

Annual Report of the Connexional Audit and Risk Assurance Committee

MC/23/16

Date of meeting	25-26 January 2023
Contact name and details	Mr Alan Kershaw, Chair of the Audit and Risk Assurance Committee ChairAudit@methodistchurch.org.uk
Action required	16/1. 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 (Mazars LLP until 31 August 2022, Buzzacott LLP from 01 September 2022). 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 2022 which also incorporate 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). 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. 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 expanding the internal assurance work which is sought from specialists to aid the Connexional Team in their risk reviews and in their responsibilities to demonstrate the assurance of their control environment.
- 1.4 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.
- 1.5 The Committee met on the following dates:
18 May 2022, 29 September 2022, 14 December 2022. The Committee's next meeting is scheduled for 18 May 2023.
- 1.6 Attendance at meetings of the Audit and Risk Assurance Committee over the calendar year 2022 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, 2 out of 3
Sue Mortimer, appointed September 2018, 3 out of 3
Michael Rickard, appointed January 2020, 3 out of 3

1.7 The Connexional Treasurer and members of the Connexional Team, including the Connexional Secretary, 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 by this team and the wider Connexional Team for the audit. The process this year has seen the audit team being able to re-engage onsite with their Connexional counterparts which has proven beneficial to both parties. As is usual, the year end process has seen a positive outcome for both parties and has highlighted areas where 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 has been and 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 In the context of the above statements, the Committee recognises that the accounting and reporting of these various elements of the Methodist Church in Great Britain 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 therefore required in the preparation of these consolidated financial statements comprising the Connexional Funds and the consolidated entities to:

- a) select suitable accounting policies and then apply them consistently;
- b) observe the methods and principles in the Charities SORP;
- c) make judgements and estimates that are reasonable and prudent;
- d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- e) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

2.5 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 2022 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.

2.6 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.

2.7 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.

- 2.8 As is normal practice, the Committee meets privately with the External Auditors and these meetings confirmed that there were no matters of concern to be reported to the Council.
- 2.9 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.
- 2.10 The engagement of RSM as External Auditors has been in place for a good number of years and it is therefore the intention of the Connexional Team on behalf of Council to complete a tendering process for this service. The specification for the tendering process will be developed by the Connexional Team and reviewed and approved by the Committee prior to its issuance. The Selection Panel is anticipated to include members of Council and members of the Committee.

3.0 Internal audit

- 3.1 The Internal Auditors, Mazars LLP, have worked on various reviews during the year in accordance with the Plan set at the start of the year. The appointment of Mazars as Internal Auditors concluded at 31 August 2022.
- 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 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 2021/22 year the Internal Auditors continued their focus on a range of control areas within the Connexional Team. Mazars presented their reports with findings in three categories:
 - 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
- 3.4 Mazars presented reports to the Committee for the 2021/22 year which comprised:
 - HR-Recruitment (4 significant, 5 housekeeping)
 - Risk Management (1 significant, 5 housekeeping)
 - Follow Up
 - Equality, Diversity and Inclusion (EDI) (7 significant, 3 housekeeping)It was noted by the Committee that 1 housekeeping finding in relation to EDI was not agreed to by management.
- 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. A copy of the Annual Summary Report from Mazars 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.
- 3.6 As is normal practice, the Committee meets privately with the Internal Auditors and these meetings confirmed that there were no matters of concern to be reported to the Council.
- 3.7 During the year, the Connexional Team undertook a re-tendering exercise for the Internal Audit role. Four firms were approached including Mazars as incumbent provider. A selection process was undertaken by the Connexional Secretary, Director of Finance and Resources, Director of Human Resources and Chair of Audit and Risk Assurance Committee. Buzzacott LLP were chosen as Internal Auditors following this selection process, and commenced their appointment on 1 September 2022.

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 review of the Corporate Register (Strategy and Resources Committee reviewing the Connexional Team Register) and discussion of risk management matters.
- 4.2 Risk management is a continuous process to assess on a regular basis 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.

5.0 Governance

- 5.1 The Audit and Risk Assurance Committee has continued to undertake reviews of its own governance throughout the year. The Committee members have undertaken a new review based on the National Audit Office's "Audit and Risk Assurance Committee Effectiveness Tool". In addition input has been formally sought from the Connexional Treasurer, Connexional Secretary and Director of Finance and Resources. This review will inform the Committee in terms of areas where further actions should be considered in order to improve the effectiveness of its operation. The Committee has also reviewed the Terms of Reference of the Audit and Risk Assurance Committee and made changes to reflect the current practise.

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.

*****RESOLUTIONS**

- 16/1. The Council receives the report of the Audit and Risk Assurance Committee.**