

Annual Report of the LGA's Audit Committee to the Leadership Board, IdeA Board and General Assembly

Purpose of report

For review.

Summary

The report provides an overview of areas reviewed and work undertaken by the LGA's Audit Committee in 2013/14.

Recommendation

Members are asked to note 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
 - 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 2013/14 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 was appointed as the external auditors for the LGA and its associated companies for three years. At the Audit Committee meeting held in November 2013 the Committee agreed that in light of a good service provided to date, and to avoid re-tendering both the internal and external functions in the same year that the PFK Littlejohn contract should be extended for a further two years.
4. In relation to the financial year 2013/14, in June 2014 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 associated companies made an operating surplus of £5.479m before financing income and costs (-£0.846m), contributions from joint ventures (£1.350m), proceeds from the sale of shares (£0.128m) and adjustments relating to additional pension contributions (-£4.268). These reconciling items result in an operating surplus of £1.843m which was achieved

through the implementation of a programme of cost saving measures agreed at the start of the financial year, following the last minute announcement of a £2m reduction in RSG topslice.

7. In reviewing the consolidated accounts, the Audit Committee were provided with an update on the LGA's strategy for managing the combined pension deficit of the LGA and the IDeA. The approach is to pay additional contributions in line with the requirements of each pension fund as determined by the triennial valuation which last took place in 2013. Alongside this, the LGA's Leadership Board has agreed to align the LGA's two property assets, Local Government House and Layden House, both of which are in central London, against the LGA and IDeA pension deficits respectively. The decision has recently been taken to refurbish Layden House with a view to increasing its capital value. An external review is also now underway of Local Government House to ensure that its full commercial potential is realised.
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 3 June 2014, and will monitor progress with the recommendations arising from the 2013/14 external audit.

Internal audit

9. The internal audit service was retendered in 2011 and TIAA (formerly Parkhill until the merger with TIAA in October 2013) was appointed for three years from 2011/12. The Audit Committee agreed in November 2013 that in light of a good service provided to date, that the TIAA contract should be extended by one year to review the impact of the merger on the service and avoid re-tendering both the internal and external functions in the same year.
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 2013/14 at its meeting in June 2013. The audit programme was split into two blocks of work, including follow-up of the 2012/13 audits. An additional review of Offsite Storage Arrangements was also undertaken. TIAA have completed the programme and full reports were presented to the Committee meetings held in November 2013 and June 2014. TIAA's Annual Report was presented to the Committee meeting in June 2014.
12. The Audit Committee received an update on progress with the LGA's Offsite Storage Arrangements, where work is underway to improve the arrangements for the LGA and to review the service provided to a number of third parties in the light of the known loss of some documentation.

13. Based on the work undertaken in 2013/14, the internal auditor's overall opinion regarding the adequacy and effectiveness of the LGA's risk management, control and governance processes is that the LGA "has adequate and effective management, control and governance processes to manage the achievement of its objectives."

14. The audit opinions are summarised below:

Internal audit assignment	Internal audit opinion
Key Financial Systems	Substantial
Grant Funded Programmes	Substantial
Governance (Performance Management)	Substantial
Risk Management	Adequate
Liberata Contract Management	Adequate
Data Security Health Check	Adequate
Follow-up of previous internal audit recommendations	Not applicable

15. The Key Financial Controls audit that focused on General Ledger and Bank & Treasury, demonstrates that the controls in place are operating effectively; and the Grant Funded Programmes audit confirmed that processes for authorising, reviewing and evaluating programmes entered into are fit for purpose. The Corporate Governance audit focused on performance management to provide assurance that information provided to LGA Boards and Panels, regarding achievement against key performance indicators is accurate, demonstrates that the processes in place are operating effectively.
16. The Risk Management audit reviewed the internal risk management arrangements and processes in place. The 'Adequate' assurance audit opinion was provided in view of a need to strengthen risk management, in light of the Ernst & Young review of the commercialisation of some LGA activities.
17. The Liberata Contract Management audit reviewed the management processes in place for the contract and to ascertain whether the LGA is receiving the expected benefits of the contract, through the effective management of demand led services. The audit recognises that the renegotiated contract has delivered significant savings. The 'Adequate' audit opinion is provided in view of further action required and some changes to the LGA's culture, to reduce the cost of demand-led print, design and catering services.
18. The Data Security audit reviewed the controls around data security risks, including core compliance with DPA 1998 and general good practice. The 'Adequate' opinion is provided in view of the need to strengthen physical security, access to the ICT system and a more rigorous application of policies and procedures in a number of areas, including offsite storage arrangements.

Risk management and internal control

19. 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.
20. 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.
21. The Audit Committee receives an annual report on instances of fraud occurring in the year. There were no instances of fraud or corruption reported or investigated in 2013/14.