

ARCHBISHOPS' COUNCIL

ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE YEAR TO 31 MAY 2007

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 four times during the year, on 28 September 2006, 13 December and 03 May 2007. A meeting held jointly with the audit committees of the Church Commissioners and Church of England Pensions Board took place on the 13 December 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.	3 of 4
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 4
Brian Newey	Appointed by the Appointments Committee from amongst the membership of the Finance Committee for three years until 31 December 2008.	4 of 4
Keith Malcouronne	Elected by the General Synod for five years to 31 December 2010.	4 of 4

Paul Boyd-Lee	Archbishops' Council Member and appointed by them until the elections in 2010.	4 of 4
Revd. Canon Justin Welby	Appointed by the Archbishops' Council for three years to 31 May 2009.	3 of 4

The Committee was assisted at its meeting on 13 December in its consideration of IT issues raised in Deloitte's management letter to the Archbishops' Council's audit committee by Phil Hamlyn Williams, Richard Billinghamurst and Graham Campbell, members of the Church of England Pensions Board audit committee as observer / consultants.

Jackie Bliss, the NCIs Finance Director, and Kim Parry, the Head of Internal Audit 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 (the report was last debated in 2005), unless there is a specific request from the Committee in the intervening years to debate issues in addition to existing arrangements.

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

The Committee recommends to the Council that Deloitte & Touche LLP continue to serve the Archbishops' Council and the CBF as external auditors for the 2007 financial statements.

The Committee's Chair has discussed with the Chairs of the other NCI audit committees the possibility of carrying out a joint tendering exercise for external auditors. Mindful of the different needs of each of the NCIs and of the importance of ensuring value for money for the Archbishops' Council, the

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

Committee recommends to the Council that a tendering exercise for external auditors be carried out for the 2008 financial statements.

5.2 Audit Fee

The Committee agreed to the audit fee of £50,000 plus VAT and disbursements in respect of the 2006 year end and approved the additional fee of £35,000 for the extra days overrun in completing the 2005 audit.

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 discussed these issues with the external auditors but was unable to approve the nature and scope of the audit before the start of their interim audit as it was inquorate for its meeting scheduled for 28 September 2006. It did so at its December 2006 meeting.

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 considered the new SORP 2005 accounting policy and has reviewed the 2006 financial statements and trustees’ report of the Archbishops’ Council, considered the external auditor’s report, 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 auditor’s post audit letter and the management response;**
- (ii) to review internal audit reports and the management response.”**

8.1 External Auditor’s Post-Audit Report for the 2005 Year End

The Committee considered the external auditors report, and in particular issues relating to IT system controls, and approved the management response.

8.2 Internal Audit’s Review of the Property Management Inspection Function

The Committee reviewed a report of the operation of the Property Management Inspection Function within the Accounts Department, managed on behalf of the Church Commissioners, and endorsed the management response.

8.3 Internal Audit’s Follow up Review of Recruitment & Selection

The Committee reviewed a report on the implementation of audit recommendations of Recruitment & Selection within the Human Resources Department at the joint meeting of the audit committees and endorsed the management response.

8.4 Internal Audit’s Follow up Review of the BACS procedures

The Committee reviewed a report on the operation and implementation of audit recommendations of BACS procedures within the Accounts and IT Departments at the joint meeting of the audit committees and endorsed the management response.

8.6 Quality Assurance Review of the Internal Auditing Department

The Committee reviewed a report of the quality assurance review of the internal auditing at the joint meeting of the audit committees and endorsed the management response.

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

The Committee took note of additional internal audit resources acquired within the year and noted that a further auditor will be recruited in 2007 to increase the level of audit service delivered to the Pensions Board. The Committee took the view, whilst acknowledging the Council's financial constraints, that internal audit was an important function that could add significant value to the Archbishops' Council if given the capacity to do so. The Committee recommended that resources be made available so that the current scheduled internal audit work programme covering the Council can be expanded. It approved and reviewed the 2007 plan subject to any changes that might be required.

The Committee reviewed and approved revisions to the Internal Auditing department's service level agreement.

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 attended a workshop for all members of the Archbishops' Council, Church Commissioners and Pensions Board audit committees on 22 June 2006. It reviewed the growing overlap in the interests of the audit committees and considered options for working together.

The first joint meeting of the audit committees has taken place on 13 December 2006. The three audit committees considered the internal audit annual plan for 2007, internal audit reviews on common services, Common Service departments' risk registers and the role and working of the JECSB. A further joint meeting is planned for 2007 and the Committee hopes that this will become an annual event.

The Committee considered a report of the joint meeting with the chairs and secretaries of the other NCI audit committees in February 2007. The meeting reviewed the pattern of audit committee meetings for 2007 and 2008 and re-tendering for external auditors.

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

12.1 Internal Audit Review of Common Services' Risk Management

The Committee reviewed an analysis of significant risks that apply across the National Church Institutions at the joint meeting of audit committees.

12.2 NCI Whistleblowing Policy

The Committee endorsed proposals for a pan-NCI whistleblowing 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, acknowledging the achievements in implementating the new finance system for the Archbishops' Council, and the appointment of an NCI Finance Director. The Audit Committee noted that there had been difficulties in resourcing the Common Services Accounts Department since its inception in 2003. This had resulted in considerable pressures on staff for an extended period of time, and had impacted on the efficiency of the department. The Committee recorded its thanks to the staff for their hard work and commitment against this background, but wished to impress upon the Council the importance of ensuring that the department is adequately resourced, particularly during the roll-out of the SAP system to the remaining NCIs.

Church House
London
11 May 2007

(signed) Tony Hesselwood
Chair of the Audit Committee