

## Boardroom Blunders – Conflict of Interest

As Churches our Pastors and Board members to be aware of good governance principles. Awareness of these governance principles is applicable regardless of the size of our Church and take on greater legal, moral and ethical significance as our Churches continue to grow in size, significance and influence. One of the key good governance principles that we need to be aware of is called “**conflict of interest**”. A conflict of interest is described as

***“The entanglement of an individual’s private interests with professional obligations, such that an independent observer might reasonably question whether the individual’s professional actions or decisions are improperly influenced by considerations of personal financial impact.”***  
***(Berkeley Edu )***

It is interesting to note that Company and Incorporated Association law and the law of trusts all prohibit a trustee or Board member from voting on an item that they have or could obtain a financial or material personal interest in.

ASIC’s Policy Statement 76, which explains Public Company governance, it clearly states that “if a director has a material personal interest in a matter being considered at a meeting, he or she must not

a) vote on the matter

b) be present while the Board is considering the matter.”,

and goes on to say that this applies to all meetings of the Board, however held. This would include any informal or electronic meetings.

Over recent years there has been an increase in the number of Church buildings being constructed and also many Churches are pursuing the development of entrepreneurial and trading activities to generate extra cash flow. Some of these activities involve the personal skills or business enterprises of Board members. Supplier contract, Joint ventures and franchises are examples of these types of activities. As pure as the intent of the Board members may be “to grow the Church at all costs”, extreme caution must be applied to ensure that there is not a **conflict of interest** in the selection, introduction and execution of the activities by Board members.

Three examples of a conflict of interest would be,

- a) **Building Construction:** After consultation with the congregation the Church Board embarks on a building project. One of the Board Members has a Construction Company and he / she is privy to all the documents and the financing structure of the Church. Several quotes come in from construction companies, including one from the Board member’s Company. At the Board meeting when the contract is to be accepted the Board member votes toward the acceptance of his own contract. *There is clearly a conflict of interest for the Board member, in that he is voting towards the acceptance of a contract from which he will benefit personally.* Even if his / her contract is the best price, the Board member should advise the meeting he / she cannot vote due to a conflict of interest, and the minutes should be noted accordingly.
  
- b) **Commercial Enterprise:** The Senior Pastor of the Church is approached to approve the establishment of a coffee shop or printing company. The Senior Pastor has an existing franchise or licence that for that type of activity and recommends to the Board that they should use the

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Graeme R Kirkwood (Associate Chartered Accountant)

**Mailing Address:** PO Box 7409 Baulkham Hills Mail Centre NSW 2153 Australia

**Mobile:** 0412 476 016 **Phone / Fax 61** (02) 96341255 **e-mail:** [graeme@globalchurchsolutions.com](mailto:graeme@globalchurchsolutions.com)

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**A.C.N.** 096 897 522 - **A.B.N.** 48 096 897 522

brand that he has the franchise or licence for. As a result of owning it the Senior Pastor will personally receive training fees with royalty or licence fees. The Pastor should not be a party to the decision to purchase the franchise or licence as he / she has a clear conflict of interest between the need of the Church and the desire for personal income.

- c) Salary Approvals: The Salary of the Senior Pastor is to be approved and there is only three Board members present including the Senior Pastor. The Pastor has a clear conflict of interest and must refrain from voting as he has a material interest in the outcome. Many Churches are now allocating salary determination away from Pastoral staff by using a special Board sub-committee to protect all parties from accusation.

The definition drawn from Berkeley University's governance documents uses the phrase "an independent observer may reasonably question." In our Church setting, the independent observer could well be interpreted as the local church attendee. The reality or perception by our congregations is often one off seeing the "entanglement of private interests" and drawing a conclusion that decisions are made for reasons of personal gain, and not necessarily the health of the Church. Phrases such as "muddied waters" or "we don't know who owns what" can easily be dispelled by clearer communication and Pastors not voting on areas where a conflict of interest exists.

From experience, we all are aware that many of our Pastors and Board members foremost desire is to see the Church blest. This however does not negate the principle of conflict of interest, which should be applied at all times in all circumstances. In fact as Christian leaders we should be more open to greater levels of disclosure when the potential exists to damage the local church.

Our Churches are not private enterprises but are community organisations whose rules of governance under tax law must provide that a member cannot gain any paid or pecuniary interest from the organisation. It therefore follows that a decision by a Pastor or Board Member to contribute to a vote that allows him or her to receive money or profits, could be also interpreted as a breach of the existing tax laws. If such a breach did occur the Australian Tax Office could revoke the Tac Charity Concession (TCC) status of the organisation.

As leaders in the Church, the Bible urges us to do all things decently and in order. Let us continue to build our Churches to a position of strength and greatness, based on decisions that are clearly communicated without any vested or material personal interest. By doing this our Churches and its leaders will be spared from any wrongful perception or accusation about the integrity of our decisions.



Graeme Kirkwood  
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