

Annual Report of the Connexional Audit and Risk Assurance Committee

Contact Name and Details	Mr Alan Kershaw, Chair of the Audit and Risk Assurance Committee
Resolutions	<p>5/1. The Council receives the report of the Audit and Risk Assurance Committee.</p> <p>5/2. The Council authorises the Chair of the Council and the Connexional Treasurer to sign the Letter of Representation addressed to the external auditors, and the Trustees Report and Balance Sheet within the financial statements.</p> <p>5/3. The Council authorises the Chair of the Council and the Connexional Treasurer to make any non-material changes to the presentation of the financial statements subsequent to Council approval.</p>

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). In addition the Committee has provided constructive feedback 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 and Connexional Team Risk Registers.
- 1.3 The External Auditors provide their report on the annual financial statements for the year ended 31 August 2021 which also incorporates 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 the developing work of assurance 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:
19 May 2021, 7 October 2021, 15 December 2021. The Committee's next meeting is scheduled for 18 May 2022.
- 1.6 Attendance at meetings of the Audit and Risk Assurance Committee over the calendar year 2021 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

- 1.7 The Connexional Treasurers and members of the Connexional Team, including the Secretary of the Conference, Connexional Secretary, Conference Officer for Legal and Constitutional Practice, Director of Finance and Resources, and other representatives from the wider Connexional Team may be invited to attend Committee meetings.

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. There is a recognition that the Church's accounting and reporting is complex through its many funds, restrictions and separate entities, and that this needs to be balanced with its missional objectives.
- 2.2 The Council will note that the financial statements of the Methodist Church in Great Britain (MCB) mainly relate to 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 several self-accounting entities (SAEs), 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 the SAEs has been and continues to be an area where the external auditors are able to satisfy themselves with regard to the financial statements.
- 2.4 The governance oversight of these SAEs continues to be under review by representatives from the Connexional Team, the Connexional Treasurers, the Audit and Risk Assurance Committee and the Strategy and Resources Committee. The review undertaken during 2021 has confirmed that the Council continues to have the required level of influence on all entities with the exception of Westminster College Oxford Trust. This entity has therefore been de-consolidated from the MCB financial statements.
- 2.5 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 SAEs to:
- a) select suitable accounting policies and then apply them consistently;
 - b) observe the methods and principles in the Charities Statement of Recommended Practice (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.
- 2.6 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 have been properly prepared in

accordance with United Kingdom Generally Accepted Accounting Principles, and that there is nothing to report by exception as required by 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 other entities (eg SAEs) 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 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 e-mail it to them.
- 2.9 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.
- 2.10 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.

3.0 Internal audit

- 3.1 The internal auditors, Mazars LLP, have worked on various studies during the year in accordance with the Plan set at the start of the year.
- 3.2 Mazars 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 2020/21 year the Internal Auditors continued their focus on a range of control areas within the Connexional Team. Mazars present 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 2020/21 year which comprised:
- Compliance Checks: Finance and HR (1 housekeeping)
 - Follow Up (4 significant; 3 housekeeping)
 - Funds Management / Cash Forecasting and Reporting (3 significant; 1 housekeeping)

- 3.5 Mazars also completed work on a review of GDPR which has been received since the Committee last met, but prior to this meeting of the Council. This report has been reviewed by the Connexional Team who have accepted the recommendations relating to the findings (2 fundamental; 6 significant; 6 housekeeping). Further review of this report will take place between Mazars, the Connexional Team and the Committee at its next meeting.
- 3.6 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 audit findings 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 e-mail it to them.
- 3.7 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.
- 3.8 The engagement of the internal audit service provided by Mazars was extended to January 2022 and is intended to be extended again to August 2022. During the period until this engagement concludes, it is the intention of the Connexional Team to complete a tendering process for this service.
- 3.9 Work will shortly commence to undertake this tendering process which will seek a provider for the Internal Audit service who will be able to provide a level of assurance, similar to that presently provided, to meet a three year rolling audit plan. This plan will be developed by the provider and the Connexional Team, with reference to the Connexional Risk Register. The specification for the tendering process will be developed by the Connexional Team and reviewed and approved by the Committee prior to its issuance, and is expected to also seek the view of prospective providers as to what 'best practice' they have provided or seen provided in respect of Internal Audit services to other organisations that might be described as similar to the Connexional Team.

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 apprised 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 In the versions of the Risk Registers presented to the Committee throughout the year, evidence was demonstrated of their recent and regular review, 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 updated their completion of individual self-

assessment processes based on a template provided by RSM, and refreshed the Committee members' Skills Audit. The Committee has also reviewed the Terms of Reference of the Committee and determined that no changes are required at the present time.

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 in another challenging year.
- 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.

7.0 Recommendation

- 7.1 The Audit and Risk Assurance Committee recommends that the Council consider and if thought fit approves the financial statements, the Trustees' Annual Report and the Letter of Representation as circulated.

*****RESOLUTIONS**

- 5/1. The Council receives the report of the Audit and Risk Assurance Committee.**
- 5/2. The Council authorises the Chair of the Council and the Connexional Treasurer to sign the Letter of Representation addressed to the external auditors, and the Trustees Report and Balance Sheet within the financial statements.**
- 5/3. The Council authorises the Chair of the Council and the Connexional Treasurer to make any non-material changes to the presentation of the financial statements subsequent to Council approval.**