

## **THE CHURCH ACCOUNTING (AMENDMENT) REGULATIONS 2001**

### **Explanatory Memorandum**

1. These Regulations are introduced on the instructions of the Business Committee. They make a number of changes to the Church Accounting Regulations 1997 ('the 1997 Regulations').

### **Background to the Church Accounting Regulations 1997**

2. The Charities Act 1993, and regulations made under it, introduced new rules for the preparation and content of charity accounts and reports and the audit or independent examination of such accounts. As charities, parochial church councils ('PCCs') were subject to those new rules. Two steps were taken to assist PCCs to comply with them.
3. First, the CBF produced guidance ('the Church guidance') on their effect. This was written in language that was tailored to the church context, and in such a way as to comply with the requirements of the Statement of Recommended Practice for Accounting by Charities ('the SORP'). Thus the Church guidance was intended to obviate the need for the majority of parishes to read the SORP.
4. Second, the 1997 regulations were made under rules 9(4) and 54(8) of the Church Representation Rules. They took a form which would meet the requirements not only of the new charity accounting rules but also the corresponding requirements of the Church.
5. Thus by complying with the 1997 Regulations and the Church guidance, the majority of PCCs would also be meeting the requirements of the Charities Act 1993, the accounting regulations made under it and the SORP.

### **The new SORP and accounting regulations**

6. The need for the Church guidance and accompanying regulations remains unchanged. However, in the autumn of 2000 the charity accounting regime was revised, by the introduction of a revised SORP and consequent revisions to the regulations under the Charities Act 1993. Both apply to financial years beginning on or after 1 January 2001. In the case of PCCs, this means the present (2001) financial year, for which accounts will be prepared in the first four months of 2002.

7. It is accordingly necessary now to amend both the Church guidance and the 1997 Regulations to reflect these changes to the general regime, with effect from 1 January 2002. Work is progressing on the amendment of the Church guidance, a revised draft of which is currently subject to consultation and will be published by the Finance Division of the Archbishops' Council before 1 January 2002. But the amendment of the 1997 Regulations is a matter for the Business Committee and the General Synod. Under Rule 9(4) of the Church Representation Rules, the annual report and financial statements of a PCC which are required to be presented by it to the annual meeting are to be prepared in such form as shall be prescribed in accordance with Rule 54(8). That provides for any such matters to be prescribed by the Business Committee and to be laid before and approved by the General Synod.
8. With a view to making the necessary changes to the 1997 Regulations before 1 January 2002, the Business Committee made the Church Accounting (Amendment) Regulations 2001 ('the amending regulations') on 4 October 2001.

### **The changes to be effected by the amending regulations**

9. The amending regulations make a number of changes to the 1997 Regulations. The main changes are as follows:

#### Receipts and Payments accounting basis

10. Regulation 6 of the 1997 Regulations provides for the approval by the PCC of the accounts prepared on the receipts and payments accounting basis and for the approval of the statement of assets and liabilities. *Amending regulation 2 removes the requirement for a second signature and so ties the regulation more closely to the Church Representation Rules and the SORP.*

#### Statement of Financial Activities ('SOFA')

11. Regulations 8 and 9 of the 1997 Regulations provide for the format that must be used in accounts prepared on the accruals basis for presenting, in summary form, the financial activities during the year. Incoming resources must be separated into unrestricted funds, restricted funds and capital (or endowment) funds both in the keeping of accounting records and in the presentation of the accounts. *Amending regulation 3 connects the preparation of the SOFA with the SORP and the Church guidance.*

#### Balance Sheet

12. Regulations 11 to 13 of the 1997 Regulations provide for the balance sheet associated with accounts prepared on the accruals accounting basis to show a

snapshot of the financial position of the PCC at the end of the financial year. The assets, liabilities and funds are required to be analysed as shown in Appendix II to the Regulations. The accounts must be approved at a meeting of the PCC and the balance sheet signed. *Amending regulation 4 connects the preparation of the Balance Sheet with the SORP and the Church guidance. Amendment Regulation 5 removes the requirement for a second signature and so ties the regulation in more closely to the Church Representation Rules and the SORP.*

### Methods and principles

13.Regulation 14 of the 1997 Regulations requires that the statement of accounts shall give a true and fair view and explains the circumstances in which the requirement of the Regulations may be departed from. Regulation 15 of the 1997 Regulations requires comparative total figures to be prepared for the previous year on the same basis as the present year so that a direct comparison can be made. If the accounting basis has altered since the previous year, then those figures must be converted to the same basis as the current year. Regulation 16 of the 1997 Regulations explains how assets should be accounted for. *Amending regulation 6 adds extra emphasis from the regulations under the Charities Act to the occasions when they may be departed from; amending regulation 7 adds the method of handling a comparison that produces a nil answer and amending regulation 8 removes the reference to movable church furnishings which can no longer be excluded.*

### Auditor's duties

14.Regulations 19 to 23 of the 1997 Regulations explain the duties of an auditor. *Amending regulation 9 inserts a reference to the regulations under the Charities Act that is required for compliance and amending regulation 10 connects the material significance to the Commissioners' regulatory function.*

### Independent Examiner's duties

15.Regulations 24 to 26 of the 1997 Regulations explain the duties of an independent examiner. *Amending resolution 11 provides a reference to the regulations under the Charities Act and provides consistency with the 1995 Regulations.*

### Annual Reports

16.Regulation 27 of the 1997 Regulations specifies in more detail the requirement of the Church Representation Rules that a report on the proceedings of the PCC and the activities of the parish generally be prepared

so that the Charities Act Regulations are followed. Regulation 27 requires a PCC to include more information than is required under current provisions. This is to help the public understand the PCC's activities and to be an important vehicle of communication with the wider parish on the way the PCC conducts its affairs and stewards its resources, and on its hopes and aspirations for the forthcoming year. *Amending regulation 12 amends disclosure of the Usual Sunday Attendance to the Average Weekly Attendance that is now in use. It also adds extra information to be given in the annual report.*

17. *Amending regulation 13 adds a new Regulation that only relates to the information to be given in the annual report by PCCs whose gross income is greater than £250,000.*

#### Appendices I, II and III

18. *Amending regulations 14 and 15 amend Appendices I and II of the 1997 Regulations respectively to reflect the requirements of the revised SORP and amending regulation 16 amends Appendix III of the 1997 Regulations to reflect the requirements of the revised regulations under the Charities Act.*

### **Involvement of the Charity Commission**

19. The Charity Commission has been consulted about the amending regulations and the proposed revisions to the Church guidance. It has expressed itself content with the approach to be taken in the amending regulations and has helpfully suggested a number of possible amendments, which have been incorporated where appropriate.

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