

COMHAIRLE CHONTAE LONGFOIRT
LONGFORD COUNTY COUNCIL

AUDIT COMMITTEE

ANNUAL REPORT
FOR YEAR ENDED 31 DECEMBER 2014

MARCH 2015

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 seventh annual report of the Longford County Council Audit Committee and covers the period from the 1st January 2014 to the 31st December 2014.

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 will hold 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 a 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 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. Patrick Groarke, Chairperson of the Committee, is a Solicitor based in Longford Town.
- Mr. Gerry Brady was formerly an elected member of Longford County Council.
- 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 RSM Farrell Grant Sparks, Longford.
- 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 seventh Annual Report of the Audit Committee of Longford County Council covering the period from the 1st January 2014 to the 31st December 2014.

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 current members of the Audit Committee took up office on the 1st August 2014 and had its inaugural meeting on the 25th September 2014. Because of that, our work is still very much work in progress and in many respects we are still finding our feet.

The Audit Committee is a vital component of good corporate governance. It provides an independent expert review, assessment and advice on financial management and reporting processes, internal control systems and procedures, risk management and audit matters. 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.

Although we have our own independent agenda, the Committee will continue to closely monitor the recommendations which are made each year by the Local Government Auditor. The 2013 Statutory Audit Report was published on 27th June 2014. In his report, the Local Government Auditor focused on eight main issues:-

- a) Income and Expenditure Account

- b) Funding of Excess Expenditure on Grant Aided Projects
- c) Income Collection
- d) Rates
- e) Commercial Water
- f) Housing Loans
- g) N5 By-Pass Project
- h) Longford Pool Construction Limited

We will continue to monitor these matters (and indeed all other matters coming within our remit) over the coming year.

The Committee has reviewed in detail the Longford Local Authorities Risk Register which is currently being up-dated. The committee has noted that five general organisation wide risks have been identified and categorised as high risk. They are:-

- (a) The impact of the establishment of Irish Water
- (b) Compliance with Health and Safety Guidelines
- (c) Ongoing Financial Cutbacks
- (d) Implications of Local Property Tax regime
- (e) Inadequate IT Structure

The Audit Committee will be monitoring these particular areas on an ongoing basis and request periodical reports from the relevant directorates.

I am pleased to report that both management and staff have competently and courteously worked with us since our appointment to establish a positive and productive working environment and the Committee is satisfied with the contribution being made by the Internal Audit function.

On behalf of the Committee I wish to formally thank the Chief Executive, Tim Caffrey, the Head of Finance, Barry Lynch and all of the management and staff with the various directorates for their support and assistance over the past six months. I

also wish to formally thank the Internal Auditor Gillian Tilson and our committee Secretary Anne Lee for their invaluable support and assistance since our appointment.

Section 5 - Operation of the Audit Committee

(a) In 2014, the previous Audit Committee met on the 6th March and the 15th May and, whilst I have reviewed the minutes of those meetings, it is not appropriate for me to make any comment thereon as I was not present thereat. That Committee did recommend that our Committee would

- continue to monitor collection performance and the implementation of the Mortgage Arrears Resolution Process
- continue to review the income and expenditure projections in order to fully analyse the effectiveness of any cost cutting measures
- Continue to review and monitor the Council's Risk Register

In addition, our predecessors agreed that it was imperative that the recommendations made by the Local Authority Auditor in the Statutory Audit Report would be continuously monitored and followed up. That Committee also re-iterated that more resources needed to be allocated to the internal audit function of the Council.

(b) The current Committee met three times since we were appointed on the 1st August 2014 – on the 25th September 2014, 24th November 2014 and the 23rd February 2015.

(c) At its inaugural meeting on the 25th September 2014, the Chief Executive, Tim Caffrey, welcomed us as the new members of the Audit Committee and, having outlined the significant changes that had taken place in the local government structure since the local elections in May 2014, assured us of his support and the support of the staff of Longford County Council in carrying out our work.

- (d) At its next meeting on the 24th November 2014, the draft Audit Committee Charter was approved and was submitted to Longford County Council for approval.
- (e) At its meeting on the 23rd February 2014, the Committee has received an extensive presentation from Barry Lynch, Head of Finance and Director of Services which will form the basis of the work of the Committee for the remainder of this year. Mr. Lynch reported to us on the following matters:-
1. **Revenue deficit** was eliminated as per unaudited accounts for 2014.
 2. **Fixed assets** were revalued as required by the DoECLG. There will not be a revaluation in the 2014 AFS but water services assets will be transferred out.
 3. **Unfunded Balances:** This is an ongoing issue and the focus will turn to this now that the Revenue account deficit has been cleared. The overall debt position has improved due to the fact that the DoECLG has agreed to take over Water Services related borrowings of €7.86 million.
 4. **Income collections:** This continues to be a very difficult area due to the economic climate. The figures for 2014 will be depressed due to the inclusion of the former Longford Town Council rates book. The Town Council collectors have been brought in under the umbrella of the Council's Income Generation Unit to standardise procedures and improve collection. The Council has made significant bad debts provisions to recognise the economic realities.
 5. **Commercial Water:** From 2014 onwards Longford County Council collects and bills on behalf of Irish Water. This until IWs systems are ready to take over this function. The Debtors as at 31/12/13 are being taken over by Irish Water at an agreed valuation.
 6. **Housing Loans:** As indicated in the report, a number of repossessions have taken place between 2013 and 2014 which have helped resolve some of the unsustainable cases. This will help stabilise the situation in terms of collection. Shared Ownership Loans are a particular issue which are to be reviewed by the DoECLG.
 7. **N5 Bypass:** A report was provided to the Council members on foot of this outlining the conciliation process.
 8. **Longford Pool Construction:** The Council has embarked on a cost cutting programme to reduce payroll and energy which are the two biggest overheads. Further action is needed to improve the revenue base of the company. A new management company, Coral Leisure, has been installed for an initial 12 month period from August 2014 to improve the management and marketing of the facility.
 9. **Internal Audit.** A substantial amount of the Internal Auditor's time has been spent on producing management information on the swimming pool. The management company has now taken over this task which will free up more time for pure internal audit work.

Risk Register:

1. The Risk register is currently being updated and will be circulated to the Audit Committee once the updated version has been agreed by the Management Team.

Section 6 - Going forward

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

- (a) Reviewing the Council's financial and budgetary reporting practices and procedures;
- (b) Fostering the development of best practice in the internal audit function;
- (c) Reviewing the internal audit charter and bringing any recommendations to the attention of the Chief Executive;
- (d) Reviewing and assessing the draft annual internal audit plan;
- (e) Monitoring implementation of the internal audit plan on a quarterly basis;
- (f) Assessing the extent to which audit objectives are being achieved;
- (g) Assessing the outcome of the internal audit process, having regard to any findings and recommendations of the internal audit unit and management responses thereto;
- (h) Assessing the implementation of agreed corrective procedures by management having regard to follow-up audits;
- (i) Reviewing the report of audit activities by the internal audit unit, within three months of the year end;
- (j) Requesting special reports from Internal Audit as considered appropriate;
- (k) Reviewing Local Government Auditor's reports and assessing management response and follow-up actions;
- (l) Meeting with the Local Government Auditor and discussing his or her report;
- (m) Assessing and promoting value for money/efficiency in all areas;
- (n) Assessing the existing processes for the effective management of risk;
- (o) 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.

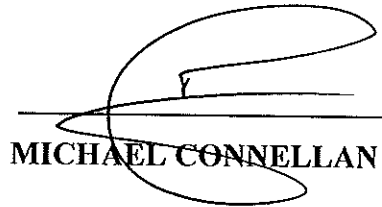
- (p) Assessing the effectiveness of existing protocols whereby employees of the local authority may in confidence raise concerns about possible irregularities in financial reporting or other financial matters;
- (q) Ensuring that those protocols include arrangements for the proportionate and independent examination of such matters.

In future, we will outline the various recommendations which the Committee has made to the Management Team in relation to the matters within its remit. I have also set out in Section 5 of this report a summary of the areas which we have reviewed since our appointment. 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:



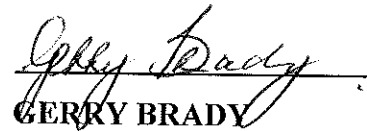
PATRICK GROARKE
Chairperson



MICHAEL CONNELLAN



CIARA GILLEN



GERRY BRADY



PAT O'BRIEN
Vice Chairperson