

07 June 2018

## 2018 Annual Report of the Audit Committee

### Purpose of report

For decision

### Summary

The Audit Committee met on 4 June 2018. The annual report in **Appendix A** provides an overview of areas reviewed and work undertaken by the Audit Committee in 2017/18 in accordance with the Committee's terms of reference. Any changes agreed by the Audit Committee will be reported verbally to this meeting.

### Recommendation

That members of the LGA Executive endorse and commend to the General Assembly the 2018 Annual Report of the Audit Committee.

### Action

The annual report to be presented at General Assembly on 3 July 2018.

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## **Appendix A - 2018 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 this Committee's work in 2017/18 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 oversee the re-tendering of the internal audit services provider.

### **Financial statements and external audit**

3. PKF Littlejohn are the LGA's current external auditors for the LGA, IDeA, LGA (Properties) Ltd, LGMB and LGA Commercial Services Ltd.
4. In June 2018 the LGA's consolidated audited accounts for 2017/18 and the audited accounts for the four associated companies were reviewed 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 £6.361 million, before interest and tax.
7. Over all income increased by 4.9 per cent from £55.732 million to £58.465 million despite a modest reduction in Government grants and subscription income remaining steady, due to the success in securing increased income from other grants and higher investment/joint venture incomes.
8. The LGA's GeoPlace LLP Joint Venture made another useful contribution to other income during 2017/18, making dividend payment of £1.625 million (compared to £1.375 million in 2016/17).

9. The overall pension fund deficit reported in the accounts has decreased by £9,941 million from £124.991 million to £115.500 million. 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 (2017/18 £11.639 million gain, 2016/17 £29.230 million loss) with the ongoing payroll contributions made to reduce historic deficits included within administrative expenses.
10. 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”. We received this report from the auditors at its meeting on 4 June 2018, and will monitor progress with the recommendations arising from the 2017/18 external audit.

#### **Internal audit**

11. TIAA are the LGA’s current internal auditors following a tender exercise in 2015.
12. Following a successful tendering exercise in May 2018, TIAA have been re-appointed as the LGA’s internal audit service provider for a further three years from July 2018.
13. This 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.
14. The internal audit strategy and audit programme for 2017/18 was agreed at the meeting in June 2017. 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 this Committee in November 2017 and June 2018. TIAA’s Annual Report was presented to the Committee meeting in June 2018.
15. In its annual opinion for the year 2017/18, 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”.
16. The 2017/18 audit opinions are summarised below:

<b>Internal audit assignment</b>	<b>Internal audit opinion</b>
Key Financial Controls	Substantial Assurance
Cyber Security	Limited Assurance
Counter Fraud Health Check	Medium Risk Assessment
LGA Expenses	Reasonable Assurance
Grant Funded Programmes	Reasonable Assurance

Internal audit assignment	Internal audit opinion
Third Party Partnership Arrangements	Substantial Assurance

17. The audit of Cyber Security reviewed the security arrangements for the pro-active identification, prioritising and mitigating against cyber-crime risks. The audit gave a 'limited assurance'. The majority of the recommendations raised in this audit have already been implemented including two-factor authentication and a regular staff communications raising awareness of cyber security and current threats.

18. The Counter Fraud Health Check audit reviewed the counter fraud measures in place and establish whether the organisation has appropriate controls in place. The LGA received a medium risk assessment. Actions have been taken to improve the LGA's rating by introducing a fraud response plan, including a specific risk on the LGA's Strategic Risk Register and updating the current Anti-Fraud and Corruption policy.

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

19. 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. This 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. This Committee receives an annual report on any instances of fraud occurring and can confirm that there were no proven instances of fraud or corruption in 2017/18.