

COMHAIRLE CHONTAE LONGFOIRT

LONGFORD COUNTY COUNCIL

AUDIT COMMITTEE

ANNUAL REPORT

FOR YEAR ENDED 31 DECEMBER 2017

MARCH 2018

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 tenth annual report of the Longford County Council Audit Committee and covers the period from the 1st January 2017 to the 31st December 2017.

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 ("NOAC") 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 and Financial Controller of Core Components Limited
- 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 tenth Annual Report of the Audit Committee of Longford County Council covering the period from the 1st January 2017 to the 31st December 2017.

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 2017 we have had various meetings with members of the Executive of Longford County Council. We met with Paddy Mahon, the Chief Executive, on the 15th February and 12th May. We met with John McKeon, the Head of Finance, on

the 15th February, 23rd June, 29th September and 24th November. We met with Ms. Anne Glancy, Administrative Officer, Housing and Ms. Gillian Tilson, Internal Auditor on the 12th May. We also met with Ms. Fiona Baskett, Assistant Internal Auditor and Ms. Catherine Kane, Administrative Officer, LEO on the 23rd June.

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. We met with Ms. Anne Halion, the Local Government Auditor, on the 27th January 2017 and discussed her Statutory Audit Report for the year ended 31st December 2015. Having met with Ms. Halion on the 27th January 2017 in relation to her Statutory Audit Report for the year ended 31st December 2015, 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.

The 2016 Statutory Audit Report dated the 13th October 2017 for the year ended 31st December 2016 was presented by Ms. Anne Halion, Local Government Auditor to the Members of Longford County Council. We considered that Report at our meeting on the 24th November 2017 when we also met with Ms. Halion and discussed her Report in considerable detail. After that, we met with John McKeon, the Head of Finance, at our meeting on the same date.

The Committee never received Ms. Halion's Management letter covering her Statutory Audit Report for the year ended 31st December 2016. Management informed us that the Management letter had been retained until they had prepared responses thereto. It is the view of the Audit Committee that Ms. Halion's Management letter should be given to the committee when it is received by the Council with the responses furnished afterwards.

We have made it clear on numerous occasions over many years that 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.

In addition, the Audit Committee note 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 they have put 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. The quality and presentation of the internal audit reports has improved greatly and we want to ensure that they continue to improve. In addition, 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 are happy to report that significant progress has been made in this area during the year in question. Further improvement is anticipated. We will remain vigilant in watching developments.

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

(a) Financial Standing

- Statement of comprehensive income
- Fixed Assets
- Loans Payable

(b) Income Collection

- Commercial rates
- Housing rents and annuities
- Housing loans
- Bad and doubtful debt provision

(c) Transfer of Water and Sewerage Functions to Irish Water

(d) Capital Account

(e) Purchasing and Procurement

- She noted that the Council had appointed a Procurement Officer in April 2016 who was responsible for developing and updating the Council's procurement procedures, policies and guidelines. Whilst Ms. Halion found what she described as a number of minor breaches of procurement regulations and the Council's own purchasing guidelines during her audit, she expected that the appointment of the Procurement Officer and the introduction of Milestone 4 of Agresso would enhance the Council's compliance in that area.
- There were further developments in 2017 as described by the Chief Executive's response to Ms. Halion's Report namely the establishment of a new Control and Compliance Unit encompassing both procurement compliance and internal audit; the introduction of the Agresso Milestone 4 system which has more robust purchase to pay controls and procurement compliance checks and the scheduling of quarterly meetings between the budget holders in each section and the Chief Executive and Head of Finance to monitor continued procurement compliance throughout the Council.

(f) Local Authority companies

(g) Governance

(h) Internal Audit

- Ms. Halion stated as follows in her Report:
“The internal unit completed seven reports in 2016 and 2017 and I have taken account of this work during the course of my audit.”
- We repeat our 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 the establishment of the new Control and Compliance Unit in 2017. That comprises the Internal Audit function which is staffed by an Administrative Officer (Internal Auditor), who heads up this unit and reports directly to the Chief Executive, together with an Assistant Staff Officer and a procurement compliance and monitoring function which is staffed by two Senior Staff Officers and a Clerical Officer. Over the past three years the Audit Committee has regularly expressed the need for the appointment of an external advisor to the Internal Audit Unit. The Committee is happy to note that this need has now been addressed through the Council’s decision in 2017 to employ an External Advisory Service for the new Control and Compliance Unit covering both the Internal Audit and the Procurement functions.
- The Report contained no assessment of the quality or indeed the content of the reports produced by the Internal Audit Unit.

(i) Risk Register

- Pointing out that the Council’s draft Risk Register had been submitted to the Audit Committee for review in September 2017, Ms. Halion recommended that the Register, when finalised, should be implemented across all of the directorates and be reviewed and updated annually. We will be monitoring this.

As the Committee was not furnished with Ms. Halion's Management letter covering her Statutory Audit Report for the year ended 31st December 2016, the Committee discussed the following further issues with her at the meeting on the 24th November 2017:

- I.T. Disaster Recovery Plan
- Collection of Fire Charges
- Procurement
- Fixed Travel Allowances
- Bad Debt Provision
- Other Debtors
- Development Contribution Scheme
- Loan to Longford Pool Construction Ltd.
- Presentation of Statutory Audit Report and Audit Committee Annual Report to Local Authority members
- Tenant Rent Review
- Housing Stock Reconciliation.

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.

The Audit Committee reviewed the draft Risk Register at its meeting on the 29th September 2017 and made suggestions which were incorporated into the current Risk Register.

The Committee also prepared and submitted to NOAC a detailed and comprehensive Performance Appraisal of our work for 2017 thus complying with our statutory obligations in that regard. A special word of thanks to both Ciara Gillen and Denis Glennon for the commitment, hard work and time they put into that.

We are pleased to report that both management and staff have diligently and courteously worked with us throughout 2017.

We note that the training arranged for two members of the Audit Committee in 2017 did not take place due to the cancellation of the course by the Institute of Public Administration (IPA).

The Committee wish to formally thank the Chief Executive Paddy Mahon, the Head of Finance, 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 then 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 2017, the Audit Committee met on the 27th January, 15th February, 12th May, 23rd June, 29th September and 24th November. 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 2016 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 has noted a

commitment from the internal audit function to respond to and implement the recommendations of the external auditor in a timely manner. The Committee has also noted that additional personnel have been allocated to the internal audit function of the Council.

During the year:-

- (a) the Committee also 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 is in the process of reviewing the both the Internal Audit Charter and the Audit Committee Charter;
- (c) the Committee reviewed and considered the following internal audit reports:-
 - Review of Rental Accommodation Scheme & Social Housing Leasing in Longford County Council
 - Acquisition of four fire appliances
 - RAS Revenue Expenditure Programme 2016
 - Internal Audit Report on Local Enterprise Office

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 resourced, 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 both the Internal Audit Charter and the Audit Committee 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;
- (t) Reviewing its own performance and effectiveness.

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 2017. 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:



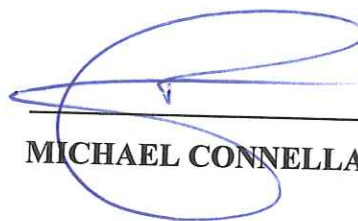
PATRICK GROARKE
Chairperson



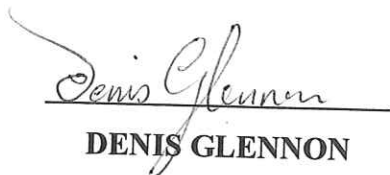
PAT O'BRIEN
Vice Chairperson



CIARA GILLEN



MICHAEL CONNELLAN



DENIS GLENNON