g. a number of months' general expenditure).

6.3 The relevant **financial thresholds for reporting and accounting** as determined by the Charity Commission must be adhered to for the following (CC15(d)):

- Method of accounting (accruals or receipts and payments)
- External Scrutiny (auditor or independent examiner)

6.4 **Charity Commission reporting.** In England and Wales all Methodist churches, circuits and districts with a gross annual income of over £100,000 per annum need to register with the Charity Commission. Methodist charities with an income under £100,000 per annum continue to be excepted from registration. This exception is provided by the Statutory Instrument 2014 No. 242. <https://www.methodist.org.uk/for-churches/finance/charity-registration/> Charity Commission reporting must

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

Should:

6.5 It is good practice for **churches that are exempt from registration** with the Charity Commission to prepare an annual report, but they are not required to do so by law. (CC15(d))

7. Assets and Investments

Must:

7.1 Trustees must ensure that **church buildings are adequately insured** and that other insurances (e.g. public liability and employers' liability) are sufficient and up to date. (SO 951 (1)(i)).

7.2 All local property must be inspected by professionally qualified persons at least once every five years. **The quinquennial report** will be arranged by the Circuit meeting, but the Church Council must consider the findings and take any action required. (SOs 941(ii) and 952(i))

Should:

7.3 **Tangible Assets** of the church may include large items of furniture, computers and 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. Methodist buildings are not usually depreciated.

7.4 The church treasurer should be involved with the results and costings of the **quinquennial inspections** and advise on the resources available to meet the recommendations.

7.5 If the church has **surplus funds** on an ongoing basis, the Trustees should consider how this relates to the reserves policy and consider supporting wider Methodism and other charitable causes with any excess funds. They may also consider establishing an approved investment policy especially where funds may be required in the future, e.g. for a proposed building project. Advice should be taken as necessary.

8. Employment of Lay Staff

Any church employing lay staff must refer to the Methodist Church guidelines in the Lay Employment Advisory Pack which may be found at: <https://www.methodist.org.uk/for-churches/employees-and-volunteers/lay-employment-advisory-information/>

Must:

8.1 All employees must be paid a minimum of the Living Wage as described in Appendix 10.1 of the Lay Employment Advisory Pack. The rates are agreed by the Connexional Allowances Committee and reviewed with effect from 1st April each year.

8.2 Policies for **salary reviews** and **terms and conditions of employment** must be created and regularly reviewed. Job descriptions, person specifications and other necessary documents must be prepared by the Church Council or its delegated sub-committee.

8.3 Eligible staff must be auto-enrolled in a pension scheme.

Appendix 1 – Guidance for Circuits

Introduction to the appendix

This appendix highlights some differences and some additional points to those for Churches described above in the main paper. It must be read in conjunction with the main paper.

Unless the section has been rewritten or deleted in this appendix, wherever the words "Church Council" appear, they should be replaced by "Circuit Meeting", "Church" replaced by "Circuit" and "Church Treasurer" replaced by "Circuit Stewards"

1. The Role of Trustees (Circuit Meeting members)

The following sections replace sections 1.1, 1.2 and 1.3 of the main paper

1.1 The Circuit Meeting is responsible for the affairs of the Circuit and the development of Circuit policy (SO 515). Circuits are recognised as Charities, although not all are registered, and 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 (the Circuit) and the safeguarding of the assets (primarily the manses).

1.2 This is a collective responsibility shared by all members of the Circuit Meeting and whilst some individuals 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 The circuit stewards are the treasurers of the circuit fund (SO 532). There is no formal individual position of a Circuit treasurer, unlike the position of Church treasurer, but the circuit stewards may designate one of their number to act on their behalf in the administration of the circuit fund and to report as required to the Circuit Meeting. In practice, this person may be known as the "Circuit Treasurer", but in accordance with Standing Order 532, all circuit stewards share that responsibility.

2. Governance Controls (by the Circuit Meeting)

2.1 **The Circuit Meeting must annually appoint** at least two circuit stewards (SO 530) who will then take responsibility for the finances of the Circuit (Appendix 1, paragraph 1.3 above). The Superintendent is responsible for ensuring that auditors or independent examiners are appointed and that they report after each audit or examination (SO 012 (3&4))

2.2 to 2.13 apply to circuits with the changes indicated in the introduction to this appendix.

3. Accounting for Income

The principles of these sections should be applied in the relatively rare circumstances where income is received.

4. Expenditure authorisation and payment.

Except for paragraph 4.6 which is unlikely to apply, all other sections apply to circuits with the changes indicated in the introduction to this appendix.

5. Monitoring of Financial Affairs

All sections apply to circuits with the changes indicated in the introduction to this appendix.

6. Statutory Reporting and year end procedures

6.1 All circuits are required to submit their **annual accounts**, together with the completed "**Summary of Cash and Investments**" (C&I) form, to the District Inspector for Church and Circuit Accounts by 31st March. The Northampton District has amended the C&I form and added some guidance notes to suit the needs of the District. The version provided by the District Treasurer should be used, not the version available on the Methodist web-site. This requirement for annual accounts is fulfilled by the completion of the Standard Form of Accounts or a set of accounts audited by a Registered Auditor together with a Declaration form signed by the Treasurer and Chair of the Trustees. (SO 012(2)) and Notes for the Standard Form of Accounts Receipts and Payments (https://www.methodist.org.uk/media/12476/circuit-r_and_p_-notes.pdf)

6.2 to 6.5 apply to circuits with the changes indicated in the introduction to this appendix.

7. Assets and Investments

All sections apply to circuits with the changes indicated in the introduction to this appendix.

8. Employment of Lay Staff

All sections apply to circuits with the changes indicated in the introduction to this appendix.

Appendix 2 – Useful Documents

Methodist Church Guidance

Constitutional Practice and Discipline (CPD). The Standing Orders are in Volume 2 and are updated annually after amendments by Conference <https://www.methodist.org.uk/for-churches/governance/cpd/>

Circuit Stewards' Handbook and Training <https://www.methodist.org.uk/for-churches/office-holders/circuit-stewards/induction-pack-for-circuit-stewards/>

Methodist Standard Form of Accounts. This link provides access to the standard forms, the guidance notes and other documents including Reserves Policy forms. <https://www.methodist.org.uk/for-churches/finance/standard-form-of-accounts/>

Lay Employment Advisory Information. <https://www.methodist.org.uk/for-churches/employees-and-volunteers/lay-employment-advisory-information/>

Stipends and Lay Employment Rates. <https://www.methodist.org.uk/for-churches/finance/stipends-and-payroll/stipends-and-lay-employment-rates/>

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

Charity Commission Registration. <https://www.methodist.org.uk/for-churches/finance/charity-registration/>

Guidance on Internet Banking. <https://www.methodist.org.uk/for-churches/finance/guidance-on-internet-banking/>

Taxation Directory. This is to assist Circuits in the completion of P11D forms for ministers. <https://www.methodist.org.uk/for-churches/finance/taxation-directory/>

Guidance for Managing Trustees. This link provides access to all the documents and information that Methodist Trustees will need, including some of the items above and the section entitled “Managing Trustees and Methodist Money”. <https://www.methodist.org.uk/for-churches/office-holders/managing-trustees/>

Gift Aid. <https://www.methodist.org.uk/for-churches/finance/gift-aid/>

Superintendents' Handbook. This document has a section on “Stewardship: reducing the risk of fraud”. <https://www.methodist.org.uk/media/16169/3356-superintendents-handbook-2020-6.pdf>

Charity Commission Guidance

The Essential Trustee – CC3. Details of what is required of a charity trustee. <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>

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

Charity Reserves - CC19. How to develop and report on a reserves policy. <https://www.gov.uk/government/publications/charities-and-reserves-cc19>

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

The Association of Church Accountants and Treasurers (ACAT)

The Methodist Church pays for a block membership of ACAT. This gives us access to their online handbook, newsletters and training courses. Paper copies of the handbook may be purchased from ACAT. To access ACAT's services please contact your Circuit Treasurer or the District Treasurer for log in details.