

## ARCHBISHOPS' COUNCIL

### ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE YEAR TO 31 MAY 2002

#### **1. Introduction**

The Audit Committee has a duty to oversee the discharge of the Council's responsibilities both in its own right and in its capacity as Central Board of Finance relating to the financial statements, internal control systems and internal and external audit. It reports to the Council (normally by 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 both the Council and the General Synod.

#### **2. Meetings**

The Committee has met three times during the year.

#### **3. Committee Membership**

I have been Chairman during the last twelve months.<sup>1</sup>

The other members have been:

Mr Tony Hesselwood Vice Chairman (appointed by the Archbishops' Council for five years from 1 June 2001)

Mr Ian Garden (member of the Council and appointed by them for five years from 14 December 2000)

Mr Harry Marsh (elected by the General Synod for five years from 1 June 2001)

Mr Mike Tyrrell (elected by the General Synod for five years from 1 June 2001)

Ms Jane Bisson has been appointed as an observer/consultant to the Committee for three years from 1 June 2001.

Shaun Farrell, the Council's Financial Secretary, acted as secretary to the Committee.

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<sup>1</sup> The Acting Secretary of the Appointments Committee writes: With Ian McNeil's current term of office due to expire on 30 June 2002, the Appointments Committee have considered a further term of office. Following the nomination by the two Archbishops, the Appointments Committee have endorsed the nomination for Ian McNeil to serve a further term of office running until 31 July 2004. At the July Group of sessions, the General Synod will be asked to confirm this nomination and length of term.

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

##### 4.1 External Auditor Review

A year ago, I reported that the three NCIs would review the appointment of external auditors before the 2002 audits, at the same time taking account of whether there would be advantages in appointing one firm to serve all three bodies.

We drew up a timetable for tendering, along with a short list of firms, and both the Church Commissioners and Pensions Board were approached offering them the chance to participate in the exercise. Following a special meeting of their Audit Committee, the Commissioners informed us that they did not wish to change their existing arrangements on the grounds of continuity and experience. The Pensions Board, although in favour in principle, wished to put the matter on hold, due to a review of common accounting services commissioned by the chief executives of the NCIs in the light of the imminent retirements of two of the Pension Board’s senior accounting staff.

A discussion by the Audit Committee Chairmen and Secretaries (see section 11 below) took the view that if an accounting review led to a single amalgamated accounting function, it would be logical to appoint one external auditor as a result. Their conclusion, which the members of my Committee supported, was that the results of the review would need to be known first before re-tendering was considered.

The NCIs have now approved in principle a single function, but an integrated function using the same procedures and accounting software is unlikely to be in place much before the end of 2003. It remains our policy to carry out a joint tendering exercise as soon as this becomes feasible.

##### 4.2 Audit Fee 2001

The Committee supported the £29,000 fee for the 2001 audit (£23,000 for the Council, £6,000 for other work), an increase of £4,000 on 2000 (£21,000 Council, £4,000 other), reflecting the additional work required to deal with changes flowing from the Charities SORP (Statement of Recommended Practice) 2000.

##### 4.3 Appointment of External Auditor 2002

In the light of the decision to postpone the tendering exercise, the Committee agreed to recommend PwC as the external auditors for appointment by the Council for the 2002 audit, subject to confirmation of their fee.

**5. “To discuss with the external auditors before the audit begins the nature and scope of the audit.”**

Changes in respect of the revised Charities SORP 2000 and FRS18<sup>2</sup> were discussed before the start of the audit, as were prior year adjustments, the policy to be adopted on grants and the classification of income and expenditure.

**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 Financial Statements for 2001**

The Committee has examined the draft Financial Statements for 2001, along with the trustees’ report, and a small number of items were brought to the attention of the Finance Committee before their final consideration. In particular, a note to be added to the accounts to reflect the fact that non recurring costs would accrue between 2002 and 2004 to take account of redundancies and early retirements consequential from a restructuring of the Council’s activities and the “Discerning the future” exercise. The trustees’ report would comment on the unrealised loss on investments due to falling market values (£2.87m in 2001).

The trustees’ report would include a statement on risk management evaluation as required by SORP 2000.

**6.2 Management Accounts**

The Committee noted that management accounts accompany the report and accounts, although they do not form part of the audited financial statements. This was consistent with diocesan practice and enabled the reader to see more easily the movement in the figures against the budget from year to year.

**6.3 Changes to Accounting Policies**

The revised Statement of Recommended Practice for Accounting and Reporting by Charities (SORP 2000) has been implemented in these financial statements.

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<sup>2</sup> An entity should adopt the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view to be set against objectives of relevance, reliability, comparability and understandability; those policies should be reviewed regularly to ensure they remain appropriate; sufficient information should be disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

SORP 2000 requires that grants should be accounted for when a firm commitment has been made rather than on a cash paid basis. This change in accounting policy has been applied to the grants made by the Central Church Fund and the Church Conservation Funds. In line with many other organisations, the Council has applied the FRS 17 standard on disclosure within accounts to the provision made for final salary pension schemes. The Council participates in a pension fund administered by the Church of England Pensions Board, which provides benefits based on final salaries. The assets of the Fund are held separately from those of the Council. As required by paragraph 9b of FRS17, the pension cost for the year as shown in the statement is equal to the contributions being paid by the employer, the contributions being assessed by an independent qualified actuary.

The Committee also agreed to maintain the present layout of the financial statements and balance sheet for 2001, subject to the figures being shown to the nearest thousand.

## **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

The Committee endorsed all the recommendations made in respect of management control issues, raised by PwC. In particular, it noted the suggestion that it would be prudent to monitor the published accounts of the theological colleges and church colleges of education, to ensure that they included a reference to the outstanding sums owing to the Council.

### 7.2 Internal Audit report on Treasury functions

A review of Treasury functions highlighted the need for a cashier and an appointment was made in August 2001. The Committee asked the Chief Accountant to review the arrangements for short term bank deposit rates, to ensure that the best rates were received. After consulting with banking experts, an internal report for the department has been produced and its recommendations put into practice.

### 7.3 Internal Audit report on Payments and Receipts

A further review on payments and receipts highlighted the fact that the relevant regulation supporting segregation for staff working together had not happened in every case when it came to the authorisation of payments in user departments. In noting the report, the Committee endorsed the suggestion made by the Chief Accountant that a revised financial regulation be issued authorising one list of approved signatories, but where approval was required in excess of £2,000, an appropriate senior member of staff should sign.

#### 7.4 Internal Audit report on the introduction of a new HR/Payroll system

The Committee examined a report centering upon the project management controls of introducing a new computerised HR management and payroll system for the benefit of the three main NCIs. In noting the report, it endorsed the view expressed that guidance on project management controls would be of benefit for the future work of the NCIs, and that these should be made available on the Intranet.

#### 7.5 Internal Audit report on Ministry Selection Procedures

The Committee received a report, originally requested by the staff budget group examining the proposals for *Discerning the Future*. They asked Internal Audit to review Ministry Division's options for possible cost savings and determine whether some of the more radical options for selection would produce savings to the Council and dioceses as a whole. The review found that although some saving might be made at the centre, significant extra costs would accrue to the whole Church if a measure of devolution were to occur. For this, and other reasons, the report recommended that the existing system of national selection should continue broadly in its current form.

Although not a full systems audit, the exercise provided a clear indication that the national selection conferences are operating as intended. The report made some recommendations for improving the present system and, together with the conclusions of Ministry Division's own concurrent review, these will be taken forward by the Vocations, Recruitment and Selection Committee. The review also identified some important questions that might help dioceses in their work and ways are being explored of making the detailed information more widely available.

#### 7.6 Follow up audit to the "Top Down" Review

This has not yet taken place given the lack of resources within the Internal Audit department. However, with the appointment of new members of staff (to fill current vacancies), information will shortly be compiled, coupled with a review of the mitigation measures in place within the Risk Register (see para 7.7).

#### 7.7 Risk Management Responsibilities

As reported last year, the Council's Annual Report for 2001 requires "a statement confirming that the major risks to which the charity is exposed, as identified by trustees, have been reviewed and systems have been established to mitigate those risks". In the light of the Charities SORP 2000, the Committee noted that the Council's management had produced a risk register aided by members of the Internal Audit team.

The register, covering both financial and operational risks, applies not just to those risks to which the Council has been exposed already. In discussion, the Committee noted the following key risk areas: -

- *policy changes made by the General Synod* – Although not every suggested change was accompanied by a formal risk assessment of the effects of implementation, the Committee noted that the most relevant factors and the possible consequences, including financial ones, were routinely addressed before a proposal was put forward.
- *regulatory and structural issues* concerning the relationship of the Central Board of Finance as trustee and CCLA as manager of the funds invested with it. These issues are under active consideration by the Council's Finance Committee and will be addressed again in the light of their conclusions.
- *cash flow (payments from the dioceses)* – the system relied upon voluntary contribution. Possible default on payment was mitigated by visits to “at risk” dioceses to ascertain what steps might be taken to address their financial difficulties. Furthermore, the use of reserves could mitigate the risk of late payment.

#### 7.8 Work of Internal Audit

Due to staff vacancies and changing work priorities, the Committee noted that the department's limited resources had been switched from previously earmarked areas of work, but that these had been agreed with the Financial Secretary. The department had been reduced by one post during the recent round of cuts.

The Committee has voiced its concerns over the increasing demands on the department's time within the Council. But it recognises that with a finite amount of resource shared with the Church Commissioners and Pensions Board, there is little scope for increasing the share allocated to the Council.

The Committee has asked that the staff budget underspend in 2002 (due to vacant posts) be applied to buying in temporary internal audit resources.

#### 7.9 Internal Audit Plans

In addition to the department's plan for 2002, the Committee examined a revised audit needs assessment of all the Council's major activities and the related long term plan. As for 2001, the Council's share of the resources of the audit department is around 30%, with the remainder split between the Church Commissioners and Church of England Pensions Board.

**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 commented upon the third stage of the Council's Financial Regulations, covering banking and treasury procedures. In particular, they made suggested amendments to the job profile of the cashier.

#### 8.2 Bank Reconciliation

With the appointment of the new cashier and the implementation of new systems, bank reconciliations have been dealt with successfully. As recommended by the external auditors, the now static historical difference of £13,000 will be written off in 2002.

**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.”**

#### 10.1 Common Worship

Following on from last year, the Committee has been provided with updates on the progress of *Common Worship* in terms of cash flow and forecast profits. Whilst there is no evidence of impropriety, there is still cause for concern that the control of sales information is unreliable and appropriate action is being taken. As accurate information was not available on a timely basis, it was found necessary to make prior year adjustments. Sales of Common Worship in the year ended 31 December 2000 were overstated due to an error in the attribution of direct mail sales. Direct mail sales of Common Worship were reduced by £291,186 and sales of Common Worship to Church House Bookshop were increased by £71,164. This resulted in a reduction in the designated fund reserve brought forward for Common Worship of £220,012 and a decrease in the unrestricted fund reserve brought forward for Church House Bookshop of £71,164.

## 10.2 Tendering

During the Synod debate about the Committee's previous report, a member suggested that all external appointments similar to the external auditors should be the subject of competitive tendering every three or five years. We were asked whether this had been considered and if not, that it would be.

The Committee enquired, therefore, whether outsourcing any of the common service functions had been considered. In response, the Secretary General explained that the Legal division's property transaction work had been examined, but it was felt more economic to retain this in house.

As part of its scope when auditing a particular area of work, Internal Audit examines whether value for money is being obtained, which could include consideration of outsourcing.

## **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."**

I attended a meeting in November 2001 of the three Audit Committee Chairmen and Secretaries. Chaired for the final time by Sir Alan McLintock (who stepped down as Chairman of the Church Commissioners' Audit Committee at the end of 2001), the meeting discussed the future resourcing of the Internal Audit department, risk management across the NCIs, the review of accounting services across the NCIs and the appointment of external auditors.

(signed) Ian McNeil  
Chairman  
Audit Committee of the  
Archbishops' Council

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