Methodist Council

Internal Audit Annual Report

For the year ended 31 August 2014

Presented to Audit Committee meeting of: 8 December 2014

Contents

In the event of any questions arising from this report please contact James Sherrett, Manager, Mazars LLP james.sherrett@mazars.co.uk or Graeme Clarke, Director, Mazars LLP graeme.clarke@mazars.co.uk

Status of our reports

This report is confidential and has been prepared for the sole use of Methodist Council.

01 Introduction

Following a competitive tender process, Mazars LLP were appointed as internal auditors to the Methodist Council ('Council') from the 1 September 2013. This was a new service for the organisation.

The purpose of this document is to provide the Audit Committee with a summary of our work and findings during 2013/14.

Scope and purpose of internal audit

The Council is appointed annually by the Methodist Conference (who are the trustees of the registered charity 'The Methodist Church in Great Britain'). Amongst other functions it is responsible for the adoption annually of a unified statement of Connexional finances which confirm to the law and accounting regulations. Much of the day-to-day work for which the Council is responsible to delegated to the Connexional Team. The work of the Team is subject to oversight and governance from a number of Committees including the Audit Committee. The Audit Committee is a committee of the Conference appointed on the nomination of the Council and whose responsibilities include reviewing the effectiveness of the financial and other internal control systems with regards to monies and other assets for which the Council is responsible.

The purpose of internal audit is to provide the Audit Committee, with an independent and objective assessment on governance, risk management and internal control, and their effectiveness in achieving the Council's agreed objectives. Internal Audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control arrangements.

The work of the internal audit service forms a part of the overall assurance framework and assists the Audit Committee in providing assurance to the Conference.

Responsibility for a sound system of internal control rests with management and ultimately the trustees, and work performed by internal audit should not be relied upon to identify all weaknesses which exist or all improvements which may be made. Effective implementation of our recommendations makes an important contribution to the maintenance of reliable systems of internal control and governance.

Internal audit should also not be relied upon to identify fraud or irregularity, although our procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control will not necessarily be an effective safeguard against collusive fraud.

Our work is delivered in accordance with the Global Institute of Internal Auditors – International Professional Practices Framework (IPPF).

Acknowledgments

We are grateful to the Connexional Secretary, Head of Support Services Cluster, Director of Financial Operations and other Council staff with whom we have had contact for the assistance provided to us during the year.

02 Internal audit work undertaken in 2013/14

Our Internal Audit Strategy and Operational Plan for 2013/14 was considered and approved by the Audit Committee at its meeting on 23 October 2013. The Plan was for a total of 39 days including six days Audit Management. Progress on delivery of the Plan has been reported at each meeting of the Audit Committee.

We provided formal report on the following areas over the course of the year:

- IT Health Check (report 01.13/14);
- General Ledger (02.13/14);
- Grants and Grant Management (03.13/14); and
- Counter Fraud (04.13/14).

The audit findings in respect of each review, together with our recommendations for action and the management response are set out in our detailed reports.

In addition to these reports we have provided advice on development of the Council's risk management framework. This included a presentation to the Senior Leadership Group on risk management arrangements and advice on the Council's risk management policy and its Risk Register.

A summary of the reports we have issued is included below. *Appendix A1* summarises the levels of assurance, where applicable, and the number and categorisation of recommendations made in the above reports.

IT Health Check (01.13/14)

IT underpins the operations of the business and is critical to effective operations. In order to support this, maintaining a strong IT control environment is of paramount importance.

We provided 'Limited' assurance that the risks material to the achievement of the Council's objectives, in respect of Information Technology, were adequately managed and controlled at the time of the audit. We made one Priority 1 recommendation, four Priority 2 recommendations and seven which were categorised as Priority 3.

At the time of audit, the Council was in the process of undertaking a series of IT projects to improve security, availability and access of data and systems, whilst also improving its ability to recover in an effective and efficient manner should an incident occur.

However, we identified that the Council did not have a formal IT Disaster Recovery plan in place. This key control helps to ensure that the Council is best prepared in the event of an IT disaster, minimising the financial and operational impact.

Additionally, we noted that the Council was using outdated computer operating system exposing the Organisation to software vulnerabilities. This has been a recent topic of interest in the media, with Microsoft releasing several patches to repair severe software vulnerabilities. Ensuring that up-to-date software and operating platforms are used, helps to protect the organisation against these vulnerabilities.

General Ledger (02.13/14)

The general ledger can be considered to represent the main finance system of any organisation. Functions of the general ledger typically include processing of journals, control account reconciliations, general account maintenance and transaction recording, which is used to populate reports and produce the management accounts.

We provided 'Limited' assurance that the risks material to the achievement of the Council's objectives, in respect of the General ledger, were adequately managed and controlled at the time of the audit. We made six Priority 2 recommendations and four Priority 3 recommendations.

We noted that the interfaces and reconciliations operate between the Access Dimensions finance system, ProMaster and Donor Strategy systems. However, it was noted that there was no direct or automated link between the systems. Automated system reconciliations can significantly minimise the resources required providing value for money.

The development and agreement of a set of Financial Regulations or Standing Financial Instructions, together with underpinning financial policies

and procedures, was being undertaken. These are a key control governing financial activities which all organisations should have in place.

Grants and Grant Management (03.13/14)

The Methodist Council offers Connexional grants to provide resources for mission and ministry in the UK and overseas. Responsibility for awarding grants lies with the Connexional Grants Committee (CGC) which is positioned in the grant-making structure in support of the Strategy and Resources Committee (SRC).

We provided 'Limited' assurance that the risks material to the achievement of the Council's objectives, in respect of Grants and Grant Management, were adequately managed and controlled at the time of the audit. We made ten Priority 2 recommendations and three Priority 3 recommendations.

The Council's Risk Register did not have any specific risks in relation to grants. By nature, grants represent high value expenditure for the Council and as such risks related to these activities would normally be identified on a Risk Register together with the associated controls. Appropriate controls reduce the risk of fraud and ensure robust scrutiny, challenge and authorisation for all grants at all stages of processing. The financial and reputational consequences associated with the inappropriate use of Council grants could prove to be enormously damaging.

Counter Fraud (04.13/14)

The risk of fraud continues to be an area of increasing prominence across all organisations, partly due to the current economic climate and partly due to the development of new ways to commit fraud, such as technological advances. This increase is further enabled by some organisations which have not recognised the risk they face and as a consequence, have not implemented an appropriate framework to outline how it will be managed.

Our work in this area was Advisory and as such, we did not provide an assurance level. We made seven recommendations; one Priority 1, four Priority 2 and four Priority 3.

A number of recommendations within our reviews of General Ledger and Grant and Grants Management Systems related to improving the design and application of controls which may also contribute to strengthening the Council's resistance to fraud.

Our review noted that there was no Anti-Fraud policy, no fraud response plan and no Anti-Bribery policy. Such documents are generally considered key to any organisation but are particularly relevant to organisations, such as the Methodist Council, which fund third party projects. The use and introduction of such policies would help with the introduction and creation of an embedded counter fraud culture at the Council.

03 Performance of Internal Audit

Compliance with professional standards

We employed a risk-based approach to determining the audit needs of the organisation at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with professional internal auditing standards.

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers, directors and partners;
- The use of satisfaction surveys for each completed assignment;
- Annual appraisal of audit staff and the development of personal development and training plans;

- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Conflicts of Interest

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Measures

We have completed our audit work in accordance with the agreed Plan and each of our final reports has been reported to the Audit Committee. In order to help us monitor performance we issue individual audit satisfaction surveys for each review undertaken. We would be happy to agree other measures of performance with the Audit Committee should this be considered appropriate.

A1 Summary of internal audit work undertaken in 2013/14

The following reviews were undertaken during the 2013/14 audit year:

Ref	Auditable Area	Number of Days		Level of Assurance (If appropriate)	Recommendations				
		Budget	Actual		Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
01.13/14	IT Health Check	5	5	Limited	1	4	7	12	12
02.13/14	General Ledger	5	5	Limited	-	6	4	10	10
03.13/14	Grants and Grant Management System	6	6	Limited	-	10	3	13	13
04.13/14	Counter Fraud	7	7	Not Applicable - Advisory	1	4	2	7	7
	Totals	23	23		2	24	16	42	42
					5%	57%	38%	100%	100%

In addition, the following work was also undertaken during the 2013/14 audit year:

Area	Number of Days		Comments
	Budget	Actual	
Measures to launch Internal Audit	2	2	Recognising internal audit was a new service, resources were included to 'launch' internal audit.
Risk Management	4	4	Meetings with key representatives and attendance at SLG identified that further work is required to develop the existing risk management framework. Resources provided in 2013/14 to support the Council in developing its arrangements including training at a SLG residential and advice on the Risk Management Policy and Risk Register.
Data Protection	4	0	Days not utilised during 2013/14 and therefore carried forward for use as part of 2014/15 Internal Audit Plan
Audit Management	6	6	Resources for client and External Audit liaison, Annual Plan update, Annual Report and preparation for and attendance at Audit Committee meeting.
Totals	16	12	

We use the following levels of assurance and recommendation classifications within our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

A2 Summary of Priority 1 and Priority 2 Recommendations

IT Health Check (01.13/14)

- A formal IT Disaster Recovery plan should be established as soon as it is practical to do so. (Priority 1)
- Laptops and other portable equipment such as smart phones or tablet devices should be encrypted where possible and cost effective to do so.
- Senior Management should ensure that appropriate resources are assigned to ensure replacement of Windows XP is completed before or soon after the deadline to minimise any risks.
- The IT projects list should be updated to include assessment of the priority/importance of all projects as well as the responsible officer. In the longer term, and once the current issues have been addressed, the organisation should look to establish a new IT Strategy providing a clear roadmap and direction for the use of within the organisation.
- All backup jobs should periodically be reviewed to ensure that they complete satisfactorily, i.e. one a week or once a month. General backup and restoration procedures should be formally documented. Restoration of individual services and files should also be tested as proof of the concept of recovery.

General Ledger (02.13/14)

- The Council should develop and document a set of Financial Regulations or Standing Financial Instructions. In addition, these should be supplemented by completion of the more detailed financial policies and financial procedures documentation which is currently in progress.
- The New Account Code Request form should be fully and consistently completed in support of all changes made.
- All control account reconciliations should be completed on a monthly basis as part of ledger close-down preparation. An audit trail of confirmation of adequate segregation and management review should be retained in support of this. Rather than the reconciliation itself, this could be evidenced through completion of the period-end checklist.
- The procedure for preparing, reviewing and posting general ledger adjustment journals should be documented. This should include responsibilities and how segregation of duties is ensured.
- The process for reviewing and posting general ledger adjustment journals including a complete audit trail should be consistently applied. This should include supporting details and evidence of independent review.
- A periodic full review of access rights for all users of Access Dimensions, ProMaster and Donor Strategy should be carried out to ensure access remains appropriate to specific job roles and responsibilities.

Grants and Grant Management (03.13/14)

- The Council should formally document all aspects of its grant management processes.
- As part of the above, the Council should review existing roles and responsibilities of staff involved in the grants process and ensure these are effective.

- A formal process for the set-up and amendment of grant recipient details should be introduced. This should be set up to ensure segregation of duties and maintenance of a full audit trail to confirm the checks made, by whom, and when. Changes should be confirmed with a known contact at the recipient.
- The grant payments process should be reviewed, with input from Finance, to ensure adequate segregation of duties.
- The basis of the award of SALT grants should be reviewed. This should include consideration of a form of 'claw-back' should terms and conditions of the grant not be met or sufficiently evidenced. A defined and clear audit trail should also be retained for all grants, in particular for the evidencing of outcomes.
- The role of Partnership Coordinator in the evaluation and verification of funds should be reviewed. Consideration should be given as to whether the qualifications, training and experience are sufficient to allow them to properly evaluate and verify the use of grant funds.
- Guidance on the information required within Annual Reports should be provided as well as the requirements for supporting evidence or independent opinions where possible. If Annual reports are not of sufficient quality or detail, grant funding should not proceed to payment.
- In addition to the work of the Partnership Coordinator and other reporting and sources of assurance, the Council should consider whether it is feasible to introduce a detailed independent physical review of grant progress and outcomes. We acknowledge the challenges associated with this including the geographical locations of grant recipients; however these may be overcome by verification and review being undertaken on a sample basis.
- The Council should introduce clear criteria across its grant awards, particularly for Rolling and General grants where there is very little by way of formal criteria. One of the aims of setting criteria should be to achieve a transparent audit trail which ensures consistency in grant award making decisions.
- The Council's Grants, IT and Finance teams should continue to work towards establishing an electronic interface between the grants database and Access Dimensions finance system.

Counter Fraud (04.13/14)

- An Anti-Fraud Policy should be introduced with the aim of embedding a counter fraud culture. (Priority 1)
- Whether incorporated into the Policy referred to above or a standalone document, a fraud response plan should be developed.
- In support of the Council's approach to counter fraud, awareness sessions should be provided to all appropriate staff and stakeholders.
- A fraud risk assessment should be undertaken for each department/area of responsibility; this should include some form of peer input for the role of constructive scrutiny and challenge.
- The organisation should identify and review current fraud related insurance arrangements, and following a cost v benefit consideration, decide whether current arrangements meet the current risk appetite or whether some additional cover may be required.