

ARCHBISHOPS' COUNCIL**ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE YEAR TO 31 MAY 2015****1. Introduction**

The Audit Committee has a duty to oversee the discharge of the Archbishops' Council's responsibilities relating to financial reporting, governance, risk management, internal control systems and internal and external audit. It reports to the Archbishops' Council with recommendations as appropriate, and publishes a report each year which is laid before the Archbishops' Council and the July Group of Sessions of General Synod. Agreed practice is for the report to be reviewed and discussed by Synod every three years (this year's report is not scheduled for review and discussion), unless there is a specific request in the intervening years to discuss any issues.

Mary Chapman is Chair of the Committee. Mary has been a member of the Council since 2010.

2. Meetings

The Committee has met four times during the year, on 2 July 2014, 9 October 2014, 4 March 2015 and 8 May 2015.

3. External audit

The external auditors are BDO. The Committee agreed their approach to the 2014 external audit and fees at the meeting on 9 October 2014.

The Committee considered the external auditors' report on the 2014 financial statements and reviewed the management response. The audit went smoothly and no significant issues were identified. The Council's senior management team have again confirmed that they are not aware of any reason why the letter of representation to the auditors should not be signed off by those entrusted by the Council to do so.

4. Annual financial statements and trustees' report

The Committee reviewed, at their meeting on 4th March 2015, the draft financial statements for the Archbishops' Council for 2014 and initial draft trustees' annual report. The Committee undertook detailed review of the format and content of the annual report and recommended a number of changes. An additional meeting on 8 May 2015, reviewed an updated version of the draft trustees' report and proposed final version of the financial statements. The Committee recommended their acceptance to the Archbishops' Council.

5. Internal Audit

The Committee reviewed the internal audit reports on the following audit assignments: Control and usage of restricted funds, monitoring of diocesan financial performance and a follow up of recommendations and agreed actions from a previous internal audit of the national procurement initiative. The work performed by Internal Audit identified the need to improve controls over the usage of restricted funds. The Committee requested further work on this area to gain assurance that expenditure was allocated correctly and adequately controlled. The results of the additional testing provided assurance that material expenditure was accounted for correctly.

In addition to the specific internal audit assignments, the Audit Committee requested and received regular updates on progress in implementing changes to the national safeguarding arrangements. Developments in this area have included the production of new policies and procedures, new appointments and progress in developing a national quality assurance process. The Committee will continue to receive regular updates on progress and commission assurance work on the new processes as they are implemented.

The Committee obtained assurance from the Internal Audit department, based on the work performed, that overall there was an effective system of internal control in place. There were areas within individual audits which required management action to improve existing controls. However no fundamental weaknesses were identified, as a result of the work performed.

The Committee also received and reviewed the following internal audit reports which related to selected central service operations, used in common by all three National Church Institutions (NCIs): accounts payable, accounts receivable, IT information security and progress in developing improved practices around data handling.

The Archbishops' Council, Church Commissioners and Pensions Board receive Finance, IT, HR, Communications, Legal, Risk Management and Internal Audit and Record Centre services via the jointly owned and managed central service departments. From April 2014 these functions have been formed into a new NCI – Church of England Central Services.

The central service processes examined across the NCIs were generally found to have adequate controls. However, some weaknesses were identified around the promptness of invoice payments and the follow up of aged debts. The reports were subject to review by the Committee including discussion with relevant management in order to understand the cause of issues raised and review the adequacy of actions plans to address them. The Committee endorsed the relevant management responses, and continues to monitor that these have been followed up expeditiously.

In IT, an assessment of information security arrangements, against good practice, identified significant work to be undertaken to achieve the required level of maturity in this area. Progress has been made in addressing actions required around data handling arrangements and processes, but further work is required in 2015 to implement the changes required. The IT area is currently subject to significant change, including the wide spread upgrade of IT infrastructure. It is expected that many of the current changes will address the areas identified in the review of IT information security.

The Committee approved the 2015 internal audit plan, which includes reviews of the contract management of the common awards arrangements with Durham University, controls around safeguarding procedures, control around the award and monitoring of grants and diocesan financial performance. The plan also includes review of selected central services processes, such as payroll, information security, data handling, IT governance and project management and business continuity.

During 2014 the Risk Management and Internal Audit Department was restructured. This has led to the development of a co-source relationship with a third party audit firm (Baker Tilly) to assist in the delivery of internal audit assignments. This approach has increased flexibility over cost and resource and was fully supported by the Audit Committee.

6. Risk management

During the past year the Committee has continued to provide oversight and review of the risk management arrangements and the content of the divisional risk registers. This has involved reviewing updates on new and emerging operational risks and seeking assurance through discussion with management on the adequacy of arrangements in place to manage key risks. Particular focus in the past year has been on risks related to developments around safeguarding. During the past year, the Committee has worked with management to review and assess risks identified and managed by the national safeguarding team. The Committee has requested and received regular updates on plans to develop the national arrangements including the development of national assurance arrangements.

The Committee is content that current risk management arrangements follow good practice guidance from the Charity Commission. The Audit Committee was content that the current risk register is an accurate reflection of the issues faced by departments. After changes to the business planning and reporting processes in 2014, the divisional risk registers now better reflect the specific objectives within individual Divisions and the Council overall.

The Committee has continued to work with management to identify and assess strategic, church wide risks. These have been subject to on-going discussion, assessment and monitoring by both the Audit Committee and Council. These risks will continue to be reviewed during 2015.

7. Representations

The Committee received no representations.

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 in respect of the Archbishops' Council.

8. Committee Membership

Member	Appointment	Attendance
Mary Chapman	Chair appointed by the Archbishops' Council in the first instance until 31 December 2017.	4 of 4
Keith Malcouronne	Re-elected by the General Synod for five years to end of 2015 or until successor elected.	4 of 4
Paul Boyd-Lee	Archbishops' Council Member and appointed by them until 31 May 2016.	3 of 4
John Neilson	Appointed by the Archbishops' Council for four years to 30 November 2016.	4 of 4
Susan Cooper	Elected by the General Synod for five years to the end of 2015 or until successor elected.	4 of 4
Jonathan Evans	Appointed by the Archbishops' Council for five years to 31 May 2016.	2 of 4

Church House
London
11th May 2015

(signed) Mary Chapman
Chair of the Audit Committee