2019 Annual Report of the Audit Committee

Purpose of report

For decision.

Summary

The Audit Committee met on the 3 June 2019. The annual report in **Appendix A** provides an overview of areas reviewed and work undertaken by the Audit Committee in 2018/19 in accordance with the Committee’s terms of reference.

**Recommendation**

That the General Assembly note the report.

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2019 Annual Report of the Audit Committee

Introduction

1. The responsibilities of the LGA’s Audit Committee are to:
	1. review the financial statements prepared for the LGA and its associated companies
	2. monitor the processes for managing risks, internal controls and corporate governance arrangements
	3. oversee the appointments of the external and internal auditors and commission and review their work
	4. consider issues of probity and conduct
	5. seek expert advice where necessary to provide independent internal or external assurance on key issues
2. The main focus of the Committee’s work in 2018/19 has been to review the audited accounts of the LGA and its associated companies, to agree and review the findings and recommendations of the internal audit programme for the year and approve the appointment of the external auditor service provider following an OJEU procurement process.

Financial statements and external audit

1. PKF Littlejohn are the LGA’s appointed external auditors for the LGA, IDeA, LGA (Properties) Ltd, LGMB and LGA Commercial Services Ltd.
2. In June 2019 the LGA’s consolidated accounts for 2018/19 and the audited accounts for the four associated companies were reviewed prior to being adopted by the Leadership Board and the relevant company boards.
3. The LGA’s consolidated financial statements disclose the position of the LGA as a standalone entity and include the LGA’s income and expenditure accounts and balance sheet.
4. The consolidated accounts show the LGA and its related bodies made an operating deficit of £8.3m, after interest and tax.
5. Overall income increased by 1.8 per cent from £58.5m to £59.5m despite a £1m reduction in core government grant. Subscription income remained steady, with no increases in subscriptions for a further year. Income from other sources, including other grants, investments and joint ventures, increased.
6. Geoplace LLP, a joint venture between the LGA and Ordnance Survey, made a dividend payment of £2.1m in 2018/19 (compared to £1.6m in 2017/18).
7. The investment properties have been revalued at the year end. Layden House has increased in value by £2.2m despite being under construction, due to the strength of the Farringdon market. 18 Smith Square has reduced in value by £5.4m reflecting lower headline rental values across the wider Westminster area.
8. The overall pension fund deficit reported in the accounts has increased by £18.3m from £115.5m to £133.8m. The overall Statement of Comprehensive Income for the year shows separately the gains and losses that relate to changes in the actuarial assumptions used to calculate pension scheme assets and liabilities (2018/19 £16.177m loss, 2017/18 £11.639m gain). The ongoing payroll contributions made to reduce historic deficits are included within administrative expenses
9. 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 as “recommendations on the audit control environment” in what is commonly known as the “Management Letter”. The Audit Committee received this report from the auditors at its meeting on 3 June 2019 and will monitor progress with the recommendations arising from the 2018/19 external audit.

Internal audit

1. TIAA are the LGA’s internal auditors following a procurement exercise in 2018.
2. 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.
3. The internal audit strategy and audit programme for 2018/19 was agreed via email in June 2018. The audit programme was split into two blocks 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 2018 and June 2019. TIAA’s Annual report was presented to the Audit Committee on 3 June 2019.
4. In their annual opinion for the year 2018/19, TIAA’s Head of Internal Audit states “TIAA is satisfied that, for the areas reviewed during the year, Local Government Association has reasonable and effective risk management, control and governance processes in place”.
5. The 2018/19 audit opinions are summarised in the following table:

| **Internal audit assignment** | **Internal audit opinion** |
| --- | --- |
| Key Financial Controls | Reasonable Assurance |
| ICT Contract Management and Performance | Reasonable Assurance |
| Information Governance & Cyber Security update | Reasonable Assurance |
| Contract Management | Reasonable Assurance |
| Refurbishment Project and Lessons learnt | Substantial Assurance |
| Transition: assurance review | Substantial Assurance |

1. Overall the audit results have been positive. The Audit Committee has overseen the implementation of any recommendations via the follow up review conducted by TIAA on an annual basis.

Risk Management and internal control

1. 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.
2. The Audit Committee receives an annual report on any instance of fraud occurring and can confirm that there were no proven instances of fraud or corruption in 2018/19.
3. The Audit Committee can also confirm that there have been no incidents of probity and conduct issues to be investigated and reported in 2018/19.