

## Annual Report of the Audit Committee to Council

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<b>Status of Paper</b>	Final
<b>Action Required</b>	Decision
<b>Draft Resolutions</b>	<p>9/1. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors.</p> <p>9/2. The Council receives the report of the Audit Committee and its appendix.</p> <p>9/3. The Council appoints Baker Tilly as external auditors for the year 2014/15.</p>
<b>Members to note for action before the meeting</b>	Members who would like to see a copy of the detailed findings of the external auditors should direct their requests to Jane Bates (batesj@methodistchurch.org.uk) by noon on 21 January 2015.

### Summary of Content

<b>Subject and Aims</b>	Annual report of the Audit Committee to the Council under SO 213A
<b>Main Points</b>	<ol style="list-style-type: none"> <li>1. The external audit report is unqualified.</li> <li>2. Neither the external auditors nor the Audit Committee have major concerns over the financial system or the report and accounts.</li> <li>3. The Finance team demonstrate continuing improvement.</li> <li>4. The external auditors express concern that the seriousness and value of external audit is not sufficiently appreciated beyond the Finance Department.</li> <li>5. For the first time we have a report from the newly-appointed internal auditors, Mazars.</li> </ol>

## Annual Report by the Connexional Audit Committee

### 1.0 Introduction

- 1.1 The Audit Committee is appointed by the Conference to advise the Council on the implications of the audits by the external auditors. The Committee's remit extends to the internal auditors. The former deal with the annual financial statements and the Trustees' Annual Report and the latter with the internal systems and risks.
- 1.2 The Conference appoints the Audit Committee, which consists of five persons. During 2014 there were four members as we had been unable to attract a further member. The Audit Committee is advertising for another member and hopes to be able to put forward five names for the 2015 Conference to appoint upon nomination by the Council.
- 1.3 The Committee met on the following dates:  
12 May 2014, 22 October 2014, 8 December 2014. All meetings were quorate. The Committee's next meeting is scheduled for 7 May 2015.
- 1.4 Attendance at meetings of the Audit Committee over the calendar year 2014 has been as follows:
- Rodney Betts, appointed September 2010, 3 out of 3  
John Chastney, appointed September 2008, and as Chair in 2010, 3 out of 3  
Peter Mills, appointed September 2008, reappointed September 2014, 3 out of 3  
Andrew Whitley, appointed September 2009, 3 out of 3
- 1.5 It should be noted that the audit year is not coterminous with the connexional year and is a reflection of the audit year that ends with the completion of the audit (December 2014) and the recommendations of the Audit Committee to the Council concerning the financial statements of the preceding connexional year (in this case to 31 August 2014).
- 1.6 The Connexional Treasurers, Andrew Gibbs and Ted Awty, have also attended most meetings but not as members. In addition, members of the Connexional Team have attended, principally Nick Moore (Head of Support Services) and Maureen Sebanakitta (Director of Financial Operations).

### 2.0 Matters for the Council to note

- 2.1 The external auditors have again remarked favourably on the improvements effected in the connexional finance function and in the preparation for the audit. Given the complexity of the Church's affairs these are no mean achievements.
- 2.2 The Council will note that the accounts of churches, circuits and districts are not consolidated or reported on in the connexional financial statements. The Charity Commission has agreed to this.
- 2.3 There are several self-accounting entities, some of which are separate charities, and these are consolidated into the connexional accounts where the Council has some influence on the decision-making of those entities (see SO 360). The auditors expressed concern that inter-

entity balances had not been agreed in a structured or rigorous manner and usually no more than once annually. They also raised concerns about the quality of reporting by overseas partner churches on their use of grants from the World Mission Fund. The Charity Commission is aware of the difficulties of expecting that overseas grant recipients will have UK style accounting processes. Nonetheless the church needs to be aware of the need for at least adequate accountability and reporting.

- 2.4 Baker Tilly made the following comments at the most recent meeting of the Audit Committee:
- a. the finance team has again demonstrated that it has embraced the need for continual improvement and has recognised that there is yet room for further improvement
  - b. Baker Tilly has this year welcomed its increased involvement with Nick Moore, Head of Cluster
  - c. the finance team has been most co-operative with the auditors, making the process of audit smooth
  - d. the auditors have expressed concern that some of those outside the finance team have shown a less than professional attitude to the auditors
- 2.5 A copy of the audit findings (41pp) from Baker Tilly is available to any member of the Council who would like to see it. Members should ask Jane Bates ([batesj@methodistchurch.org.uk](mailto:batesj@methodistchurch.org.uk)) for this to be emailed to them (see cover sheet for this paper).

## 2.6 Internal audit

In the summer of 2013, the Church appointed an outside firm of internal auditors to advise the Senior Leadership Group of the Connexional Team and report to the Audit Committee. The appointment was made after the Audit Committee had invited several firms to tender for the work, some of which declined to do so. All firms on the short list were interviewed and Mazars was appointed.

- 2.7 About 18 months ago, Mazars carried out a fact-finding exercise and then made recommendations on the areas that were ripe for their reviews. These reviews were carried out in the following 12 months. The terms of reference for each had been agreed with the Audit Committee and the face-to-face reporting to the executive had been to Doug Swanney, The Connexional Secretary. This demonstrates the importance that the executive attaches to the role of internal audit. Connexional Team staff drafted their responses to the recommendations and these were presented to the Audit Committee.

- 2.8 The internal auditors carried out the following reviews:
- a. IT health check
  - b. general ledger
  - c. grants and grant management
  - d. counter fraud

The first three of these allowed Mazars to form a view on the level of assurance. Disappointingly, all three gained a 'Limited Assurance' medal. We anticipate that future reviews in these areas will see the award of a higher level of assurance as a result of action that will be taken by the teams involved. The fourth review was advisory and did not result in any level of assurance. It suggested that the church needed an anti-fraud policy, a fraud response plan and an anti-bribery policy.

2.9 The Audit Committee is satisfied with the planning and implementation of the work done by Mazars and the quality of that firm's reporting. A copy of the annual report from Mazars is appended to this report.

### **2.10 Risk**

Most organisations face a multiplicity of risks, some within their control and capable of mitigation, some transferable, some outwith the organisation's influence. Such is the case with the Methodist Church. The internal auditors have been advising on the apparent risks and how best to deal with them. Mazars has praised the leadership of the Connexional Team for their fulsome recognition of enumerated risks and their willingness to adopt appropriate procedures to minimise those risks. Although the Church is risk-aware and seeks to mitigate risk where possible, it cannot remove all risk. The important task is now to ensure that staff within the Team are aware of the risks that could affect them and their work and that they are taking the right action at the right time.

2.11 A working group has been formed to look at corporate risk and the Audit Committee awaits with bated breath the group's output and a fully worked risk register before the Committee's next meeting in May 2015. This is long overdue but the Committee is pleased that action to nominate and address specific risks is being taken.

### **2.12 External audit**

The quality of an audit stems partly from the ethos and standard procedures of the firm and partly from the ability and application of the staff involved. The Audit Committee has noted that the senior manager for the Church's audit has been exceptional in leading the onsite audit team and we have sought and obtained from Baker Tilly an assurance that the same senior manager will be working with us on the 2015 accounts. We have suggested to the partner that a fresh pair of eyes could be beneficial and that 2015 should be her last, as our audit partner. She has accepted that.

2.13 The Audit Committee is aware of the strain that an audit can, and usually does, place on a finance team. The Council should take pride in the team led by Maureen Sebanakitta which provided information as needed by the auditor. The audit was virtually complete by the time of the most recent meeting of the Audit Committee, 8 December 2014 – barely three months after the year end - and, for an organisation as complex as this, that is a good result.

2.14 No significant additional fees have been paid to or are owed to Baker Tilly for non audit work and, as a result, Baker Tilly can be assumed to have maintained their independence.

### **3.0 Recommendation**

The Audit Committee advises the Council to adopt the financial statements and trustees report as presented.

### **\*\*\*RESOLUTIONS**

**9/1. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors.**

**9/2. The Council receives the report of the Audit Committee and its appendix.**

**9/3. The Council appoints Baker Tilly as external auditors for the year 2014/15.**