

## **Annual Report of the LGA's Audit Committee**

### **Purpose**

For information.

### **Summary**

The report provides an overview of areas reviewed and work undertaken by the Audit Committee in 2014/15, 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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## **Annual Report of the LGA's 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 2014/15 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 2011, which included members from all political groups, PKF Littlejohn were appointed as the external auditors for the LGA and its associated companies.
4. In relation to the financial year 2014/15, in June 2015 the Audit Committee has reviewed the LGA's consolidated audited accounts; and also the audited accounts for the LGA's associated companies – IDeA, LGIH, LGA (Properties) Ltd and LGMB, prior to these being adopted by the Leadership Board and the relevant company boards.
5. The LGA's consolidated financial statements also disclose the position of the LGA as a stand-alone 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 £7.626 million before financing income and costs (-£0.784 million), contributions from joint ventures (£1.786 million) and adjustments relating to additional pension contributions (-£5.340 million) and contract restructuring costs (-0.236m). These reconciling items result in a trading surplus of £3.052.

7. The main causes of the surplus are:
- 7.1. Underspends on Member Services - £90k; Political Group Offices - £17k; Finance & Policy - £550k; Workforce, Leadership & Productivity - £400k, Communications - £450k, Legal Services - £20k, Business Support & HR - £133k; delayed expenditure on the building works at Local Government House - £1,200k; capitalisation of the LGA's investment in the Bonds Agency - £500k; and the recharge of set-up costs to Public Sector Audit Appointments Ltd - £320k.
  - 7.2. An additional contribution to overheads from ring-fenced activity agreed in-year - £527k.
  - 7.3. These are offset by additional expenditure on the Liberata contract termination payment (provided for in the 2014/15 accounts) - £236k; and severance costs related to the March 2015 restructuring exercise - £680k.
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 2 June 2015, and will monitor progress with the recommendations arising from the 2014/15 external audit.

#### **Internal audit**

9. TIAA was appointed as internal auditors in 2011. A tender process is currently underway to appoint internal auditors for a three year contract from July 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 Risk Register.
11. The Audit Committee agreed the internal audit strategy and audit programme for 2014/15 at its meeting in June 2014. The audit programme was split into three blocks of work, including follow-up of the 2013/14 audits. TIAA have completed the programme and full reports were presented to the Audit Committee meetings held in November 2014 and June 2015. TIAA's Annual Report was presented to the Committee meeting in June 2015.
12. Based on the work undertaken in 2014/15, 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, However, some weakness in the design and/or inconsistent application of controls, put the achievement of particular objectives at risk, particularly in relation to ICT Business Continuity processes". The Committee acknowledged that ICT Business Continuity will be a priority for the new LGA ICT provider and that while steps have been taken to mitigate the ongoing risks highlighted by the internal auditors, that ICT Business Continuity remains a high risk that the Committee will continue to monitor.

13. The audit opinions are summarised below:

| <b>Internal audit assignment</b>    | <b>Internal audit opinion</b>  |
|-------------------------------------|--|
| Key Financial Controls              | Reasonable   |
| Facilities Management               | Reasonable   |
| Counter fraud Health Check          | N/A - advisory review. The overall assessment is that the risk of fraud occurring is relatively low. |
| Governance & Risk Management        | Reasonable   |
| Business Continuity - ICT           | No Assurance   |
| Information Management / Governance | Reasonable   |

14. The Key Financial Controls audit reviewed the controls in place over starters and leavers, payroll, the payment of expenses and fixed assets. The audit demonstrated that there are appropriate processes in place. The 'adequate' assurance audit opinion was provided in view of a need to establish a fixed asset register; and the need to ensure that the authorisation of changes to payroll are always undertaken in-line with the specified process.

15. The Facilities Management audit reviewed arrangements to secure, maintain and ensure the safety of LGA premises. The audit focused on planned preventative maintenance and the controls in place over the production of planned maintenance schedules, monitoring and completion of works and management information and reporting. The audit found that there are appropriate schedules in place and evidence that all specified works had been carried out. The 'reasonable' audit opinion is provided in view of the need to ensure that specified processes are adhered to for all works and that work job sheets are always maintained and signed.

16. The Counter Fraud Health Check reviewed the LGA's counter fraud measures and reviewed and assessed the LGA's Counter Fraud Framework; HR and Recruitment; Finance and Procurement. The overall assessment is that risk of fraud occurring is relatively low.

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

17. The LGA's approach to risk management is set out in its Risk Management policy which was revised in April 2014, in particular to strengthen the LGA's risk management arrangements in relation to a number of significant new projects.

18. 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 2014/15.