

ANNUAL REPORT OF THE AUDIT COMMITTEE**1 JUNE 2017 TO 31 MAY 2018****1. Introduction**

- 1.1 I am pleased to present the report of the Audit Committee for the 12-month period ended 31st May 2018.
- 1.2 The Committee's function is to oversee the discharge of the Archbishops' Council's responsibilities relating to the form, content and audit of its annual report and financial statements, its governance, its risk management and internal control systems and its internal audit. It reports to the Archbishops' Council with recommendations as appropriate and publishes a full report each year which is laid before the Archbishops' Council and the July Group of Sessions of General Synod. The June-May reporting period that this paper covers ensures that the content is up-to-date and timely for its readers.
- 1.3 The report provides an overview of all those areas for which the Committee is responsible, with information concerning the audit work carried out during the period and the extent of assurance obtained.

2. Significant changes during the year

- 2.1 During 2017, major reforms were introduced to the distribution of funding made available by the Church Commissioners to the Council to support the Church's mission and growth. One consequence of this was the significant increase in the level of income and expenditure flowing through the Council's accounts.
- 2.2 The Committee emphasised the need for a common understanding between the Archbishops' Council, Church Commissioners and dioceses on the accounting arrangements for the Strategic Development Fund grant stream. Members reviewed drafts of a Statement of Funding Principles between the Council and Commissioners prior to this being agreed by both trustee bodies.

3. External audit

- 3.1 At its meeting on 2nd November 2017, the Committee agreed the recommendations from BDO, the Council's external auditors for their approach to the 2017 external audit and confirmed that fees were in line with the agreed contract.
- 3.2 In March 2018, the Committee considered the external auditors' report on the 2017 financial statements and reviewed the management response. The audit went smoothly, and no significant deficiencies in internal control were identified. The Council's senior management team 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. BDO issued an unqualified audit opinion.
- 3.3 BDO, were appointed in 2013 for a period of up to ten years with a review after five years. The Committee conducted a review of the external audit appointment, taking account of the views and experiences of committee members and staff, the conclusion of which was to recommend that BDO should be retained for a further five years. The review identified some areas for greater engagement between the auditors and the Committee. Those are being addressed. After the 2017 audit, the audit partner Don Bawtree, was required to retire by rotation having filled this position for ten years. The Committee met his proposed successor, Fiona Condron, and were content that she would be the BDO audit partner from 2018.

4. Annual financial statements and trustees' report

- 4.1 The format of the Financial Statements is similar to that of the 2016 financial statements, albeit with structural changes to take into account (a) the new charitable objectives of the Archbishops' Council, and (b) the new grant funding arrangements.
- 4.2 The Committee reviewed, at their meeting on 1st March 2018, the draft financial statements for the Archbishops' Council for 2017 and draft annual report. Following agreement of some minor changes, the Committee recommended acceptance of the annual report and accounts to the Archbishops' Council, with delegation of oversight of the final annual report to two members of Council.

5. Risk management

- 5.1 The Committee is responsible for reviewing the effectiveness of risk management processes, controls and governance arrangements, ensuring that all identified Archbishops' Council risks are being actively managed. This includes regular reviews of the Church of England strategic risks, principal risks identified by the Archbishops' Council and operational risks identified and assessed by divisional management.
- 5.2 The Committee plays an important role in supporting and encouraging the Council's review of risk and facilitated a risk management session at the Archbishops' Council's meeting in December 2017. New risks were captured around the Government and other key stakeholders of influence pushing to marginalise and exclude the Church of England from public life and another relating to any major and lasting split in the Anglican Communion. Safeguarding risks have been reviewed, in the light of progress on delivery of the Church of England safeguarding objectives and work related to the IICSA inquiry. The Committee sought specific assurances regarding risks of the central services (ChECS) departments and how they were being managed collectively between the NCIs, in particular, the adequacy of project management, data management and IT capabilities. The Committee has also supported the Council in giving consideration to risks related to the financial insolvency of a Cathedral or Diocese.
- 5.3 The Committee is content that current risk management arrangements follow good practice guidance from the Charity Commission and continue to mature and become more embedded for both management and trustees. The Audit Committee was content that refinement of the Archbishop's Council Principal risk register as well as the facilitation of updates to the Church of England Strategic risk register, reflected the current issues faced.
- 5.4 The Committee received a report of the Senior Management Group's discussion of risk appetite and considered how to take this work forward with Council during 2018. The risk policies were reviewed against best practice and draft updates have been prepared. These will be further developed during 2018, specifically through the risk verification exercise.

6. Internal Audit

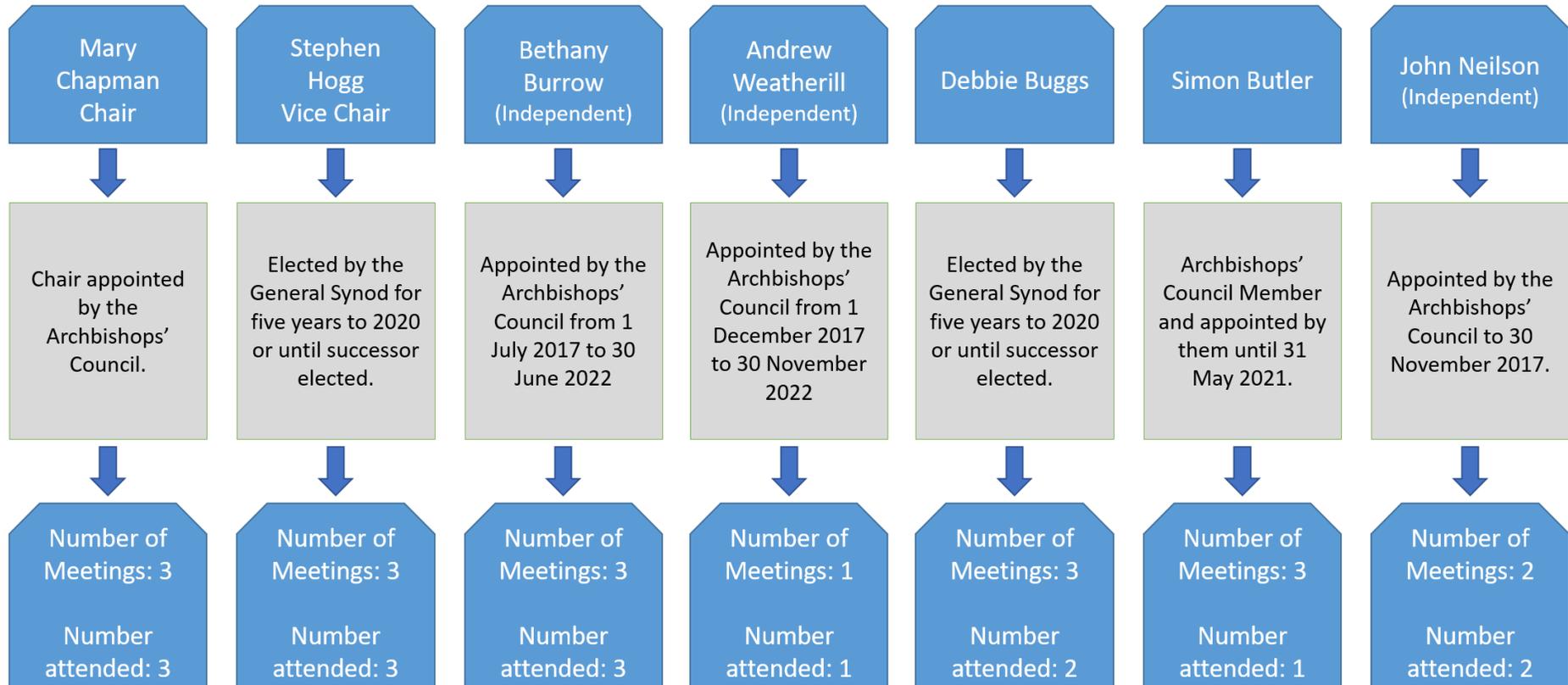
- 6.1 The internal audit plan for the Archbishops' Council is focussed on providing an assessment of the adequacy and effectiveness of controls in place to manage key risks to the achievement of the Archbishops' Council's objectives. In addition, the internal audit plan annually includes review of the controls in place within selected central service areas of the NCIs (ChECS). The Committee works with management to develop the internal audit plan, to ensure that resources are focussed on key areas of assurance need.

- 6.2 In the past year, the Committee has received reports on the following Archbishops' Council operations: Ministry Selection, Resourcing Ministerial Education pilot, Education - opening of new schools, Strategic Development Funding and the Cathedrals Finances Review. These areas were identified as areas of significant change and areas where significant operational risks were being managed.
- 6.3 The Committee was satisfied that overall, adequate internal control arrangements were in place in these areas. No fundamental control weaknesses were identified. Where weaknesses in control were identified, e.g. the Ministry Selection and Cathedrals Finances review, adequate action plans had been agreed with relevant management. The Committee has provided ongoing review of progress in the implementation of agreed management actions.
- 6.4 In the past year, the Committee has sought feedback and assurance from a range of senior managers over areas of planned change. This has included elements of the national safeguarding developments, Strategic Development Funding and confirmation of funding arrangements with the Church Commissioners and Cathedral finances.
- 6.5 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, NCI Procurement, Project Management Maturity Assessment, Fraud Prevention Framework, Health and Safety, GDPR Readiness Assessment and the Church of England Website review, as well as receiving a Gateway Review on the CRM project. The Project Management Maturity Assessment identified fundamental risks, to which the Chief Finance and Operations Officer is recommending a response plan. The Health and Safety, GDPR Readiness Assessment and the NCI Procurement audits all identified exposure to significant risks. Adequate action plans have been agreed with the respective managers and will be reviewed under the follow up processes.
- 6.6 Management actions from previous audits are scrutinised at each Committee meeting. Positive assurance of recommendations arising from Council-specific audits has been obtained. However, some ChECS audit management actions had taken longer than expected to be implemented.
- 6.7 The Committee approved the 2018 internal audit plan. The Committee has again aimed to ensure that the focus will be on areas of significant risk and significant planned change. Further focus will be on the value for money and effectiveness of the National Safeguarding Team, a review of the newly formed Evangelism and Discipleship department, the Diocese Peer Review process and efficacy of the evaluation of the impact of investment for growth.

7. Membership and Meetings

- 7.1 The Committee has met three times during the year, on 4th July 2017, 2nd November 2017 and 1st March 2018.
- 7.2 During the past year, two long-serving independent members of the Committee completed their terms of office: Jonathan Evans on the 31st May 2017 and John Neilson on the 30th November 2017. I would like to express my thanks for the commitment they have shown over a sustained period of service and for the insightful contribution they have made to the work of the Committee. The vacancies were advertised together and filled, with Bethany Burrow and Andrew Weatherill both commencing membership in 2017.

7.3 Full details of the membership and attendance at meetings are shown below.



8. Representations

- 8.1 It is part of the Audit Committee's Terms of Reference to consider representations received from members of the Archbishops' Council, the Archbishops' Council staff, General Synod members or other persons. The Committee received no representations.
- 8.2 Under the NCI's 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.

Church House
London
May 2018

(signed) Mary Chapman
Chair of the Audit Committee

Published by the General Synod
of the Church of England
© The Archbishops' Council 2018