

## **Annual Report of the LGA's Audit and Scrutiny Panel**

### **Chair's Summary**

1. The Panel has had a busy and productive year. Our focus has been on ensuring that the LGA has effective risk and performance management processes and we have regularly monitored these during the course of the year. The Panel has ensured that the internal auditor's recommendations for 2011/12 and for previous years have been implemented. We have also conducted important scrutiny reviews of the LGA's offer of direct support to councils and the LGA's corporate overheads. We shall be making recommendations arising from these reviews to the LGA's Leadership Board and also Resources Panel. Thanks are due to the members of the Panel for all their hard work.

### **Introduction**

2. The responsibilities of the Panel are to:
  - 2.1. review the financial statements of the LGA and group organisations;
  - 2.2. monitor the processes for managing financial risks and internal control;
  - 2.3. oversee the appointments of the external and internal auditors for the LGA;
  - 2.4. monitor delivery of the LGA's Business Plan;
  - 2.5. report back on specific issues, commissioned by the LGA Executive;
  - 2.6. monitor the use of resources, including the effective use of top-slice funds;
  - 2.7. consider issues of probity and conduct.
3. The main focus of the Panel's work in 2011/12 has been to review the internal audit programme; review performance monitoring, including the LGA's Corporate Health Indicators; review the LGA's and group companies' audited accounts and conduct scrutiny reviews of the LGA's offer of direct support to councils and the LGA's corporate overheads.

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

4. From 2007/08 to 2010/11, KPMG acted as the LGA's and other group companies' external auditors. Following a tendering exercise in the autumn of 2011, which included members from all political groups, Littlejohn LLP was appointed as the external auditor for three years for the LGA and all of the group companies.
5. At its meeting on 30 May 2012, the Panel reviewed consolidated audited accounts for 2011/12 for the LGA; IDEA; LGE; LACORS; LGIB; Leadership Centre; LGA properties and LGMB, prior to these being adopted by the

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Resources Panel. This follows the Resources Panel's earlier decision that consolidation was now appropriate in the light of the operation of the LGA and its related bodies as a single entity.

6. The consolidated financial statements also disclose the position of the LGA as a stand-alone entity, and incorporate the Association's Income and Expenditure account and Balance Sheet.
7. The LGA and its related bodies made an operating surplus of £1.655m before financing income and costs, contributions from joint ventures and adjustments relating to pension scheme items. Financing items gave rise to net costs of £0.685m, so the surplus after these items was just under £1m. This figure is net of a contribution of £1m to the 'creative councils' work that the IDeA Board previously agreed to fund from reserves, and therefore the overall outturn against budget for the year was an underspend of £2m, in line with budget forecasts. The surplus for the LGA as a stand-alone entity was around £1m.
8. This profit translates into the result shown in the financial statements by means of further adjustments reflecting the LGA's share of the surpluses realised by its two joint ventures, Local Partnerships LLP and GeoPlace LLP, and the adjustments required to account for the pension scheme deficit.
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 members as "Performance Improvement Observations" in what is commonly known as the "Management Letter". The Panel will monitor progress with the recommendations arising from the 2011/12 external audit.

**Internal audit**

10. The Panel 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 internal audit service was retendered over the summer of 2011 and Parkhill was appointed for three years from 2011/12, replacing RSM Tenon who acted as internal auditors to the LGA and the other group organisations for four years up to 2010/11.
12. The Panel agreed the internal audit strategy and audit programme for 2011/12 at its meeting in September 2011. The audit programme was split into two blocks of work, including follow-up of the 2010/11 audits. Parkhill have now completed the programme and full reports were presented to the Panel meetings held in December 2011 and March 2012. Parkhill's annual report was presented at the Panel meeting in May 2012.

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13. Based on the work undertaken in 2011/12, the internal auditor's overall opinion regarding the adequacy and effectiveness of the LGA's arrangements for governance, risk management and control was that the LGA has:

- 13.1. adequate and effective risk management;
- 13.2. adequate and effective governance;
- 13.3. adequate and effective control processes.

14. All of the thirty one recommendations made by the internal auditor have been accepted by management, apart from one recommendation made in relation to approving Additional Liberata Services. Panel members asked that further consideration be given to this recommendation, and extra controls for the approval of low value additional Liberata services provided without a purchase order have been implemented as a result.

15. The audit opinions are summarised below:

<b>Internal audit assignment</b>	<b>Internal audit opinion</b>
Financial Sustainability	Adequate
Contract Management	Adequate
ICT Health Check	Limited
ICT Infrastructure	Adequate
Governance	Substantial
Risk Management	Adequate
Key Financial Controls	Substantial
Follow-up of previous internal audit recommendations	Substantial assurance over the accuracy of management's own recommendation tracking

16. The reports provided by the internal auditor confirm that the LGA has sound governance arrangements and that new business processes implemented in 2011/12, including the implementation of self certification of expenses, are operating effectively. The reports also identified that the introduction of a new Debt Policy has strengthened the debt recovery arrangement. This is confirmed by an overall reduction in debt. A key recommendation from the Panel in reviewing the internal auditor's findings, was that further work is done to strengthen debtor management and reduce write-off.

17. A limited assurance internal audit opinion was provided for the ICT Health Check audit, with a recommendation to strengthen the client-side arrangements in relation to ICT. Management accepted this recommendation. A tender exercise to provide additional ICT capacity has now been completed and work is underway to develop the LGA's ICT strategy. This is expected to be in place by July 2012. The strategy will address the weaknesses and risks identified in the internal auditor's report and provide overall direction for the LGA's ICT

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requirements. The strategy will be owned and monitored by a newly created ICT Strategy Board which includes members of the Strategic Management Team.

**Scrutiny Reviews**

18. The Panel agreed to conduct scrutiny reviews in 2011/12 of the LGA's offer of direct support to councils, and the LGA's corporate overheads. Two task and finish groups chaired by Panel members have progressed the reviews, which are due to deliver final reports and recommendations to the Panel meeting in July 2012.
  - 18.1. The task group for the review of the LGA's offer of direct support to councils, agreed that the following hypotheses have emerged from the review, that:
    - 18.1.1. member access to information could be improved;
    - 18.1.2. the LGA's offer to backbenchers could be strengthened;
    - 18.1.3. the added value from the LGA's improvement offer needs to be made clearer.
  - 18.2. The task group for the review of the LGA's corporate overheads agreed the review would focus on the Liberata contract and in particular that the review would:
    - 18.2.1. provide oversight on the benchmarking process of the Liberata contract;
    - 18.2.2. provide evidence to inform the decision about the future of the LGA's outsourced services;
    - 18.2.3. ensure the LGA is managing its other overhead costs effectively as possible.
  - 18.3. The benchmarking exercise will be completed in June 2012, which will inform the Panel's recommendations to the LGA's Resources Panel which is leading the process of re-negotiating the Liberata contract.

**Risk management and internal control**

19. The Panel attaches importance to ensuring that the LGA has effective risk management processes in place and particular attention was paid to the internal auditor's risk management recommendations.
20. As part of the 2010/11 internal audit programme, the internal auditors recommended that a risk management policy should be established. A policy has been developed and was presented to the Panel at the meeting in September 2011.

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21. The LGA's approach to risk management involves:
- 21.1. identifying the key risks associated with delivering the LGA's priorities and establishing a strategic risk register. Subsidiary registers, for example for individual programmes, are established as appropriate;
  - 21.2. evaluating the risks in terms of impact and likelihood, in order to assess the overall importance of the risk and the level of attention it should merit;
  - 21.3. defining a suitable response to the risk which mitigates its impact or reduces the likelihood of it occurring, in the light of the overall importance of the risk;
  - 21.4. defining target dates to ensure the risk owner is aware of the timeframe for implementation and to act as a prompt for management to review the risk;
  - 21.5. examining all risks periodically at an appropriate level of seniority, to identify any risks which can safely be deleted from the strategic risk register and to identify any new risks for consideration and evaluation.
22. The Panel has regularly reviewed the Strategic Risk Register. In particular the Panel focused on ensuring that key risks facing the organisation are being effectively managed. The Strategic Risk Register is reviewed and updated by the Strategic Management Team and from 2012/13 will be presented to members in the quarterly performance management pack.

**Performance monitoring**

23. Included in its terms of reference is the requirement for the Panel to monitor delivery of the business plan. The business plan for 2011/12 was agreed by the Executive in January 2011. At its meeting in September 2011, the Panel agreed the following framework for reporting progress in achieving the business plan:
- 23.1. **A summary report on each of the programme plans** set out in the business plan, to supplement the performance reviews being undertaken by individual Boards.
  - 23.2. A report on performance against **a suite of Corporate Health Indicators**;
  - 23.3. A report on the **financial performance of the group** - in particular, performance against the agreed budget for 2011/12.
24. The Panel reviewed a six month progress report at its meeting in December 2011. A full progress report was presented to the Panel in May 2012. Key issues from the reporting are:

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- 24.1. **Delivery of programmes** - overall, the assessment is that of the 76 objectives in the business plan, 39 have been achieved (assessed as “green” as per the applied traffic light rating) with the remaining 37 objectives being assessed as “amber”.
- 24.2. **Corporate Health Indicators** – the number of authorities in membership stood at 422 in March 2012 and included all but four eligible councils. The total headcount has fallen significantly following the restructuring exercise, and debtor balances have reduced significantly.
- 24.3. **Financial performance** – consolidated accounts for the LGA and the group companies show that in spite of the significant reduction in core funding that took effect from 2011, the organisations managed within their resources.

**Probity and conduct**

25. No instances of fraud or corruption have been reported to the Panel in the course of the year.