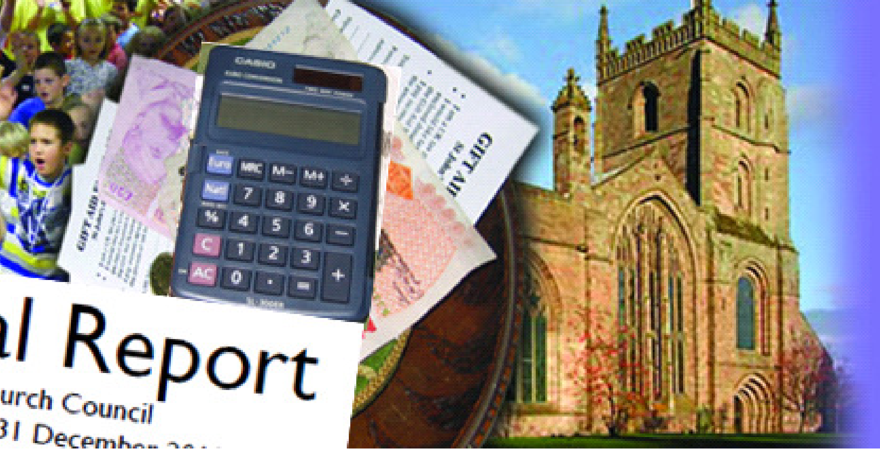

THE CHURCH OF ENGLAND

Guide to Accounting and Reporting:

Legal Framework

INTRODUCTION

Charity law makes charities accountable to the public for the resources they control. The Charities Act makes this mandatory and the Statement Of Recommended Practice for Charities (SORP) give guidance on how all charities should report in narrative terms and how any accruals accounts they prepare should report on the money and other resources they receive and spend or otherwise use. The Church has produced specific guidance for parishes on accounting and reporting, in line with the SORP where relevant and with the Charities Act and Charity Commission guidance on its interpretation. There are two versions of this Church guidance – one for smaller PCCs using 'Receipts and Payments' accounting, the other for PCCs using accruals accounting. This document provides a summary of the legal requirements facing PCCs in general, and in particular situations.

1. THE RESPONSIBILITIES OF THE PCC

Each Parochial Church Council is a charity and is responsible for all parish finance, its management and control, which includes the appointment of a treasurer. Although it can delegate some of its work (for example, to District Church Councils), this does not remove its legal responsibilities. These responsibilities include:

(a) Keeping 'proper accounting records', which must be sufficient to show and explain all the PCC's transactions. The records, together with the annual financial statements, must be kept for at least six years from the end of the financial year to which they relate. The records must be sufficient to:

- show the PCC's financial position at any time with reasonable accuracy;
- enable the required accounts to be prepared;
- show on a day-to-day basis all receipts and payments and what they were for;
- include a record of all assets and liabilities.

(b) Ensuring that the finances of the PCC are under its control and decisions only delegated if the PCC can ensure that its wishes will be followed.

(c) Preparing annual accounts (financial statements) and the Trustees' Annual Report which shall be presented to the Annual Parochial Meeting in accordance with the Church Representation Rules.

(d) Arranging for a suitable independent examination or audit of the financial statements

2. REGISTRATION WITH THE CHARITY COMMISSION

Until 2009 PCCs did not have to register with the Charity Commission even though they were charities. This was because they had been given 'excepted' status by Parliament – they were excepted from the requirement to register with the Charity Commission.

- However under the Charities Act 2006, all PCCs with an annual income on or over £100,000 have to register with the Charity Commission. PCCs with income under £100,000 currently continue to enjoy excepted status.
- For accounts prepared on a receipts and payments basis “gross income” is simply the total of receipts of money for activities (as recorded in the statement) from all sources, thus excluding the receipt of any endowment as well as any proceeds of sale of fixed assets and also any loans or loan-repayments received.
- The Commission has suggested that if an unusual “one off” receipt causes a parish’s income to go over £100,000, it will consider allowing the parish to remain unregistered.
- In accordance with the PCC Powers Measure 1956 as amended all PCCs must send their annual report and accounts to the Secretary of the Diocesan Board of Finance.
- PCCs which have registered must also send their Annual Report and Accounts to the Charity Commission.

3 LEGAL STRUCTURES WITHIN PAROCHIAL CHURCH COUNCILS (PCCs)

The general principle is that statutory accounts must be prepared for the legal entity. The PCC is the legal entity of the parish so it must prepare appropriate annual reports and accounts. This is usually straightforward but questions arise for teams, united benefices and pluralities.

3.1 Teams

Teams vary in structure and guidance on meeting accounting requirements varies with the circumstances. For example:

(a) Teams which comprise a number of separate PCCs must produce separate accounts which meet the statutory requirements at the level of each PCC. There is no legal requirement to produce a summary financial statement for the team although this may be considered to be a useful document.

(b) Teams can be formed on the basis of a single parish and PCC with more than one place of worship but without District Church Councils (DCCs). Although it may be considered helpful to prepare financial statements for individual congregations there is no legal requirement to do so. The legal requirement is for annual reports and accounts to be prepared for the PCC.

3.2 United benefices and pluralities

In the case of united benefices and pluralities, each PCC must prepare accounts in the statutory format. The thresholds apply for each PCC, which must each appoint an independent examiner or, if appropriate, an auditor. Providing the independence test holds good, the same person may be appointed for more than one PCC.

3.3 District Church Councils (DCCs)

- In certain situations, teams may comprise a single parish and PCC, with individual DCCs for separate churches. This situation can arise when pastoral re-organisation has resulted in two or more parishes being combined into a single benefice and PCC, with DCCs created to retain the sense of local community of the former separate parishes.
- Statutory accounts must be prepared at the level of the PCC.
- Although certain tasks can be passed down from the PCC to DCCs, this does not apply to the PCC’s responsibility for the safeguarding and proper application of its resources, which means that the legal

liability must, by law, remain with the PCC. DCCs cannot hold assets, and do not have body corporate status. The PCC is the only legal entity that is able to enter into a contract.

- DCCs can prepare their own accounts but, until brought together at the PCC level, these have no legal standing. Where this situation applies, it is recommended that the individual DCC accounts are prepared in a similar format. This should enable the aggregated accounts for the PCC to be prepared as simply as possible.

- Where individual DCC accounts are aggregated to create the PCC accounts, this may result in thresholds being exceeded. For example, DCCs which would normally prepare Receipts and Payments accounts may have to prepare Accruals Accounts where the income of the PCC exceeds £250,000 per annum.

- Where a PCC includes one or more DCC, the independent examiner's task may appear difficult but the person responsible for the examination (or audit where thresholds have been exceeded) does not have to carry it all out themselves. In this way, each DCC could have its part of the aggregated accounts examined, with the individual examiners undertaking the tasks delegated by the PCC's examiner. The PCC's examiner will take overall legal responsibility for any work delegated, agreeing the programme of work of local examiners, reviewing their work and reporting personally on the overall accounts of the PCC just the same as with any normal PCC.

- Some groups of PCCs operate a group or benefice account. Each PCC will make contributions to pay for joint activities, such as clergy working expenses or a parish magazine. This money may be accounted for in one of two ways:

    i. One PCC in the group may control the money for the joint activities as a restricted fund and receive grants from other PCCs in the group. This PCC accounts for the joint activities as expenses and the other PCCs show their contribution as a grant.

    ii. The joint account may be handled as a 'joint venture', where each PCC accounts for its share of the total joint activities. A PCC treasurer may operate an account, which serves the joint activity. The PCC treasurer running this type of account should not treat payments received from the other PCCs as income but should show them separately, below the line of total income receipts, and making it clear that they are cost-sharing payments by the other PCCs.

3.4 Local Ecumenical Partnerships

Local Ecumenical Partnerships (LEPs) vary in nature, e.g. in the number of denominations involved and property ownership. There is no single standard accounting treatment for LEPs, and therefore, when preparing annual financial statements, it is essential that they are in accordance with the LEP's constitution.

4 WHAT MONEY SHOULD THE PCC ACCOUNT FOR?

The PCC should account for its receipts and payments. However, in many parishes, it may not be easy to identify what the PCC is responsible for.

One of the key principles of charity accounting is that the trustees (PCC members) should identify and include in the annual financial statements any charitable funds that form part of the PCC in law. The PCC must take into its own accounts any 'branch' funds (see the two Questions, below) and may* have to prepare group consolidated accounts to include any other charitable funds which are within its control and from which it is in a position to obtain benefit. (*The group-accounting threshold is £500k gross income for the group.)

The following are examples of situations that might arise. These relate to groups or activities which may be connected with the church and whose funds **may** be under the control of the PCC.

- The PCC may have parochial organisations (e.g. a men’s group, a young wives’ group or a Church Hall Management Committee) which operate as a part of the church and are not controlled by another body.
- The PCC may have funds which are administered by members of the congregation (e.g. a flower fund or a choir fund).
- There may be a “Friends” organisation which raises funds for church fabric requirements or specific church activities.
- There may be trusts in existence, e.g. with the incumbent and churchwardens as trustees.

4.1 Applying the tests in practice

- Funds raised using the PCC’s charitable status to reclaim tax must be included in the PCC’s financial statements. Since the PCC does have the power to determine how collections taken in Church should be allocated, all collections of money <u>in church</u> should be included in the PCC's accounts, even if the money is then given to another charity.
- Money collected for church activities (e.g. a Flower Fund or a Tea and Coffee Fund) should be included in the PCC accounts.
- Money received by the parish that does not belong to the PCC should not be included in the PCC's accounts; typical examples include Christian Aid door-to-door collections (i.e. a collection outside of the church) and Parochial Fees received. Whilst the money might pass through the PCC's bank account, the receipt and the payment simply cancel each other out. Any such funds held in the PCC’s bank account at the year-end should therefore not be counted as part of the balance to be shown in the PCC accounts and should instead be disclosed in the Trustees Annual Report as monies held temporarily as custodian for the other charity.

4.2 Other tips for handling different funds

- Collections at funerals may be taken by the undertaker for payment to a specific organisation(s) at the request of the bereaved family. This money should only be recorded and accounted for by the PCC if the money is given to the church or the PCC makes the decision as to the use of the money.
- Fees for the services of the clergy, bell ringing, organists, vergers or choir at weddings and for clergy, organists, vergers and gravediggers at funerals need not be included in the financial statements if the money is paid over in full to those involved. In these instances, the PCC is acting as an intermediary and the fees do not form part of PCC income.