



# **Annual Report of the Audit Committee of Cork City Council**

**for the year ended 31<sup>st</sup> December 2017**

**20<sup>th</sup> March 2018**

# **Cork City Council Audit Committee Annual Report 2017**

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## **Chairman's Statement**

As Independent Chairman of the Audit Committee for the Council, I am pleased to present the Committee's annual report for 2017 and to acknowledge the work and commitment of the members of the Committee, the internal audit unit and Council management and staff. The Audit Committee is an important part of the overall control assurance framework within the Council and this report reviews the work of the Audit Committee (AC) in 2017 and outlines the manner in which the AC has sought to deliver on its key governance functions. As is the norm, the committee met with the Local Government Auditor in December 2017 and subsequently with the Chief Executive to discuss the statutory audit report and other relevant issues.

As required by the legislation, a separate report in relation to the 2016 statutory audit report has also been prepared for tabling at the Council meeting.

The AC has an independent role in the provision of assurance to the Council and this includes oversight responsibilities for the consideration of the adequacy and effectiveness of the internal control systems, control environment and control procedures, financial reporting, monitoring compliance with governance procedures within the Council, reviewing the effectiveness of Internal Audit Unit and providing advice and professional guidance in relation to the development of the Unit.

The AC met on a total of six occasions in 2017. In addition to the agenda items covering all aspects of the Committee's role and work programme, the chief executive, directors of service and management were invited and provided detailed briefings and presentations on a range of relevant issues impinging on control and governance issues within the Council. These engagements informed the work of the Committee and our understanding of the wider control environment within the organisation.

In conclusion, on behalf of the Committee and on my own behalf, I would like to thank all those who prepared reports and documentation for our deliberations. We thank Stephanie Cronin, Head of Internal Audit Unit and other members of the Unit for their work and delivery of the audit programme and in servicing the needs of the Committee over the year. We would also like to acknowledge the contributions and assistance received from the Chief Executive, Head of Finance and management and staff.

Finally, on a personal level, I would like to thank colleague members of the Audit Committee for the wisdom, insights, experience and valued judgements on the wide range of issues that we examined in 2017.



**Aidan Horan, Audit Committee Chairman**

## **2017 AUDIT COMMITTEE ANNUAL REPORT SUMMARY**

### **MEMBERSHIP<sup>1</sup>**

1. Cllr Chris O Leary, member of Cork City Council
2. Cllr John Buttimer, member of Cork City Council
3. Cllr Sean Martin, member of Cork City Council
4. Ms Gillian Keating, non-executive member
5. Mr Sean Angland, non-executive member
6. Ms Margaret Lane, non-executive member
7. Mr Aidan Horan, non-executive member ( Chairman)

### **MEETINGS**

- 31<sup>st</sup> January 2017
- 21<sup>st</sup> March 2017
- 30<sup>th</sup> May 2017
- 5<sup>th</sup> September 2017
- 24<sup>th</sup> October 2017
- 12<sup>th</sup> December 2017

### **AUDIT COMMITTEE WORK PROGRAMME HIGHLIGHTS**

- **Internal Audit and Control**
  - Approval of 2017 annual audit plan, scoping papers and monitoring of progress with completion of audits throughout the year
  - Consideration of the 2018 Audit Plan and areas for review in the coming year
  - Internal audit activity and reviews undertaken consistent with the audit plan agreed included public spending code audits, planning enforcement, coroners payments, Concert Hall and Millennium Hall Income controls and employee exit process as well as spot checking activity and follow up reviews.
  - Review of audit report contents, findings, management responses and recommendations. Follow up with directorates as necessary.
  - Ongoing review of audit recommendations trackers with specific emphasis on work of the corporate group and management assurance arrangements for tracker process and sign off

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<sup>1</sup> Membership as at 31<sup>st</sup> December 2016

- Consideration of resourcing issues and options to address delivery of the internal audit work programme including use of external service provider on some topic areas.
- **Stakeholder interactions**
  - Interaction with the Local Government Auditor to discuss statutory audit report issues and areas within the management letter.
  - Interaction with the Chief Executive to discuss audit report issues and also the level and quality of management engagement with the Committee.
  - Presentations from Directorates in relation to internal control, risks and uncertainties and relevant internal audits completed, in progress or scoped for future periods
  - The Chief Executive's monthly report to Council and update on financial position and performance are regular agenda items
  - Corporate Services Group has been re-established and will engage with the Committee in relation to policy development in governance and control areas and wider organisational communication in areas such as anti-fraud, entertainment, data protection and the recommendations tracker process.
- **Risk Management**
  - Management updates on risk management process and implementation arrangements and presentations on the corporate risk register.
- **Information Technology**
  - Assurance mapping and review of IT audit universe which will inform future reviews in this area.
- **Miscellaneous**
  - Audit Committee effectiveness review undertaken.
  - Arrangements considered for the initiation and conduct of an external quality assessment for internal audit and role of peer review process.
  - The draft Corporate Governance Framework was presented and further work to be undertaken outlined to the Committee
  - Attendance at the Local Authority Southern Region Audit Committee Forum in Killarney in May
  - Updates on GDPR implementation

## **1.0 Introduction**

Under the provisions of the AC charter for the Council the Committee is required to produce an annual report. This report includes details on audit committee activities, audit assignments undertaken and amplify, as considered appropriate, on risk management, control and assurance concerns of the Committee.

The membership of the Committee for 2017 was as follows:

- Cllr Chris O Leary, member of Cork City Council
- Cllr John Buttimer, member of Cork City Council
- Cllr Sean Martin, member of Cork City Council
- Ms Gillian Keating, non-executive member
- Mr Sean Angland, non-executive member
- Ms Margaret Lane, non-executive member
- Mr Aidan Horan, non-executive member ( Chairman)

In accordance with the regulations, the Audit Committee comprises seven members, four external members (including the Chairman) and three elected members and this annual report from the Chairman was approved by the Committee at the 20<sup>th</sup> March 2018 meeting.

This annual report covers the period from the 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017 during which time the Committee met formally on six occasions. Statutory Instrument 244 of 2014 ( Local Government Audit Committee Regulations) obliges the committee to meet no less than four times in a calendar year.

## **2.0 Role of the Audit Committee**

The role and functions of the Audit Committee reflect the provisions of relevant legislation and regulations and additional obligations are included in the Local Government Reform Act 2014. The functions as outlined in Section 59 of the Local Government Reform Act 2014 are included as an appendix.

## **3.0 Role and Responsibility of the Internal Audit (IA) Unit**

Internal auditing is an independent and objective appraisal activity that is guided by a philosophy of adding value to improve the operations of the Council. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. An updated IA charter has been reviewed by the Audit Committee.

The agreed audit plan for 2016, the work programme, timeframes and the use of audit resources were monitored by the Committee at each meeting.

#### **4.0 Role of Management**

Management within the Council have the key responsibility and accountability for the:

- adoption and implementation of good governance arrangements
- establishment of an effective control environment
- review and maintenance of effective internal controls
- compliance with risk management policy including the establishment and maintenance of integrated risk management structures
- prevention and detection of fraud and irregularities and resolution of any such situation
- support of the work of internal audit including the provision of information, responding in a timely manner to audit queries and appropriate implementation of audit recommendations

#### **5.0 Review of 2017 Audit Committee Activities**

##### ***Committee meetings***

The Audit Committee met formally on six occasions in 2017, 31<sup>st</sup> January, 21<sup>st</sup> March, 30<sup>th</sup> May, 5<sup>th</sup> September, 24<sup>th</sup> October and 12<sup>th</sup> December. Each meeting was of half day duration and at each meeting detailed reports, documentation and presentations were provided.

The initial part of each meeting is for Chairman's business and the AC members meet without the executive present. This allows the Committee to deliberate on matters arising on the agenda, the contents of meeting documentation and also provides an opportunity to discuss additional relevant issues.

Throughout the year, members of the Management team and senior colleagues were formally invited to meet the Committee. The focus of these engagements was on business priorities, key risks and uncertainties and how these were being addressed, audit report findings and recommendations as well as the nature and extent of interaction with IA. The level and quality of engagement and in particular the turnaround of reports with management comments is an area for improvement in 2018 and in that context the formal engagement process has been revisited and the obligations outlined. The committee also received regular updates on level of protected disclosures and an update on GDPR implementation arrangements in the organisation and on the work of the Corporate Services Group (CSG).

Areas reviewed included Directorate activities within Housing and Community, Roads and Transportation, Environment and Recreation, Corporate and External Affairs and

Finance as well as updates on GDPR preparedness and implementation plans. At each meeting, the Committee also receive regular updates on financial position and performance from the Head of Finance including trends issues and evolving budgetary and financial risk areas. The committee also met with the newly appointed Regulatory, Risk and Compliance Officer.

Work in relation to the risk management system continues and the meetings with the Chief Executive, Directors and management colleagues provide the opportunity to review progress in this area. These interactions will continue as a standing item on the AC agenda for 2018.

Final audit reports, incorporating management comments were provided to the AC as well as to the auditee, relevant senior and line management. Final audit reports and minutes of AC meetings are also made available to the Local Government Auditor.

In November, the committee revisited the management engagement process and the how this process impinges on the role and functions of the Audit Committee and Internal Audit.

#### ***Internal Audit Plan***

Progress in implementing the internal audit plan was monitored by the AC with regular progress reports furnished by IAU. There have again been delays in finalising reports and, as indicated above, the Committee have considered the audit engagement process and have clarified the expectations and responsibilities of all management and audit staff during an audit assignment.

The table on page 9 sets out details of reports and reviews carried out by Internal Audit in 2017. The unit also provided the Committee with a detailed 2017 annual report at the meeting on 16<sup>th</sup> January 2018. The recurring themes from the audits in 2017 again highlight the lack of explicit procedures in relation to key controls and the wider systems of control in some areas and the importance of an effective control culture and control environment within the Council. The Committee were briefed on fuel card and low value purchase card subsequent reviews and the improved levels of compliance.

### **Internal Audit Reports**

The audit reports reviewed / issued during 2017 are set out in the following table:

Audit Area
1. Planning Enforcement
2. Public Spending Code Reviews (Revenue Expenditure)
3. Public Spending Code Reviews (Capital Expenditure)
4. Coroners Payments
5. Income controls – Concert Hall and Millennium Hall
6. Employee Exit Process
7. Fuel Card and Low Value Purchase Cards – subsequent reviews

In respect of each report, the Committee review the findings, conclusions and recommendations as well as management responses to the control issues raised. Follow up audit arrangements are instituted where necessary. The revised tracker process, overseen by the Corporate Services Group, is being utilised.

In relation to the reports issued, 16 of the 55 audit recommendations issued during the year were deemed to be of High Priority as outlined in the following table;

Period	Recommendations				Observations
	High	Medium	Low	Total	
2017	16	18	21	55	2
	29%	33%	38%	100%	
2011 to 2016	518	362	213	1,093	24
	47%	33%	20%	100%	

The 2017 programme of work highlighted a number of recurring trends including a lack of sufficiently detailed policies, procedure manuals, risk registers and systems of control and internal audit engagement.

### **Risk Management**

In 2017, the Committee continued to be briefed on the work in relation to embedding a risk management culture and integrating risk management across the Council. Updated risk registers were presented at meetings during the year. In 2018, progress on addressing key risks and uncertainties and the updating of risk registers will remain a regular Audit Committee agenda item.

### **Local Government Auditor**

In accordance with the AC Charter, the Committee met with the Local Government Auditor (LGA) on 12<sup>th</sup> December 2017. At that meeting, the 2016 AFS and the statutory

auditors report, management letter and related matters were discussed with the LGA without the executive present. Following this meeting the committee met with the Chief Executive on 16<sup>th</sup> January 2018 and this engagement formed the basis for the S121 report which is being separately sent to the Council.

## **6.0 Audit Committee Effectiveness Review**

Consistent with the obligations of Statutory Instrument 244 of 2014 ( Local Government Audit Committee Regulations) the Committee reviewed its own effectiveness, in the context of the charter, the overall work programme and the general work of the group .

The review undertaken a year ago highlighted a range of areas for improvement including reporting arrangements and reviews of policies including anti-fraud and codes of conduct.

While the committee note progress in some areas and general satisfaction with the work of the committee, there was disappointment expressed with the processes and arrangements around management engagement with both the committee and internal audit and the implications of this for the completion of the work plan and the provision of assurances on the control environment in the organisation. One outcome of this was the cancellation of one meeting due to paucity of reports and responses received.

## **7.0 Assurance arrangements**

The AC, IA and the LGA are key elements of the overall control and assurance framework within the Council. The IA and AC are key elements of “the third line of defence” after the first line - individual line management and staff; and the second line - the business risk and control functions within each Division / unit. Providing clarity and ensuring greater understanding and appreciation of the differing assurance roles and control responsibilities within these three lines is an ongoing priority for the Committee. Given the committees concern about the control environment and the management assurances processes, this area will be kept under active review and the internal auditor is to track progress and report at every meeting.

Staffing issues have impacted significantly on the delivery of the audit plan and while the additional external resources commissioned during the year did ameliorate some of the committee’s concerns, capacity and capability issues including reduced staff numbers was a serious concern. The Committee wish to emphasise the importance of maintaining the investment in internal audit expertise while acknowledging the availability of external expertise to support the work of the unit.

## **8.0 Acknowledgements**

The Committee would like to thank the Chief Executive, Directors, senior management and other colleagues for their co-operation and assistance during the year. In addition the Committee would particularly like to acknowledge the work of Stephanie Cronin, Head of IA, the IA team and John Hallahan, Head of Finance and members of his team in supporting the committee.

## **9.0 Conclusion**

This annual Audit Committee report outlines the progress made in 2017 across all areas of the committee's functions.

The Audit Committee looks forward to assisting and supporting the City Council in the forthcoming year by delivering effectively on its mandate through its interactions with senior and line management, internal and external audit.

## Appendix

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### 1 AUDIT COMMITTEE STATUTORY FUNCTIONS

<b>Functions of the Audit Committee (Section 59 Local Government Reform Act 2014)</b>
To review financial and budgetary reporting practices and procedures within the local authority that has established it;
To foster the development of best practice in the performance by the local authority of its internal audit function;
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;
To assess and promote efficiency and value for money with respect to the local authority's performance of its functions
To review systems that are operated by the local authority for the management of risks.