

**COMHAIRLE CHONTAE LONGFOIRT
LONGFORD COUNTY COUNCIL**

AUDIT COMMITTEE

**ANNUAL REPORT
FOR YEAR ENDED 31 DECEMBER 2016**

MARCH 2017

Section 1 - Background to Audit Committee

The concept of an Audit Committee was first introduced by section 122 of the Local Government Act 2001. It was envisaged that an Audit Committee would have an independent role in advising the Council on financial reporting processes, internal control, risk management and audit matters, as part of a systematic review of the control environment and governance procedures of the Council. Section 5 of the Local Government (Business Improvement Districts) Act 2006 amended the relevant provisions of the 2001 Act. The 2006 Act enhanced the role of audit committees and allowed for the inclusion of outside expert membership on such committees. It was thought that the new provisions introduced by the 2006 Act reflected best practice and development in corporate governance in both the public and private sectors. In May 2007 the Department of the Environment, Heritage and Local Government requested that each local authority make the appropriate arrangements to establish an Audit Committee.

The Executive of Longford County Council dealt with these recommendations in a timely fashion and at the monthly meeting of the Members of Longford County Council held on 18th June 2007 the Head of Finance outlined the requirements for the establishment of an Audit Committee as set out by the Department of the Environment, Heritage and Local Government. It was agreed that the County Manager, in consultation with the Mayor and the Corporate Policy Group, would bring a proposal regarding the membership of the Audit Committee to the September meeting of the Council. At the September 2007 meeting of the Council the Manager was in a position to inform Members that three external members had been nominated and he sought the nomination of two serving or retired Councillors as members of the Audit Committee. Councillors Seamus Butler and Alan Mitchell were duly appointed and the inaugural meeting of the Audit Committee took place on 14th May 2008.

This is the ninth annual report of the Longford County Council Audit Committee and covers the period from the 1st January 2016 to the 31st December 2016.

The legislative framework for Audit Committees was significantly expanded by the Local Government (Audit Committee) Regulations 2014 (S.I. No. 244 of 2014), which came into operation on the 6th June 2014 and which imposed substantial additional obligations on members of the Audit Committee and further expanded the work to be undertaken by the Committee.

Section 2 - Role & Functions of the Audit Committee

The Audit Committee has an independent role in advising the Council on financial reporting processes, internal control, risk management and audit matters, as part of the systematic review of the control environment and governance procedures of the Council.

The Committee has a role in promoting good accounting practices, ensuring better and more informed decision-making, and improving the focus on value for money and costs saving throughout the organisation. It also supports the work of the Internal Audit Unit and advises the Chief Executive in relation to the operation and development of the Unit.

Its role is advisory in nature and the Committee holds office for the duration of the Council term.

Matters discussed at Audit Committee meetings are confidential.

The functions of the Audit Committee are to:

- Review financial and budgetary reporting practices and procedures within the local authority;

- Foster the development of best practice in the internal audit function and, as part of this, to:
 - Review the internal audit charter and bring any recommendations to the attention of the Manager;
 - Review and assess the draft annual internal audit plan;
 - Monitor implementation of the internal audit plan on a quarterly basis and the extent to which audit objectives are being achieved;
 - Assess the outcome of the internal audit process, having regard to any findings and recommendations of the internal audit unit and management responses thereto;
 - Assess the implementation of agreed corrective actions by management having regard to follow-up audits;
 - Review the report of audit activities of the Internal Audit Unit within three months of the year end.
- Request special reports from Internal Audit as considered appropriate;
- Review Local Government Auditors' reports, and assess management response and follow-up actions;
- Assess and promote value for money/efficiency, including collection performance across income streams;
- Consider whether processes are in place to manage risks efficiently, in accordance with organisational guidelines and business plans;
- To review the council revenue and capital reports on a least a quarterly basis;

- Review performance and expenditure reports from each Directorate as required;
- Review performance indicators and value for money reports when prepared;
- Report to the council at least annually, and in any event within three months of the end of each calendar year, providing such advice and making such recommendations, if any, to the Council as the Committee considers appropriate.

The Local Government (Audit Committee) Regulations 2014 (S.I. No. 244 of 2014) placed additional obligations on its members as follows:-

- (a) The Chairperson is under a duty to ensure that each member of the Audit Committee undertakes an induction programme within three months of his or her appointment to the Committee;
- (b) The Chairperson must also ensure that the training needs of the Audit Committee and of individual members are reviewed on an annual basis and reported to the local authority and the Chief Executive;
- (c) To immediately report to the Chairperson any conflict of interest that arises during his or her membership of the Committee;
- (d) To put procedures in place to monitor and manage potential conflicts of interest of Committee members;
- (e) To adopt an Internal Audit Charter, which must be reviewed annually by the Audit Committee and the local authority.

The 2014 Regulations also provide that the Audit Committee shall prepare an annual work programme which shall be adopted with or without amendment by the local authority and shall include-

- (a) the approval of the annual internal audit plan;

- (b) a review of the annual financial statement;
- (c) a review of the audited financial statement and auditor's report;
- (d) the preparation of the annual report as provided for in Regulation 15(1) of the Regulations;
- (e) the review of periodic internal audit reports;
- (f) the review of relevant findings and recommendations of the National Oversight and Audit Commission and the response of the Chief Executive to such findings and recommendations and take further action as appropriate; *and*
- (g) any other actions necessary to discharge its functions.

In addition, the Audit Committee is required to meet separately at least annually with:-

- the Local Government Auditor,
- employees of the internal audit unit of the local authority, *and*
- the Chief Executive.

Of particular importance is Regulation 12(1) of the 2014 Regulations which provides:

- (1) that the Audit Committee shall ensure that procedures are in place whereby employees of the local authority may in confidence raise concerns about possible irregularities in financial reporting or other financial matters *and*
- (2) that the arrangements specified above shall include arrangements for the proportionate and independent examination of such matters.

The Committee has not been made aware of any concerns having been raised by any employee of the Council about possible irregularities in financial reporting or other financial matters.

The 2014 Regulations also provide that the Audit Committee shall undertake annually a review of its own effectiveness and shall report its findings to the local authority. Thereafter, it shall be a matter for the Chairperson, in consultation with the Chief

Executive and the Cathaoirleach, to ensure that appropriate follow-up action is undertaken by the Committee.

Section 3 - Membership of the Audit Committee:

The current membership of the Audit Committee is as follows:-

- Mr. Michael Connellan is a Solicitor based in Longford Town and was formerly an elected member of Longford Town Council
- Ms. Ciara Gillen is a Chartered Accountant with Grant Thornton in Longford
- Mr. Denis Glennon who joined the Committee on the 29th September 2015 was formerly an elected member of Longford County Council. He was nominated to the Committee to fill the vacancy created by the death of Gerry Brady (RIP) on the 7th April 2015
- Mr. Patrick Groarke, Chairperson of the Committee, is a Solicitor based in Longford Town *and*
- Mr. Pat O'Brien, Vice-Chairperson of the Committee, is the principal of O'Brien & Co., Chartered Accountants and Registered Auditors based in Longford Town.

Section 4 - Chairperson's Statement:

Statement of Patrick Groarke, the Chairperson of the Audit Committee of Longford County Council.

This is the ninth Annual Report of the Audit Committee of Longford County Council covering the period from the 1st January 2016 to the 31st December 2016.

The Corporate Policy Group of Longford County Council, following consultation with the Chief Executive, nominated us as members of the Audit Committee and this nomination was formally approved by the members of Longford County Council at its meeting held on the 16th July 2014. The members of the Audit Committee took up office on the 1st August 2014 and had their inaugural meeting on the 25th September 2014. Unfortunately Gerry Brady (RIP), one of the initial members of this Committee, died on the 7th April 2015. Denis Glennon was nominated and appointed to take his place.

The Audit Committee is a vital component of good corporate governance. It is intended to provide an independent expert review, assessment and advice on financial management and reporting processes, internal control systems and procedures, risk management and audit matters. It is wholly reliant on the competence and effectiveness of the internal audit function of the local authority in question. The Committee's role is primarily an advisory one and we are not vested with any executive powers or any statutory powers of investigation or enquiry. The statutory functions of the Audit Committee are set out in Section 122(2)(a) to (f) of the functions of the Local Government Act 2001 and in S.I. 244 of 2014 entitled Local Government (Audit Committee) Regulations, 2014 and are more precisely defined in Section 2 of this report.

Throughout 2016 we have had various meetings with members of the Executive of Longford County Council. Early in 2016, we had meetings with Ms. Barbara Heslin, the Acting Chief Executive and Ms. Maeve Killian as Acting Head of Finance. We

also had meetings with Ms. Gillian Tilson, Internal Auditor and her colleague Ms. Fiona Baskett.

Although we have our own independent agenda, the Committee continues to closely monitor the recommendations which are made each year by the Local Government Auditor. The 2015 Statutory Audit Report dated the 18th November 2016 for the year ended 31st December 2015 was presented by Ms. Anne Halion, Local Government Auditor to the Members of Longford County Council. We considered that Report together with Ms. Halion's Management letter dated the 30th November 2016 at our meeting on the 27th January 2017 when we also met with Ms. Halion and discussed her Report and Management letter in considerable detail. After that, we met with the Chief Executive, Mr. Paddy Mahon and the Head of Finance, IT & Procurement, Mr. John McKeon, at our most recent meeting on the 15th February 2017.

Having met with Ms. Halion on the 27th January 2017, we complied with the provisions of Section 60 of the Local Government Reform Act, 2014 by reporting to the Chief Executive and the Head of Finance, IT & Procurement at our meeting with them on the 15th February 2017.

We have made it clear on many occasions during the past year under review that whilst we have been furnished with Internal Audit reports, we were not satisfied with the quality of those reports. This issue was raised by us at our meetings on the 14th January 2016, the 29th April 2016, the 22nd July 2016, and the 16th September 2016. It must be said that on the 9th December 2016, the Audit Committee did compliment Ms. Gillian Tilson, the Internal Auditor, on the content, quality, layout and presentation of the *Progress Report for Internal Audit*. Apart from that Report, we remained generally dissatisfied with the quality of the internal audit reports and indicated that we wanted to see significant improvements. Towards that end we had a full and frank discussion about this with Mr. Mahon and Mr. McKeon on the 15th February 2017. We made it clear that we would not in future accept and indeed would reject reports which were not in the required format and/or to an acceptable standard. Indeed, Mr. McKeon made a presentation to us at that meeting entitled "*Audit Report*

Life-Cycle” which was designed to dramatically improve the quality of that reporting. We were happy to approve what he has proposed in the expectation that it will improve the presentation and quality of the internal audit reports. We will continue to review this issue and hope to be able to report positive progress in our next Report.

In addition, the Audit Committee recommends that the personnel charged with the responsibility for carrying out the internal audit function continue to receive all necessary training, mentoring, up-skilling and monitoring to ensure the delivery of best practice in this critical role within the Local Authority.

Both Mr. Mahon and Mr. McKeon have satisfied us that they are fully aware of the critical importance of the internal audit function within Longford County Council and have assured us that they are in the process of putting in place what they regard as the appropriate and necessary systems to improve the quality of the internal audit reports so as to make them fit for purpose whilst at all times maintaining the independence that is of critical importance to the internal audit function. The independence of the internal audit cannot be compromised in any manner. Whilst we want to see the quality and presentation of the internal audit reports improve, we must ensure that the true work of an independent internal audit, including but not limited to its assumptions, findings and recommendations, is safeguarded. We will not foster an environment in which the finance function is reviewing, amending and approving the internal audit reports.

It remains to be seen how this will work out. This is very much work in progress but we are pleased to report that significant progress would appear to have been made in this area in the past month. However, we will remain vigilant in watching developments.

In her report, the Local Government Auditor focused on eight main issues:-

(a) Financial Standing

(b) Income Collection

- Commercial Rates
- Housing Rents and Annuities
- Housing Loans

(c) Irish Water

- Transfer of Water and Sewerage Functions to Irish Water

(d) Fixed Assets

- The absence of a Property Interest Register
- The unavailability at audit of a Housing Stock Reconciliation
- Capital Account

(e) Purchasing and Procurement

- She reported that during her audit of non-pay expenditure a number (which she did not quantify) of instances were found where Council staff did not comply with the Council's own purchasing guidelines.
- She also noted a number (again unquantified) of minor breaches of procurement guidelines.
- She recommended that the Council put in place adequate procedures to ensure compliance in these areas.
- We noted the Chief Executive's response to that where he stated that the appointment of a dedicated procurement officer in 2016 should contribute to *"improving compliance levels and knowledge of procurement regulations throughout the organisation."*

(f) Interest in Companies

(g) Internal Audit

- Ms. Halion stated as follows in her Report:
"It is imperative that the Council ensures that adequate resources are allocated to this function in order for it to operate effectively"

and so that the audit committee can discharge its statutory remit. In line with recommended best practice, the Head of Internal Audit should report directly to the Chief Executive.”

- We request that the internal audit reports be furnished to the Local Government Auditor in good time in future years so that she will be in a position to more robustly assess and evaluate those internal audit reports.
- We have also noted the response of the Chief Executive confirming that henceforth the Head of Internal Audit will report directly to the Chief Executive.
- The Report contained no assessment of the quality of the reports produced by the Internal Audit Unit. The Committee was surprised at that and discussed that issue with Ms. Halion at the meeting on the 27th January 2017.

(h) Risk Register

- Pointing out that the Council had last updated its Risk Register in October 2015, Ms. Halion recommended that the Register be reviewed, updated and approved regularly.
- We noted the Chief Executive’s response where he advised that risk management is a standing item on the agenda for the fortnightly Management Team meetings and will remain so. He also pointed out that the Risk Register is scheduled to be reviewed by the Management Team and the Senior Managers Group in early 2017 and annually thereafter.

In her Management Letter dated the 30th November 2017 to the Chief Executive, which should be placed before the members of the Council, the Local Government Auditor raised the following further issues:-

1. Fire Charges

- She found
 - (a) no evidence of procedures in place to pursue outstanding fire charges;
 - (b) there was no report available at audit of the invoices generated on the FSI system which is a stand-alone system used by the fire service to process fire charges invoices;
 - (c) the total fire charges outstanding at the end of 2015 had not been recognised in the accounts;
 - (d) there was no reconciliation of the collection and debtor figures on the AFS with the information recorded on the FSI system which was available at the time of the audit;
 - (e) there were no documented procedures available at audit on the controls in place over the FSI system particularly in relation to controls in place regarding amendments to data on the system.

2. Accruals

- Having carried out a sample review of accruals which were recorded at €7.3m at 31st December 2015 in the 2015 Annual Financial Statement, Ms. Halion considered that a substantial number of those accruals should be treated as provisions/reserves. She recommended that the accruals be reviewed prior to the completion of the 2016 AFS and she said that she would review the matter at the next audit.

3. Parking Charges

- Noting that in 2015, 125 parking offence tickets (out of a total of 799 issued) for failing to display a current tax disc were subsequently waived, Ms. Halion recommended that the Council should have a clear policy on the cancellation of parking tickets where evidence is provided of the payment of motor tax retrospective to the issue of the parking ticket.

4. Mileage Logs

- Noting that three employees were in receipt of a tax-free travel allowance, Ms. Halion found that no travel logs (which are required to comply with the requirements of the Revenue Commissioners) were available for inspection at audit. She recommends that such travel logs should be maintained.

5. Appendix 8 Audited Accounts

- The most recent audited accounts for the two companies in which the Council has an interest were for the year ended 31st December 2014. Ms. Halion recommended that the audited accounts for those companies should be available for the same period as that under audit review.

6. Outstanding Pay Orders

- Ms. Halion found that as of August 2016, uncashed cheques outstanding prior to December 2015 amounted to €31k. She recommended that all pay orders which were outstanding for over six months should be reviewed regularly as part of the bank reconciliation process and cancelled and reissued where appropriate.

We will continue to monitor these matters (and indeed all other matters coming within our remit) over the coming year and, if necessary, we will request periodical reports from the relevant directorates.

Subject to and reserving what we have already stated above, we are pleased to report that both management and staff have competently and courteously worked with us throughout 2016.

The Committee wish to formally thank the then Acting Chief Executive Ms. Barbara Heslin, the then Acting Head of Finance, Ms. Maeve Killian, the Chief Executive, Paddy Mahon, and the Head of Finance, IT & Procurement, John McKeon and all of the management and staff within the various directorates for their assistance and co-operation over the past twelve months. We also wish to formally thank the Internal Auditor Ms. Gillian Tilson and her colleague Ms. Fiona Baskett and our hard-working Committee Secretary Anne Lee for their support and assistance throughout the past year.

Section 5 - Operation of the Audit Committee

In 2016, the Audit Committee met on the 14th January, 18th February, 29th April, 22nd July, 16th September and 9th December. Whilst in recent months, the Committee focused on the quality of the internal audit reports which were prepared by the Internal Audit Department of Longford County Council, it also

- reviewed collection performance
- reviewed the income and expenditure projections in order to fully analyse the effectiveness of any cost cutting measures

In addition, as we have already shown, the recommendations made by the Local Government Auditor in the Statutory Audit Report for 2015 were carefully monitored and followed up by us. Henceforth, the Audit Committee should be notified by the internal audit department of its responses to issues or weaknesses identified in either the external auditor's report or the management letter. The Committee will need to see commitment from the internal audit function to respond to and implement the recommendations of the external auditor in a timely manner. That has not happened to date in respect of the Statutory Audit Report for 2015. As happened last year, the Committee also re-iterated that more resources needed to be allocated to the internal audit function of the Council.

During the year:-

- (a) the Committee continued to consider whether procedures were in place whereby employees of the local authority could in confidence raise concerns about possible irregularities in financial reporting or other financial matters *and* that the arrangements included arrangements for the proportionate and independent examination of such matters;
- (b) the Committee adopted a new Internal Audit Charter which will be reviewed annually;
- (c) the Committee met with Ms. Barbara Heslin, the then Acting Chief Executive and Ms. Maeve Killian, the then Acting Head of Finance, Paddy Mahon, the Chief Executive; John McKeon, Head of Finance, IT and Procurement and Ms. Gillian Tilson (Internal Auditor) and her colleague Ms. Fiona Baskett;
- (d) reviewed and considered the internal audit reports on:-
- Public Spending Code 2015 Report – Section 4 Review
 - Compliance with OGP National Frameworks
 - Paid Parking
 - Performance Indicators
 - Water Services

Section 6 - Going forward

The annual work programme to be adopted by the Audit Committee will include:-

- (a) Ensuring that the internal audit function within Longford County Council is effective, efficient, fully resource, independent and fit for purpose;
- (b) Reviewing all internal audit reports;
- (c) Fostering the development of best practice in the internal audit function;
- (d) Reviewing and considering the internal audit charter and bringing any recommendations to the attention of the Chief Executive;

- (e) Reviewing and assessing the draft annual internal audit plan;
- (f) Monitoring implementation of the internal audit plan on a quarterly basis;
- (g) Assessing the extent to which audit objectives are being achieved;
- (h) Assessing the outcome of the internal audit process, having regard to any findings and recommendations of the internal audit unit and management responses thereto;
- (i) Assessing the implementation of agreed corrective procedures by management having regard to follow-up audits;
- (j) Reviewing the report of audit activities by the internal audit unit, within three months of the year end;
- (k) Requesting special reports from Internal Audit Unit as considered appropriate;
- (l) Reviewing the Council's financial and budgetary reporting practices and procedures;
- (m) Reviewing the Local Government Auditor's reports and assessing management response thereto and follow-up actions;
- (n) Meeting with the Local Government Auditor and discussing her report;
- (o) Assessing and promoting value for money/efficiency in all areas;
- (p) Assessing the existing processes for the effective management of risk;
- (q) Reporting to the Council at least annually and in any event within three months of the end of each calendar year, providing such advice and making such recommendations, if any, to the Council as the Committee may consider appropriate.
- (r) Assessing the effectiveness of existing protocols whereby employees of the local authority may in confidence raise concerns about possible irregularities in financial reporting or other financial matters;
- (s) Ensuring that those protocols include arrangements for the proportionate and independent examination of such matters.

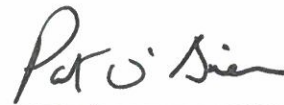
Thus, we have outlined the various recommendations which the Audit Committee has made to the Executive in relation to the matters within its remit. We have also set out in Section 5 of this report a summary of the areas which we have reviewed in 2016. Our recommendations will be noted in the minutes of our meetings which are,

of course, available to elected members of the Council upon request through our Committee Secretary.

Signed:



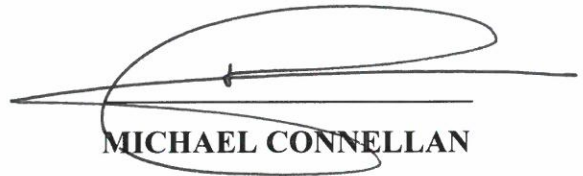
PATRICK GROARKE
Chairperson



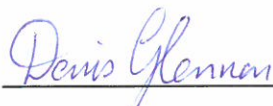
PAT O'BRIEN
Vice Chairperson



CIARA GILLEN



MICHAEL CONNELLAN



DENIS GLENNON