

## Annual Report of the Connexional Audit Committee

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<b>Status of Paper</b>	Final
<b>Action Required</b>	Decision
<b>Draft Resolutions</b>	<p>5/1. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors.</p> <p>5/2. The Council receives the report of the Audit Committee and its appendix.</p> <p>5/3. The Council appoints RSM UK Audit LLP as external auditors for the connexional year 2015/16 at a fee to be agreed with the Audit Committee.</p>
<b>Members to note for action before the meeting</b>	<p>Members who would like to receive a soft copy of the detailed findings of the external auditors (the appendix to this report) should direct their requests to Jane Bates (<a href="mailto:batesj@methodistchurch.org.uk">batesj@methodistchurch.org.uk</a>) by noon on 20 January 2016.</p> <p>Likewise, members of the Council who wish to receive a copy of the report of the internal auditors should also contact Jane Bates by noon on 20 January 2016.</p>

### 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 continues to improve its service.</li> <li>4. Further improvement can be made in the accounting by SAEs.</li> <li>5. Reports from internal auditors are good.</li> </ol>

## Annual Report of the Connexional Audit Committee

### 1.0 Introduction

- 1.1 The Audit Committee works to a calendar year but reports on the connexional year. This way members of the Council are apprised of the work and views of the Audit Committee concerning the activities of the Finance Office during the connexional year and the Report and Accounts of that year, produced in the autumn after the close of the year.
- 1.2 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.
- 1.3 The Conference appoints the Audit Committee, which consists of five persons. During 2015 there were four members as we had been unable to attract a further member. Happily we can report that a potential new member attended our December meeting as an observer. If he and we both judge that he would be welcomed at the Audit Committee, we shall seek to put forward five names for the 2016 Conference to appoint upon nomination by the Council.
- 1.4 The Committee met on the following dates:  
7 May 2015, 20 October 2015, 9 December 2015. All meetings were quorate. The Committee's next meeting is scheduled for 4 May 2016.
- 1.5 Attendance at meetings of the Audit Committee over the calendar year 2015 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, 2 out of 3  
Andrew Whitley, appointed September 2009, 2 out of 3
- 1.6 The Connexional Treasurers, Andrew Gibbs (until 31 August 2015), Ted Awty and Tim Swindell (from 1 September 2015), 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). The Audit Committee has exercised its right to call other members of the Connexional Team to be available to answer questions from members of the Audit Committee.

### 2.0 External audit

- 2.1 The external auditors, RSM UK Audit LLP (formerly Baker Tilly), have again remarked favourably on the improvements effected in the connexional finance function and in the preparation for the audit. We recognise that the Church's accounting and reporting is more complex than many much larger commercial organisations. We record our particular thanks to Peter Matovu who, for the first time, was the lead in the relationship with the external auditors.
- 2.2 The Council will note that the accounts of local 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 (SAEs), 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 Audit Committee shares the concerns of the auditors that there may be other SAEs whose results should be consolidated into the accounts of the Church and has asked for a paper on this subject to be presented to the Audit Committee at its meeting in May 2016.
- 2.4 Last year the report of the Audit Committee referred to the difficulties of expecting that overseas grant recipients would have UK style accounting processes. During this year the Connexional Team uncovered a fraud whereby a grant sent to East Africa did not arrive at its intended destination and was diverted fraudulently. An enquiry ensued and none of the Connexional Team was implicated. Following advice from the internal auditors some tightening of procedures should make it difficult for the fraud to be replicated. Fraud generates unease and superficial mistrust and diverts resources to uncover how the fraud happened and to examine routes to full recovery.
- 2.5 Importantly, the auditors confirmed that there had been no changes in the accounting policies which meant that the figures of the previous year were indeed comparable.
- 2.6 RSM 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. the finance team has been most co-operative with the auditors, making the process of audit smooth
  - c. although there has been some improvement over the previous year in the quality of the financial reporting by the SAEs, there is room for further refinement. The Finance Team has assisted some of the SAEs to gain benefits from improved reporting
  - d. the cost of contractors (temporary staff) has been recorded through the purchases system rather than payroll and this may excite HMRC. If an investigation ensued and the Church were found not to have complied with legislation, there could be a substantial cost. A review will be undertaken
  - e. unsurprisingly – but helpfully – the auditors have drawn to our attention some deficiencies in internal control: most of these have been accepted and the recommendations will be implemented. Importantly, the auditors have tested changes that were introduced during the year as a result of deficiencies noted during the 2013-14 audit and the majority are now cleared.
- 2.5 A copy of the audit findings (31pp) from RSM 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 The Audit Committee met privately with the external auditors and subsequently with those in the Connexional Team who had worked with the auditors. Neither meeting drew attention to matters that either alarmed or concerned members of the Committee.

### **3.0 Internal audit**

- 3.1 The internal auditors, Mazars LLP, worked on various studies during this, their second year as our internal auditors and nearly completed their plan, using fewer days than we had anticipated.

- 3.2 Mazars report to The Connexional Secretary which demonstrates the importance that the Church attaches to internal audit together with risk identification and management.
- 3.3 Overall there was a much happier picture painted this year than that painted in the previous year. One half of the reviews concluded that substantial assurance could be given. The internal auditors have gone out of their way to praise the Connexional Team for the way the way that they have embraced risk management.
- 3.4 This year the internal auditors also trained some of the Connexional Team in fraud awareness.
- 3.5 By means of a survey of those audited Mazars have been rated "Good" overall for their work.

#### **4.0 Impact on the Connexional Team**

- 4.1 Despite the ever pervading and ever increasing regulation and perceived need for transparency and scrutiny in many walks of life, those who have never been audited may find it difficult to imagine what it is like to have an auditor constantly seeking evidence. The Council should give great credit to members of the Connexional Team, especially those in the finance function led by Maureen Sebanakitta, who have, we understand, acquitted themselves courteously in their dealings with the auditors and *vice versa*. Both auditors and our own team worked hard to achieve a timetable that is demanding. The auditors' report was made available to the Audit Committee about three months after the year end.
- 4.2 No significant additional fees were paid to or are owed to RSM for non audit work and, as result, RSM can be assumed to have maintained their independence.

#### **5.0 Recommendation**

- 5.1 The Audit Committee advises the Council to adopt the financial statements and Trustees' Annual Report as presented.

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

- 5/1. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors.**
- 5/2. The Council receives the report of the Audit Committee and its appendix.**
- 5/3. The Council appoints RSM UK Audit LLP as external auditors for the connexional year 2015/16 at a fee to be agreed with the Audit Committee.**