

2017 Annual Report of the Audit Committee

Purpose of report

For decision

Summary

The Audit Committee met on 14 June 2017. This annual report provides an overview of areas reviewed and work undertaken by the Committee in 2016/17, in accordance with the Committee's terms of reference.

Recommendation

That the LGA Leadership Board and LGA Executive endorse and commend to the General Assembly the 2017 Annual Report of the Audit Committee.

Actions

The annual report to be presented the General Assembly on 4 July 2017.

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2017 Annual Report of the Audit Committee

Introduction

1. The responsibilities of the LGA's Audit Committee are to:
 - 1.1. review the financial statements prepared for the LGA and its associated companies
 - 1.2. monitor the processes for managing risks, internal controls and corporate governance arrangements
 - 1.3. oversee the appointments of the external and internal auditors and commission and review their work
 - 1.4. consider issues of probity and conduct
 - 1.5. seek expert advice where necessary to provide independent internal or external assurance on key issues
2. The main focus of the Audit Committee's work in 2016/17 has been to review the audited accounts of the LGA and its associated companies and to agree and review the findings and recommendations of the internal audit programme for the year.

Financial statements and external audit

3. Following a tendering exercise in the autumn of 2015, which included input from the Audit Committee, PKF Littlejohn were re-appointed as the external auditors for the LGA, IDeA, LGA (Properties) Ltd and LGMB.
4. In June 2017 the Audit Committee reviewed the LGA's consolidated audited accounts for 2016/17 and the audited accounts for the three associated companies, prior to these being adopted by the Leadership Board and the relevant company boards.
5. The LGA's consolidated financial statements disclose the position of the LGA as a standalone entity, and include the LGA's Income and Expenditure account and Balance Sheet.
6. The consolidated accounts show the LGA and its related bodies made an operating surplus of £1.346m, the main causes of the trading surplus are:

Savings - £1.75m

- 6.1. Reduced spend on the IT contract - £0.9m.
- 6.2. Additional contributions to overheads from 50% higher than budgeted ring-fenced activities - £0.8m.
- 6.3. Partially offset by a decrease in the budgeted LGA's share of the surplus from GeoPlace LLP £0.050m.

Accounting Adjustments – £1.557m

- 6.4. Additional net unrealised gains on revaluation of Layden House and Local Government House - £0.547m
- 6.5. Current year cost adjustment of £1.010m required to account for the pension scheme deficit in accordance with accounting standards. Note this is offset by a £29.230m credit to the Pension Deficit Reserve arising from a negative actuarial loss from our pension funds this year.
7. Gains and losses that relate to changes in the actuarial assumptions used to calculate pension scheme liabilities, as well as the excess contributions made to reduce historic deficits are now all included within the overall Statement of Comprehensive Income for the year of net £28.221m.
8. It is standard practice for issues identified in the course of the external audit to be raised by the auditors with management and for these to be reported to the board members as “Performance Improvement Observations” in what is commonly known as the “Management Letter”. The Audit Committee received this report from the auditors at its meeting on 14 June 2017, and will monitor progress with the recommendations arising from the 2016/17 external audit.

Internal audit

9. TIAA are the LGA’s appointed internal auditors following a tender exercise in 2015.
10. The Audit Committee is responsible for agreeing the annual internal audit strategy and programme at the start of each financial year, taking account of the key risks identified in the LGA’s Strategic Risk Register.
11. The Audit Committee agreed the internal audit strategy and audit programme for 2016/17 at its meeting in June 2016. The audit programme was split into two blocks of work and included a follow-up of actions taken by the LGA in response to the recommendations of previous audits. TIAA have completed the programme and full reports were presented to the Audit Committee in November 2016 and June 2017. TIAA’s Annual Report was presented to the Committee meeting in June 2017.
12. In his annual opinion for the year 2016/17, TIAA’s Head Of Internal Audit states “I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Local Government Association’s risk management, control and governance processes. In my opinion, Local Government Association has adequate and effective management, control and governance processes to manage the achievement of its objectives”.

13. The 2016/17 audit opinions are summarised below:

Internal audit assignment	Internal audit opinion
Key Financial Controls	Substantial Assurance
Building Works Project Assurance	Substantial Assurance
Conference & Events and Venue Management	Limited Assurance
Company Structure and Organisation	Reasonable Assurance
Debt Collection	Substantial Assurance
Procurement	Limited Assurance

14. The audit of Conference & Events and Venue Management reviewed how the LGA operates as a provider of conference and events facilities. The audit gave a 'limited' reassurance around the processes and controls currently in place. However, the audit was carried out in the context of the temporary relocation of the LGA to Layden House and the majority of the recommendations will be addressed when the Association relocates to the refurbished conference centre at Local Government House.
15. The Company Structure and Organisation audit reviewed the specialist work commissioned and the recommendations developed in relation to the review of Company Structures. TIAA recommended that the risks relating to this area of work are better integrated into the LGA's Strategic Risk register and this is being actioned.
16. The audit of Procurement resulted in a 'limited' assurance rating. The auditor's recommendations focus on management support and communications to ensure that colleagues adhere to the LGA Procurement Policy and that the information supplied is correct. Priority has been given to addressing the weaknesses addressed in this area and to ensuring that all staff are fully aware of the procurement policy and procedures.

Risk management and internal control

17. The LGA's approach to risk management is set out in its Risk Management Policy. The policy strengthens risk management arrangements in relation to a number of significant new projects.
18. The Strategic Risk Register is reviewed quarterly by the Strategic Management Team (SMT) and Corporate Leadership Team (CLT) to ensure LGA's strategic and operational risks are identified and the associated scoring reflects the LGA's current situation. The Audit Committee has reviewed the Strategic Risk Register during the course of the year, in particular focusing on ensuring that key risks facing the organisation are being effectively managed.
19. The Audit Committee receives an annual report on instances of fraud occurring in the year. There were no proven instances of fraud or corruption in 2016/17.