

## **2016 Annual Report of the Audit Committee**

### **Purpose of report**

For information.

### **Summary**

The report provides an overview of areas reviewed and work undertaken by the Audit Committee in 2015/16, in accordance with the Committee's terms of reference.

### **Recommendation**

That the General Assembly notes the report.

### **Action**

Officers to take forward actions as directed by members.

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## **2016 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; and
  - 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 2015/16 has been to review the audited accounts of the LGA and its associated companies, and also 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 2016, the Audit Committee reviewed the LGA's consolidated audited accounts for 2015/16 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 £3.160 million, the main causes of the trading surplus are:

Savings - £2.450m

- 6.1. Reduced spend on the IT contract - £1.3m, Corporate Costs £0.3m.
- 6.2. Additional contributions to overheads from 50% higher than budgeted ring-fenced activities - £0.6 million.
- 6.3. An increase in the budgeted LGA's share of the surplus from GeoPlace LLP £0.250m.

Additional Costs – 0.9m

- 6.4. Expenditure for severance costs and reorganisation delivery costs to enable the restructuring savings at 6.1 above - £0.9m.

Accounting Adjustments – 1.708m

- 6.5. Additional unrealised gains on revaluation of Layden House and Local Government House - 3.523m
  - 6.6. Current year cost adjustment of £1.815m required to account for the pension scheme deficit in accordance with accounting standards. Note this is offset by a £19.924m credit to the Pension Deficit Reserve arising from a positive actuarial gain 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 23.084m.
  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 6 June 2016, and will monitor progress with the recommendations arising from the 2015/16 external audit.

### **Internal audit**

9. TIAA were re-appointed as LGA's internal auditors in 2015 following a successful bid as part of a tendering exercise.
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 2015/16 at its meeting in June 2015. The audit programme was split into two blocks of work, including follow-up of previous audits. TIAA have completed the programme and

full reports were presented to the Audit Committee meetings held in January 2016 and June 2016. TIAA's Annual Report was presented to the Committee meeting in June 2016.

12. Based on the work undertaken in 2015/16, the auditor's overall opinion regarding the adequacy and effectiveness of the LGA's risk management, control and governance processes is that "there is generally a sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently.
13. ICT Business Continuity was deemed high risk in the 2014/15 internal audit programme and was made a priority whilst tendering for a new LGA ICT provider. Following the appointment of London Borough of Brent, a follow up audit of the ICT Business Continuity was conducted in December 2015. The Internal Auditors concluded that three of the four recommendations were implemented and one was no longer applicable therefore reducing this area of risk for the LGA.
14. The 2015/16 audit opinions are summarised below:

<b>Internal audit assignment</b>	<b>Internal audit opinion</b>
Key Financial Controls	Reasonable
HR Processes	Reasonable
Income Generating Activities	Substantial
ICT Contract Management	Substantial
Risk Management	Reasonable
Performance Information	N/A – advisory review

15. The Key Financial Controls audit reviewed the controls in place for budgetary control, cash and banking arrangements and expenses. The audit demonstrated that there are appropriate processes in place. The 'reasonable' assurance audit opinion reflected the need to reintroduce a Financial Management Policy and manual ensuring budget managers understand their roles and responsibilities.
16. The HR Processes audit focused on the arrangements in place for recruitment, inductions, absence monitoring and exit meetings. The 'reasonable' audit opinion reflected the requirement to ensure that induction checklists are returned to HR and consideration given to conducting formal exit interviews.
17. An appraisal audit of the LGA's Performance Information was conducted in 2016. TIAA recommended that Policy advisors should be fully engaged in the development of SMART objectives in line with the LGA's Business Plan and to allow for a more robust demonstration of the organisations key policy achievements within the year. These recommendations are in the process of being delivered.

### **Risk management and internal control**

18. The LGA's approach to risk management is set out in its Risk Management Policy which was revised in April 2016 and approved by the Audit Committee in June 2016. This policy strengthens the LGA's risk management arrangements in relation to a number of significant new projects.
19. The Strategic Risk Register was updated in January 2016 and 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.
20. 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 2015/16.

### **Conclusion**

21. In reviewing the Association's activities for 2015/16, the Audit Committee was particularly pleased to note the work that the LGA had undertaken during the year to reduce spend on ICT and support services, through the new contract with London Borough of Brent for the provision of ICT services and by bringing other support services back in house. The direction of travel is very positive, and the Committee is satisfied that the Leadership Board will continue to take the programme of work forward and keep it under close review.