

Elected Members Oversight Role

the role of the Audit Committee

and the

Internal Audit Function



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Introduction

Local Government in Ireland is big business. It comprises 31 local authorities across the country, with estimated expenditure for 2022, in excess of €6.1 billion. They operate in a complex environment, which has both reserved and executive functions

LA's are multifunctional, delivering over 600 individual services to citizens and interacting with a wide range of stakeholders

It is essential that the executive and the elected members work together to develop, maintain and oversee a set of systems, principals and processes that promotes the efficient use of financial and non-financial resources to deliver quality public services and better outcomes for citizens, in line with principals of good corporate governance

Good Corporate Governance

- ▶ Good corporate governance involves better informed decision making
- ▶ Operating with integrity and high ethical values
- ▶ Being open and transparent
- ▶ Being accountable for the stewardship and control of resources
- ▶ Using those resources to deliver quality public services

Elected Members oversight role

- ▶ 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 legislative provisions, they:

- ▶ Can require the submission of financial statements
- ▶ Approve Policy Documents
- ▶ Receive reports on the Capital Programme
- ▶ Receive information on business or transactions of the council

Elected Members oversight role cont.,

- ▶ Obtain a monthly report on the performance of the executive functions
- ▶ Receive specifications and cost estimates of particular works
- ▶ Can require the CE to inform them before performing any specified executive functions
- ▶ Can prohibit the undertaking of new works
- ▶ Can direct that a second legal opinion be obtained
- ▶ Can require that a particular act, matter or thing be done by the chief executive
- ▶ Bring questions and motions to statutory council meetings
- ▶ Authorise the borrowing of money and the disposal of assets

An Example of the oversight role of the Elected Members in the context of the corporate plan

- ▶ Corporate Plan is a 5 year plan developed in consultation and adopted by the elected members

Members oversight

- ▶ An annual service delivery plan must be developed
- ▶ Progress in respect of the corporate plan must be included in the annual report
- ▶ The adoption of the annual service delivery plan and annual report is a reserved function
- ▶ The chief executive presents monthly management reports for the council

National Oversight and Audit Commission (NOAC)

The 2014 Local Government Reform Act made provisions for the establishment of NOAC. Its statutory functions are wide:

- ▶ It is the national independent oversight body for the local government sector
- ▶ Its functions cover all local authority activities
- ▶ It scrutinises the performance generally and the financial performance specifically
- ▶ It supports best practice across the sector
- ▶ It oversees the implementation of national local government policy and public service reform

Local Government Audit Service

- ▶ Statutory function to provide independent scrutiny of the financial stewardship of LA's
- ▶ Provide an opinion on the annual financial statement, not just assurance
- ▶ Contribute to improved standards within the sector
- ▶ Promote good corporate governance
- ▶ Present their finding 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 of 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

- ▶ Internal Audit is an independent, objective, assurance and consulting activity
- ▶ Provides management and the audit committee, with appropriate assurance in relation to risk management, internal controls and governance systems
- ▶ Operates through a charter
- ▶ Plans are developed, using a risk based approach, which includes a review of:
 - ▶ Policy documents
 - ▶ performance indicators
 - ▶ The budget and the annual financial statement

Role of Internal Audit cont.,

- ▶ The corporate risk register and business unit risk registers
- ▶ Consultation with the senior management team and head of each business unit
- ▶ Consultation with the external auditor and the audit committee
- ▶ Progressively the work of internal audit is viewed as a proactive rather than a reactive
- ▶ Working in partnership with management, to support a culture of compliance
- ▶ Provides assurances to the chief executive and the audit committee, that control systems are adequate
- ▶ Agrees recommendations for improvement in systems and controls

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

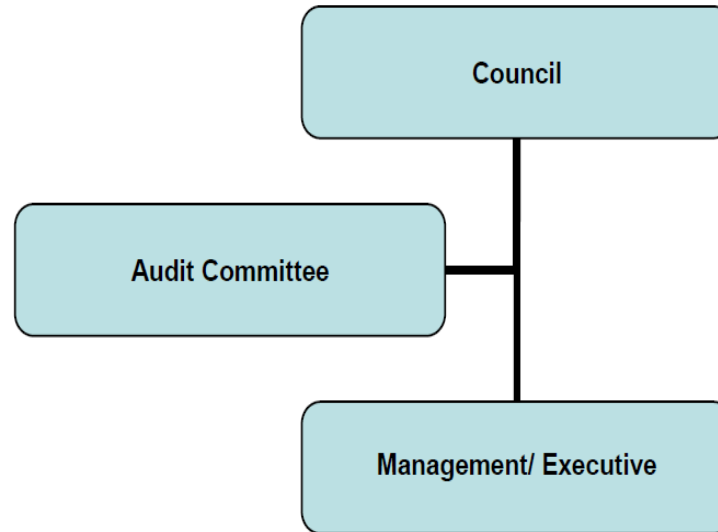
- ▶ Key role in governance framework
- ▶ Promote public sector accountability
- ▶ Tasked with oversight
- ▶ Provide assurance to the Council
- ▶ Independent and objective in carrying out their duties
- ▶ Uphold high standards of behaviour
- ▶ Assist in fostering an organisational culture that promotes values as espoused in its corporate plan

Background

- ▶ 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 effective 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

Appointment Process

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

For small to medium local authorities, the audit committee consists of five members:

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

For larger local authorities the membership consists of seven members:

- ▶ No less than four external members
- ▶ No more than three serving or retired elected members, and
- ▶ Three or more persons having knowledge or experience in finance, auditing or accounting

The chair is selected by the committee and is an external members

Secretary of the Audit Committee

- ▶ The chief executive nominate a member of staff as secretary to the audit committee.
- ▶ 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

Qualifications and Qualities

- ▶ The audit committee should have an appropriate mix of skills and experience to enable it perform all of 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

Access and Authority

- ▶ An appropriate balance between a good working relationships and the necessary requirements of robust oversight
- ▶ Access to documents or other data or information
- ▶ 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

Statutory Functions of the Audit Committee

- ▶ The audit committee meet a minimum of 4 times a year
- ▶ They carry out a comprehensive programme of work on behalf of the elected members, in accordance with the statutory functions:
 - a) To review financial and budgetary reporting practices and procedures within the local authority that has established it
 - b) To foster the development of best practice in the performance by the local authority of its internal audit function
 - c) To review any audited financial statement, auditor's reports or auditor's special report in relation to the local authority, and assess any actions taken within the authority by its chief executive in response to such a statement or report, and to report to the authority on its findings
 - d) To access and promote efficiency and value for money with respect to the local authority's performance of its functions and
 - e) To review systems that are operated by the local authority for the management of risks

a) The review of financial and budgetary reporting practices and procedures within the local authority

The audit committee should 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

b) To foster the development of best practice in the performance by the local authority of its internal audit function

All activities of the internal auditor are overseen by the audit committee.

- ▶ Support the internal audit unit
- ▶ Enhance independence and value
- ▶ Assist in judging priorities
- ▶ Make themselves available to discuss privately any matter that the internal auditor wishes to bring to their attention
- ▶ Monitor the activities and staffing level within the unit
- ▶ Oversee the implementation of agreed internal audit recommendations
- ▶ Reports on the effectiveness of internal audit

b) To foster the development of best practice in the performance by the local authority of its internal audit function cont.,

The internal auditor should provide regular progress reports at each meeting of the audit committee, including update in relation to:

- ▶ Audits being undertaken currently or recently completed
- ▶ Progress on outstanding audit recommendations
- ▶ Consultations undertaken
- ▶ Internal audit plans
- ▶ Seeking advice or support in respect of audit issues

c) To review any audited financial statement, auditor's reports or auditor's special report and assess any actions taken by its chief executive in response and to report to the authority on its findings

- ▶ The audit committee carry out an annual review of the audited AFS and report on their findings to the Council.
- ▶ Meet with the auditor of the LGAS
- ▶ 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
- ▶ Prepare a report for the Council
- ▶ Review actions taken by the executive

d) To access and promote efficiency and value for money with respect of the local authority's performance of its functions

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

e) To review systems that are operated by the local authority for the management of risks

A risk management framework should be in place and consists of:

- ▶ A Risk Management Policy
- ▶ Corporate Risk Register – containing significant risk areas
- ▶ Directorate Risk Registers
- ▶ Business Unit Risk Registers
- ▶ The audit committee should seek assurances that an appropriate framework is in place
- ▶ The risk managers should report to the audit committee on a regular basis

The Audit Committees Annual Report

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

- ▶ The programme of work carried out by the audit committee in compliance with its statutory functions
- ▶ Any matters in respect of 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

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 have an independent oversight role in advising the Council on financial reporting processes, internal controls, risk management and audit matters as part of the systematic review of the control environment and governance procedures of the local authority
 - ▶ The internal audit unit has unrestricted access to records and personnel and is charged with carrying out its assurance role, by auditing the operations of the organisation and making recommendations where weaknesses in systems and gaps in controls are identified
 - ▶ NOACs oversight role brings an added dimension of independent scrutiny and oversight to the performance of the local government sector
 - ▶ The local government audit service scrutinises the financial performance of the local authority and also produce value for money reports for the sector

Reference Material

- ▶ Local Government Act 2001
- ▶ Putting People First-An Actions Programme for Local Government
- ▶ Local Government Reform Act 2014
- ▶ Governance Principals & 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
- ▶ ALLG 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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