

ARCHBISHOPS' COUNCIL

ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE YEAR TO 31 MAY 2001

Note by Ian McNeil

1. Introduction

The Audit Committee has the duty to oversee the discharge of the Archbishops' Council's responsibilities, both in its own right and in its capacity as Central Board of Finance, relating to financial statements, internal control systems and internal and external audit. It reports to the Archbishops' Council thereon (normally by the submission of its minutes) with recommendations as appropriate and is required to publish each year a report on the discharge of its functions which shall be laid before the Council and the July session of General Synod. The Committee's Constitution, which details its functions, is set out in the **Annex**.

2. Meetings

The Committee has met twice in the year to 31 May 2001.

3. Committee Membership

I acted as Chairman. The other members were:

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| Mr Hesselwood | Tony (appointed by the Archbishops' Council) Vice Chairman |
| Canon Paver | Elizabeth (member of the Archbishops' Council) to Dec. 2000 |
| Mr Ian Garden | (member of the Archbishops' Council) from Dec. 2000 |
| Ms Jane Bisson | (elected by the General Synod) |
| Mr Mike Tyrrell | (elected by the General Synod) |

Tony Hesselwood was re-appointed to the Committee in October 2000 and Mr Harry Marsh was elected to serve on the Committee, with effect from 1 June 2001, in place of Ms Jane Bisson. Shaun Farrell (the Council's Financial Secretary) acted as secretary to the Committee. Representatives of PricewaterhouseCoopers, the external auditors, attended the second meeting.

4. "In relation to the external auditor, to consider the appointment, the audit fee and any questions of rotation, resignation or dismissal."

Last year I reported that the Committee would review the appointment of PricewaterhouseCoopers (PwC), who, in their various guises, have been the external auditors for the Central Board of Finance since 1926. At the meeting I attended of Audit Committee Chairmen & Secretaries (see paragraph 11 below) it was agreed that all three National Church Institutions (NCIs) would review the appointment of external auditors before the 2002 audits with a view to considering whether there were advantages in appointing one firm to serve all 3 bodies. The Committee agreed to recommend PwC as the external auditors for the Council for 2001 but to put out the 2002 appointment to competitive tender.

5. "To discuss with the external auditors before the audit begins the nature and scope of the audit."

The nature and scope of the audit were unchanged from the previous year.

6. "To review the annual accounts in the light of their consideration by the Finance Committee (before their formal submission to the Archbishops' Council) with particular reference to:

- **any changes in accounting policies and practices;**
- **major judgmental areas;**
- **any significant adjustments resulting from the audit;**
- **compliance with accounting standards;**
- **compliance with legal requirements."**

6.1 Central Church Fund

At its November meeting the Committee considered the status of the Central Church Fund and took the view that as it was, in substance, controlled by the Central Board of Finance (CBF) as managing trustees, it should be consolidated into the Archbishops' Council accounts.

6.2 Accounting for Pension Costs

The Committee took note of the preparations for disclosure in accordance with new financial regulations on accounting for pensions costs.

6.3 Financial Statements for 2000

The Committee considered the draft Financial Statements for 2000 and various matters were referred to the Finance Committee for consideration. Whilst there were no material issues of concern the Audit Committee felt that a specific reference might have been made in the Trustees report to the unrealised loss of £921,439 on investments during 2000 as a result of the downturn in market values.

7. “To keep under review the effectiveness of internal control systems and in particular to review the external auditors' management letter and the management response.”

7.1 External Auditor's Management Letter

Amongst the main issues raised were:-

- a) Reserves in the Training for Ministry fund were at their operational minimum and would need to be carefully monitored.
- b) Information received from the distributor for Church House Publishing is not sufficient for full accounting control purposes and is under review in conjunction with Church House Publishing.

7.2 Internal Audit's review of IT Security

The Audit Committee considered a report from Internal Audit on Information Security Management. The audit examined compliance with the key controls recognised as best practice, which are designed to ensure an adequate level of information security. The review also considered the use of passwords in some depth. An Information Security Policy has now been agreed by all the NCIs and plans drawn up for their implementation.

7.3 Progress in implementing the recommendations of the “Top Down” review

The Committee considered a progress report from management outlining the progress in implementing the recommendations from the internal audit Review of the internal control framework across the Council designed to ensure that it was operating in an efficient and effective manner. There was support for the view that a suitable mechanism to consider corporate planning issues was fundamental for the Council, although it was recognised equally that there were resource implications involved in following up that recommendation.

7.4 Risk Management (Charities SORP 2000)

The Committee had an initial discussion of the impact of the revised Charities Accounting Requirements and in particular the requirement that the Annual Report and Accounts for 2001 include “a statement confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to mitigate those risks”. This will be an important piece of work to be taken forward by the Finance and Audit Committees. An initial survey has been commissioned from the Senior Staff assisted by Internal Audit.

7.5 Internal Audit Plans for 2001

The Internal Audit department operates under the directorate of the Council’s Financial Secretary but serves all three national Church bodies. The Audit Committee approved the workplan for 2001, which provides for 25% of Internal Audit’s time to be spent on Council activities. The remainder is split between the Church Commissioners, 60%, and the Pensions Board, 15%. The division of the department’s time is reviewed annually and the Council’s share may need, subject to cost constraints, to be increased in the future to reflect its increased responsibilities including those arising from common services.

- 8. “To develop an understanding of the financial policies and processes of the Archbishops' Council and its subordinate bodies in order to identify omissions or weaknesses in their functions and to review the timing and methods of implementation of those policies and processes.”**

8.1 Financial Regulations

The Committee took note of the implementation of the revised Financial Regulations concerning receipts and payments.

The Committee also took note of the development of the second stage of the Council's Financial Regulations covering budgets and virement.

8.2 Bank Reconciliation

The Committee noted that progress had been made in relation to the bank reconciliation procedures but will continue to monitor this area of concern.

- 9. “To consider representations which may be made to the Committee by members of the Council, members of staff, General Synod members or other persons.”**

No representations were made.

- 10. “To consider such other topics as either the Committee or the Archbishops' Council may from time to time consider appropriate.”**

The Committee asked for and received a report from Internal Audit confirming that the assumptions underpinning the cashflow projections for the Common Worship project were sound.

- 11. “The Committee shall, from time to time, liaise with the Audit Committees of the Church Commissioners and the Pensions Board to discuss any issues of mutual concern.”**

In my role as Chairman, I attended a meeting in November 2000 of Audit Committee Chairmen & Secretaries. The meeting, chaired by Sir Alan McLintock (Chairman of the Church Commissioners audit committee), was used to discuss the co-ordination of activities between the three committees and other issues of mutual interest. The meeting agreed that the Council's Audit Committee should take the lead in considering Internal Audit reports on common services.

(signed) Ian McNeil
Church House

AUDIT COMMITTEE OF THE ARCHBISHOPS' COUNCIL

Constitution

1 Title and status

- (a) The name of the Committee shall be 'The Audit Committee of the Archbishops' Council', hereinafter referred to in this constitution by its short title 'The Audit Committee'.
- (b) The Audit Committee shall be a committee of the Archbishops' Council and a body answerable to the Synod through the Archbishops' Council, constituted in accordance with the Standing Orders of the General Synod.

2 Authority

- (a) The Committee is authorised by the Archbishops' Council to investigate any activity within its remit as described under clause 3 of this constitution. It is authorised to seek any information it requires from any employee of the Archbishops' Council who will be asked to co-operate fully with any request made by the Audit Committee in pursuance of its duties and to supply such information in that respect as the Audit Committee may require.
- (b) The Audit Committee shall notify the Archbishops' Council if in discharging its duties it wishes to obtain outside legal or other independent professional advice and the cost of such advice shall be borne by the Archbishops' Council.

3 Functions

The functions of the Audit Committee shall be:

- (a) To oversee the discharge of the Archbishops' Council's responsibilities both in its own right and in its capacity as Central Board of Finance relating to financial statements, internal control systems and internal and external audit and report to the Archbishops' Council thereon (normally by the submission of its minutes) with recommendations as appropriate.
- (b) In relation to the external auditor, to consider the appointment, the audit fee and any questions of rotation, resignation or dismissal.

- (c) To discuss with the external auditor before the audit begins the nature and scope of the audit.
- (d) To review the annual accounts (before submission to the Archbishops' Council) with particular reference to:
 - (i) Any changes in accounting policies and practices.
 - (ii) Major judgmental areas.
 - (iii) Any significant adjustments resulting from the audit.
 - (iv) Compliance with accounting standards.
 - (v) Compliance with legal requirements.
- (d) To keep under review the effectiveness of internal control systems and in particular to review the external auditor's management letter and the management response.
- (e) To develop an understanding of the financial policies and processes of the Archbishops' Council and the bodies answerable to the Synod through the Archbishops' Council in order to identify omissions or weaknesses in their functions and to review the timing and methods of implementation of those policies and processes.
- (g) 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.
- (h) 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.
- (i) To consider such other topics as either the Audit Committee or the Archbishops' Council may from time to time consider appropriate.
- (i) To publish each year a report on the discharge of its functions which shall be laid before the Archbishops' Council and the General Synod.

4 Membership

The Committee shall consist of a Chairman and four other members:

- (a) The Chairman shall be appointed on the nomination of the Archbishops after consultation with the Appointments Committee and subject to the approval of General Synod. The Chairman shall not be a member of the Archbishops' Council or its Finance or Deployment, Remuneration and Conditions of Service Committees, or of the Church Commissioners or the Church of England Pensions Board.
- (b) The other members of the Committee shall consist of:
 - (i) Two members appointed by the Archbishops' Council, one of whom shall be a member of the Council.
 - (ii) Two members elected by the General Synod who shall not be members of the Archbishops' Council or its Finance or Deployment, Remuneration and Conditions of Service Committees, or of the Church Commissioners or the Church of England Pensions Board.
- (c) The Audit Committee shall have no power to co-opt members to the Audit Committee.

5 Term of office

- (a) Subject to Article 3(4) of the Constitution of the General Synod and sub-clause 5(b) of this constitution, members currently serving on the Audit Committee shall hold office until 31 May 2001 and thereafter members shall hold office for such term as the General Synod shall resolve.
- (b) The term of office of the Chairman of the Audit Committee shall be determined by the General Synod.
- (c) Subject to sub-clause 5(b) of this constitution, no member shall serve for more than two successive terms.

6 Observers, consultants and assessors

In addition to the members of the Audit Committee, the Audit Committee may invite such other observers, consultants or assessors as it considers appropriate to its business from time to time. Such persons shall have the right to speak at meetings of the Audit Committee but not to vote.

7 Business and procedure

The Audit Committee shall have power to regulate its own business and procedure subject to clause 2 of this constitution, the Standing Orders and the directions of the General Synod and the Archbishops' Council. In the absence of such regulation the provisions of the "Guidelines from the Council for the regulation of the business and procedure for bodies answerable to the Synod through the Council" shall apply.

8 Panels and groups

The Audit Committee may appoint such panels and groups as shall be agreed in consultation with the Archbishops' Council.

June 2001