

## Governance Scrutiny Process Proposals

### Basic Information

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<b>Status of Paper</b>	To Note
<b>Action Required</b>	Decision
<b>Draft Resolution</b>	The Council notes the decisions taken by the SRC to improve the Scrutiny process.
<b>Alternative Options to Consider, if Any</b>	

### Summary of Content

<b>Subject and Aims</b>	This paper reports a series of changes to the current Governance Scrutiny processes agreed by the SRC.
<b>Main Points</b>	<ul style="list-style-type: none"> <li>• The 2004 Conference charged the SRC with responsibility to scrutinise the bodies which report directly to Conference and Council as 'Parent' body.</li> <li>• There have been concerns raised regarding the adequacy of the implementation of these proposals.</li> <li>• Recommended actions to resolve these issues are noted here for the Council.</li> </ul>
<b>Background Context and Relevant Documents (with function)</b>	The background to this paper can be found in the Conference 2004 report on Governance and Accountability (pp 55 – 64), the Governance Scrutiny Log paper [SRC/09/39] given at August 2009 SRC, earlier reports to SRC in January 2009 [SRC/09/10] and the update given to 2005 Conference (Resolution 45/1).

### Summary of Impact

<b>Standing Orders</b>	
<b>Faith and Order</b>	
<b>Financial</b>	Develops greater financial accountability.
<b>Personnel</b>	
<b>Legal</b>	Ensures that bodies comply with legal requirements.
<b>Wider Connexional</b>	
<b>External (e.g. ecumenical)</b>	
<b>Risk</b>	Failure to implement a robust system in light of experience poses considerable risk to the Methodist Church.

## **GOVERNANCE SCRUTINY PROCESS PROPOSALS**

### **Background**

1 The 2004 Conference charged the SRC with responsibilities in the area of "governance scrutiny", i.e. acting on behalf of the Conference and the Council to look critically at the annual information supplied by a range of bodies and groups which report to the Conference or the Council as "Parent" body. (Resolution 6/2)

2 The agreed process consisted of several components. First, every year the groups reporting their year-end accounts would submit a Conference approved pro forma detailing their performance for the year which would then be reviewed and reported to the SRC. Secondly, for each entity a governance scrutiny trio would be established which would seek to perform a visit and more detailed 'audit' at least once every three years, to then report back to the SRC on their findings. The scrutiny visits or additional scrutiny of any kind could also be triggered at the discretion of the SRC.

### **Present position**

3 Currently the mandated pattern of scrutiny visits has not generally continued, although additional visits have been authorised by the SRC in cases where particular questions have arisen since the last visit, or there has been a need for wider consultation for legal and specialist advice. In some cases particular scrutiny work has been taking place when a group of trustees have sought advice or comment on certain aspects of their responsibilities.

4 Several issues have made it difficult for the Team to administrate and support the Scrutiny process. As previously noted, the Governance Support Cluster, which becomes responsible for the work after the reconfiguration of the Team, has lacked the administrative capacity to deal with the volume of work that this process has generated. Many bodies have, correctly, submitted minutes, however, these require significant time for distillation into reports that can be considered by a trio or SRC.

5 Additionally, concerns have been raised by both the Audit Committee and by recent events as to the extent to which risk management is effectively built into the scrutiny process. This has manifested in two ways, first in the inadequacy of the process by which the triennial scrutiny groups identify risks. Secondly, this is reflected in the meagre provision for reporting risk in the current annual pro forma. Currently, there is a single question containing potentially unhelpful and leading language.

*'8. What are the three main risks or threats to your current work and your future plans?'*

6 Following consultation with the Charity Commission it is clear that this is an insufficient mechanism with which to generate a substantial discussion of risk across the various entities or to effectively trigger further scrutiny. It is clear that currently the monitoring of risk, as expressed through the formal processes of the returns and scrutiny groups, is not robust enough to foresee and mitigate potential problems. Recent events suggest that insufficient attention to employment issues also leaves the process vulnerable and lacking in attention to other areas of risk.

7 Furthermore, it is not explicitly noted or discussed within the documentation that is submitted annually with the yearend reports, how the various entities are controlled. For the sake of clarity it would be helpful for a more explicit steer within the documentation to distinguish between bodies for whom the relationship with the Methodist Council mandates more extensive examination, and those for which it does not. This would allow the routine review of these documents to be more effectively carried out.

### **Actions by SRC**

8 At a meeting of the SRC held on 16<sup>th</sup> December 2009 it was agreed;

#### **(i) To make changes to the current pro forma for annual returns**

9 The original pro forma agreed in 2004 will be updated in such a way as to address some of the deficiencies raised in this paper. A suggested draft is sketched out in Appendix A.

10 This pro forma requires the explicit information on the management structure and governance of the entity and of its relationship to the Methodist Council (or Conference). It is acknowledged that for the first set of returns at least, and where it is not already clear, this will likely increase the workload for both those submitting accounts for scrutiny and those within the Connexional Team attempting to answer their queries; however it is hoped that once the initial relationship is confirmed, this increase should not be repeated. And over time, this should aid a clearer understanding of the bodies when the Methodist Council audits or performs any scrutiny functions. In the longer run, the responses to these answers will likely form the basis for a new 'grouping of entities' which classifies the organisations both by purpose and how the various entities are controlled.

11 This pro forma asks for additional information on employment and employment practices.

#### **(ii) To Adopt an 'Identifying Risks' questionnaire**

12 A separate 'Identifying Risks' questionnaire will be submitted along with the pro forma and the annual returns. A suggested draft is proposed in Appendix B. This questionnaire would compel a much more detailed discussion of risk across the organisation, while also creating a much more effective foundation for scrutiny.

#### **(iii) Seek Additional expertise for Scrutiny Visits**

13 It was agreed that given the legal obligations and complexities that are present in the implementation of the scrutiny visits, additional legal and other advice should be sought to create a comprehensive framework through which the scrutiny visits would be implemented.

### **Conclusions**

- (i) The SRC adopted a more extensive pro forma and risk questionnaire to be used as part of the governance scrutiny process.

- (ii) The SRC requested that further, legal and other expertise be sought to create a formal framework through which to assess the scrutiny visits.
- (iii) In line with the report brought to the Conference in 2004 the SRC will inform the Conference of these changes and developments in 2010.

## **Resolution**

The Council notes the decisions taken by the SRC to improve the Scrutiny process.

## Appendix A

### **Confidential**

### **GOVERNANCE SCRUTINY**

#### **1. Administrative details of the charity, its trustees and advisers**

- a) The entity's name, which in the case of a registered charity means the name under which it is registered. Any other name which an entity uses should also be given.
- b) Name and contact details of contact person/secretary/.
- c) The names of all those who hold office as trustees or delegated trustees on the date the report was approved. Where there are more than 50 trustees, the names of at least 50 of the trustees (including all the officers, e.g. chair, treasurer etc). Where the trustee is a body corporate, the names of any person who is a director of the body corporate are given.
- d) The name of any other person who served as a trustee or delegated trustee in the financial year in question.

#### **2. Structure, governance and management**

- a) Particulars, including the date if known, and the nature of the governing document (e.g. trust deed, Memorandum and Articles of Association etc) and how the entity is (or its trustees are) constituted (e.g. limited company, unincorporated association etc).
- b) The methods adopted for the recruitment and appointment of new trustees, including details of any constitutional provisions relating to appointments, for example, election to post. Where any other person or body external to the charity is entitled to appoint one or more of the trustees this should be explained

together with the name of that person or body (subject to section 1 above if permission not to disclose has been obtained).

### **3. A financial review containing:**

- a) Audited accounts for the last financial year.
- b) Policy on reserves stating the level of reserves held and why they are held. Where no reserves policy is in place, a statement should be made to that effect.
- c) Where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.

### **4. Objectives and activities**

- a) An explanation of the entity's aims including the changes or differences it seeks to make through its activities.
- b) An explanation of the main objectives for the year.
- c) An explanation of the strategies for achieving the stated objectives.
- d) A review of charitable activities undertaken that explains the performance achieved against the objectives set.
- e) An explanation of how these activities have been undertaken with awareness of legal requirements and, where appropriate of Methodist Church Standing Orders.

### **5. Plans for future periods**

- a) An explanation of the entity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them and details of how these would be funded.

## Appendix B

### Confidential

#### IDENTIFYING RISKS

Please detail the risks that appear relevant to the current and future plans of the organisation, in each of the following areas. It may be helpful to note the likely occurrence and severity of any risks identified, although it is appreciated that this may not be appropriate in all instances.

- 1. Governance and Management risks** – for e.g. inappropriate organisational structure, difficulties recruiting trustees with relevant skills, inadequate strategic thinking or forward planning, inadequate reporting, conflicts of interest;
- 2. Operational risks** – for e.g. service quality and development concerns, inadequate training and supervision, non adherence to employment procedures; health and safety issues; poor procedural and systems documentation, high staff turnover, fraud and misappropriation;
- 3. Financial risks** – for e.g. inaccuracy or unavailability of financial information, inadequacy of reserves and cash flow, insufficient diversity of income sources, poor investment management;
- 4. External risks** – for e.g. risks to public perception and adverse publicity, demographic changes, government policy, deteriorating relationships with funders;
- 5. Compliance with law and regulation** – for e.g. inadequate compliance with Charity law, the Companies Act, CPD and The Methodist Church Acts, the Data Protection Act, the Disability Discrimination Act, Laws relating to care of beneficiaries (e.g. the Children Act, care of elderly etc), Employment Law (Redundancy, unfair dismissal, minimum wages), the Trustees Act, the Human Rights Act, Race relations legislation, Health and Safety law (Fire regulations etc) and so on.