

COMHAIRLE CHONTAE LONGFOIRT
LONGFORD COUNTY COUNCIL

AUDIT COMMITTEE

ANNUAL REPORT
FOR YEAR ENDED 31 December 2012

March 2013

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 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. Councillor Seamus Butler and Councillor Alan Mitchell were duly appointed and the inaugural meeting of the Audit Committee took place on 14th May 2008. This is the fifth annual report of the Audit 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 cost saving throughout the organisation. It also supports the work of the Internal Audit Unit and advises the Manager in relation to the operation and development of the Unit.

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

Matters discussed at Audit Committee meetings are confidential.

The functions of the Committee are to:

- Review the Council's financial and budgetary reporting practices and procedures,
- Generally foster the development of best practice in the internal audit function and, as part of this:
 - 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 by the Internal Audit Unit, within three months of the year end,
- Request special reports from Internal Audit as considered appropriate,
- Receive a regular report from the Internal Auditors,
- 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 effectively, in accordance with organisational guidelines and business plans,
- To review the Council revenue and capital reports on at 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.

Section 3- Membership of the Audit Committee:

The Audit Committee consists of five members. Two of these members are current or former elected representatives and the other three are external members:-

- Ms Karen Clabby, Chairperson of the Committee is a Solicitor based in Longford Town.
- Ms Jackie Kennedy, is a Community Development Officer with Rath Mhuire Resource Centre, Granard, Co Longford.
- Ms Evelyn Quinn is the Principal of Evelyn Quinn & Associates, a practice based in Longford providing accounting & HR services to small & medium sized businesses
- Mr Seamus Butler, is the Managing Director of Butler Manufacturing Services Limited, a former member of Longford County Council and is the current President of Longford Chamber.
- Councillor Gerry Brady is a current member of Longford County Council

Section 4- Chairpersons Statement:

Statement by Karen Clabby, the Chairperson of the Audit Committee of Longford County Council.

This is the Fifth Annual Report of the Audit Committee of Longford County Council. When one considers the extent of the Role and Functions of the Audit Committee which are outlined in Section 3 of this report it is clear that we are given quite an onerous task to perform. The Committee meets on a quarterly basis and we strive to the best of our ability to identify the most pressing issues which we feel require our particular attention within the constraints of the time and resources which are available to us.

In order to structure our work programme for the year we first take our lead from the Local Government Auditor's Report. The 2011 Statutory Audit Report was published on 31st May 2012. The Local Government Auditor identified three issues which in his opinion required attention. They were:-

- a) Collection Performance
- b) Longford Pool Construction Limited
- c) Development Levies

The Committee had already identified these issues and have received regular reports during the year from key personnel in relation to these specific topics. In Section 6 of this report I have outlined the various recommendations which the Committee has made to the Management Team in relation to these matters. I have also set out in section 6 of this report the details of a number of other areas which we have reviewed within the organisation during the year. Our recommendations are noted in the minutes of our meetings which are available to elected members by request through our committee secretary.

On a practical level the Committee will try to review as many areas within the organisation as it can each year. However, we also keep a mindful eye on the overall financial standing of the Authority. We receive a copy of the adopted Budget each year and on a quarterly basis we receive a financial report on the Revenue Account position.

Due to ongoing cuts in Government funding the authority is under ever more increasing pressure to improve collection performance. The Council is dealing with a very difficult economic situation and if further income cuts are imposed by the Department more extensive expenditure cuts will have to take place. The operating environment is becoming increasingly uncertain and there is no doubt that 2013 will be a difficult year.

During the next 12 months we will witness the implementation of the Governments Action Programme for Effective Local Government – “Putting People First” which was published in October 2012. Its key objectives are to introduce a new system of local governance whereby local authority services will be funded through the local property tax. A National Oversight and Audit Commission will scrutinise local government performance and efficiency. The Minister the Environment, Community and Local Government has expressly stated that the role of audit committees will be strengthened and the Action Programme also states that Local Authority Audit Committees will be put on a full regulatory footing. At present we have not received any further direction or guidance as to how these proposed changes will be implemented in practice.

At this point, on behalf of my colleagues on the Audit Committee I wish to congratulate Judge Alan Mitchell on his appointment to the Judiciary earlier this year. Our Committee members benefited greatly from his in depth knowledge and insight into the operation of the Local Authority. I also wish to thank Councillor John Browne for his valued contribution as a Committee member over the past four years.

An Audit Committee can only effectively execute its functions with the co-operation and assistance of the key personnel within the Local Authority. Once again, I wish to thank the Manager Tim Caffrey, the Head of Finance Barry Lynch and all of the staff and management within the various directorates for their assistance to us throughout the year.

On behalf of the Committee I also wish to thank the Internal Auditor Gillian Tilson and our Committee Secretary Anne Lee for their assistance.

Karen Clabby
Chairperson

Section 5- Operation of the Audit Committee;

- The Committee met four times during 2012, on 16th February 2012, 10th May 2012, 27th September 2012, 6th December 2012.
- The Committee received a number of presentations from key personnel within the Council and also from Michael O’Gorman, the Local Government Auditor
- The Committee also met with the Head of Finance, the Internal Auditor, the Council’s External Legal Advisor and members of Senior Staff.
- These meetings and presentations were in addition to the review by the Committee of Audit Reports, plans and other information from the Internal Audit Department and the Director of Finance.

SECTION 6- Audit Committee Activities and Related Outcomes:

The Statutory Audit Report prepared by the Local Government Auditor in relation to the year ended 31st December 2011 was reviewed by the Local Government Auditor, Michael O’Gorman with the Audit Committee at their meeting which took place on 27th September 2012. The main issues which were discussed arising from the annual report were:-

1. Collection Performance
2. Longford Pool Construction Limited
3. The collection of Development Levies and Enforcement of Bonds

During the Year the Committee also examined the following areas:-

- a) The financial standing and performance of the Authority through 2012 and going forward.
- b) DOE Vehicle Testing
- c) Monitoring of Fuel Cards
- d) Public Procurement –
 - a) Trumra Road Regeneration Project
 - b) General Review of Procurement Procedures
 - c) Compliance with EU & National Guidelines

1. COLLECTION PERFORMANCE

The decline in collection performance is a symptom of the ongoing economic difficulties faced by all consumers, business and private. The Committee has throughout the year monitored the various actions which the collection team are taking to optimise revenue collection.

Local Government Fund and Household Charge:-

The current level of registrations (up to the end of February 2013) including waivers is in the region of 74%. In 2012 once registrations exceeded 65% this was sufficient to avoid a second tranche of cuts in government funding but it is essential that the collection effort is maintained so that funding is available to the Council going into the First Quarter of 2013.

Rates:

At the end of 2011 the collection rate was down to 81%. Total arrears of €645,000 included circa €250,000 which due to insolvencies and other economic factors may amount to a long term bad debt. The committee was informed that this is comparable to the level of collection achieved by other Local Authorities. The current rates base stands at circa €4.7m. However, a high vacancy rate will continue to undermine the rates base.

Water:

Collection of Water Rates has improved with an increase in the percentage of collection from 39% at December 2011 to 61% by December 2012. The Council awaits guidelines from the Department in relation to how services may be transferred to a new national water authority.

Conclusion:

The Committee recommends that the Council continue to engage with customers to explore and agree payment options intended to clear arrears on accounts over a reasonable period. The Committee has also recommended that clear information leaflets should be distributed to local businesses in order to inform rate payers of the options available to them.

Housing Loans:

At the end of 2012 Longford County Council has 390 active housing loans. Of these 125 are in arrears of more than 3 months. A relatively small number of 20 customers owe almost 50% of the arrears which amount in total to circa €250,000. The overall percentage of housing loans collected in 2012 was 67% which represents a drop of 10% from the previous year. The Council must now implement the Mortgage Arrears Resolution Process and in doing so must follow the principles set down by the Central Bank. This will involve greater levels of communication and resolution between the Council and borrowers who are in arrears.

Conclusion:

- **The Committee will continue to monitor collection performance through 2013.**
- **The Committee recommends that there should be increased communication with customers**
- **The Committee recommends that greater resources should be applied towards training personnel in the housing/finance department to deal with arrears.**

**2. THE FINANCIAL STANDING AND PERFORMANCE
OF THE AUTHORITY THROUGH 2012 AND GOING
FORWARD**

The Council carried an accumulated deficit much of which had arisen in 2009 as a result of a number of unplanned retirements. The Council incurred significant up front costs in the first half of 2012. Superannuation costs and the operation of wastewater schemes were identified as two items of expenditure which contributed greatly to a Revenue Deficit for the first six months of the year of €616,000. In order to address this deficit we were informed at the end of the Second Quarter of 2012 that the Council had curtailed all discretionary expenditure. There was also a concern that other sources of funding would be required to keep the roads and water crews employed. The redeployment of these staff to other areas of work was identified as a means of financing these commitments.

We were also informed that the Council was endeavouring to identify other sources of funding such as the calling in of Development Bonds. The County Manager highlighted at the July Council meeting that the Department of the Environment, Community and Local Government had deducted €330,000 from the Local Government Fund Grant for the Third Quarter of 2012 due to non collection of the household charge. In direct response to this budgetary constraint, the Finance Directorate prepared a detailed report outlining where budgetary cuts could be implemented within the organisation and we reviewed this report at our September meeting. Towards the end of the year some progress was made in clawing back the deficit. The Budgetary Deficit recorded for the nine months to 30th September 2012 was €198,000. Fortunately the level of collection of the Household Charge exceeded 65% by the last quarter of the year and no further cuts were implemented by the Department.

The adopted budget for 2013 has achieved a break even position. The draft annual financial statement shows a modest surplus for 2012. Over the year there were sufficient funds to meet capital requirements. The most significant factor going forward will be the level of Local Government funding which is available.

Conclusion:

- **The Committee will continue to review the area of revenue collection and financial performance throughout 2013.**
- **The most significant factor going forward will be the level of Local Government funding which is available.**

3. LONGFORD POOL CONSTRUCTION LIMITED

The Committee received a copy of the Directors Report and Financial Statement for the year ended 31st December 2010 which was reviewed with the Committee by the Internal Auditor at our February meeting.

Conclusion:

- **It was noted that considerable work has been carried out to achieve greater cost efficiencies within the company and efforts are also ongoing to increase income levels.**
- **The level of cash loss within the Company has reduced and the payroll and energy costs have been significantly reduced.**
- **Income levels must be increased in order to restore viability.**
- **The Committee will review the position against during 2013.**

4. COLLECTION OF DEVELOPMENT CONTRIBUTIONS, UNFINISHED HOUSING ESTATES AND ENFORCEMENT OF BONDS:

The Local Government Auditor raised certain issues in the 2010 Statutory Audit Report in relation to the collection of development contributions and the enforcement of bonds. In the 2010 report it was highlighted that the Council had accepted security “other than” bonds or cash deposits from developers in a number of cases. At that stage concern was expressed by the External Auditor that due to falling property values the security held might no longer be sufficient to meet developer’s obligations. Throughout 2011 and again throughout 2012 the Committee has continued to monitor the situation regarding enforcement of bond requirements and we issued a number of recommendations to the Planning Department. When records were first established a number of years ago there were 128 unfinished estates within the County. The committee has received regular updates in relation to how the Planning Department have managed this situation as the Committee would have an overall concern as to how this could have a financial implication for the Council in the long term. We have received reports which indicate that progress has been made on 79 estates. Of these, an agreed programme of works is being implemented on 36 estates. Enforcement/Legal proceedings have commenced in 13 cases and 11 development bonds have been paid over to the Council.

Given the low level of development within the County at the present time the level of collection of development contributions is low. However, the Committee continues to monitor the situation with regard to collection of arrears.

In particular when dealing with arrears situations the Committee has recommended that safeguards are implemented to ensure that compliance letters are only issued where financial requirements have been satisfied. The recommendations issued to the Planning Department have been noted and acknowledged by the Department.

Conclusion:

- **The Committee has continued to receive regular reports in relation to the registration of security and enforcement of the bond conditions stipulated in planning permissions where security “other than” a bond or cash deposit was accepted.**
- **At this stage the legal standing of a number of the arrangements has been progressed to the satisfaction of the Committee. However, the Committee will continue to monitor the situation regarding these particular matters.**
- **The Committee has once again formally recommended that such an arrangement should no longer be accepted by the Council and this recommendation has been noted.**
- **The Committee will continue to monitor the position with regard to unfinished housing estates and the collection of development contributions.**

5. GENERAL:

Each month our Committee Administration Secretary has recorded minutes at each of our meetings and copies of these minutes are available to Council Members on request

Signed:

Karen Clabby
Chairperson

Cllr Gerry Brady

Jackie Kennedy

Seamus Butler

Evelyn Quinn