

2020 Annual Report of the Audit Committee

Purpose of report

For decision.

Summary

This report provides an overview of areas reviewed and work undertaken by the Audit Committee in 2019/20, in accordance with the Committee's terms of reference.

Recommendations

That the Audit Committee agrees the annual report to be presented to the LGA Board, Executive and the General Assembly.

Actions

The annual report to be presented to LGA Board on 3 June and LGA Executive on 4 June.

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2020 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 this Committee's work in 2019/20 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

3. PKF Littlejohn are the LGA's appointed external auditors for the LGA, IDeA, LGA (Properties) Ltd, LGMB and LGA Commercial Services Ltd.
4. In June 2020 the LGA's consolidated accounts for 2019/20 and the audited accounts for the four associated companies were reviewed prior to these being adopted by the LGA 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 accounts and balance sheet.
6. The consolidated accounts show the LGA and its related bodies made an operating surplus of £11.6m (2018/19 deficit of £8.3m), after interest and tax.
7. Over all income increased by 7.5 per cent from £59.5m to £64.0m despite a £0.8m reduction in core government funding and subscription income remaining steady (with no

increases for another year), due to the success in securing increased income from other and grants and higher investment/joint venture incomes.

8. The LGA's Geoplace LLP Joint Venture made another useful contribution to other income during 2019/20, making a dividend payment of £1.75m (compared to £2.1m in 2018/19).
9. The investment properties have been revalued at the year end. Layden House has increased in value by £25.4m, with the redevelopment construction being substantively complete, due to the strength of the Farringdon market, while 18 Smith Square has increased in value by £2.7m reflecting the fully let position.
10. The overall pension fund deficit reported in the accounts has decreased by £40.7m from £133.8m to £93.1m. 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 £18.3m loss, 2017/18 £9.5m gain) with the ongoing payroll contributions made to reduce historic deficits included within administrative expenses
11. 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 "Auditor's Report". We received this report from the auditors at its meeting on 1 June 2020, and will monitor progress with the recommendations arising from the 2019/20 external audit

Internal audit

12. TIAA are the LGA's internal auditors following a procurement exercise in 2018.
13. 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.
14. The internal audit strategy and audit programme for 2019/20 was agreed via email in June 2019. 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 this Committee in January 2020 and June 2020. TIAA's Annual report was presented to the Committee meeting in June 2020.
15. In their annual opinion for the year 2019/20, 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".

16. The 2019/20 audit opinions are summarised below:

Internal audit assignment	Internal audit opinion
Key Financial Controls	Substantial assurance
HR Proceses	Substantial assurance
Risk Management	Substantial assurance
Income Generating Activites	Substantial assurance
LGA Mutual	N/A

17. Overall the audit results have been positive. The operational review of the establishment of the LGA Mutual was not given and assurance level, however the auditors were satisfied that there was a clear timeline and evidence of decision made by the relevant boards.

18. 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

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. 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 any instance of fraud occurring and can confirm that there were no proven instances of fraud or corruption in 2019/20.

21. This Audit Committee can confirm that there have been no incidents of probity and conduct issues to be investigated and reported in 2019/20.