

44. The use of Internet Banking for the Management of Church Accounts

1. Introduction

1.1 Background

In response to a memorial from the Bristol Synod to the Methodist Conference 2008, an investigation has been undertaken into the opportunities and considerations of using internet banking to manage church accounts. The 2008 Conference reply to the memorial referred it to the Methodist Council for report to the Conference of 2009, stating:

"The Conference recognises that it is important and cost-effective to enable quick and efficient payment of bills by online transfer. It also recognises a continuing need to provide checks and balances against misuse of the Church's money. It believes that if both of these requirements can be met then the relevant changes to Standing Orders should be made to enable internet banking to take place and that the Methodist Council should issue appropriate protocols and guidance."

1.2 Purpose of Report

This Report identifies the benefits and concerns in relation to the use of internet banking, provides an overview of the advice of the Charities Commission on this topic and discusses the use of internet banking in relation to current Standing Orders.

It concludes that internet banking can be undertaken in a manner that fulfils the requirements of necessary checks and balances; and that to enable this, minor changes to Standing Order 012 (1) would be necessary. In addition, it is recommended that a guidance note should be issued detailing best practice in the use of internet banking.

The Conference should note that Standing Order 012(1) applies to all Methodist money. The phrase "Methodist body" in the Report below refers to any organisation, whether at connexional, district, circuit or local church level, holding Methodist money in an official bank account.

2. What are the benefits and concerns / difficulties in relation to the use of internet banking?

2.1 Benefits

Benefits associated with internet banking include:

- a) Potentially reducing item charges and postage due to a reduction in the number of cheques used.
- b) Enabling volunteers to undertake banking duties at a time of day that is convenient for them as they are able to carry out transactions 24 hours a day, 7 days a week and will no longer be restricted to bank opening hours.
- c) Allowing access to up to date account information as and when necessary.

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2.2 Concerns / Difficulties

Concerns / difficulties associated with internet banking include:

- a) Computer equipment and internet access are necessary and this may impose an additional cost for administrators.
- b) Depending on the banking institution used, there may be a charge for the services of the bank.
- c) There is only a limited number of institutions offering this facility at this time.
- d) A Methodist body's existing banking institution may not offer the necessary dual authorisation facility necessitating a change in provider if internet banking is to be used.
- e) Internet banking requires a level of personal computer skill and some training of volunteer treasurers may be necessary.
- f) The bank may require the signing of an indemnity before it agrees to provide internet banking services. This arises because the risks of misuse of the account are greater in the case of electronic banking than in the case of conventional banking.

3. Guidance from the Charity Commission

The Charity Commission for England and Wales has published guidance on the use of internet banking by charities. It is the view of the

Charity Commission that a charity will be justified in deciding to use internet banking if:

- a) It can identify overall advantages in doing so,
- b) It puts in place adequate financial controls, and
- c) It has or can acquire the necessary legal power.

The Commission states that it would expect the same level of internal financial control in relation to internet banking transactions as it would expect with more traditional forms of banking.

There appears to be no relevant guidance for the other legal jurisdictions governing some parts of the Methodist Church. It is considered that compliance with the published guidance is likely to constitute good practice in these jurisdictions also.

4. Recommendations as to the use of internet banking within the Methodist Church

4.1 Should Internet Banking be an Option for the Management of Church Bank Accounts?

On consideration of the guidance provided by the Charity Commission it is apparent that the Commission consider internet banking a valid tool for financial management, as long as the necessary security and precautionary measures are applied.

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As long as the recommendations of the Charity Commission are adhered to (i.e. two authorisations are required for any withdrawals), there appears to be no reason why internet banking cannot be safely used for the management of church accounts if benefits in doing so can be identified for the Methodist body concerned. This recommendation is also consistent with the current provision of the Constitutional Practice and Discipline (Standing Order 012 (1)) which requires two signatures for withdrawals.

Most high street banks and building societies currently offer corporate e-banking solutions that can be structured in such a way as to meet this requirement for dual authorisation, though many of these require a minimum turnover in excess of the likely turnover of many churches and Districts. However, following a brief survey of other banking providers there are at least three institutions offering the dual authorisation facility including:

- ∞ Triodos Bank,
- ∞ Unity Trust Bank, and
- ∞ CAF Bank.

At least four Districts are currently managing their accounts using internet banking facilities that include a dual authorisation facility.

The use of internet banking may suit some Methodist bodies and not others. This will be dependent on

the skills of the relevant people and the needs of the body concerned. Trustees should not feel any pressure to change from in-person to internet banking. They should feel free to use the system that offers the best solution for their needs.

4.2 Standing Orders

Standing Order 012 (1) prescribes the necessary precautions in relation to bank accounts holding church funds and reads as follows:

- (1) Methodist money shall not be held in private accounts, but in official bank accounts, requiring two signatures for withdrawals.

It is unclear whether the current wording would strictly allow for the use of internet banking incorporating the necessary two approvals. The Compact Oxford English Dictionary defines signature as:

- 1 A person's name written in a distinctive way as a form of identification or authorisation.
- 2 The action of signing something.
- 3 A distinctive product or characteristic by which someone or something can be identified.

It could be argued that an electronic pin or password is the equivalent of a signature within this definition. However, it is suggested that for reasons of clarity Standing Order 012(1) be amended to read as follows:

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- (1) Methodist money shall not be held in private accounts but in official bank accounts requiring ~~two~~ **the signatures of, or electronic authorisation by, two persons** for withdrawals.

4.3 Other Guidance

Whilst the decision to make use of internet banking is best made by each Methodist body depending on its circumstances, it is important that information on the risks and necessary precautions is readily available to enable them to make a

fully informed decision. As such, it is a recommendation of this Report that a guidance note on the use of internet banking be prepared and made readily available. The guidance note would:

- a) Be largely based on the guidance of the Charity Commission (Appendix 2),
- b) Include a basic description of the advantages and disadvantages of using internet banking, and
- c) Include a discussion on internet security (pin protection, virus protection etc)

***RESOLUTIONS

- 44/1.** The Conference received the Report and endorsed the use of internet banking subject to appropriate precautions.
- 44/2.** The Conference amended Standing Order 012(1) as set out in paragraph 4.2 above.
- 44/3.** The Conference directed the Methodist Council to prepare a guidance note on the safe use of internet banking.
- 44/4.** The Conference adopted the Report as its reply to M30 (2008).

Appendix 1: Memorial to the Conference of 2008

M30

Internet Banking

The Bristol Synod (R) (Present: 151. Voting: unanimous) notes that the Standing Orders of the Methodist Church require invoices to be paid with two signatories [S.O. 012 (1)]. In these days of internet banking where it is cheaper to pay utilities bills by online transfer, the Synod requests Conference to allow for this method of payment and to amend Standing Orders accordingly, whilst ensuring ongoing fraud protection for such accounts and for their officers.

Reply

The Conference recognises that it is important and cost-effective to enable quick and efficient payment of bills by online transfer. It also recognises a continuing need to provide checks and balances against misuse of the Church's money. It believes that if both of these requirements can be met then the relevant changes to Standing Orders should be made to enable internet banking to take place and that the Methodist Council should issue appropriate protocols and guidance.

The Conference refers the memorial to the Methodist Council for report to the Conference of 2009.

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Appendix 2: Guidance from the Charity Commission

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The Charity Commission for England and Wales

Guidance on Electronic Banking

Contents

- ∞ What is electronic banking?
- ∞ What is the Charity Commission's view about electronic banking for charities?
- ∞ What are the advantages and potential difficulties of electronic banking?
- ∞ Is electronic banking as secure as more traditional methods of banking?
- ∞ Does a charity need any particular legal power to adopt electronic banking?
- ∞ Do trustees have to sign an indemnity before their charity can use electronic banking?

This guidance is aimed principally at small and medium-sized charities and answers the questions we are most often asked by charities about electronic banking.

Much of the guidance is concerned with best practice advice on electronic banking. Section 5 deals with the legal power needed to adopt electronic banking. This part of the guidance does not apply to charitable companies. However, the best practice advice applies to all charities using electronic banking, regardless of their legal structure.

Common terms

“e” – a prefix meaning “electronic” as in, for example, e-mail, e-banking or e-commerce.

BACS (Banks Automated Clearing System) – This is an electronic payment system allowing funds to be moved between bank accounts electronically. For instance, in a charity this may be used to pay staff on the payroll and to pay suppliers.

PC – Personal computer

Governing document – means any document that sets out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, a constitution, memorandum and articles of association, rules, conveyance, will, Royal Charter, Scheme of the Commissioners or, in relation to an appeal, the published terms of the appeal inviting donations.

Trustees – means charity trustees. Charity trustees are the people who are responsible

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for the general control and management of the administration of the charity. In the charity's governing document they may be called trustees, managing trustees, committee members, governors or directors, or they may be referred to by some other title.

1. What is electronic banking?

The term "electronic banking" or "e-banking" covers both computer and telephone banking. Using computer banking, a charity's computer either dials directly into its bank's computer or gains access to the bank's computer over the internet. Using telephone banking, the charity controls its bank accounts by giving the bank instructions over the telephone. Both computer and telephone banking involve the use of passwords which give access to the charity's accounts.

Using these methods, banking transactions can be actioned 24 hours a day. Computer banking allows a charity, for instance, to view recent transactions, print out statements and transfer funds between accounts and make payments. Many banks also have the facility for a charity to set up, amend or cancel standing orders. Electronic banking also allows payments to be made to the charity, i.e. acceptance of credit card donations. Most charities that use electronic banking will also continue to use some of the elements of more traditional methods of banking, such as a chequebook.

Electronic banking services differ between the different banks and building societies. If trustees decide that they want to use electronic banking then they should shop around for the most suitable package for their charity.

2. What is the Charity Commission's view about electronic banking for charities?

With changing bank technology more and more charities are likely to consider moving away from paper based banking methods; many charities have already done so. Broadly speaking our view is that the trustees of a charity will be justified in deciding to use electronic banking if:

- ∞ they can identify overall advantages for the charity in doing so;
- ∞ they put in place adequate financial controls; and
- ∞ they have, or can acquire, the necessary legal power.

It is important that any decision to adopt electronic banking be made with the benefits and advantages to the charity in mind. It is not right to move to electronic banking just because it seems fashionable or because the charity's bank wants it to change (the motive for this might be to help the bank to reduce its own costs, rather than to provide a better service for the charity).

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With electronic banking we would expect the same level of internal financial controls as we would with the more traditional forms of banking. There should continue to be clear segregation of duties to prevent any single person from being able to control substantial resources or obtaining unauthorised access to information; and there should be proper approval at, or delegated from, trustee level for movements and payments from bank accounts. Further advice on internal financial controls can be found in our publication CC8.

3. What are the advantages and potential difficulties of electronic banking?

Advantages

- ∞ For trustees who give their own time to charities it means that they can carry out charity banking out of working hours in the evenings and at weekends. Trustees are able to carry out transactions 24 hours a day, 7 days a week and will no longer be restricted to bank opening hours.
- ∞ Trustees can instantly see what is happening with the charity's money rather than waiting for statements to be sent.
- ∞ There is no time spent queuing or journey time to travel to and from the bank for trustees or employees of the charity.
- ∞ It might be especially useful to charities that have branches. Paragraphs 51 to 55 of the Statement of Recommended Practice on Accounting and Reporting by Charities (Charities SORP 2000) emphasise that annual accounts must incorporate details of branch finances. Electronic banking enables individual branches to have their own local accounts but enables the main charity to access information regarding the bank balances of each branch. This may help the trustees to exercise greater control over branch finances and may enable the funds of all the branches to be added together to secure a more favourable rate of interest.

Potential difficulties

- ∞ Unless the charity already owns computer equipment there will be an initial financial outlay to establish computer banking. This will involve the purchase and maintenance of a computer and the establishment of a telephone line.
- ∞ To use telephone banking there is the cost of the telephone call to the bank, although these are usually charged at a local rate.
- ∞ For charities that have more than a basic computer banking service there may be a charge for the services of the bank.
- ∞ Computer banking requires some personal computer skills although banks and building societies are making efforts to make their software as "user friendly" as they can.
- ∞ A charity may have used the same banking systems for many years and find a new arrangement initially more complicated to understand and operate. It will

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- also mean having to adapt and to modify existing internal financial controls.
- ∞ The need for an indemnity – see section 6 below.

4. Is electronic banking as secure as more traditional methods of banking?

Electronic banking services are used increasingly by small and large organisations all over the world. Organisations and banks have a vested interest in making sure that electronic banking is as secure as possible.

Banks have a password system for both computer and telephone banking. With telephone banking all telephone calls are recorded, so checks can be made if there are queries about a transaction. Care has to be taken by a charity to ensure that only trusted people have access to the passwords.

Systems can operate hierarchical passwords so that some people are given “read only” access (i.e. the ability to read information but not to change it or add to it), while others may be able to suggest changes which then need to be activated by a supervisor.

Some banks or building societies will offer arrangements where two or more people each have to enter their own password or personal number before transactions are effected. Some banks allow larger organisations to purchase a plastic card reader: when a payment or transfer has to be made each official can swipe their card (connected to their PC) and then enter a personal number to release the payment. In this way, one official cannot effect a transaction without other officials being made aware of it and being required to authorise it. Some banks have plans to bring in systems that involve electronic signatures or other advanced identification systems.

Whatever arrangements a charity uses, the trustees should prevent any one individual from being able to control significant resources.

5. Does a charity need any particular legal power to adopt electronic banking?

The Trustee Act 2000 gives trustees the power to delegate specified functions. One of these is the function of carrying out decisions that the trustees have taken.

Trustees can establish whatever banking arrangements they consider appropriate, subject to the proper level of financial controls, to carry out their decisions. These arrangements can include an account which is operated electronically. In their instructions to the bank or building society the trustees should clearly identify the scope of the authority of the person or persons who the trustees have authorised

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to operate the account. The trustees should continue to monitor and review the arrangements and remain free to cancel or amend the arrangements or authorise others to operate the account for them.

The powers conferred by the Trustee Act 2000 apply to unincorporated charities but not to charitable companies. The powers which the Act confers are in addition to any powers conferred on the trustees by the charity's governing document. Trustees are not allowed to make use of the powers in the Trustee Act if the charity's governing document specifically prohibits the use of electronic banking or restricts trustees to conventional banking arrangements. If the governing document of a charity contains such a prohibition or restriction, trustees should approach us for advice on amending their governing document.

6. Do trustees have to sign an indemnity before their charity can use electronic banking?

A bank will usually ask a charity or its trustees to give the bank an indemnity before it agrees to provide an electronic banking service. The indemnity will typically say that the charity or its trustees agree to cover the bank for all costs and losses it sustains arising from use of the electronic banking facility (except where the costs or losses have come about because of the bank's own error or negligence).

We recognise that most banks or building societies will not offer electronic banking to a charity unless the charity or its trustees agree to give this type of indemnity.

However, charity trustees need to give careful consideration as to whether or not to give such an indemnity. The reason why the banks seek an indemnity is because the risks of misuse of the account are greater in the case of electronic banking than in the case of conventional banking. The indemnity will have the effect of relieving the bank from responsibilities to which it would have been subject had the account been a conventionally operated trust account.

Under conventional banking arrangements, a bank would have to make good a loss to the charity if it debited the charity's account on the basis of a cheque or other written instruction which had been forged - unless the bank could show that the trustees had, by their negligence, facilitated the forgery. In electronic banking arrangements, the effect of the indemnity would be that the bank would only have to make good a loss caused by an unauthorised instruction if the trustees could show that the bank had been negligent.

Whilst under conventional banking arrangements a bank can be liable to make good a loss to a charity's account if it gives effect to an instruction from the

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trustees which it knows or should have known involved a breach of trust, under electronic banking arrangements the indemnity would relieve the bank of this sort of responsibility.

No system of controls, however elaborate, can guarantee that a charity will be totally protected against abuse. Trustees often express concern about the extent of their personal liability in the event of any loss to the charity through misappropriation or misapplication of funds. Having sufficiently rigorous controls provides not only the protection for the charity property but also the best defence against a charge of failing to protect the charity's funds and thereby being in breach of trust. If funds are lost through trustees neglecting their duty of care they could be held personally liable to repay to the charity the funds lost. However, reasonable internal financial controls will reduce the risks associated with electronic banking and hence the risk of a claim being made under an indemnity.