

LOCAL GOVERNMENT AUDIT

IN THE

REPUBLIC OF IRELAND



DEPARTMENT OF THE

ENVIRONMENT

LOCAL GOVERNMENT AUDIT IN THE REPUBLIC OF IRELAND*

- SYSTEM AND PRACTICES

The basic purpose of local government audit in the Republic of Ireland is: to overview the stewardship of locally administered public funds, and to confirm the fair presentation and accuracy of statements of accounts published by the local statutory bodies responsible for that stewardship.

Introduction:

Every local authority is accountable for its stewardship of the public funds committed to its charge. Stewardship of public funds is a function of management. It is discharged by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control of resources and by the maintenance of accurate and informative accounts.

Local government audit being an external audit service provides independent credibility to the financial stewardship function of local authorities. Its purpose is to undertake an independent appraisal of the discharge by management of that function and to inform the public of the results of such appraisal by means of an audit certificate and accompanying report prepared for the information of the Minister of the relevant controlling Department (Ministry) of State, the members and management of the public body concerned, and the general public.

Local government audit had an embryonic start in the 1830s. It increased in scope and stature in the 1870s. The auditors were generally referred to as "auditors of the poor law unions". They were officially styled "local government auditors" in 1941.

Organisation and Distribution of Audits:

Each local government auditor is assigned an audit "district" under warrant of authority from the relevant Minister, principally the Minister for the Environment. There are at present 27 local government audit districts in the Republic.

An audit "district" comprises a number of audits grouped, as far as possible, in convenient geographical areas, and these areas are further grouped into 5 regions, based as follows: Dublin (2), Cork, Galway and the North West. Principal Auditors assist in the regional organisation and supervision of audits. In addition they have direct responsibility for the major audits in their region.

The total number of audits in the 27 districts is 261, categorised according to the types of bodies subject to audit, as follows:

* Northern Ireland which is a separate political entity has its own separate local government audit service.

Regional Health Boards *1	8
County Borough Councils	5
County Councils	27
Borough Councils	6
Urban District Councils	49
Town Commissioners	31
Joint Burial Boards	7
Joint Drainage Committees	19
Vocational Education Committees *1	38
Harbour Authorities *2	21
Regional Tourism Organisations	6
Corporate and other bodies (Health *1 and Local Government areas)	15
Motor taxation offices	<u>29</u>
Total	<u>261</u>

The local government audit remit also extends to the examination and certification of certain claims made by local bodies for state grants and recoupments: for example, motor taxation agency expenses and grants in respect of civil defence, register of electors, and schools meals.

Location and Staffing of the Local Government Audit Service:

For administrative purposes the local government audit service is a section of the Department of the Environment and its headquarters are located in that Department's offices in the Custom House, Dublin. The service is entirely separate from the office of the Comptroller and Auditor General, but the reports of local government auditors on the accounts of bodies audited by them are supplied to the Comptroller for his information, and for the information of the Public Accounts Committee - a Committee of the Dail (Parliament).

*1 Transfer of the audits of these bodies (even though basically local bodies) to the Comptroller and Auditor General (the state auditor) mainly because they are substantially (over 80%) funded by state grants is currently proposed in draft legislation.

*2 Proposals for the formation of state companies to operate the 12 main commercial harbours have recently been made in an official report on commercial harbours. If these proposals are implemented the companies concerned may have the freedom to opt for the employment of commercial auditors. The remaining harbours will be transferred to the control of the adjacent local authorities.

Staffing of the Local Government audit service at present consists of:-

Inspector of Audits	1
Principal Auditors	5
Auditors	22
Assistant Auditors	5
Audit Assistants	2
Clerical/Secretarial	<u>2</u>
	<u>37</u>

There are no trainee auditors at present. There is a standing requirement that the audit staff above audit assistant level must be qualified accountants. New auditors are recruited from already serving assistant auditors by confined competition, or from eligible outsiders by open competition conducted by the Civil Service Commission, which is an independent agency.

In relation to their assigned audits, individual local government auditors are statutorily independent but administratively they are officers of the Department of the Environment. The Inspector of Audits is the organisational head of the service. The status of the Inspector is equivalent to that of an Assistant Secretary in the general Civil Service.

Facilities available to the Audit Staff:

Accommodation for the local government audit staff, during on-site audit work, is provided ad hoc by the bodies being audited. Some of the larger bodies, however, provide office and related facilities on a permanent or semi-permanent basis for the assigned principal auditors or auditors - the offices concerned being regarded as nominal headquarters.

In the matter of computer aids to audit each local government auditor possesses or has adequate access to an up to date personal computer. P.Cs. are mainly used in connection with the down-loading and interrogation of the financial and related data of the bodies audited. Most of the P.Cs. are on issue from the Department of the Environment.

With regard to transport facilities, audit staff provide their own private vehicles and are recouped at standard Civil Service mileage rates for miles travelled in the course of their duties. Standard subsistence allowances are also payable.

Local government auditors have at their disposal an official Code of Practice with associated Operational Guidelines. These are based on best current auditing principles and practice applicable in the public sector generally.

General legal advice on audit matters is provided, when necessary, by the Legal Adviser to the Department of the Environment. A small library of reference material is also available.

Allocation of Audit Times:

The present remit of local government audit in the Republic of Ireland does not formally include the performance of separate value for money exercises. Cost-effectiveness is always an audit concern, however, and some work in this area has always been done as an extension of the routine regulatory and financial audit procedures, and is referred to, where relevant, in the ordinary audit report.

A break-down of the audit time typically spent on the main audit functions in a medium-sized authority would be: financial and regulatory 75%; cost-effectiveness 15%; other 10%.

Audit Service Costs and Fees:

The cost of operating the local government audit service is defrayed by the Department of the Environment out of its annual operational budget. It is, therefore, subject to Departmental budgetary constraints. The fact that the annual cost of the audit service is covered by a corresponding amount of income from audit fees in respect of completed audits does not alleviate these constraints. This is in line with central government accounting requirements which are of general application.

Audit fees are time-based and are collected (from the bodies audited) by the Accounts Branch of the Department of the Environment for the benefit of the Central Exchequer. The estimated gross cost of the audit service for 1992 is £1.3ml.

Special Formalities and Procedures:

To assist them in the proper fulfilment of their audit role local government auditors are endowed by statute with special powers and responsibilities. These are additional to the normal powers and procedures of professional external auditors generally. Special formalities also attach to the serving of notices of audit, the deposit by bodies subject to audit of their books and annual statements of accounts for public inspection immediately prior to audit, the closing of audits, and the subsequent publication by the bodies audited of notices of audit completions and the availability for purchase of the resulting audit reports.

There are also special powers of surcharge and charge. These are reserve powers which are normally only invoked in exceptional circumstances. They may be exercisable, for example, in relation to matters which have been the subject of a formal "objection" by any interested person during the audit; but they may also be activated by other matters arising from ordinary audit examination.*¹

The power, and duty, of surcharge applies in the case of illegal (e.g. ultra vires) or unfounded payments. It applies, therefore, whenever a payment is made in respect of a purpose not authorised

*¹ In practice, it has not been found necessary in recent years to invoke these powers to any great extent; only a few instances have occurred.

either specifically or generally by statute or associated regulations, or there is wasteful or extravagant application of funds. Obviously, the materiality of the amount in question would be a factor in determining whether to impose a surcharge or not. The "ultra vires" rule has been considerably modified by the Local Government Act, 1991.

The power, and duty, of charge applies whenever there is a deficiency or loss to the funds of a local public body by reason of the negligence or misconduct of an officer or member; for example, if an accountable sum has not been brought to account, or if a sum paid on foot of the certificate of a consultant was not properly due or was due in a lesser amount.

Other special powers attaching to local government audit include the power to secure (with Court assistance, if necessary) the production of documents in so far as these may be necessary for the purposes of an audit, and to administer oaths (or affirmations) during the taking of evidence pertinent to an audit.

Management Letter:

During the course of a typical audit a local government auditor would issue a number of audit memoranda to the main functional officers of the body under audit, and towards the end of the audit summarise the main points (together with comments on the replies received) in a Management Letter. Direct discussion with top management would follow.

Reporting the Audit:

In addition to entering an audit certificate (normally in the "present fairly" mode) on the statement of accounts of each body audited local government auditors also provide associated audit reports. There is a statutory requirement to do so.

Audit reports typically refer to standard matters such as: agreement of the accounts with the books, information and explanations obtained, compliance of the accounts with statutory and other requirements, internal audit, residual matters from previous audit(s), and objections (if any) at audit.

Opportunity is also taken, where relevant, to provide brief commentaries on significant trends or out-turns disclosed in the accounts, such as: budgetary comparisons, contract final accounts, inter-account and inter-authority transactions; rolled-up interest charges; apportionments, income assessment/collection, assets and liabilities (including revenue debtors and creditors); cost-effectiveness; land usage; accounting and financial systems and controls; major commitments; treasury management/cash flow; and insurance risk management. If adverse results or events have to be highlighted every effort is made to do so in a positive and constructive manner. Comments on policy matters are avoided, but the financial results, especially if unfavourable, of policy decisions are reported on their merits.

If a Management Letter has been issued during the audit this is also reported.

Audit reports together with the certified Statements of Accounts (Abstracts) are submitted to the relevant Minister for transmission to the local bodies concerned. The reports are duly considered by both members and management of those bodies. Wherever some corrective action in relation to accounting results or controls is recommended in an audit report details of such action, taken or proposed, are furnished by management to the Minister.

Local government auditors' reports enjoy the legal protection of "qualified privilege" - an incorrect or untrue statement therein would not be actionable at law if made in good faith, without malice and in the honest belief it was correct or true.

Annual Report on the Audit Service:

Formal reporting on the performance of the audit service itself is catered for by the Inspector of Audits on an annual basis, although there is no statutory obligation to do so.

The report usually contains details of: audit completions, staff matters [including staff changes (if any) and training], changes in legislation or procedures affecting audit and any operational improvements or innovations introduced during year. Matters of unusual or exceptional audit import are also reported, including operational and technical problems encountered. Lines of possible remedial action are also recommended.

Copies of the Inspector's report are forwarded to the Secretaries of the client Departments (Ministries) on whose behalf audits are performed, and to other interested parties, for example, the Comptroller and Auditor General.

T. P. Goldew

Inspector of Audits.

28th August, 1992.