

ARCHBISHOPS' COUNCIL**ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE
YEAR TO 31 MAY 2005****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 the Central Board of Finance, relating to the financial statements, internal control systems and internal and external audit. It reports to the 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 Council and the General Synod.

2. Meetings

The Committee has met four times during the year, on 23 June, 29 September and 3 November 2004 and 6 May 2005.

3. Committee Membership

	Appointment	Attendance
Ian McNeil	Chair until 31 July 2004	0 of 1
Tony Hesselwood	Chair appointed by the Archbishops and approved by General Synod for a period of five years to 31 July 2009, having previously been the member appointed by the Archbishops' Council and Vice-Chair of the Committee	4 of 4
Jane Bisson	Appointed by the Archbishops' Council for a term of office to expire on 31 May 2006 (having previously acted as consultant to the Committee), elected Vice-Chair of the Committee in September 2004.	3 of 3
Ian Garden	Archbishops' Council Member and appointed by them (term of office to expire on 13 December 2005).	4 of 4
Harry Marsh	Elected by the General Synod for five years to 31 May 2006.	3 of 4
Revd. Simon Stokes	Elected by the General Synod in November 2002, with his term of office expiring on 31 May 2006.	2 of 4

The Committee was assisted at its meeting on 29 September in its consideration of a number of reports relating to common service departments by Phil Hamlyn Williams, Chair of the Church of England Pensions Board audit committee, and Robert Clark, a member of the Church Commissioners audit committee as observer / consultants.

Shaun Farrell, then the Council's Financial Secretary and Director of Central Services, David Williams, Head of the Council's Central Secretariat, and Gill Laver, the Council's Director of Finance and Central Services, 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 (this year's report is scheduled for debate), unless there is a specific request from the Committee in the intervening years to debate something.

A brief summary of the Committee's business features in the Archbishops' Council's annual report under its *Governance* section.

5. Constitution

The Committee considered its terms of reference in the light of the quinquennial review of all committee constitutions and the Smith Guidance on audit committees, published in 2004. It made a number of recommendations that were incorporated into the constitution for the next quinquennium. The Committee was also concerned to make arrangements for ensuring a greater degree of continuity amongst its small membership and to reduce the risk of becoming inquorate following General Synod elections. A number of amendments have been made to the proposed Constitution that respond to these concerns although they will not take effect before the 2005 elections.

6. "In relation to the external auditor, to consider the appointment, the audit fee and any questions of rotation, resignation or dismissal."¹

6.1 Appointment of External Auditors

Deloitte & Touche LLP continue to serve the Archbishops' Council as external auditors.

¹ The headings for sections 6-13 take as points of reference the Committee's main duties.

6.2 Audit Fee

The Committee agreed to the payment of an additional audit fee of £24,500 in respect of the 2003 year end, made up of £9,500 for work relating to a change in audit scope for both Whitelands and the CBF and an additional sum of £15,000 in respect of audit time over-run (resulting in an overall fee of £55,000); and to a rebased fee of £49,000 for the 2004 year end, being £42,000 for the Council, £4,250 for the CBF and £2,750 for the CCF. These additional costs recognised the fundamental structure of the Archbishops' Council and the complexity of its activities. Both the Audit Committee and the external auditors have improved their appreciation of these factors since the time of the original tender. The Audit Committee was satisfied that the increased fees were necessary and that Deloitte's service had been good value.

6.3 Conflicts of Interest

To avoid any conflict of interests that might arise from carrying out audits of both the Archbishops' Council and the Church Commissioners, Deloitte & Touche continued to provide a second partner for their 2004 work.

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

The Audit Partner and other representatives of Deloitte & Touche attended the meeting of the Audit Committee on 29 September 2004 at which they detailed their approach for the 2004 audit.

8. "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:

- (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."**

8.1 Financial Statements for 2004

The Committee has reviewed the financial statements for the Council, CBF and Central Church Fund and recommended their acceptance to the Archbishops' Council and the Trustees of the Central Church Fund.

8.2 Changes in accounting policies and practices

The Committee approved the accounting policies, judgements and practices used in preparing the Archbishops' Council's 2004 financial statements.

8.3 Major judgmental areas

The Committee reviewed the classification of funds. The external auditors have called upon the Council to examine in detail the categorisation and utilisation of its restricted funds, and the Audit Committee will duly monitor this work.

The external auditors' view on materiality was also endorsed.

8.4 Format and Contents of Annual Report

The Committee reviewed the draft annual report for consistency with the financial statements.

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

9.1 External Auditor's Post-Audit Report for the 2003 Year End

Following the 2003 end of year, Deloitte & Touche issued a post-audit report of their main findings, which was considered by the Committee at their meeting on 23 June. The report covered issues relating to closing the books at year end and the accounting environment and made some more general organisational observations. The Committee recommended that the Accounts department should be consulted regularly on all important operational decisions within the Council so that the accounting implications can be assessed.

9.2 Internal Audit Review of Common Services' Risk Management

With the assistance of observer / consultants from each of the Church Commissioners and Church of England Pensions Board audit committees, the Committee reviewed an analysis of significant risks that apply across the National Church Institutions and suggested some additional mitigation measures. The Committee has not reviewed the management of risks in the Archbishops' Council's core activities during the period.

9.3 Internal Audit's Review of Recruitment and Selection

The Committee reviewed a pan-NCI report that highlighted the extent of the dependence on HR professionals to ensure adherence to good practice. The Committee agreed with the Director of Human Resources that, where HR professionals were not available to support recruitment exercises, then a report of the exercise should be independently reviewed within the HR department.

9.4 Internal Audit's Review of NCI Staff Payroll

The Committee reviewed a report that identified the need to reduce access to the HR / Payroll system. The Committee expressed its concerns over the wider issue of any IT system that allowed anonymous access. Management agreed to issue reminders covering this point.

9.5 Internal Audit's Review of IT Policy Implementation

The Committee reviewed a report that highlighted the need to extend IT security practices from the network to all other systems across the NCIs. The Committee suggested that compliance with all significant NCI policies, such as health and safety as well as IT security, should be covered in the staff appraisal process. This was considered by the working group revising the staff appraisal process, but not included in the revised procedures.

9.6 Internal Audit's Review of Procurement

The Committee reviewed a report that identified the absence of good practice guidelines on procurement across the NCIs. The Committee noted that the lack of any widespread use of a purchase ledger within the NCIs made it difficult to be precise about pan-NCI procurement activities. This is expected to be included in the implementation of the new financial system.

9.7 Internal Audit's Review of Corporate Credit Card usage

The Committee reviewed a report that had examined the usage of corporate credit cards by the staff of the Archbishops' Council and identified the need for stronger management control. The Committee noted the steps already taken by the Archbishops' Council's senior management group.

9.8 Report from the Health & Safety Adviser

The Committee received a report on health and safety risk management. It noted that further progress was still needed before the NCIs' legal responsibilities were met in full and asked to be given an annual report on progress.

9.9 Internal Audit Plans for 2005

The Committee reflected on Internal Audit's long term plan, accepted that the plan was not deliverable with the available resources and considered alternative strategic approaches.

The Committee endorsed the internal audit plan for 2005 that included continued support for the Accounting Services Project, grant administration as a cross-cutting review, governance, and an organisational review of the Communications Unit.

10. "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.”

10.1 Accounts Department

The Committee took an active interest in developments in the Accounts Department and in particular the steps taken to produce the financial statements for 2004. It recognised the considerable achievement of the interim team in producing the Council’s financial statements, and is concerned that the temporary status of key staff be addressed as a matter of urgency so that the improvements achieved are not allowed to slip.

10.2 Accounting Services Project

The Committee took note of the Head of Internal Audit’s view that more robust control over this project was required and of the complexity of the task still to be undertaken. The project management and resources have now been strengthened.

10.3 Fidelity Insurance

The Committee took note of the steps being taken to ensure that the Archbishops’ Council’s fidelity insurance (which insures it against the risk of loss caused by the dishonesty or non-performance of an employee) is adequate.

10.4 Central Board of Finance (CBF)

The Committee considered and approved the accounting policies and assumptions used in the preparation of the CBF’s 2004 financial statements.

It also continued to monitor the ongoing steps that are being taken to rationalise the CBF trusts with a view to the CBF ceasing to exist.

10.5 CBF’s Investment Activities

The Committee continued to monitor developments related to the oversight exercised by the Investments Committee on behalf of the CBF in respect of the “CBF Church of England Funds” managed by CCLA and its responsibilities for managing its own investments (principally those of the Central Church Fund). This issue is still ongoing.

11. “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.”

The Committee received a letter from the Archbishops’ Council’s then interim Chief Accountant. The Committee took note of its contents and concluded that the substantive issues raised had been adequately covered by the Post Audit Report from the external auditors.

12. “To liaise from time to time with the Audit Committees of the Church Commissioners and the Church of England Pensions Board to discuss any issues of mutual concern.”

The Committee considered a report of the joint meeting with the chairs and secretaries of the other NCI audit committees in February 2005. The meeting reviewed the performance and plans of the Internal Auditing Department, gave its support to the trial extension of internal audit services to seven diocesan offices, and confirmed the practice of inviting representatives from the Church Commissioners and Church of England Pensions Board audit committees to meetings of the Archbishops’ Council audit committee when common service or pan-NCI issues were on the agenda. The staff had also been asked to investigate the possibility of a joint conference on current issues, perhaps inviting members of diocesan audit committees.

13. “To consider such other topics as either the Audit Committee or the Archbishops’ Council may from time to time consider appropriate.”

The Committee did not consider any other topics.

Church House
London
6 June 2005

(signed) Tony Hesselwood
Chair of the Audit Committee