

Church of Scotland Congregational Accounts

An Overview for Accountants acting for Congregations

The introduction of the Charities Accounts (Scotland) Regulations of 2006 has had implications for all charities across Scotland but churches have had to face particular challenges in order to comply with the legislation. This is because churches of certain denominations (including the Church of Scotland) were regarded as “Designated Religious Bodies” under the previous legislation and as such were exempt from complying with the previous charity accounting regulations.

As each congregation of the Church of Scotland is a separately registered charity each must prepare accounts which are fully compliant with the Regulations. Perhaps not surprisingly, this has led to a number of challenges for the Church of Scotland and there are a number of “church specific” issues which anyone asked to assist a congregation with the preparation of accounts or to independently examine, or audit, the accounts of a congregation must be aware of.

Approximately 85% of Church of Scotland congregations are eligible to prepare Receipts and Payments accounts as opposed to the fully accrued, SORP compliant accounts. In both cases, treasurers are being encouraged to give as much additional detail as possible to ensure that the accounts present full details of a congregation’s activities which will vary from congregation to congregation.

Turning first to the information which is contained within the Trustees’ Report and in particular the requirement to state the Governing Document of the charity, there are a number of different forms of constitution under which a congregation may operate. The two most common are the Model Deed of Constitution and the Deed of Constitution (Unitary form). The former can be identified as this will apply to those congregations with a Kirk Session (which deals with spiritual matters) and a Congregational Board (dealing with temporal matters). The latter will apply to those congregations which have Kirk Session responsible for all matters both spiritual and temporal with authority in certain areas (e.g. finance or property) delegated to appropriate committees. It should be noted here that all members of both the Kirk Session and Congregational Board will be regarded as charity trustees but members of the delegated committees under the Unitary Constitution are not trustees as the final decision making body is the Kirk Session. A third category of constitution applies where the congregation was originally a member of the former United Presbyterian Church of Scotland and such congregations can be identified as they will have a Kirk Session and a Board of Managers (whose role is similar to that of the Congregational Board). Once again, members of both the Kirk Session and Board of Managers are the Charity Trustees. These congregations do not usually have a standard constitution but tend to be governed by individual constitutions which will vary from congregation to congregation. A final category is those congregations which were originally members of the former United Free Church and in these cases there will be a Kirk Session and a Deacons’ Court. Members of both bodies will be the charity trustees. Again there is no standard constitution for such congregations. The Law Department of Church of Scotland is recommending that all congregations adopt either the Model Deed of Constitution or the Deed of Constitution (Unitary form).

Whichever constitution a congregation has, it has to comply with the Acts and Regulations of the General Assembly of the Church of Scotland although each congregation remains financially independent.

Church buildings have traditionally not been included in the accounts but given the requirement to comply with the new Regulations this treatment is no longer permitted. The situation is further complicated by the fact that while title to some buildings is held by the local congregation, in the majority of cases title is held by the General Trustees of the Church of Scotland which is a separately registered charity. The Church is currently gathering together the details necessary to incorporate buildings into the accounts but in many cases congregation accounts will be unaffected. The main exceptions will be locally held manses and, more rarely, locally held churches. Where it is necessary to include buildings in a congregation's accounts then they should be included at cost less depreciation except where the cost or a reasonable estimate of cost is not known, in which case they should be included at an estimate of their current value to the charity (such a value is likely to be considerably less than the insurance value or the redevelopment value). The Church of Scotland will be issuing further guidance on this topic as information becomes available.

As buildings have tended to be held by the General Trustees of the Church of Scotland it follows that proceeds of past sales of buildings (and also glebes which historically were farmed to supplement the income of the minister) are held by the General Trustees. Such funds will be held either in the Consolidated Stipend Fund (an endowment fund) or the Consolidated Fabric Fund (a restricted fund) within the accounts of the General Trustees. Although both funds are assets of the General Trustees the funds are divided into separate funds for each congregation and can only be used on behalf of that congregation.

Income from the Consolidated Stipend Fund is used to contribute towards the cost of ministers' stipends and each year the relevant congregation will receive a distribution from the fund depending on that congregation's holding in the fund. (The payment of stipend within the Church of Scotland will be discussed later in this article.) Under the terms of the endowment the capital held is not available to the congregation. The only entries relating to the Consolidated Stipend Fund which should appear in a congregation's accounts are those relating to the income received towards stipend.

The Consolidated Fabric Fund can only be used towards a congregation's fabric expenses (either capital or revenue depending on the nature of the original source of income to the fund). The congregation must apply to the General Trustees for permission to use the funds and in many cases must also obtain the permission of Presbytery. As these funds are funds of the General Trustees and not the local congregation, but recognising that they can be made available to the local congregation, they are shown as an Appendix to the congregation's accounts. When a congregation receives payments from the fund then this will appear as income in the congregation's accounts.

An important feature of Church of Scotland congregations is that they do not employ or directly pay the cost of their minister. Each congregation is asked to pay a "Ministries and Mission Contribution" which is calculated according to the level of

income of the congregation. The amounts paid are used to provide ministry to all congregations and also to finance the work of the Church nationally and internationally. The amount of the Ministries and Mission Contribution for a congregation will be reduced by the amount of income which the congregation is entitled to from the Consolidated Stipend Fund referred to above. This means that the minister's stipend should not be disclosed as a payment to a trustee in the Notes to the Accounts. An additional note which explains this procedure should however be added. Other payments to ministers (e.g. for travelling expenses or Council Tax on the manse) should however be disclosed. In a reducing number of cases the minister may receive a voluntary additional payment (in effect an increased stipend) from the congregation and this should also be disclosed as a payment to a Trustee. Payments to other trustees, or their related parties (e.g. Church Officers, organists or local tradesmen who are also members of the Kirk Session or Congregational Board), whether of salary, honoraria or expenses should also be disclosed.

Church congregations will usually include a number of organisations and meetings which take place throughout the week. Where these are "part of the church" (as opposed to room letting arrangements) then the income and expenditure from these organisations must also be included in the accounts. This will normally be done by including a designated fund for each organisation (although it may be the case that certain elements of income of these groups will be restricted).

As stated at the outset of this article the requirement to comply with the Regulations has presented a number of challenges to congregation treasurers and the independent examiners of church accounts but it is encouraging to note that a significant majority have made exceptional efforts to comply. As always, further assistance and advice is available from the General Treasurer's Department of the Church of Scotland.

Further advice on all aspects of congregational accounts can be obtained from the Church offices (amcdowall@cofscotland.org.uk)

The above article first appeared in the Institute of Chartered Accountants of Scotland Technical Bulletin.