

## Annual Report by the Connexional Audit Committee

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<b>Status of Paper</b>	Final
<b>Action Required</b>	Decision
<b>Draft Resolutions</b>	8/1. The Council receives the report of the Audit Committee.  8/2. The Council appoints Baker Tilly as auditors for the year 2013-14.

### Summary of Content

<b>Subject and Aims</b>	Annual report to the Council of the Audit Committee under SO 213A
<b>Main Points</b>	<ol style="list-style-type: none"> <li>1. The audit report is unqualified.</li> <li>2. Two self accounting entities have been rigorously audited this year: Guy Chester Centre and The London Committee.</li> <li>3. Neither the auditors nor the Audit Committee have major concerns over the financial system or the report and accounts which demonstrate an improvement on those of the previous year.</li> <li>4. The internal auditors are making a favourable impression.</li> <li>5. Risk management needs re-thinking.</li> </ol>
<b>Background Context and Relevant Documents</b>	<p>The consolidated report and accounts of the Council 2012-13</p> <p>The report (44pp) of the auditors, Baker Tilly (to be circulated separately to those who request a copy from <a href="mailto:HassanaliS@methodistchurch.org.uk">HassanaliS@methodistchurch.org.uk</a> by noon on 27 January 2014)</p>

## Annual Report by the Connexional Audit Committee

### Membership

1. The Audit Committee sustained a deficit of one in its membership throughout the year. It is hoped that a new member will be found before the 2013 Conference. A list of members appears below.

Attendance of each member over the calendar year 2013 has been as follows:

- Rodney Betts, appointed September 2010, 2 out of 3
- John Chastney, appointed September 2008, and as Chair 2010, 3 out of 3
- Peter Mills, appointed September 2008, 2 out of 3
- Andrew Whitley, appointed September 2009, 3 out of 3

2. It should be noted that the year is not coterminous with the connexional year and is a reflection of the audit year that ends with the completion of the audit and the recommendation of the Audit Committee to the Council concerning the financial statements of the preceding connexional year.
3. The Connexional Treasurers have also attended meetings but without an opportunity to vote. In addition, executive officers from the Connexional Team have attended, principally Nick Moore (Head of Support Services), Maureen Sebanakitta (Director of Financial Operations) and Sharon Hassanali, the minute taker. The committee has been well served by Connexional Team Staff.

### Meetings

4. The committee met on the following dates:
  - 16 May 2013
  - 23 October 2013
  - 10 December 2013All meetings were quorate. We plan next to meet on 12 May 2014.

### 5. Matters for Council to note

#### 5.1 Organisation of the finance function

During the year revisions to the structure of the finance function have continued. There are now fewer persons employed (either full time or on contract) within the finance team but the quality is higher. This is already bearing fruit with motivated managers taking greater control than previously. Inevitably, this leads to a concern about the impact of the loss of any of the senior members of the team but procedural notes are being prepared or revised to ease any possible problem caused by a change of staff. The Audit Committee will write to the appropriate staff to thank them for their work during the year and in preparing for the audit that went reasonably well.

#### 5.2 Entities included in the consolidation

For entities to be included in the consolidation it is necessary to show that the Council has some influence on the decision-making of those entities. SO 360 describes this as "money and other assets for which the Council is responsible", but defining this exactly has been

complicated and work is ongoing to refine the list of relevant entities which appears on p36 of the Report and Accounts.

The financial statements for the year to 31 August 2013 consolidate the appropriate entities. The Audit Committee has satisfied itself that those entities not consolidated will not be forgotten and that an appropriate reporting route is available to them and required of them.

### **5.3 Accounting at the Self Accounting Entities (SAEs)**

The Audit Committee continues to be concerned that the accounting systems at some of the SAEs may not be subject to rigorous review and may not be as robust as is needed. Without appropriate rigour there is the danger of false accounting that could mislead the entities and allow them to make decisions which are financially unsupportable. There is also the danger of fraud because the internal control systems are weak which is of particular concern where there are large numbers of cash transactions. We anticipate that internal auditors will make a useful impact here by showing how internal control can be improved at limited additional cost, efficiencies can be developed and how information can be gathered and relied on to improve the quality of decision-making.

The Connexional Team Finance Office has recognised the need for some its members to get alongside the finance staff of the SAEs and offer support, encouragement and professional advice. This cannot be forced onto the entities each of which would need to pay for the services of the Connexional Team. For their part, the Connexional Team has more robustly challenged the financial returns of the SAEs especially where there has been non alignment with the financial picture of the individual SAEs at the Connexional Office. However, the Connexional Team has no responsibility for, nor authority over, these entities and is not resourced to support them.

### **5.4 Establishing the legal entity that reports to the Charity Commission**

Members of the Conference are the trustees of The Methodist Church in Great Britain whose governing document is The Constitutional Practice and Discipline of the Methodist Church (CPD). The registration identifies the Consolidated Accounts of the Council as the annual accounts of the charity. Under SO 212(1) the Conference has directed the Council to adopt the annual consolidated accounts, based on the recommendation from the Strategy and Resources Committee. After adoption by the Council, the financial statements will be presented to the Charity Commission by the deadline of 30 June 2014.

### **5.5 Internal audit**

At this time last year the Audit Committee requested the Council to find the funds for an internal audit function. The Council did so. The Audit Committee appointed a firm, Mazars LLP, to provide this service and early indications are that this is going well and is supported by the Senior Leadership Group. The internal audit programme is agreed by the Audit Committee and the internal auditors present their reports to the Committee. The internal auditors report on a day-to-day basis to the Connexional Secretary thus showing the importance that all parties attach to the internal audit function.

### **5.6 Risk**

There is a connexional risk register but it is the opinion of the Audit Committee that the register requires at least some reconsideration and, preferably, a radical overhaul. We are aware that the newly appointed internal auditors – whose work is risk-based – are advising on the register and its implications. There is little value in preparing a register that is not frequently reviewed and which does not lie at the heart of actions taken by officials, even in a risk-averse environment such as the Methodist Church.

## **Performance by the auditor, Baker Tilly**

6. It was the view of the Committee, supported by MCH staff, that the audit of the accounts for the year to 31 August 2013 had progressed well. The auditors demonstrated a reasonable understanding of the Church, managed the process of the audit well, and kept the Director of Financial Operations informed during the progress of the audit but the auditors were criticised for not working well enough as a team.

## **Report of the auditors**

7. The auditors, Baker Tilly, completed their audit soon after the beginning of November 2013 and provided copies of the financial statements and their audit findings to the Audit Committee a day or two before the most recent meeting of the Committee. They commented favourably on the quality and timeliness of the information provided to them by the Connexional Team including the Connexional Treasurers.
8. As part of their audit, Baker Tilly have provided to the Audit Committee a management report that draws to the attention of the members of the Committee matters that Baker Tilly think we should consider. Baker Tilly's report will be circulated to those members of the Council who request a copy electronically; some hard copies will be available at the Council meeting in January.
9. In summary, Baker Tilly observe:
  - the new Access Dimensions accounting system is being used well
  - work remains to be done on the key funds to ensure that documentation is full and fair
  - there may need to be a further assessment of the need for depreciation on land and buildings
  - the need for some care in choosing overseas local partners to ensure that the funds sent overseas are appropriately used
  - with pleasure that the fixed asset register has been reviewed
10. 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.

## **Recommendations**

- a. The Audit Committee advises the Methodist Council to adopt the financial statements and trustees report as presented.
- b. The Audit Committee recommends the reappointment of Baker Tilly as auditors for the year 2013-14.

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

- 8/1. The Council receives the report of the Audit Committee.**
- 8/2. The Council appoints Baker Tilly as auditors for the year 2013-14.**