

Annual Report of the Connexional Audit and Risk Assurance Committee

MC/24/4

Date of meeting	29-30 January 2024
Contact name and details	Mr Alan Kershaw, Chair of the Audit and Risk Assurance Committee ChairAudit@methodistchurch.org.uk
Resolutions	4/1. The Council receives the report of the Audit and Risk Assurance Committee.

1.0 Introduction

- 1.1 The Audit and Risk Assurance Committee is appointed by the Conference to support the Methodist Council and the Senior Management Group of the Connexional Team in their responsibilities for ensuring the adequacy of risk management and the assurance of the control environment in operation through both external and internal assurance processes, also known as 'audits'.
- 1.2 The Committee has continued to support the Connexional Team and the Council with its oversight of the audits performed by the External Auditors (RSM UK LLP) and the Internal Auditors (Buzzacott LLP). In addition, the Committee has provided constructive oversight and challenge to the Risk Management processes embedded within the Connexional Team, which have then been reviewed by the Council in the form of the Corporate Risk Register and by the Strategy and Resources Committee (SRC) in the form of the Connexional Team Risk Register.
- 1.3 The External Auditors provide their report on the annual financial statements for the year ended 31 August 2023 and the Report of the Trustees of the Methodist Church in Great Britain (in the form of the Methodist Council's representation of the Methodist Conference as Managing Trustee).
- 1.4 The work of the Internal Auditors is commissioned by the Connexional Secretary and the Internal Auditors apprise the Committee of the findings of their reviews of selected sections of the internal systems of risk and control operated by the Connexional Team.
- 1.5 The Risk Management outputs are considered by the Senior Management Group and by the Strategy and Resources Committee and have been reviewed by the (Audit and Risk Assurance) Committee and discussed in session with its Advisers (in the form of the External Auditors and Internal Auditors). External review of Risk Management takes place through these methods, and through the internal assurance reviews that are undertaken from specialists to aid the Connexional Team in their risk reviews and in their responsibilities to demonstrate the assurance of their control environment.
- 1.6 The Committee works to a calendar year but reports on the connexional year. In this way members of the Council are informed of the work and views of the Committee concerning the activities of the Methodist Council during the connexional year and the annual financial statements of that year, which are produced and then audited in the autumn after the close of the connexional year.
- 1.7 The Committee met on the following dates:
9 May 2023, 5 October 2023, 7 December 2023. The Committee's next meeting is scheduled for 14 May 2024.
- 1.8 Attendance at meetings of the Audit and Risk Assurance Committee over the calendar year 2023 has been as follows:
Adrian Burton, appointed September 2017, 3 out of 3
Alan Kershaw, appointed as Chair September 2017, 3 out of 3
Sarah Atwell-King, appointed September 2018, 3 out of 3
Sue Mortimer, appointed September 2018, 3 out of 3
Michael Rickard, appointed January 2020, 3 out of 3
- 1.9 Members of the Connexional Team, including the Connexional Secretary, Executive Director of Finance and Resources, and other representatives from the wider Connexional Team are invited to attend Committee meetings. Papers are also distributed to the Secretary of the Conference and the Conference Officer for Legal and Constitutional Practice.

2.0 External audit

- 2.1 The External Auditors, RSM UK Audit LLP, have remained confident in the performance of the connexional finance function and in the preparation for the audit by this team and the wider Connexional Team. The audit team has engaged with their connexional counterparts in person and remotely. As is usual, the year end process has seen a positive outcome for both parties and has highlighted areas where reporting process improvements can be made in future years.
- 2.2 The Council will note that the financial statements of the Methodist Church in Great Britain (MCB) are largely comprising the centrally held connexional funds. The Charity Commission has agreed that they do not need to include the accounts of local churches, circuits and districts.
- 2.3 The MCB financial statements include entities, some of which are separate charities, whose financial affairs are consolidated into the connexional financial statements only where the Council has influence on the decision-making of those entities (see SO 360). The inclusion of these entities continues to be an area where both the Trustees and the External Auditors are able to satisfy themselves with regard to this control and therefore their inclusion within the financial statements.
- 2.4 With this in mind, the Council should note that a significant control recommendation has been raised by the External Auditors with regard to activities and decisions made by the 'consolidated entities' which have been made without the involvement of the Connexional Team. The recommendation is that the Connexional Team's finance team should be made aware of and involved in material transactions in these consolidated entities at the time that significant decisions are being made and that the accounting for these transactions should be considered at that time.
- 2.5 In the context of the above statements, the Committee recognises that the accounting and reporting of these various elements of the MCB can be difficult to understand. However the Council, which acts on behalf of the Conference as Managing Trustee of these funds, is required to ensure in the context of the affairs of the charity that the matters set out below and within the annual financial statements occur. The Council is required in the preparation of these consolidated financial statements comprising the Connexional Funds and the consolidated entities to:
- select suitable accounting policies and then apply them consistently;
 - observe the methods and principles in the Charities SORP;
 - make judgements and estimates that are reasonable and prudent;
 - state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
 - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.
- 2.6 In response to the financial statements having been prepared on the above basis, and in light of the audit work undertaken by them, RSM have confirmed that they are willing to issue an unmodified audit opinion, which includes that the financial statements:
- give a true and fair view of the state of the group's and charity's affairs as at 31 August 2023 and of their incoming resources and application of resources for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Charities Act 2011.
- The RSM report also confirms that there are no matters on which they are required to report by exception under the Charities Act 2011.
- 2.7 The Committee reviewed the draft letter of representation to be signed by the Chair of the Council and Connexional Treasurer on behalf of the Methodist Council. This letter includes a number of important general representations that the Council makes. The Committee was in agreement that this letter should be presented to the Council for its review and approval, subject to the Council satisfying itself of the "appropriate enquiries" that it has made with other trustees of the Methodist Church in Great Britain, including the consolidated entities that are included within the group financial statements. The Committee encourages the Council to read carefully and understand the content of the letter of representation to satisfy itself before determining whether it is appropriate for its signatories to be authorised to approve on behalf of the Council.
- 2.8 At the most recent meeting of the Committee, RSM presented their audit findings report which in the context of the above positive assurance given, highlights by exception any areas where further work is required to continue to strengthen the control environment operated by the Connexional Team. A

tracker of all open external audit findings has been maintained during the year to demonstrate the manner in which these findings are addressed and discharged, and is reviewed at all meetings of the Committee. A copy of the audit findings report from RSM is available to any member of the Council who would like to see it, and Council members can request Jane Bates (batesj@methodistchurch.org.uk) to email it to them.

- 2.9 As is normal practice, the Committee as required meets privately with the External Auditors and these meetings confirmed that there were no matters of concern to be reported to the Council.
- 2.10 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.
- 2.11 During the year, the Connexional Team undertook a re-tendering exercise for the External Audit role. Six firms were approached including RSM as incumbent provider. Three were invited to tender and two submitted bids. A selection process was undertaken by the Connexional Treasurer, Connexional Secretary, Director of Finance and Resources, Chair of Audit and Risk Assurance Committee, a representative member of the Council and a member of the Audit and Risk Assurance Committee. RSM UK Audit LLP were chosen as External Auditors following this selection process.

3.0 Internal audit

- 3.1 The Internal Auditors, Buzzacott LLP, have worked on various reviews during the year in accordance with the Plan set at the start of the year.
- 3.2 The Internal Auditors report to the Connexional Secretary, which demonstrates the importance that the Connexional Team attaches to internal audit as a part of the provision of assurance to the Council, together with risk identification and management. The Connexional Secretary works closely in particular with the Executive Director of Finance and Resources and with the whole Senior Management Group to ensure that the Internal Audit delivers the assurance required, along with the value for money deliverables from the service.
- 3.3 During the 2022/23 year the Internal Auditors undertook their reviews on a range of control areas within the Connexional Team. Buzzacotts presented their reports with findings in four categories:
- High – A weakness where there is an increased risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business, including reputational damage with stakeholders. Remedial action must be taken immediately.
 - Medium – A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact operational objectives and standards of good governance and should be of concern to senior management and requires prompt specific action.
 - Low – Areas that individually have no significant impact, but where management would benefit from improved controls and/ or have the opportunity to achieve greater effectiveness and/ or efficiency.
 - Advisory – Areas that do not represent control failings or weaknesses but where there is a further opportunity to evidence best practice.
- 3.4 Buzzacotts presented reports to the Committee for the 2022/23 year which comprised:
- Events Management (High 2, Medium 9, Low 6)
 - Core Financial Controls (High 1, Medium 2, Low 6)
 - Future Working Arrangements (High 1, Medium 0, Low 5)
- 3.5 A tracker of all open internal audit findings has been maintained during the year to demonstrate the manner in which these findings are addressed and discharged, and is reviewed at all meetings of the Committee.
- 3.6 As is normal practice, the Committee as required meets privately with the Internal Auditors and these meetings confirmed that there were no matters of concern to be reported to the Council.

4.0 Risk Management

- 4.1 During the year, the Audit and Risk Assurance Committee has had sight of the Corporate and Connexional Team Risk Registers, has been appraised of significant changes to these registers in the period, and has been assured by the review processes evidenced in relation to these registers,

including the time spent by the Council in its review of the Corporate Register, and by the Strategy and Resources Committee reviewing the Connexional Team Register and in their respective discussions of risk management matters.

- 4.2 Risk management is a continuous process to assess whether the risks that the organisation faces are being controlled and whether appropriate action is being taken as a result. The Corporate Risk Register's focus is on the operation and activity of the wider Church across the Connexion as supported and enabled by the relevant connexional governance bodies, and is owned by the Council on behalf of Conference. The Connexional Team Risk Register's focus is on the operation and activities undertaken by the Connexional Team to meet its mandate and objectives, and is owned by the Connexional Secretary.
- 4.3 Throughout the year, the Committee was in receipt of evidence which demonstrated the recent and regular review of the risk registers by relevant parties and that actions were being actively pursued to manage the risks and improve the controls in line with the objectives of these bodies.
- 4.4 As a part of the Committee's review processes, details of items which have been reported to the Information Commissioner's Office and to the Charity Commission (for Serious Incidents) have been shared. The Committee has noted that there are ongoing efforts in particular to address data breaches and 'near misses' arising within the Connexional Team. The Committee was advised of one serious data breach which was reported to the ICO and the Charity Commission in the year, and which both organisations have subsequently confirmed no further action would be taken. The Connexional Team members are reminded of the importance of appropriate diligence in this area through regular training and if necessary through disciplinary procedures. The Committee is assured of the control procedures and internal review process in place in this area, and recognises that 'human error' is the main cause for data breaches and near misses occurring.

5.0 Governance

- 5.1 The Committee and Connexional Team have progressed the actions arising from the 2022 review based on the National Audit Office's "Audit and Risk Assurance Committee Effectiveness Tool". The Committee has also reviewed the Terms of Reference of the Audit and Risk Assurance Committee and made changes to reflect the current practise.
- 5.2 The Committee has considered and recommended the introduction of a Conflict of Interest register to ensure that there is a record of actual or potential conflicts that the Committee members may be exposed to.
- 5.3 The Committee is working with Connexional Team colleagues to support discussions regarding how other Connexional Committees may be able to adopt processes relating to the assessment of committee effectiveness and the monitoring of Conflicts of Interest.
- 5.4 The Committee as currently constituted does not include a position which is a member of Council. It was therefore helpful to the Committee that the Chair of this Committee was able to meet with the Chair of Council, Connexional Secretary, Chairs of other Connexional Committees and other senior members of the Connexional Team to discuss the transition of the current Committees into the new structures effective September 2024. We understand that a proposal has been made for the Chair of this Committee to become a member of the new Connexional Council, and therefore the position will go forward through the Nominations Committee processes for selection and appointment.

6.0 Impact on the Connexional Team

- 6.1 The Council should give its appreciation to members of the Connexional Team, especially those in the Finance function led by Matthew Tattersall who have worked diligently, professionally and efficiently to complete the year-end financial statements reporting process to time.
- 6.2 The Committee would also like to put on record its appreciation to the members of the Senior Management Group and colleagues within their teams who have continued to provide ongoing diligence in the risk management and assurance controls operated within the Connexional Team.

*****RESOLUTION**

- 4/1. The Council receives the report of the Audit and Risk Assurance Committee.**