

ARCHBISHOPS' COUNCIL

ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE YEAR TO 31 MAY 2006

1. Introduction

The Audit Committee has a duty to oversee the discharge of the Archbishops' Council's responsibilities, both in its own right and in its capacity as the Central Board of Finance, relating to the financial statements, governance, risk management and internal control systems and internal and external audit. It reports to the Archbishops' Council with recommendations as appropriate and is required, under the terms of its constitution, to publish each year a report on the discharge of its functions, which shall be laid before the Archbishops' Council and the July Group of Sessions of General Synod.

2. Meetings

The Committee has met three times during the year, on 29 September 2005 and 26 January and 25 May 2006.

3. Committee Membership

	Appointment	Attendance
Tony Hesselwood	Chair appointed by the Archbishops and approved by General Synod for five years to 31 July 2009.	2 of 3
Jane Bisson	Elected by the General Synod for five years to 31 December 2010 (having previously been appointed by the Archbishops' Council for a term of office to expire on 31 May 2006).	3 of 3
Canon Ian Garden	Archbishops' Council Member and appointed by them (membership ceased when no longer a member of General Synod).	1 of 1
Harry Marsh	Elected by the General Synod for five years to 31 May 2006 (membership ceased on 31 December 2005 with adoption of new constitution).	1 of 1

Revd. Simon Stokes	Elected by the General Synod in November 2002, with his term of office expiring on 31 May 2006(membership ceased when no longer a member of General Synod).	1 of 1
Brian Newey	Appointed by the Appointments Committee from amongst the membership of the Finance Committee for three years until 31 December 2008.	2 of 2
Keith Malcouronne	Elected by the General Synod for five years to 31 December 2010.	1 of 2
Paul Boyd-Lee	Archbishops' Council Member and appointed by them until the elections in 2010..	1 of 1
Revd. Canon Justin Welby	Appointed by the Archbishops' Council for three years to 31 May 2009.	0 of 1

The Committee was assisted at its meeting on 29 September in its consideration of a number of reports relating to common service departments and pan-NCI issues by Phil Hamlyn Williams, Chair of the Church of England Pensions Board audit committee, and Robert Clark, a member of the Church Commissioners audit committee as observer / consultants.

Gill Laver, then the Council's Director of Finance and Central Services, and Christopher Daws, the Church Commissioners' Financial and Deputy Secretary, acted successively as secretary to the Committee.

4. Reporting

The Committee's report has to be laid before both the Archbishops' Council and General Synod annually. Agreed practice is for the report to be debated every three years (last year's report was debated), unless there is a specific request from the Committee in the intervening years to debate something.

A brief summary of the Committee's business features in the Archbishops' Council's annual report under its *Governance* section.

5. “In relation to the external auditor, to consider the appointment, the audit fee and any questions of rotation, resignation or dismissal, and to make recommendations to the Archbishops’ Council as appropriate”.¹

5.1 Appointment of External Auditors

Deloitte & Touche LLP continue to serve the Archbishops’ Council as external auditors.

5.2 Audit Fee

The Committee agreed to the audit fee of £48,000 plus VAT and disbursements in respect of the 2005 year end.

6. “To discuss with the external auditors before the audit begins the nature and scope of the audit, to review their arrangements for assuring independence and objectivity and the effectiveness of the audit process.”

The Committee was unable to discuss these issues with the external auditors before the start of their interim audit as it was inquorate for its meeting scheduled for 1 November 2005. It did so at its January 2006 meeting, when it also considered the impact of the International Auditing Standards on the audit process.

¹ The headings for sections 5-12 take as points of reference the Committee’s main duties.

- 7. “To review the annual financial statements and trustees’ report with particular reference to:**
- (i) significant accounting policies, any changes to them and any significant estimates and judgements;**
 - (ii) the significant financial reporting issues and judgements made in connection with the preparation of the financial statements;**
 - (iii) the clarity and completeness of disclosures in the financial statements and consideration of whether the disclosures are set properly in context;**
 - (iv) any significant adjustments resulting from the audit;**
 - (v) compliance with accounting standards;**
 - (vi) compliance with legal requirements.”**
- and to make recommendations on their adoption to the Archbishops’ Council as appropriate.**

The Committee has reviewed the financial statements and trustees’ report of the Archbishops’ Council and recommended their acceptance to the Archbishops’ Council.

- 8. “To keep under review the effectiveness of governance, risk management internal control systems and in particular:**
- (i) to review the external auditors’ post audit letter and the management response;**
 - (ii) to review internal audit reports and the management response.”**

8.1 External Auditors’ Post-Audit Report for the 2004 Year End

The Committee considered the external auditors report and approved the management response.

8.2 External Auditors’ Report on their interim audit for the Church Commissioners’ 2005 Year End

This report contained a number of observations relating to processes that are managed by the Archbishops’ Council and was addressed jointly to the audit committees of the Archbishops’ Council and the Church Commissioners. The Committee considered the external auditors report and approved the management response from the staff of the Archbishops’ Council.

8.3 External Auditor's Post-Audit Report for the Church Commissioners' 2005 Year End

This report contained a number of observations relating to processes that are managed by the Archbishops' Council and was addressed jointly to the audit committees of the Archbishops' Council and the Church Commissioners. The Committee considered the external auditors' report and approved the management response from the staff of the Archbishops' Council.

8.4 Internal Audit's Review of Internal Financial Controls

The Committee reviewed a report of the operation of internal financial controls within the Accounts Department operated on behalf of each of the NCIs and endorsed the management response.

8.5 Internal Audit's Investigation of Foreign Currency Purchasing

The Committee reviewed a report into the circumstances surrounding a foreign currency transaction and endorsed the management response from the staff of the Archbishops' Council.

8.7 Internal Audit's Review of the Education Division and the National Society

The Committee reviewed a report on the operations of the Education Division and the National Society, took note of the wider implications of the recommendation to include a section on financial implications and risk management in papers developing future strategic policy initiatives and endorsed the management response.

9. "To monitor the internal audit function and in particular agree with the internal auditors their strategic approach to the provision of independent assurance and their annual plans."

The Committee took note of the limited resources of the Internal Auditing Department and the impact staff turnover had had. It approved an interim plan for reviews in 2006.

10. "To consider representations which may be made to the Audit Committee by members of the Archbishops' Council, members of the Council's staff, General Synod members or other persons."

10.1 The Committee received no representations.

10.2 Whistleblowing

Under the NCIs' Whistleblowing policy, complaints are made to designated members of the NCI audit committees, who also supervise the subsequent investigation. No complaints were received.

11. "To liaise from time to time with the Audit Committees of the Church Commissioners and the Church of England Pensions Board to discuss issues of mutual concern."

The Committee considered a report of the joint meeting with the chairs and secretaries of the other NCI audit committees in February 2006. The meeting reviewed the performance and plans of the Internal Auditing Department and welcomed the success of the first year of providing internal audit services to seven diocesan offices. It reviewed the growing overlap in the interests of the audit committees and asked for further work to be done to explore ways that the audit committees could work together more efficiently and effectively.

12. “To consider cross-National Church Institution governance, risk management and internal control issues.”

12.1 Internal Audit Review of Common Services’ Risk Management

With the assistance of observer / consultants from each of the Church Commissioners and Church of England Pensions Board audit committees, the Committee reviewed an analysis of significant risks that apply across the National Church Institutions.

12.2 Report from the Health & Safety Adviser

The Committee received a report on health and safety risk management. It took note of the progress being made to fulfil the NCIs’ legal responsibilities.

12.3 Fraud Response Policy

The Committee endorsed proposals for a pan-NCI fraud response policy.

13. “To consider such other topics as either the Audit Committee or the Archbishops’ Council may from time to time consider appropriate.”

The Committee took note of developments within the Accounts Department, progress on the implementation of the new finance system for the NCIs, the appointment of a new banker for the NCIs and the restructuring of the relationship of the CBF with CCLA and the feasibility of winding up the CBF.

Elizabeth House
London
25 May 2006

(signed) Tony Hesselwood
Chair of the Audit Committee