

# Elected Members' oversight role, the role of the Audit Committee and the Internal Audit Function

## AILG Elected Member Training Programme

Module 4 - 28th July 2022

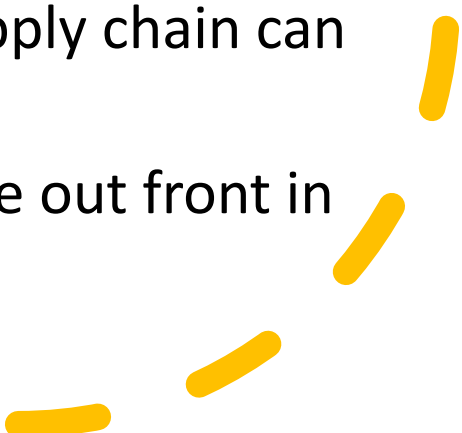
Presented by: **Maurice Murphy**  
Internal Auditor  
Cork County Council



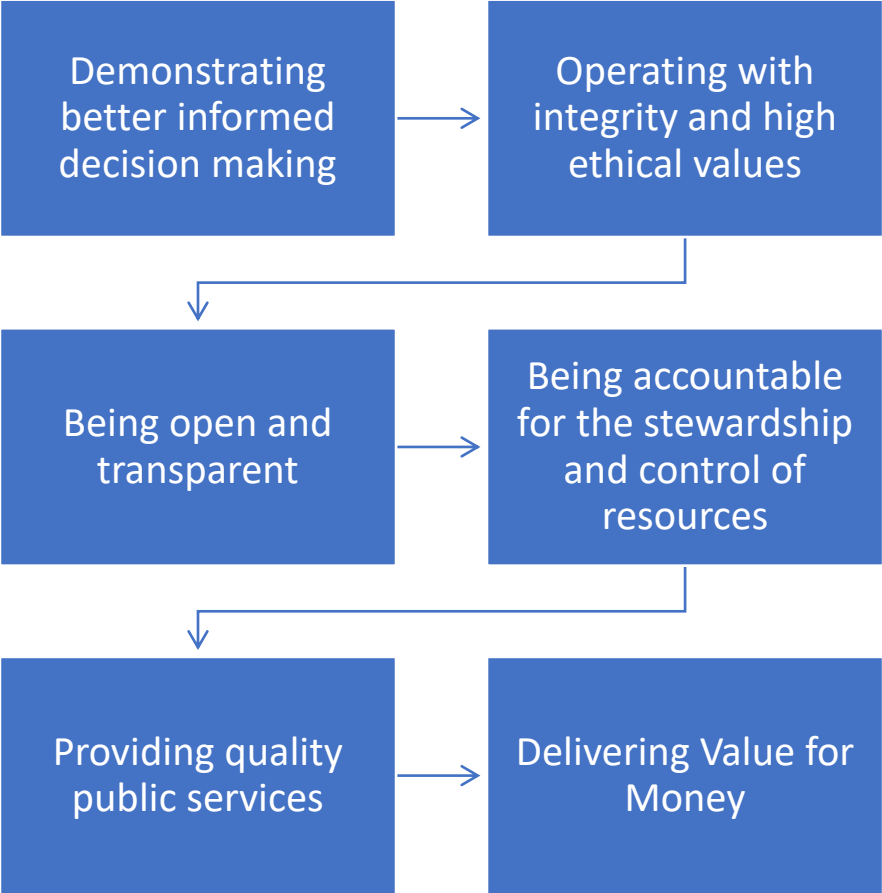
**Cork  
County Council**  
Comhairle Contae Chorcaí

**AILG**  
Association of Irish Local Government  
Aontas Rialtas Áitiúil na hÉireann

# Local Government in Ireland is big business

- 31 local authorities across the country, with estimated expenditure for 2022, in excess of €6.1 billion
  - Multifunctional, delivering over 600 individual services across roads; planning; housing; economic and community development; environment, recreation and amenity services; fire services and maintaining the register of electors.
  - Multiple strategic objectives which can be difficult to balance
  - An island with limited markets and supply chain can be difficult to do business in
  - Sustainable development – we must be out front in the green agenda
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# Good Governance



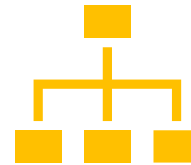
# Everyone has a part to play



Elected Members



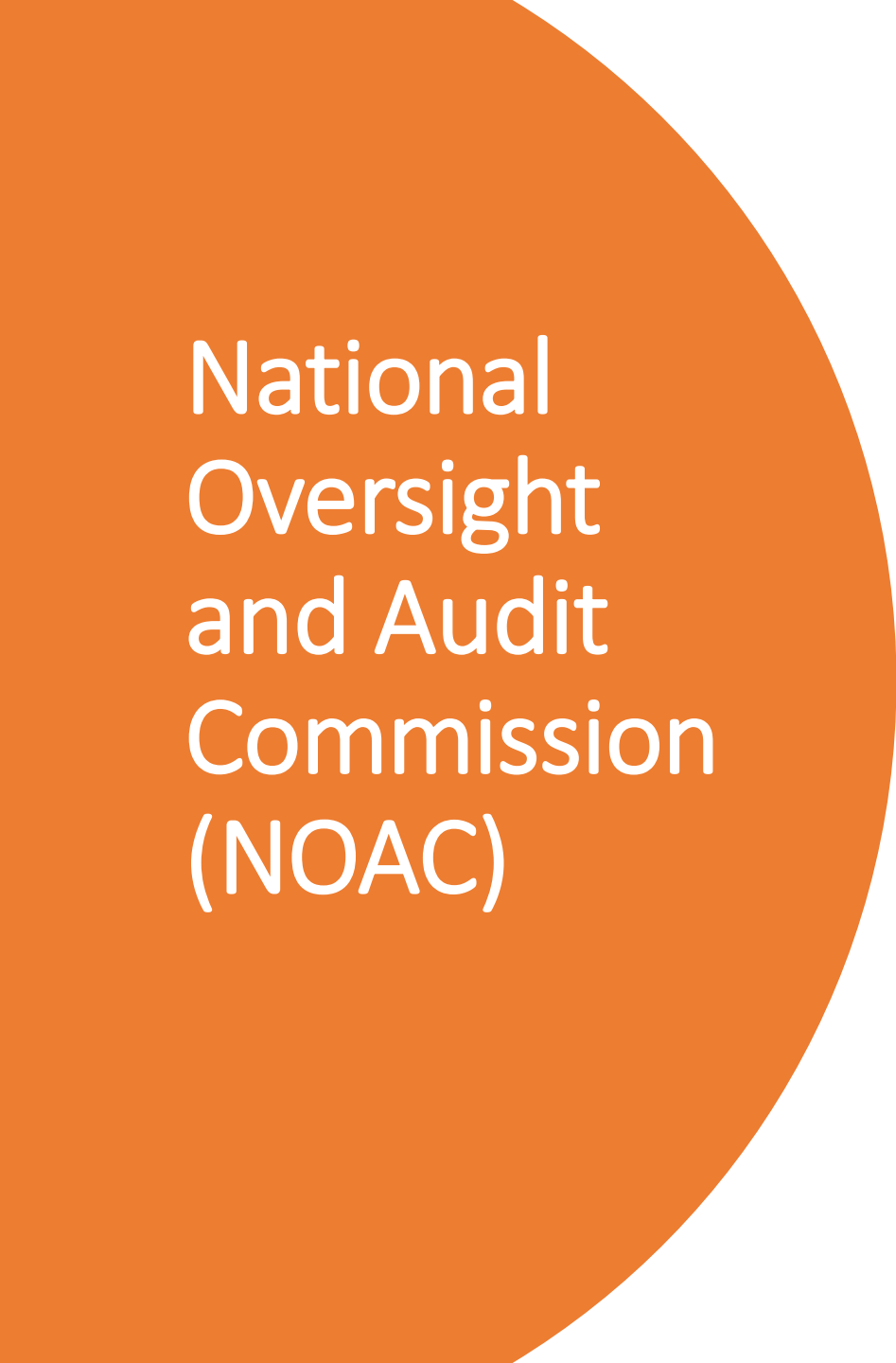
Audit Committee



Management/Executive



Central Government

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# National Oversight and Audit Commission (NOAC)

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The 2014 Local Government Reform Act made provisions for the establishment of NOAC. It has broad statutory functions.

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National independent oversight body for the local government sector

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Functions cover all local authority activities

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Scrutinises performance generally and financial performance specifically

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Supports best practice across the sector

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Oversees implementation of national local government policy and public service reform

## Local Government Audit Service

- Statutory function - provide independent scrutiny of the financial stewardship of LA's
- Provide an opinion on the Annual Financial Statements, not just assurance
- Contribute to improved standards within the sector
- Promote good corporate governance
- Present their findings directly to the Audit Committee
- Value for Money Unit





## **Freedom of Information Act 2014**

- To improve openness and transparency
- To strengthen accountability
- Improve the quality of decision making
- Facilitate effective participation by the public with public bodies

## **Appeals**

- The right of the public to access information
- The right to appeal to the Ombudsman
- The right to appeal through the courts
- Applications for judicial review can be made on a point of law

# Role of Internal Audit

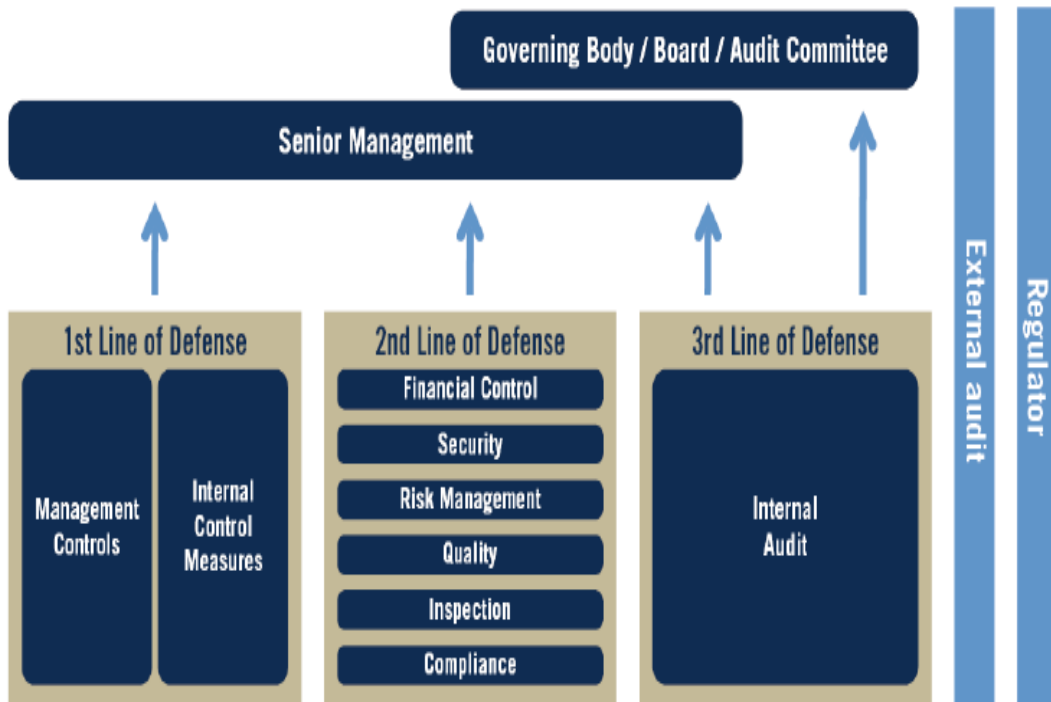
- Offer an independent, objective, assurance and consulting activity
- Provide management and the Audit Committee, with assurance on risk management, internal controls and governance systems
- Operates under a charter
- Develops plans using a risk-based approach which may be guided by:
  - Concerns raised by the Chief Executive and SMT
  - LG Auditor observations from AFS Audit
  - A request from Audit Committee
  - Issues high-lighted by other L.A.'s/press etc.





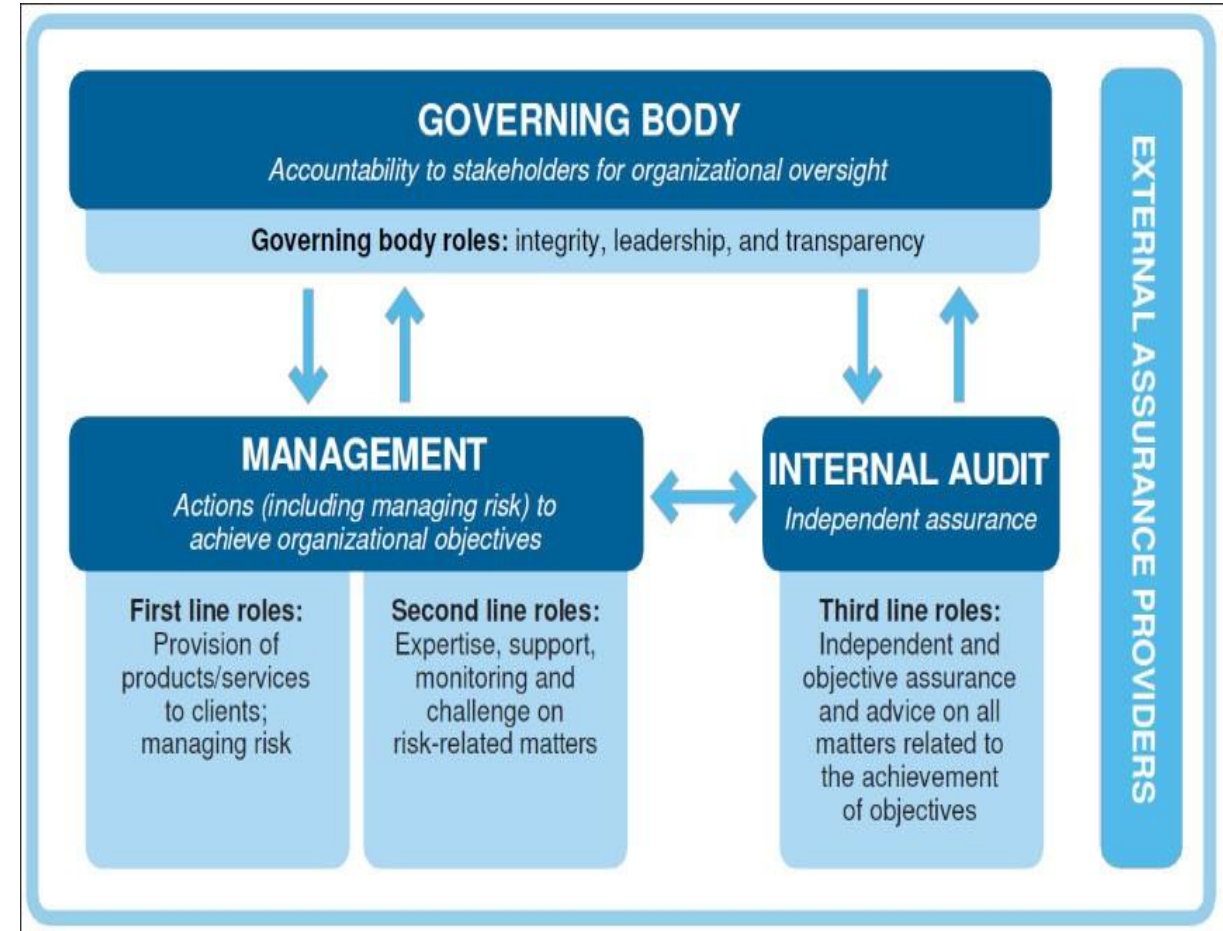
## Old Way - Reactive Internal Audit Service

### The Three Lines of Defense Model



Graphic taken from *The IIA Position Paper The Three Lines of Defense in Effective Risk Management and Control* published in 2013, adapted from *ECIA/FERMA Guidance on the 8th EU Company Law Directive, article 41*

## New way – Proactive Internal Audit Service



# What types of things do I.A. look at?

- **Governance** - the system by which the function is controlled and operates, and the mechanisms by which it, and its people, are held to account
  - **Compliance** – are legal and statutory obligations being met?
  - **Administration** – accountability, oversight controls, efficiency and effectiveness of operations
  - **Ethics** – transparent decision –making + context
  - **Risk management** – identification (internal and external), opportunities, risk appetite and early warning systems
  - **Good record keeping** - helps learning if things go wrong (e.g., Black box which for quizzers is coloured orange)





## **LGIAN - National and Regional Support Networks for Internal Auditors**

- Is the key representative body for Internal Auditors in local government
- Champions good practice
- Provides an effective framework for the discussion of issues, the sharing of knowledge
- Facilitates collaboration, helps promote the internal audit profession
- Access to the County and City Managers Association - Finance Committee

# Audit Committee

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Key role in governance framework

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Promote public sector accountability

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Tasked with oversight

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Provide assurance to the Council

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Independent and objective in carrying out their duties

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Uphold high standards of behaviour

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Assist in fostering an organisational culture that promotes values as espoused in its corporate plan





# How Audit Committees came about

The requirement for local authorities to establish an Audit Committee is set out in the Local Government (Business Improvement Districts) Act 2006

Guided by best practice and developments in corporate governance

The Local Government Act 2001 provided the legal basis for the existence of Audit Committees

The Local Government Reform Act 2014 gives statutory effect to the Action Programme for Effective Local Government

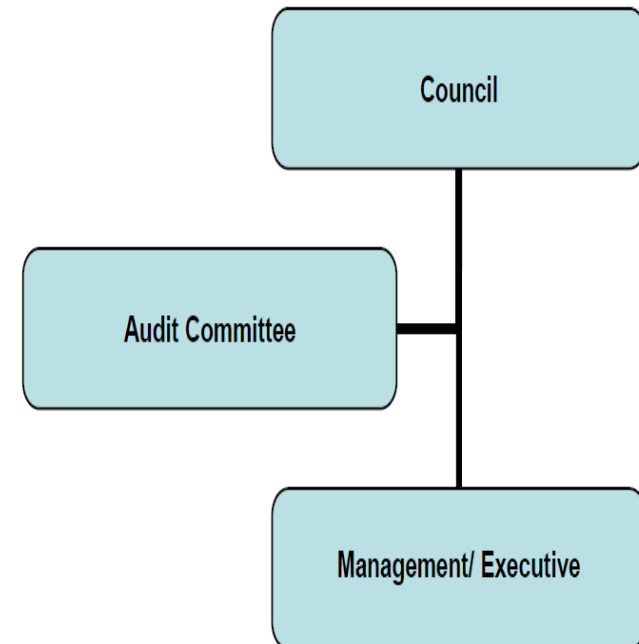
LGRA 2014 provides for the establishment of audit committees within a specific timeframe



# Reporting Framework

The audit committee report directly to the Council and therefore maintains its independence from the executive. Each member of the audit committee has a role to play in ensuring the committee maintains its independence and objectivity

The operation of the audit committee does not diminish the statutory duties and responsibilities imposed on the local authority, be it the Council of elected members or the chief executive under any other statute



# Establishing an Audit Committee

Members of the audit committee are nominated by the corporate policy group, having consulted with the chief executive.

Small to medium local authorities - five members:

- No less than three external members
- No more than two serving or retired elected members
- Two or more persons with experience in finance, auditing or accounting

Larger local authorities - seven members:

- No less than four external members
- No more than two serving or retired elected members, and
- Three or more persons with experience in finance, auditing or accounting

**The chair is selected by the committee from the external members**



# Audit Committee administration support



The Chief Executive nominates a member of staff as Secretary to the Audit Committee. E.g., Director of Service Corporate Services

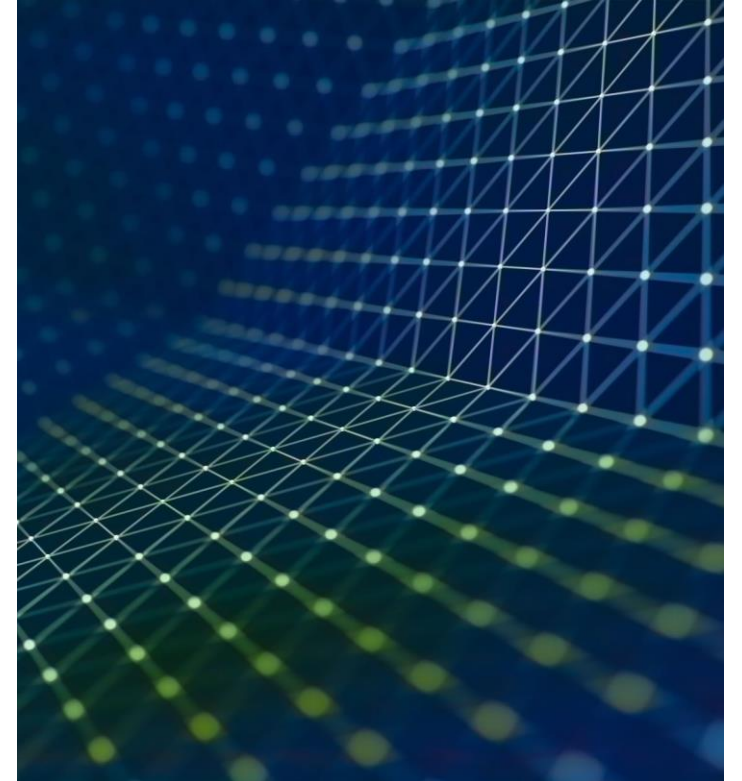


The secretary, in consultation with the Chair of the Audit Committee, is responsible for:

Preparing and circulating relevant documentation for meetings

Assisting the committee with key documents, which are presented to the Council for consideration and approval:

- Audit committee charter
- Audit committee's annual work programme
- AFS Report
- Annual report





# Skills , experience and attributes



**The Audit Committee should have an appropriate mix of skills and experience to enable it perform all its functions effectively**



**Knowledge and experience in finance, auditing or accounting. Other personal qualities should include:**

An ability to ask relevant questions and evaluate answers

Openness and transparency

Think independently and objectively

Strong ethical values

Integrity and an ability to give direct and honest opinions

The ability to be open to, accept and foster change

# Mandate and accessibility

- Establishing balance between good working relationships and requirement for robust oversight
- Access to information, data, reports or any other documents
- Access to staff and the LGAS Auditor
- Meet at least annually with:
  - The external auditor of the LGAS
  - Employees of the internal audit unit
  - The chief executive
  - It may be beneficial to meet senior staff
- The audit committee should have a strong working relationship with the external auditor
- Obtain specialist consultancy services if required




**Qualified Privilege** - The audit committee are entitled to qualified privilege in relation to any statement made at any meeting attended in their capacity as a member of an audit committee

**Protected Disclosures** - The audit committee should have a policy and procedure in place for dealing with protected disclosures

**Code of Ethics** - The audit committee must have regard to the ethical framework for the local government sector in the performance of their function

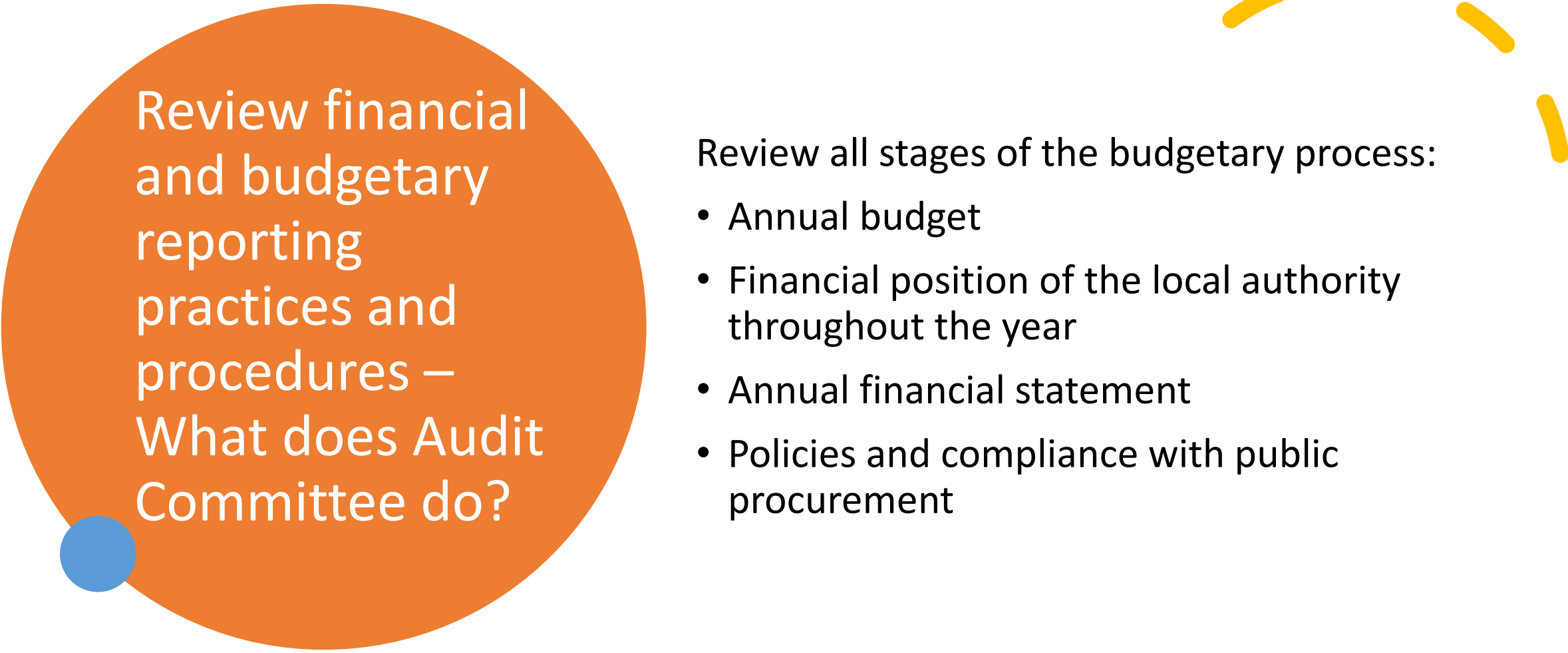
**Freedom of Information** - Audit committee minutes are subject to freedom of information, and are sought on an ongoing basis



## Audit Committee – transparency considerations

# Statutory Functions of the Audit Committee

- Meet a minimum of 4 times a year
  - Carry out a comprehensive programme of work on behalf of the elected members:
    - a) Review financial and budgetary reporting practices and procedures within the local authority
    - b) Foster development of best practice performance of the internal audit function
    - c) Review any audited financial statement, auditor's reports or auditor's special report in relation to the local authority, and assess any response actions taken within the authority by the Chief Executive and report its findings to the authority
    - d) Access and promote efficiency and value for money with respect to the local authority's functions
    - e) Review risk management systems operated by the local authority
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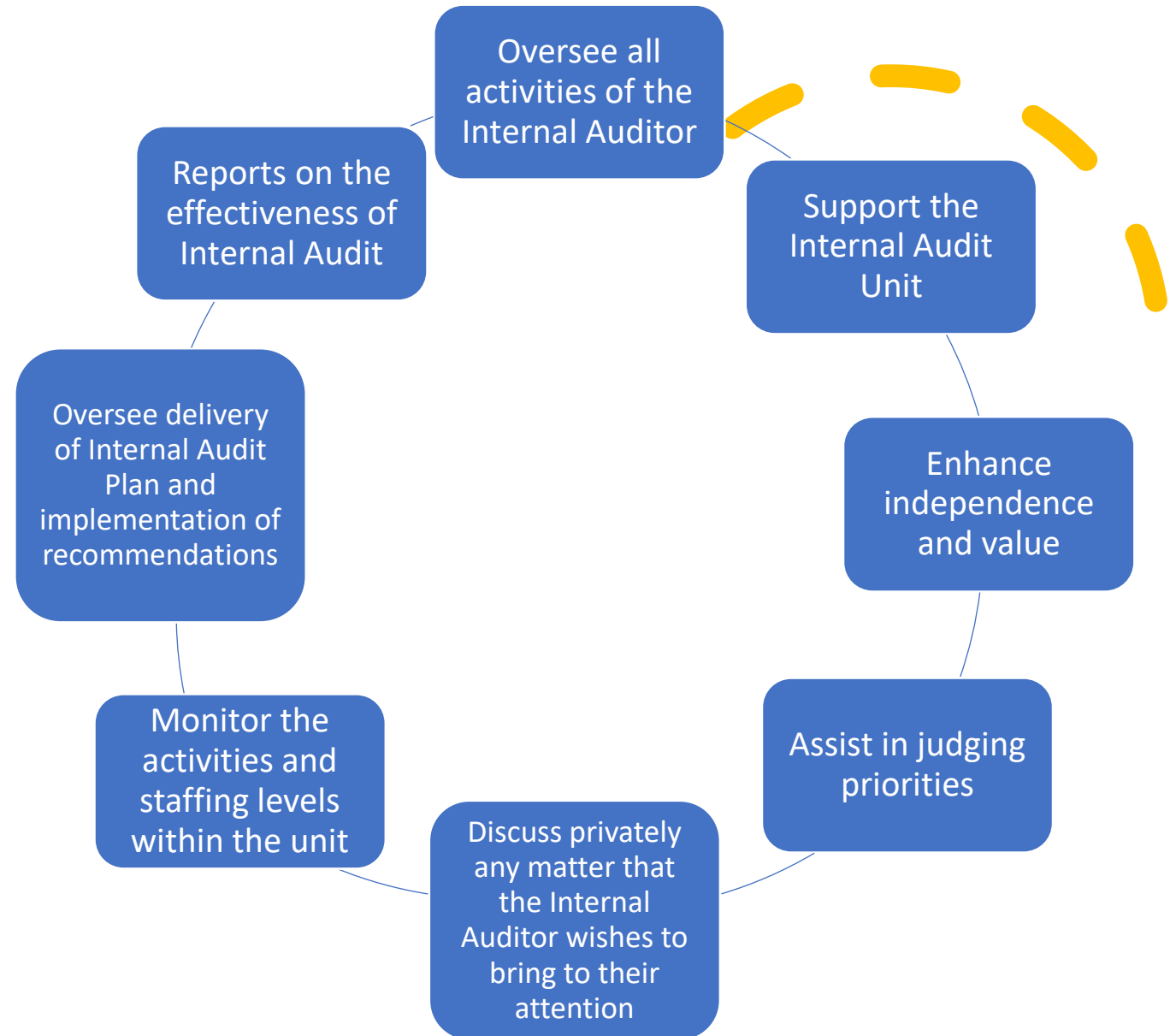


Review financial and budgetary reporting practices and procedures –  
What does Audit Committee do?

Review all stages of the budgetary process:

- Annual budget
- Financial position of the local authority throughout the year
- Annual financial statement
- Policies and compliance with public procurement

Foster development of best practice Internal Audit Function – What does Audit Committee do?



# Review of any audited Financial Statements, auditor's reports etc. – What does Audit Committee do?



Meet with the auditor of the LGAS to carry out an annual review of the audited AFS



Review the auditor's report, the auditors special report and the management letter



Discuss managements responses and the adequacy of those responses



Discuss the report with the executive and seek assurances in relation to any matter highlighted



Report findings to the Council.



Review actions taken by the executive



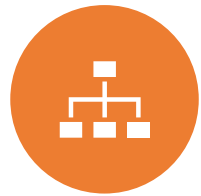
# Efficiency and value for money – What does Audit Committee do?

## Key areas for consideration include:

- Any LGAS Value for Money Reports including findings
- NOAC Reports
  - Annual Performance Indicator
  - Public Spending Code Quality Assurance Report
  - A guide to audit committees on the impact of Covid-19 on the control environment in local authorities, June 2022
- New and emerging areas of operation
- Areas of significant expenditure
- Reports or updates on any area relevant to the Audit Committee's work



# Review of risk management systems – What does Audit Committee do?



Seek assurance that an appropriate/active risk management framework is in place:



Risk Management Policy



Corporate Risk Register – significant corporate level risk



Directorate specific risk registers



Business Unit risk registers



Risk overseers report to the audit committee on a regular basis




# **Audit Committee Annual Report**

The audit committee prepare an annual report for the elected members to include:

- The programme of work carried out by the Audit Committee under its statutory functions
- Any matters which the audit committee considers that actions or improvements are needed
- The committee's assessment of its own effectiveness and performance
- Training needs and challenges or obstacles encountered

Provisions have been made in the regulations, to allow the Chairperson to address the Council and to provide any clarity the Council may need in relation to the annual report



How do Elected Members influence and monitor policy?



# Elected Members oversight – What can you do? (1)

## Local Government Act 2001 (as amended by the 2014 Act)

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Elected members have the preeminent role in local government

Create the overall policy framework within which the council's executive operates

Play a significant role in oversight, governance and compliance

Under the Local Government Act 2001 (as amended by the 2014 Act) elected members:

Can require the submission of financial statements (Section 105)

Approve Policy Documents (Section 134)

Receive reports on the Capital Programme (Section 135)

Receive information on business or transactions of the council (Section 136)

## Elected Members oversight – What can you do? (2)

### Local Government Act 2001 (as amended by the 2014 Act)

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Obtain a monthly report on the performance of the executive functions (Section 136)

Receive specifications and cost estimates of particular works (Section 137)

Can require the CE to inform them before performing any specified executive functions (Section 138)

Can prohibit the undertaking of new works (Section 139)

Can direct that a second legal opinion be obtained (Section 132)

Can require that a particular act, matter or thing be done by the chief executive (Section 140)

Bring questions and motions to statutory council meetings (Schedule 10)

Authorise the borrowing of money and the disposal of assets

# Conclusion

- Oversight is an important function of the elected members and a key element of good corporate governance.
- In addition to the statutory framework in place for the elected members to perform their own oversight role and function, they can also place reliance on:
  - The Audit Committee to have independent oversight on the Council's financial reporting processes, internal controls, risk management and audit matters as part of their systematic review of the control environment and governance procedures of the local authority.
  - The Internal Audit Unit's unrestricted access to records and personnel in carrying out its assurance role, through auditing the operations of the organisation and making recommendations where weaknesses in systems and gaps in controls are identified.
  - NOAC's added dimension of independent scrutiny and oversight of the performance of the local government sector.
  - The Local Government Audit Service scrutiny of the financial performance of the local authority and their value for money reports for the sector.



# Reference Material used for this presentation

- Local Government Act 2001
- Putting People First-An Actions Programme for Local Government
- Local Government Reform Act 2014
- Governance Principles & Governance Framework for the Local Government Sector
- Statutory Instrument No. 244 of 2014 -Local Government (Audit Committee) Regulations 2014
- Guidance for Audit Committees in Local Authorities June 2014
- AILG paper to the Members of the PAC on Governance, Oversight and Accountability in Local Authorities
- Independent Review on the Role and Remuneration of Local Authority Elected Members – The Moorehead Report

# Thank You



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