

Briefing Document

Local Government Audit Service

Public Accounts Committee

Thursday, 23rd June 2022 at 9.30 a.m.

Leinster House

Background

The Local Government Audit Service (LGAS) performs the independent, external audit of local government, as established by the Minister for Housing, Local Government and Heritage.

The LGAS provides independent scrutiny of the financial stewardship of local authorities. Its role is to:

- *Carry out audits of local authorities and other bodies in accordance with its Code of Audit Practice, thereby fostering the highest standards of financial stewardship, governance and public accountability;*
- *Promote the achievement of value for money in local authorities by undertaking Value for Money (VFM) studies and publishing reports thereon*

The remit of the LGAS extends to the audit of all local government bodies in Ireland as follows:

- Local Authorities (31 bodies)
- Regional Assemblies (3 bodies: Northern and Western Regional Assembly, Eastern and Midland Regional Assembly and Southern Regional Assembly)
- Motor tax offices (26 bodies)
- Other (Association of Irish Local Government, Dental Council of Ireland, Local Government Management Association (LGMA) and Lough Corrib Navigation Trustees)

Role of Local Government Audit Service

The Minister for Housing, Local Government and Heritage appoints auditors, known as Local Government Auditors, to carry out or assist in the carrying out of audits of local and other bodies. All Local Government Auditor staff are qualified accountants and recruited following open public competitions.

The Director of Audit is the organisational head of the service. This post is a statutory position and the main functions, as prescribed in section 116 of the Local Government Act, 2001 are to:

- Organise, direct and allocate resources within the LGAS;*
- Assign audits of local authorities and other bodies to Local Government Auditors;*

- c) *Provide such advice and assistance as the Minister may, from time to time, require for the purposes of maintaining a Code of Audit Practice;*
- d) *Direct the Local Government Value for Money Unit established by section 14 of the Local Government (Financial Provisions) Act, 1997, and to ensure that the work of the unit is incorporated into local government audit practice.*

Each Local Government Auditor is assigned an audit district under warrant of authority from the Director of Audit. Local Government Auditors are independent of the Department when discharging their professional functions. This independence is protected in legislation in accordance with section 116(2) of the Local Government Act, 2001.

The Local Government Act, 2001 sets out the primary duties of the Local Government Auditor as follows:

“In the course of the audit of accounts of the Local Authority or other body, the Local Government Auditor shall carry out such audit tests as he or she considers appropriate in order to be satisfied as to:

- (a) whether the Annual Financial Statement is prepared in accordance with section 108 or with the accounting requirements otherwise applicable to the body concerned,
- (b) whether the Annual Financial Statement presents fairly the financial position of the authority or other body and of its income and expenditure for the period in question,
- (c) whether the transactions of the audited body conform to the statutory or other authorisation under which they purport to have been carried out.”

In discharging their responsibilities, Local Government Auditors must take account of matters arising from previous audit reports and management letters.

Following the audit, each Local Government Auditor issues an audit opinion, an audit report and a management letter to the Chief Executive of the Local Authority. The audit report is addressed to the Elected Members of the Local Authority.

Audit Opinion

It is the Local Government Auditor’s main statutory duty, following completion of the financial audit, to give his/her independent audit opinion on the Annual Financial Statements of the audited body, which have been prepared in accordance with the Code of Practice and Accounting Regulations for local authorities, as to whether it presents fairly, the financial position of the audited body and of its income and expenditure for the period under audit. The audit opinion forms part of the Final Audited Annual Financial Statements.

Audit Reports

In addition to the audit opinion, it is custom and practice to issue statutory audit reports covering any matter or matters, which the auditor considers, should be reported. The Chief Executive of a Local Authority is required to respond to this report and his/her comments shall be included, if of

material significance, as part of the final report. This procedure has enhanced public scrutiny of local government as management responses, to address the issues raised at audit, form part of the published audit reports.

The Local Government Auditors' statutory reports issued to the elected Members of the local authorities on the audits of the Annual Financial Statements are published on the Department's website.

Management Letters

In accordance with International Standards on Auditing, an auditor may issue a management letter drawing attention to any weaknesses in financial procedures and / or internal controls identified during audit, and make appropriate recommendations. A management letter may incorporate audit memoranda already issued to functional officers and line managers during the audit. Management letters generally refer to accounting and financial control issues identified in the course of the audits.

Value for Money (VFM) Unit in the Local Government Audit Service

The Local Government Act, 2001 states that the Local Government (Value for Money) Unit forms part of the Local Government Audit Service. The Unit carries out VFM studies on Local Authority operations, with a view to identifying best practice and recommending ways of improving existing procedures, practices and systems and thereby promoting efficiency and cost effectiveness.

The VFM audit unit of the LGAS consists of a central research team, staffed by a Principal Local Government Auditor and two Local Government Auditors, together with further audit days provided by assistant auditors.

A VFM Audit Consultative Committee representing the main stakeholders (including NOAC) and chaired by the Director of Audit, has been established. It has an advisory role in the selection of VFM projects and in reviewing the quality of draft reports before publication.

Five VFM reports were issued in the last two years as follows:

1. An Overview of Fire Expenditure and Income in Local Authorities – December 2020.
2. An Overview of Vacant/Void Social Housing in Local Authorities – October 2021
3. An Overview of the Restart Grant and Restart Grant Plus Schemes - October 2021
4. An Overview of the impact of the COVID-19 pandemic on Local Authorities - November 2021
5. An Overview of Roads Maintenance (Regional and Local Roads) in Local Authorities – January 2022

VFM reports are issued to the following:

- Chief Executives of all local authorities
- Relevant Directors of Service and Heads of Finance in all local authorities
- Chairs of Audit Committees of all local authorities
- Local Authorities Internal Audit Group

- Local Government Audit Service staff
- Office of the Comptroller and Auditor General
- Local Government Management Agency
- NOAC
- IPA
- DPER and
- other interested parties, depends on the report topic.

Overview of the Work of the Local Government Audit Service Report 2020

This report provides an annual overview of the work of the Local Government Audit Service in delivering on its statutory remit of providing the external audit of local government, in accordance with sections 114 to 126 of the Local Government Act, 2001, as amended by the Local Government Reform Act, 2014.

The report is divided into 3 sections as follows:

Section 1 provides detail on the background of the Local Government Audit Service, the legislation under which we operate and the various obligations we have. It also looks forward to our future priorities. Details regarding the various relationships the Local Government Audit Service has with other bodies, including local authorities, their audit committees, the National Oversight & Audit Commission (NOAC) and the Office of the Comptroller and Auditor General is set out. The relationships and interdependencies with our various stakeholders is also noted. The role played by the Value for Money Unit (VFM) in the LGAS, the reports issued during the year and ongoing are highlighted.

Section 2 provides a high-level independent summary of the financial performance of the local authorities and their financial position at the year-end. The primary sources of information for this section are the Local Authority audited financial statements and their annual audit reports.

As with previous years, the annual report explores the sources of funding for Local Government and looks at the various supports received including the Rates Waiver Scheme, Restart Grant Schemes and loss of income from Goods and Services and increased COVID-19 related expenditure.

Details of the main sources of both revenue and capital income and expenditure together with historic data are set out in the report so that comparisons can be made.

The value of assets of local authorities and the liabilities that they face in both the short and long term are detailed along with comparisons.

Section 3 summarises the audit opinions and the findings from the audit reports issued. The purpose of an audit report is to highlight issues noted during the annual statutory audit. However, it is equally important to recognise the continued progress made by some local authorities in these areas, especially during challenging times. Therefore, if improvements are noted in audit reports these are referred to in this section also.

Auditors have continued to note improvement in the collection yields in the area of housing rents and housing loans.

The steps taken by some local authorities in improving their budgetary controls and reducing revenue deficits over the last number of years has also been commented on in some reports.

Other areas where improvements were noted by auditors as part of their annual audit reports included:

- capital balances
- fixed asset management
- procurement
- governance

However, issues or findings that appeared in the 2020 audit reports, which were consistent with prior years, included the following:

- asset management
- unfunded balances
- interest-only or rolled-up interest loans
- development contributions
- procurement
- understaffed internal audit functions

The reporting of these issues individually to local authorities and cumulatively in this report is important, as it allows us to highlight the recurrent sectoral issues.

The findings included in the Overview Report are not an exhaustive list of all findings but a summary of the main areas. The audit reports for each Local Authority deal with the findings in detail.

The Overview Report is circulated on a yearly basis to the Joint Oireachtas Committee on Housing Local Government & Heritage. The Director of Audit attends on a regular basis a meeting with Joint Oireachtas Committee to discuss the Overview Report. The last attendance was 17 May 2022.

Accountability framework in Local Authorities

There is a robust accountability framework in place in Local Authorities of which the Local Government Audit Service is one element. Each Local Authority also has an Audit Committee and Internal Audit Function. In addition, the Local Government Reform Act 2014 led to the establishment of the National Oversight and Audit Commission (NOAC).

As noted above the Local Government Auditor seeks a response from the Chief Executive to any issues raised in the audit report. This report including responses is published on both the Local Authority website and Department of Housing, Local Government & Heritage website. This improves both the transparency of, and accountability for, the issues raised.

It is the responsibility of the Chief Executive and the management team to ensure proper controls and procedures are place in the Local Authority and to act on the issues in the Audit Report and the management letter.

The Local Government Auditor, as set out in the Local Government Act 2001, attends a meeting of the Audit Committee in order to clarify the contents of the Audit report. The Audit Committee then prepares a report to the Members, on their consideration of the Audit report and the Annual Financial Statement.

The Members of the Local Authority receive a copy of the audited Annual Financial Statement, the Audit report and a report prepared by the Audit Committee.

In addition, it would be normal audit practice that Local Government Auditors would follow up significant issues raised at the commencement of the subsequent audit. The implementation of recommendations made is a matter for the management of the Local Authority. However, the lack of action on recommendations made at previous audits may be referred to in subsequent audit reports.

Role of the Audit Committee

It is set out in the Local Government (Audit Committee) Regulations 2014 that the *“Audit Committee shall prepare, within three months of the expiration of each calendar year of operation, a report detailing its considerations and findings for the year just expired in relation to all matters within its authority, duties and functions, and a review of its performance in accordance with Regulation 13 and any issues impairing that performance”*.

As noted above, it is also set out in the Local Government Act 2001, that *“the local government auditor, who conducted the audit, shall attend a meeting of the Audit Committee to clarify such issues as may be necessary in relation to the content of the auditor’s report”*. The Audit Committee shall report to the relevant authority on its consideration of the audited financial statement and auditor’s report at the next practicable meeting of the relevant authority following the Audit Committee’s consideration.

The functions of the Audit Committee, as set out in Local Government Reform Act 2014, are as follows:

- (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 report or auditor’s special report in relation to the Local Authority and assess any actions taken within that authority by its chief executive in response to such a statement or report and to report to that authority on its findings,
- (d) to assess 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.

Role of the National Oversight Audit Commission (NOAC)

NOAC is the national independent oversight body for the local government sector. NOAC's functions cover all Local Authority activities and involve the scrutiny of performance generally and financial performance specifically. It also has a role in supporting best practice, overseeing implementation of national local government policy and monitoring and evaluating implementation of corporate plans, adherence to service level agreements and public service reform by local government bodies.

The LGAS collaborate with NOAC on a yearly basis through the sharing of work programmes to ensure the efficiency of the work performed in the VFM unit.

Relationship with the Office of the C&AG

The LGAS liaises and cooperates throughout the year with the Office of the C&AG on a number of areas including professional training, standards development and quality assurance. In recognition of the impact of the COVID-19 pandemic on public sector auditing, including changing work practices and audit approaches, the LGAS liaised with the OC&AG during 2021 to stay informed on evolving approaches to auditing and to continue to learn from, and support each other. Copies of all LGAS reports are made available to the OC&AG as part of his audit of the Department of Housing, Local Government & Heritage.