

Annual Report of the Connexional Audit Committee

Contact Name and Details	Mr Alan Kershaw, Chair of the Audit Committee
Resolutions	<p>3/1. The Council receives the report of the Audit Committee.</p> <p>3/2. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors, and the Trustees Report within the financial statements.</p>

1.0 Introduction

- 1.1 The Audit Committee is appointed by the Conference to advise the Council on the conclusions of the audits by the External Auditors (RSM UK LLP) and Internal Auditors (Mazars LLP). The External Auditors report on their review of the annual financial statements for the year ended 31 August 2018 which 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 Internal Auditors report to the Connexional Secretary and appraise the Audit Committee of their findings of their review of the internal systems of risk and control operated by the Connexional Team. The work of both the External Auditors and Internal Auditors is reviewed by the Audit Committee.
- 1.2 The Audit Committee works to a calendar year but reports on the connexional year. In this way members of the Council are appraised of the work and views of the Audit Committee concerning the activities of the Methodist Council during the connexional year and the annual financial statements of that year, which are produced in the autumn after the close of the connexional year.
- 1.3 The Conference appoints the Audit Committee. Mr Andrew Whitley retired from the Committee on 31 August 2018 following his commendable and diligent service to the Connexion via this Committee over the preceding nine years, for which we thank him. We also thank Mr David Stubbs who resigned from the Committee on 31 August 2018 and for his service over the preceding two years. We have been pleased that the Conference has appointed Ms Sarah Atwell-King and Ms Sue Mortimer to become members of the Audit Committee with effect from 1 September 2018. In liaison with the Connexional Team, the Committee continues the search for one additional member which it will propose to the Conference to bring the Committee's membership to its constituted level of five members.
- 1.4 The Committee met on the following dates:
24 May 2018, 4 October 2018, 4 December 2018. The Committee's next meeting is scheduled for 22 May 2019.
- 1.5 Attendance at meetings of the Audit Committee over the calendar year 2018 has been as follows:
Adrian Burton, appointed September 2017, 1 out of 3
Alan Kershaw, appointed as Chair September 2017, 3 out of 3
David Stubbs, appointed September 2016 0 out of 1
Andrew Whitley, appointed September 2009, 0 out of 1
Sarah Atwell-King, appointed September 2018, 1 out of 2
Sue Mortimer, appointed September 2018, 2 out of 2
- 1.6 The Connexional Treasurers, Mr Ted Awty and the Revd Tim Swindell, 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, despite the considerable changes in personnel in recent times. 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 are largely comprising the centrally held connexional funds and do not include the accounts of local churches, circuits and districts, which the Charity Commission has agreed to.
- 2.3 In addition, there are several self-accounting entities (SAEs), some of which are separate charities, whose financial affairs are consolidated into the connexional financial statements where the Council has some influence on the decision-making of those entities (see SO 360).
- 2.4 In light of the above, the Audit 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 Methodist 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 on page 28 of the annual financial statements occur. The Council is therefore required 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 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. The Audit Committee reviewed the draft letter of representation to be signed by the Chair of the Council on behalf of the Methodist Council, and was in agreement that this letter should be presented to the Council for its review and approval.
- 2.6 At the most recent meeting of the Audit Committee, RSM have 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 introduced in the year and this is now maintained by the Connexional Team to demonstrate the manner in which these findings are addressed and discharged, and is reviewed at all meetings of the Audit 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 can be requested from Jane Bates (batesj@methodistchurch.org.uk) for this to be emailed to them.

- 2.7 The Audit Committee met privately with the External Auditors and this meeting did not draw attention to matters that alarmed or concerned members of the Committee.
- 2.8 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 Church attaches to internal audit together with risk identification and management.
- 3.3 During the 2017/18 year the Internal Auditors continued their focus on core financial systems and on following up on findings from reports issued in previous years. The Internal Auditors have also provided assistance with a Risk Management and Assurance Mapping exercise. Discussions have taken place between Mazars and the Connexional Team during the year to discuss the heavy workload presented on the Finance team by the reviews performed by both internal and external audit. As a result of this discussion, planned reviews of the financial systems have been deferred into 2019.
- 3.4 At the most recent meeting of the Audit Committee, Mazars presented a summary of its findings in the 2017/18 year which comprised 32 new findings in the year, with 14 categorised as Priority 2 Recommendations (which represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk) and 18 categorised as Priority 3 Recommendations (which show areas where Mazars have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk).
- 3.5 The Audit Committee is satisfied with the planning and implementation of the work done by Mazars and the quality of that firm's reporting. A copy of the annual report from Mazars is available to any member of the Council who would like to see it and can be requested from Jane Bates (batesj@methodistchurch.org.uk) for this to be emailed to them.

4.0 Impact on the Connexional Team

- 4.1 The Council should give its appreciation to members of the Connexional Team, especially those in the Finance function led by Hylde Wilson from May 2018, who have worked expeditiously to complete the year end reporting process against an often demanding timetable.
- 4.2 The Audit Committee would also like to put on record its appreciation to the members of the Senior Management Team who have contributed to the ongoing improvement in the controls operated within the Connexional Team, balancing this with the many other challenges that they face whilst seeking to deliver the missional strategy of the Methodist Church.

5.0 Recommendation

- 5.1 The Audit Committee recommends that the Council consider and if thought fit approves the financial statements and Trustees' Annual Report as circulated.

*****RESOLUTIONS**

- 3/1. The Council receives the report of the Audit Committee.**
- 3/2. The Council authorises the Chair of the Council to sign the Letter of Representation addressed to the external auditors, and the Trustees Report within the financial statements.**