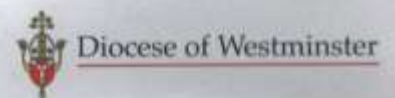




## FINANCIAL CHALLENGES IN AN ENVIRONMENT DEMANDING TRANSPARENCY AND CONTROL

**Financial Conference**  
April 2016



### AGENDA

#### 1. Financial challenges facing the Diocese

- Regulation and increasing demand for transparency
- Accounts approval by External Auditors
- Compliance and control environment in Parishes
- Coping with the current economic environment

#### 2. Team

- Finance Office
- Parish Support Team

#### 3. Questions

## FINANCIAL CHALLENGES FACING THE DIOCESE



Financial Conference | April 2016

3



Diocese of Westminster

## FINANCIAL CHALLENGES FACING THE DIOCESE

### Today's 4 main challenges:

1. Regulation and increasing demand for transparency
2. Accounts approval by External Auditors
3. Compliance and control environment in Parishes
4. Coping with the current economic environment

## 1. Regulation and increasing demand for transparency

### Charity Commission

#### Overview

The [Charity Commission](#) is the independent regulator of charities in England and Wales.

Every charity must prepare an **Annual Report and Accounts** and file them with the Charity Commission no later than 10 months after the end of their financial year.

Both documents must comply with the requirements set out in statute and should follow the methods, principles and disclosures set out in the **Statement of Recommended Practice: Accounting and Reporting by Charities (the Charities SORP)**.



## FINANCIAL CHALLENGES FACING THE DIOCESE

### 1. Regulation and increasing demand for transparency

#### Charity Commission

##### Increasing regulation and transparency requirements

"Recent research into **public trust and confidence in charities** revealed that the public's appetite for knowing how charities spend their money continues to increase and is a key factor effecting trust. The SORP clearly lay out the reporting rules to help charities be **transparent**, meet the high expectations held by the public and uphold the high levels of trust in the sector." *Jane Hobson, Head of Policy at the Charity Commission.*

Charities play a rich and varied role in modern society but their continued success is dependent upon the public's trust and confidence in their work.

##### A high level of transparency when accounting for performance allows trustees to:

- demonstrate that resources are being used wisely and for the stated purpose;
- show that the charity is being organised and managed properly;
- demonstrate that the charity is carrying out its activities efficiently and effectively; and
- attract new resources to enable the charity to continue its activities.

## FINANCIAL CHALLENGES FACING THE DIOCESE

### 1. Regulation and increasing demand for transparency

#### Presentation and format of the accounts: SORP 2015 (FRS 102)

SORP 2005 has been superseded by SORP 2015 (FRS102) for all reporting periods beginning on or after 1 January 2015.

The new SORP provides a comprehensive framework for charity accounting that all charities that prepare accounts must follow.

The new SORP was needed due to changes in UK accounting following the new Financial Reporting Standard (FRS102) that was issued by the Financial Reporting Council in March 2013.

The **main objectives of the new SORP** are to improve the quality of financial information; enhance relevance, comparability and understanding; provide clarification of application of Accounting Standards; and assist in the preparation of charity annual reports and accounts.

### 1. Regulation and increasing demand for transparency

#### Presentation and format of the accounts: SORP 2015 (FRS 102)

Some of the changes required by the new SORP 2015 will have an impact on the Parishes:

- **Restatement and comparison with previous year** – importance of variance analysis
- **Disclosure of the number of Volunteers** – Charities are required to provide narrative about the effectiveness of volunteers in their Annual Report. Survey monkey to be conducted in the coming month
- **Holiday accrual** – need to provide information about holiday accrued but not taken by year end (only employees)
- **Property** – need to update Property department regarding any changes in use of the Parish properties as it impacts classification
- **Additional disclosures** – major activities developed by the Parishes, major risks, grants received and awarded, ...

### 1. Regulation and increasing demand for transparency

#### The lessons of Kids Company

##### Context:

A charity working with children and young people in vulnerable circumstances in London, Bristol and Liverpool, founded in 1996. High profile individuals, Camila Batmanghelidjh (CEO), Alan Yentob (Chair), donors and senior political figures.

Kids Company closed on 5 August 2015 after questions over its finances and cases of alleged abuse and mismanagement.

##### The final days:

Kids Company received £42 million of Government funding since 1996.

Funded by the DoFE until 2013, when the Cabinet took over responsibility for funding, as Kids Company did not meet the criteria for competitive grant funding.

The Cabinet Office paid funding of £4.3 million in April 15 and a further £3 million in August 15, a week before the charity collapsed and closed (over reliance on funding from Government especially for providing non statutory services).



### 1. Regulation and increasing demand for transparency

#### The lessons of Kids Company

##### Lessons for Charities:

The Public Accounts Committee published a very critical report in November 2015 stating:

- 'An extraordinary catalogue of failures of governance and control at every level – trustees, auditors, inspectors, regulators and government.'
- 'The trustees ignored repeated warnings about the charity's financial health, failed to provide robust evidence of the charity's outcomes and did not adequately address increasing concerns about the suitability of its programmes and behaviors of staff.'

The Charity Commission failed as a regulator to protect the public.

The trustees and auditors failed to make a Serious Incident Report to the Charity Commission.

Poor financial control over expenditure and lack of a adequate reserves policy

Mitigation when more than one risk arises at the same time and competence of the management board

Dominant founder/CEO and communication / oversight by the trustees



### 1. Regulation and increasing demand for transparency

#### The lessons of Kids Company



##### Wider lessons for charities and regulator:

Actions or non-actions by trustees, supervisory bodies and staff are a reputational risk for the sector

Negative headlines in the press are a reputational risk for public trust and confidence in charities

Charity Commission now focused on increasing public trust and confidence in charities by being a strong and effective regulator

**Consequently there are calls for ever-tighter regulation and better governance of charities**



### 2. Accounts approval by External Auditors

Due to the size of the Diocese of Westminster, the accounts need to be audited. An external audit is a regulated activity and refers to the statutory audit of the accounts. The auditor has to express their **professional opinion as to whether the accounts are true and fair** and undertake procedures necessary to form that opinion in accordance with international standards on accounting.

#### Clean audit opinion / Unqualified report:

- True and fair view of Charity's affairs
- Accurate and complete accounts which are free from material errors

#### Consequences of a qualified audit report:

- Reputational risk
- Donors may walk away (voluntary income is the Diocese's main income stream)
- Investigation by Charity Commission

**To avoid the above, we need a strong control environment and compliance**

## 3. Compliance and control environment in Parishes

### Overview of the Diocesan accounts

- Consolidated revenues and expenditure of £50.4M and £38.5M respectively in 2014
- Consolidated accounts include 6 legal entities: **Westminster Roman Catholic Diocesan Trust**, Westminster Cathedral Ltd, Westminster Cathedral Trust, Aedificabo Ltd, Moorfields Trust and Sick & Retired Priest Fund
- **214 parishes** (the Diocesan boundaries include the London Boroughs North of the River Thames, between the River Lea to the east, the Borough of Hillingdon to the West, the County of Hertfordshire to the north and the Borough of Spelthorne in Surrey)

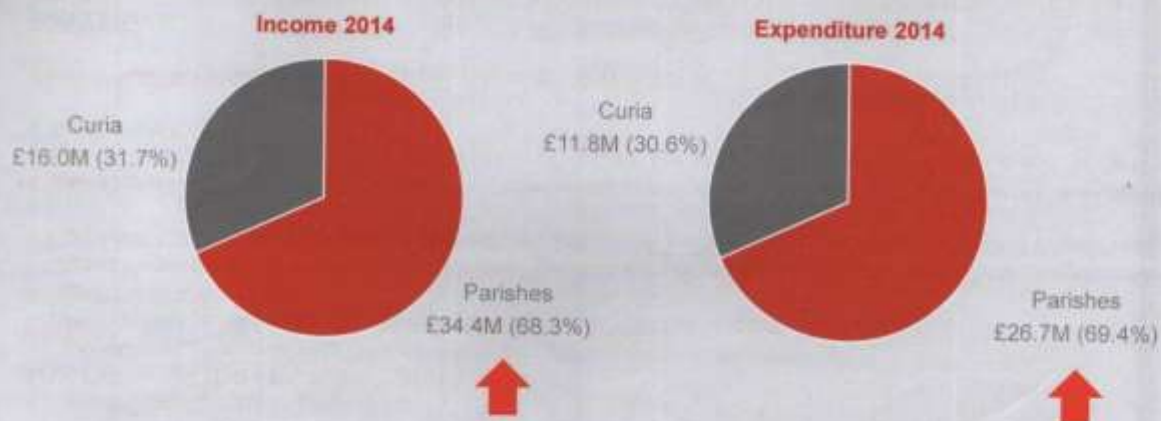
⇒ **PARISHES ARE PART OF THE MAIN CHARITY!**

- 215 schools
- Mutual fund investment: £26.8M in 2014
- Investment properties: £29.4M



## 3. Compliance and control environment in Parishes

### Parishes' contribution to the Diocesan accounts





### 3. Compliance and control environment in Parishes

#### Implications for the Parishes in an environment demanding transparency and control

Consolidated accounts are published annually and these reflect the total assets of the charity (including all parish assets). As a result, the **audit provisions for the Diocese extend to all parishes:**

- There is a need to keep your financial records up to date throughout the year using OPAS and reconciling the bank statements monthly:
  - ✓ Advantages of having OPAS, which was purchased in 2015 by Westminster and Birmingham
  - ✓ All Parishes have agreed to use OPAS – THANK YOU!!
  - ✓ Reconciliation of the bank on a quarterly basis is mandatory!
- There is a need for sound and robust financial controls – especially with regards to cash and Gift Aid:
  - ✓ Parish Audits
  - ✓ New cash control policy in place
  - ✓ New Gift Aid manual and Gift Aid conferences



### 3. Compliance and control environment in Parishes

#### Role of the Finance Committee is to assist the Parish Priest in the administration of the parish (Canon 537):

- To ensure all bank accounts are operated by more than one person and kept as part of the centralised banking system (bookkeepers excluded for financial control reasons)
- Making sure all parish property is well maintained and due control is exercised over parish assets – risk management
- Income is maximised – Gift Aid usage but proper records must be maintained
- Full and accurate accounting records are kept – the Committee should have access to these at every meeting and should analyse and monitor regularly the results of the Parish (ideally vs. Budget)
- The financial return is completed accurately and returned by the correct date
- Must ensure Diocesan approval is sought for building projects in excess of £10,000 and any other project in excess of £5,000
- Must approve any parish expenditure in excess of £1,000 up to the limits mentioned above
- Must ensure that no leases are entered into without being fully discussed by the Committee and permission obtained from the Trustees
- Must prepare and retain minutes of meetings, meet quarterly and lay members serve for 3 years



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### 3. Compliance and control environment in Parishes

#### Best Practices

- ➔ **What was my Audit Score and what measures can be implemented to improve it?**
- ➔ **Do I implement good financial controls?**
  - Ensure transparency and proper accountability
  - Act as a deterrent to fraud
  - Protect those responsible for operating the systems and the financial procedures
  - Ensure consistency
  - Minimise errors and review accounts regularly
  - Help ensure a clean audit report and safeguard reputation
  - Help ensure compliance with stronger and more robust regulation
  - Help ensure you "don't let the side down" – **each parish is part of the Diocesan Team!**

### 3. Compliance and control environment in Parishes

#### Best Practices

Please note in particular the importance of controls over cash and banking:

- Counting cash: team of counters / rota / cash sheets
- Bank all monies received and do so promptly
- Cash – how much do you need to hold and where do you keep it? Are you insured? Maintain common sense security measures regarding safe keys and codes
- Bank accounts – how many? all needed? all on OPAS?
- Frequent bank reconciliations
- Cheque signatories and authority levels
- Never sign blank cheques
- Only sign a cheque / authorize a payment when you have sighted original supporting documentation
- Custody of cheque books



### 3. Compliance and control environment in Parishes

#### Best Practices

- ➔ Do I think about the sustainability of my Parish and plan accordingly?
- ➔ Do I maximizing the use of Gift Aid and use planned giving drives?
- ➔ Do I use the Benchmark as a tool to manage the Parish financials?
- ➔ Am I ensuring the Parish obtains adequate return from property / physical plant?
- ➔ Do I keep in mind VAT or other tax implications when conducting the Parish activities?
- ➔ Do I have a Budget and 5 year plan and do I compare regularly the Parish results with the Budget as well as investigate reasons for discrepancies?
- ➔ Do I monitor and control the costs of the Parish (using OPAS reporting) and implement corrective actions accordingly? (Examples are CMP, sharing bookkeepers)
- ➔ Do I report with transparency to Parishioners on the Parishes' financial results?

### 4. Coping with the current economic environment

Requires continued vigilance of the finances to consider what affect the current economic and social climate is having on our Charity and its activities

Actions to be taken:

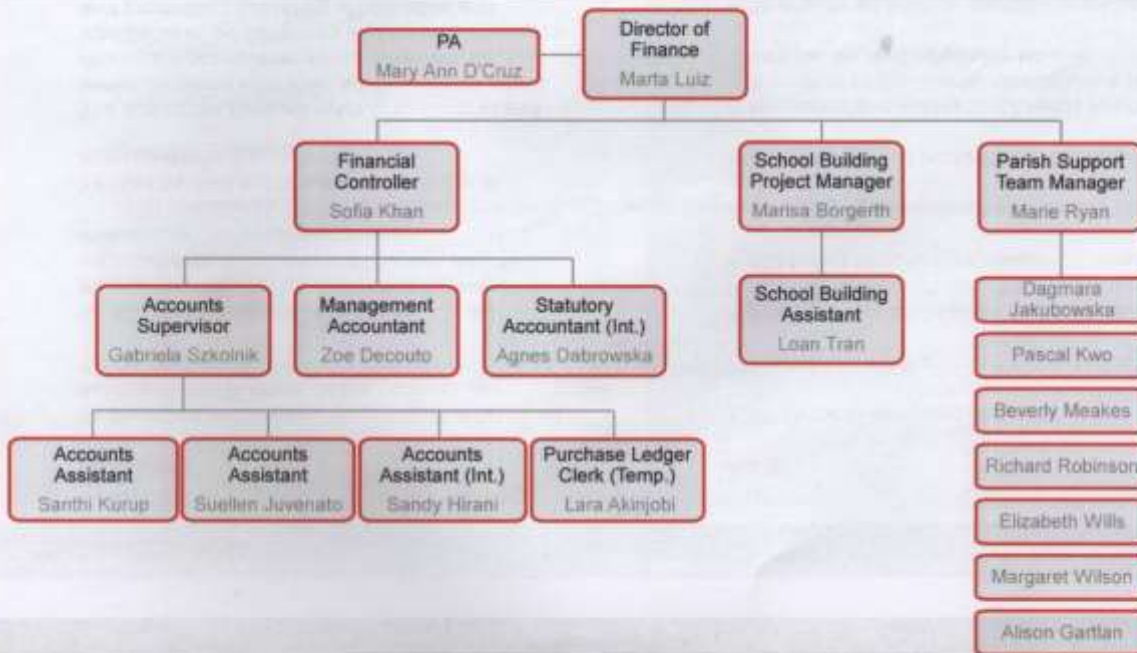
- A. Planned giving drives every 3 years
- B. Increase number of gift aid donors
- C. Small Gift Aid Donations Scheme
- D. Look at maximising income from property
- E. Legacies
- F. Monitor and reduce expenditure

## TEAM



## TEAM: FINANCE OFFICE

### Team structure



## TEAM: FINANCE OFFICE

### Mission and Role

#### Mission

To provide a professional and effective financial service to the Trustees of the Diocese of Westminster.

To ensure full compliance with charity law, statutory and fiscal reporting and other applicable legislation to the Diocese and its trusts.

To develop and sustain an environment of appropriate financial control.

The aim of the Finance team is to support and assist Parishes with their administrative and financial transactions, while reflecting high standards of performance and customer service and promoting operating efficiencies and compliance with all internal policies law requirements.

#### Role

- Financial control and policies
- Strategic planning
- Financial risk management and monitoring
- Managing the charity's resources responsibly
- Ensuring the Charity is accountable
- Keeping full and accurate accounting records
- Preparing and submitting Annual Reports and Accounts to the Charity Commission (and, for limited companies, to Companies House).
- To ensure an audit or independent examination is carried out without qualifications (true and fair view of the accounts)

### Current status

- Young team
- High turnover over the past few years
- Growing demands
- High complexity (different legal entities, several projects, several budget holders, a large number of parishes and schools, tax compliance, etc.)
- Processing of high volumes (high number of payments, high number of invoices to be raised, more than 500 Bank accounts, 200 credit cards, etc.)
- New focus on improving processes and procedures as well as ensuring an adequate environment of financial control is implemented



### Central services provided

**The Finance Office provides administrative and financial services to Parishes in the following forms:**

#### Day to day work

**Establishing and communicating procedures and policies:** Available in the Resource Centre/Parish Admin Manual

**Benchmark:** Tool to help with the financial management of a parish. It is an aide to enable planning for the parish's future financial sustainability

**Bank accounts:** managing the opening & closing of accounts, actioning changes to bank mandates and resolving account queries

**Centralised banking:** enables transactions to be processed and accessed efficiently. Credits are made direct to parish bank accounts for Gift Aid refunds, accommodation/rents, interest on deposits. Direct debits are made for insurance premiums, healthcare premiums, salary recharges, third party collections, assessment and interest on loans

**Compliance with Bank regulations (FACTA, CRS, money laundering regulations...)**

**Invoices:** processing and payment of invoices: raising sale invoices (mainly rents)

**Collections:** arranging, collecting and transferring collection funds

**Payroll:** payroll for all Parish's are processed centrally via the Curia payroll team and related HMRC payments are calculated and paid over

**Tax matters:** assistance with any tax matters, liaison with auditors/consultants if required

Central services provided

**Day to day work**

**Credit cards:** These are managed by the Curia; payment is initially taken from the main Diocesan account and recharged to Parishes

**Cash Security Collection Services:** interface with cash collection companies and liaison with HSBC

**Preferential suppliers list:** Where there is a considerable use of a product or service across the Dioceses some specific contracts have been negotiated from which parishes may benefit if they wish taking advantage of 'economies of scale' and offering lower prices: **Church Market Place**

**Health and Safety:** Debit Parishes' bank accounts (contract negotiated centrally for the benefit of parishes)

**Assessment:** Calculate and charge assessment to Parishes' bank accounts

**Energy buying group:** liaison with central energy providers (Diocesan utilities buying scheme)

**Assessing viability of projects and granting loans:** Diocese operates a centralized banking system and concedes loans to parishes with advantageous financial conditions.

**Annual Financial Returns:** The Diocese consolidates all Parish accounts at the financial year end to meet the requirements for Charity reporting; liaison with Auditors

**Ad hoc advice/queries:** The finance office offers services for planned giving and other general commercial issues



Central services provided

**Credit cards**

**We can help by**

- Answering any queries with regards to balance charged
- Processing requests for credit cards

**Please help us by**

- Registering with MiVision so you can access statements as soon as they are available
- Informing the Finance team when a parish priest leaves / moves
- Discourage the issuing of more than 1 card per parish
- Keep the card and pin secure and respect credit limits

**G4S / Cash collection companies**

**We can help by**

- Currently reviewing the contract and service level agreement with G4S and looking for other companies who offer similar services

**Please help us by**

- Completing a paying in slip for each bag submitted
- Informing the central office when the parishes decide to sign up to the cash collection service (HSBC is then informed so that receipt of funds are credited to the parishes' bank account without delays)
- Any issues, please contact customer services in the first instance. If fail to resolve issue, then contact the Finance Office

Central services provided

**Bank accounts**

**We can help by**

- Dealing with HSBC Client Relationship team for any queries
- Taking care of compliance and regulation for all 500+ Bank accounts (FACTA, CRS, money laundry legislation, etc.)
- We will action requests for new accounts within a reasonable time frame

**Please help us by**

- Being patient when you have a request to open a new bank account

**Payments**

**We can help by**

- Processing payment via BACS or HSBC.net

**Please help us by**

- Payment request to come from authorised individuals and having necessary approvals
- If payment of invoice, must attach a copy of invoice
- Ensure details of payee account are provided
- Send by COP Monday to ensure it is included in Wednesday payments



Central services provided

**Collections**

**We can help by**

- Notifying the parish before taking any monies
- Sending out the collection forms at least 2 weeks in advance of collection date + reminders

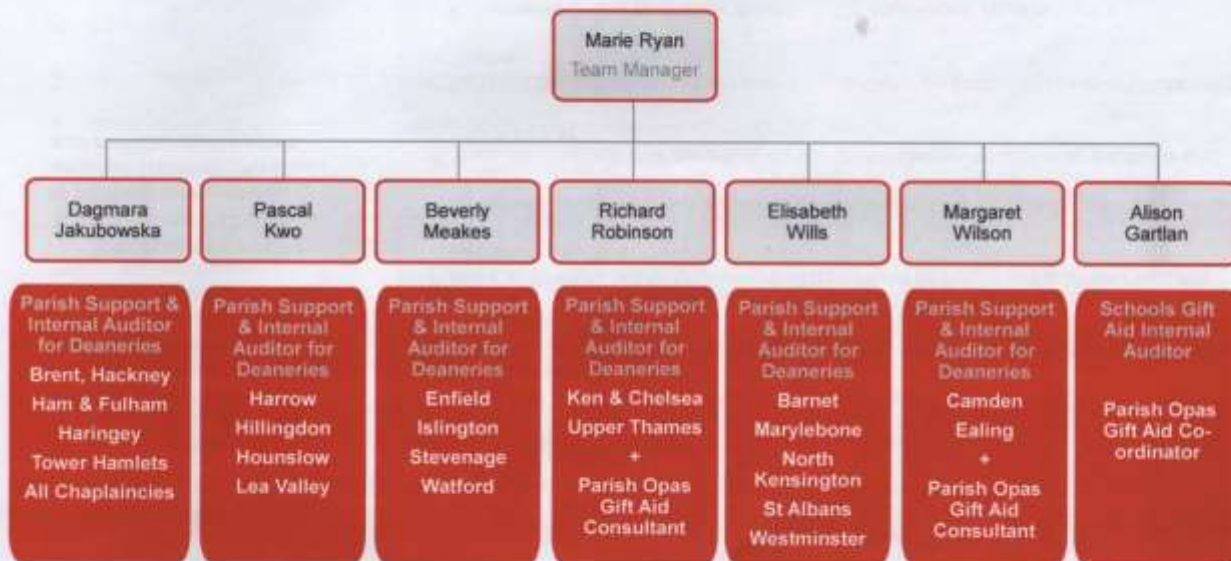
**Please help us by**

- Completing form accurately and timely
- Do not send a cheque payment along with your form
- Reconcile cash received with the amount written in the form



## TEAM: PARISH SUPPORT

### Team structure



## TEAM: PARISH SUPPORT

### Mission and Role

#### Mission

The mission of the Parish Support Team is to ensure that every Parish is compliant with Canon Law, Charities Commission and HMRC requirements.

The aim of the PST team is to achieve compliance through Training, Guidance and continuous Support.

#### Role

- Instill and enhance an adequate financial control environment
- Conduct Internal Audits which are scored to identify areas where support and training is required
- Work with Parishes to implement action plans to help the parishes meet the required standard
- Complete audit progress reviews to enable parishes to update their audit score
- Train and support the parishes on the OPAS Online Accounting package and OPAS Gift Aid
- Support the parishes to implement Cash Controls including training Counting Teams
- Offer training and give advice for Gift Aid and HMRC requirements
- Assist with Annual Financial Return preparation
- Give general support to parishes for all financial matters

### Current status

- Field based
- Team available for hands on training and support
- Installation and training on IT system (OPAS) supporting Accounting and Gift Aid
- All members work part-time, they do however work flexible hours to meet the needs of the parishes
- Unfortunately not always available to take calls or answer emails immediately but will always try to return voicemails and emails as soon as possible
- Team supports and trains 215 parishes plus Chaplaincies which are split by Deanery between 6 people
- All parishes have an internal audit carried out by the team on a 3 to 4 year cycle, this means the team has between 50 – 60 audits to be completed annually plus progress review
- OPAS Gift Aid program is being rolled out aiming to install 50-60 parishes onto the system each year; this is demanding as there is a small window of opportunity to get the records on the system at the beginning of the tax year
- Available to give parishes all support needed in finance related queries as well as guidance on the implementation of financial controls



## TEAM: PARISH SUPPORT

### Achievements over past few years

#### OPAS usage

Mandatory from January 2015

... in January 2015, 163 parishes were on OPAS, 27 parishes installed from Jan to March 2015

... in January 2016, 190 parishes on OPAS, 8 installed so far, 6 in the process of installation

Obtained recently **green light** from all parishes to install OPAS. Remaining order parishes have been invited to the accounting system

**OPAS allows the Parish Priest and the Finance Committee to be able to analyze the accounts in a sustained manner and obtain reports as well as drill down to assess cost and revenue evolution**

**The computerized accounts produced will only reflect the quality of the data that is inputted**

**Need to update OPAS regularly and with accuracy – volunteers vs paid bookkeepers**

Achievements over past few years

OPAS Gift Aid

Currently 39 parishes use the OPAS Gift Aid program

Expect to install on OPAS 50 parishes in 2016 – 1:1 training provided

Parishes need to be ready to install the software: organization and record keeping

Expect to be able to invite 50/60 parishes to join OPAS in 2017

Refresher courses to be delivered in the second half of the year for the parishes who are already on OPAS but who require additional training



Achievements over past few years

Annual Financial Returns

159 parishes submitted AFR on time and all have since submitted – THANK YOU!

60+ parishes required visits to assist with AFR plus numerous telephone assistance: AGAIN the importance of having a good bookkeeper

Common mistakes are:

- ✓ variance analysis
- ✓ third party collections
- ✓ bank accounts not on OPAS
- ✓ sub-categories
- ✓ fixed assets vs repairs

Parish Priests and Finance Committee members need to be involved

### Achievements over past few years

#### Audits

Internal VS External Audit

The cycle of having all parishes audited internally is being completed

Introduction of **parish progress scores** allowing Parishes to implement corrective action and to comply in just a couple of months

**Review of the Audit questionnaire and scoring** to be done in the second half of the year:

- ✓ focus on financial compliance, quality of the accounts and cash controls
- ✓ review of the issues that are covered in the audit questionnaire (just financial?)
- ✓ homogeneous results independently of the PST member conducting the audit
- ✓ Inclusion of items that are reviewed by the External Auditors



## FINANCE TEAM

### Useful Contacts

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