

Annual Report of the LGA's Audit Committee

Purpose of Report

For information.

Summary

The report sets out the work of the LGA's Audit Committee for the year 2012-13.

Recommendation

Members are asked to note the report.

Action

Officers to take forward actions as steered 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 organisations;
 - 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 2012/13 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, Littlejohn LLP was appointed as the external auditors for the LGA and its associated companies for three years.
4. In relation to the financial year 2012/13, in June 2013 the Audit Committee has reviewed the LGA's consolidated audited accounts; and also the audited accounts for the LGA's associated companies – IDeA, LGIH, LGE, LACORS, the Leadership Centre, LGA (Properties) Ltd and LGMB, prior to these being adopted by the Resources Panel 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 incorporate the Association's Income and Expenditure account and Balance Sheet.
6. The LGA and its related bodies made an operating surplus of £6.511 million before financing income and costs, contributions from joint ventures and adjustments relating to pension scheme items. The consolidated surplus after these adjustments and additional one-off costs of £1.210 million in relation to the Liberata contract was £4.947 million.

7. 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 4 June 2013, and will monitor progress with the recommendations arising from the 2012/13 external audit.
8. In the light of feedback from the external auditors and also the internal auditors, set out below, the Audit Committee was able to recommend to the LGA’s Resources Panel that they should adopt the consolidated accounts and confirm that in their view, adequate and effective systems of financial management and control have been in operation throughout the year.

Internal audit

9. The internal audit service was re-tendered in 2011 and Parkhill was appointed for three years from 2011/12.
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 2012/13 at its meeting in May 2012. The audit programme was split into two blocks of work, including follow-up of the 2011/12 audits. Parkhill have completed the programme and full reports were presented to the Committee meetings held in November 2012 and June 2013. Parkhill’s Annual Report was presented to the Committee meeting on 4 June 2013.
12. Based on the work undertaken in 2012/13, the internal auditors overall opinion regarding the adequacy and effectiveness of the LGA’s risk management, control and governance processes is that the LGA has:
 - 12.1. adequate and effective risk management;
 - 12.2. adequate and effective governance; and
 - 12.3. adequate and effective control processes.

13. All of the twenty five recommendations made by the auditors have been accepted by management. The audit opinions are summarised below:

Internal audit assignment	Internal audit opinion
Human Resources	Substantial
Procurement	Substantial
Income Generating Activities	Adequate
Strategic & Operational Planning	Substantial
ICT Strategy Follow up	Adequate
Key Financial Controls	Substantial
Follow-up of previous internal audit recommendations	Substantial assurance over the accuracy of management's own recommendation tracking

14. The reports provided by the internal auditors, confirm that the LGA's core human resources, procurement and strategic and operational planning policies and processes are fit for purpose and that there is a good level of compliance. The recommendations also show that work to strengthen credit control arrangements during 2012/13 are working effectively, which is confirmed by debtor balances which continue to be reduced.
15. The ICT Strategy Follow-up audit which provided 'adequate' assurance, follows 2011/12 ICT Health Check and Infrastructure audits, that provided 'limited' assurance. The follow-up audit recognises the progress that has been made, including the development of the ICT Strategy and the ICT Strategy Board, to oversee and manage ICT activities, but indicates that there is more work to do to embed recent improvements in this area.
16. The internal auditor's 'adequate' assurance opinion for Income Generating Activities was in line with management's own assessment that there is scope for improvement in this area. A new Income Generation Policy has been developed to provide a framework for managing existing and new income generating activities.

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 2011. It sets out employees' responsibilities in relation to risk management across the LGA, and identifies the key processes for managing risk, including the development and review of the LGA's strategic risk register.
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 significant issues in 2012/13.