



Ríaltas na hÉireann
Government of Ireland

A guide for Audit Committees on the impact of COVID-19 on the control environment in local authorities

**Value for Money Unit
Local Government Audit Service**

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Local Government Audit Service

The Local Government Audit Service (LGAS), incorporating the Value for Money (VFM) Unit, being an external audit service, provides independent scrutiny of the financial stewardship of local authorities.

The sectoral goals of the LGAS are to:

- carry out the audits of local authorities and other bodies in accordance with the Code of Local Government Audit Practice thereby fostering the highest standards of financial stewardship and public accountability.
- promote the achievement of value for money in local authorities by undertaking Value for Money audits and publishing reports thereon.

It is the responsibility of local authority management to ensure that value for money is achieved by establishing and maintaining sound arrangements including procedures for planning, appraisal, authorisation and control of resources.

This report was prepared on the basis of information, documentation and explanations obtained from the public bodies included in this report. The draft report was sent to all local authorities and relevant Government departments for comment and where appropriate the comments received were incorporated in the final version of the report.

The website of the Department of Housing, Local Government and Heritage is the primary means of publishing reports of the Value for Money Unit of the Local Government Audit Service. Should any errors arise they will be corrected in the report published at www.gov.ie/en/collection/74ba5-value-for-money-reports/

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Report Summary

The Local Government Reform Act 2014 provided for the establishment of audit committees in local authorities on a statutory basis, and section 59(2) sets out the audit committees functions as:

- (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.

The provisions in relation to the functions and operation of audit committees are further set out under the Local Government (Audit Committee) Regulations 2014 (S.I. No. 244 of 2014) and associated guidance issued thereunder.

The purpose of this report is to outline key risk areas where audit committees could focus their attention in the context of the COVID-19 pandemic and the response of the local government sector. COVID-19 has resulted in fundamental changes in the delivery of services, work practices of local authorities and the financing of their operations, in turn changing the control environment and areas of risk.

Audit committees are an integral part of the oversight and governance structures in place in local authorities. Their work should involve the continuing review and monitoring of the risk management process, the control environment and governance procedures in the local authority. The internal controls in local authorities may have been impacted by the sudden change in work practices due to COVID-19, such as remote working and role reassessments, changing oversight or lack of segregation of duties in control procedures, which may increase the risk of financial error or fraud.

This report poses key focus questions, which may be useful to audit committees, to assist them in the discharge of their statutory and governance responsibilities and gain internal control assurances, by probing the effectiveness of the risk management framework in place, in response to the challenges posed by the pandemic.

The focus questions address the following areas:

(letters in bold links the focus questions to the audit committee functions above)

- Financial reporting **(a)(c)**
- Entity risk management **(b)(c)(d)(e)**
- Fraud risks (including cyber security) **(e)**
- Personnel/staff related risks **(e)**
- Engagement with external stakeholders **(c)(d)(e).**

These focus questions will enable audit committees to review the key risk areas in the context of the COVID-19 pandemic and the resulting changed control environment.

This report is one of a series of three pertaining to COVID-19, issued by the VFM Unit of the Local Government Audit Service in Autumn 2021, including:

- Overview of the impact of the COVID-19 pandemic on Local Authorities
- An Overview of the Restart Grant and the Restart Grants Plus schemes.

1. Introduction

Background

The Local Government Audit Service (LGAS) produced key guidelines for the establishment of audit committees in local authorities in the report ‘Follow-up report on the Development of Internal Audit in Local Authorities’, June 2006. The Local Government Reform Act 2014 was a very significant development in public accountability and provided for the establishment of audit committees in local authorities on a statutory basis.

Audit Committees have an independent role in advising the council members on financial reporting processes, internal control, and risk management and audit matters as part of the systematic review of the control environment and governance procedures of the local authority.

The Act also established the National Oversight and Audit Commission (NOAC) to bring an added dimension of independent scrutiny to local government performance. In June 2018, NOAC produced a report on the ‘Operation of Audit Committees in Local Government’ reviewing the functions and effectiveness of audit committees.

The purpose of this report is to outline key risk areas where audit committees could focus their attention in the context of the COVID-19 pandemic and the response of the local government sector.

The report examined the specific sections of the legislation in the 2014 Act around the functions of the audit committee, and structured focus questions under each of their functions in the legislation. Whilst aware that some audit committees have a strong executive and may not need to examine all of these legislative functions to this level of detail, this guide is designed to suggest possible focus questions for all levels of oversight.

2. Response of the local government sector to the pandemic

COVID-19 has had a profound impact on our society and the economy, the effects of which will continue into the future. The introduction of government health and safety advice and pandemic restrictions has led to a significant decline in local government goods and services income and income from commercial rates, which are important components of their funding. These income shortfalls have been addressed through Government supports to the sector, such as the Rates Waiver Scheme, and other measures outlined below. Local authorities have incurred additional unplanned emergency expenditure to deal with business disruption and diversion of staff to assist with the emergency efforts.

Some key areas of activity and funding within local authorities during the pandemic were:

- Adapting to maintain service delivery and business continuity
- Implementation of a Rates Waiver Scheme to eligible businesses, at a cost of €729m (covering the nine month period of March to December 2020) and then extended
- Administration and payment of the Restart Grant schemes at a cost of €633m
- Reimbursement for loss of Goods and Service income of €71m
- Reimbursement for additional COVID-19 expenditure (including ICT infrastructure) of €60m
- Acting as a co-ordinator for local voluntary groups and the operation of the community call helpline service (which handled in excess of 65,000 calls).

On 20 October 2020 Minister O'Brien gave effect to an Order (S.I. No. 244 of 2014) designating local authorities under Section 29 of the Civil Law and Criminal Law (Miscellaneous Provisions) Act 2020, allowing for council meetings and meetings of local authority committees to be held remotely. All decisions or votes taken by elected members at such meetings (whether physically or remotely present) now have the same status in law as decisions or votes taken at a physical meeting.

This has resulted in fundamental changes in the delivery of services, work practices of local authorities and the financing of their operations. In turn, this means changes in the control environment and remote/hybrid working becoming the norm. This will pose challenges to the work of members, auditors and audit committees in reviewing areas of risk under their corporate governance remit.

3. COVID-19 and the impact on the control environment in local authorities

The role of the audit committee is to support the elected members by providing an independent assurance and assessment of the activities of management on the financial and budgetary reporting processes, internal control and risk management and audit matters as part of the systematic review of the control environment and governance procedures of the local authority. The audit committee provides an important oversight role in promoting good accounting practices, ensuring more informed decision making and promoting a focus on value for money. It also supports and fosters the development of the internal audit function.

Audit committees are an integral part of the risk management process and their work should involve the continuous review of the control environment and governance procedures in the local authority. The risk management framework will include a corporate risk register where types of risk will be categorised (such as financial, occupational, cyber, loss of life, reputational etc.) and the impact and likelihood of each risk assessed as an inherent risk. Once controls have been put in place to mitigate each risk, the residual risk can be assessed, as to whether to avoid, reduce, transfer or accept this risk. The work of the audit committee is to probe this framework and interrogate the robustness and operation of controls, with the managers in the local authorities.

The internal controls in local authorities may have been impacted by the changing work practices due to COVID-19, which may in turn have led to additional risks of financial error or fraud.

These changes, which may have happened at speed, include working remotely and staff reassessments, and may have led to the suspension or change in oversight of control procedures. The risk agenda should be embedded in the culture of the local authority management team with the appropriate tone set from the leadership, which should help safeguard against management override of controls.

Reduced funding and income sources may have resulted in some local authority overruns on expenditure in key service areas and for particular capital projects, some of which may have had to be deferred during COVID-19. The importance of strong financial and treasury management during the pandemic cannot be over emphasised.

Key messages and supports to staff working hybrid/remotely are important to maintain compliance with financial controls, meet targets/deadlines and provide staff assistance with technology and other required supports.

The following sections will pose key focus questions, which may be useful to audit committees, to help them discharge their governance responsibilities and gain assurances, by probing the effectiveness of the risk management framework in place, in response to the challenges posed by the pandemic. For ease of reference, the audit committee questions have been linked (via letters in bold) to the audit committees' functions as set out in section 59(2) of the Local Government Reform Act 2014, shown on page 1. Consideration should be given to additional training requirements for audit committee members in light of the changed control environment and new challenges arising as a result of the pandemic.

4. Proposed Governance Framework for local authorities

A working group has been established within the Department of Housing, Local Government and Heritage (the Department) to prepare a 'Governance Framework for Local Authorities'. This group has representatives from the Department (Local Government Governance and Elected Members, Local Government Finance, and the LGAS), NOAC, the County & City Management Association (CCMA), and the Association of Irish Local Government (AILG).

It is proposed that the governance framework document will build on the 'Governance Principles & Governance Framework for the Local Government Sector' and adapt the 'Revised Code of Practice for the Governance of State Bodies 2016' for local authorities' specific requirements.

One of the key aims of the governance framework will be to encourage improved accountability, by establishing a benchmark for aspects of good governance, resulting in a culture of better service delivery overall. The governance framework is intended to be used as a roadmap for all of the good governance systems and procedures that are in place in local authorities.

Many of these systems and procedures exist already having been established externally either by legislation, regulation, Departmental circular or internally through strong controls. This framework is not intended to replace any national and sectoral governance codes. Instead, this framework will also offer guidance to officials, the elected council and stakeholders in terms of what their obligations and responsibilities are.

A significant part of the governance framework is the requirement for the local authority to undertake an annual review of the effectiveness of internal control systems, to ensure that the review has considered all aspects of risk management and internal control for the year under review. Audit committees will have a key role in monitoring the effectiveness of this annual review of the internal control systems.

5. Audit committees focus questions

5.1 Financial Reporting

Each local authority has statutory obligations set out in legislation, to prepare an annual budget, annual report and annual financial statements within set time periods, which should be considered at council meetings and adopted by their members. Audit committee members should review the financial and budgetary reporting practices and procedures to ensure that they are transparent with regards to the local authorities' performance and governance matters, and particularly in light of the impact of COVID-19 on their strategic policy objectives and achievements for the year.

5.1.a Budget preparations (audit committee questions) (a)

Was the annual budget prepared and adopted in a timely fashion, and is it available on the local authorities' website?

How has the budget been balanced in light of the effects of COVID-19?

Did the budget preparations for the local authority clearly identify:

- additional costs associated with COVID-19 expenditure including ICT/cleaning/PPE costs?
- the impact that the closure of businesses would have on collection percentages?
- the expected loss of income from reduction in demand for goods and services?
- the expected impact on cash flow, capital projects and financial planning?
- other consequences both negative and positive during the period as a result?

5.1.b Annual Service Delivery/Capital Programme Reports and Annual Report (audit committee questions) (a)

Does the annual service delivery/three year capital programme/annual report of the local authority outline the impact of COVID-19 on their strategic objectives for the year?

Does the financial review within the above reports outline:

- the additional costs incurred in relation to COVID-19 expenditures?
- any impacts on the costs and timing of current and future capital projects?
- the effect on collection rates and loss of income from goods and services for the year?
- the impact of COVID-19 on the future rates revenue streams when government supports end?

Does it outline how the business and results from key areas of activity within the various local authority divisions/geographical areas has been impacted due to the pandemic?

5.1.c Annual Financial Statements (audit committee questions) (a) (c)

Has there been a full assessment of the impact on collectables such as rents, loans and rates payments, and items such as development contributions, and the bad debts provisions in relation to same?

Has there been an assessment of the going concern in relation to third party subsidiary and associated companies (especially where local authorities have provided security/letters of comfort on their behalf)? They may be at risk where their income source has declined due to closures and they are dependent upon the local authority for ongoing financial support?

What management oversight was there to ensure that necessary costs arising from emergency changes in services and operations still provided value for money?

In preparation of the AFS, are there areas where due to the inherent uncertainty in the business environment, it may be difficult for local authorities to make judgements, estimations and valuations such as assets, staged payments on contracts etc.?

5.2 Entity risk management

Changes in the working environment due to COVID-19 will mean a change in the business processes and therefore the associated risks. Risk management should be a top-down holistic approach with risk reporting across the whole authority, identifying the major risk exposures and ensuring that the risk adopted is consistent with the risk appetite, especially in light of the new environment the local authority is operating in. A review of their emergency response measures will help them to build resilience should similar circumstances arise again in the future.

5.2.a Review of risk registers (audit committee questions) (e)

Has the local authority identified new risks in relation to COVID-19 and public health emergencies, and the responses to these risks? Have they identified how the local authority's risk appetite has changed as a result of COVID-19?

Has the risk register been updated to reflect the above?

Following the pandemic, have local authorities carried out a review of their emergency response and business continuity plans and how effective they were, for example, assessing service areas where they faced difficulties facilitating the remote working of staff, staff safety issues whilst working onsite, any specific gaps in staffing or skills, or any ICT issues?

Has there been a review of the local authority funding and financing in light of lost income and increased costs due to the pandemic? How has this impacted financial reserves and how this might impact future funding and financing?

5.2.1 Changes in business practices and associated risks

Audit committees will have to examine the risk factors and related mitigating procedures, which were put in place in the context of these changed business practices, arising out of the emergency health restrictions and some of these are outlined below. This will include new support measures introduced by Government at short notice and any health and safety measures that the local government sector deemed necessary to introduce for the safety and wellbeing of their staff and customers.

Introduction of the Restart Grant and Restart Grant Plus schemes

These Government support schemes were introduced as an emergency funding mechanism within each local authority, on the basis that each business would self-certify on their application that they meet the eligibility criteria. The VFM Unit of the Local Government Audit Service issued a detailed report entitled 'An Overview of the Restart Grants and Restart Grant Plus Schemes' in Autumn 2021.

5.2.1.a Restart Grant and Restart Grant Plus schemes (audit committee questions) (c) (d) (e)

What controls were implemented to verify the application against the rate account (where one exists) and confirm the applicant had fully completed the application including the declaration?

Were any additional controls implemented to verify the application details?

How did the local authority reduce the risk of fraudulent claims?

How/which staff were reassigned to process these new grant schemes and did this have an impact on the work of other sections?

Did the local authority adopt the national processing system (Ascendas) or develop their own, and if so, what controls were put in place for the processing of payments under the above schemes?

Rates Waiver Scheme

The Government introduced a Rates Waiver Scheme (credit in lieu) which was extended on an amended basis in 2021.

The VFM Unit of the Local Government Audit Service issued a detailed report entitled 'An Overview of the impact of the COVID-19 pandemic on Local Authorities' in Autumn 2021, which provides an insight into the operation of this scheme, along with analysis of other financial supports and COVID-19 initiatives undertaken in the local government sector.

5.2.1.b Rates Waiver Scheme (audit committee questions) (c) (d) (e)

What controls were in place to ensure that the conditions of the scheme have been correctly applied to the appropriate businesses?

In the case of appeals, what controls were in place to ensure the correct documentation was provided by businesses who were excluded from the rates waiver, but who were severely impacted by the pandemic?

Has there been an assessment of an increased opportunity for fraud (either external or internal) arising from these changes in business?

Legal and regulatory compliance

A key component of the financial management and internal control system is to ensure that there is sound stewardship of public funds and that value for money is achieved in the use of its resources. This means that expenditure should be appropriate and comply with legal and regulatory requirements.

5.2.1.c Legal and Regulatory (audit committee questions) (d) (e)

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| Have there been any cases of emergency procurement, which may have the unintended consequences of entering a sub-optimal contract? |
| Has there been an assessment of procurement contracts, which have expired during the pandemic and are overdue for retendering? |
| Has all emergency expenditure been reasonable, regular and is there evidence that it was the best value for money available at that time? |
| Have all statutory deadlines been adhered to in the work of the local authority e.g. planning applications, inspections etc. and were there any instances where these deadlines were missed, if so what were the consequences? |
| Were members able to discharge their statutory functions in a timely manner. What arrangements were put in place for holding of members meetings for the adoption of budgets, approval of variances (as per Note 16 of the AFS), disposals of assets etc.? |
| Have appropriate sanctions been obtained from members and the Department for increased overdraft and/or loan facilities? |
| Have risks of non-compliance with legal and other public service requirements been assessed? |

Impact on work of internal audit and other sections during the emergency period

An effective internal audit function is an important resource to the audit committee to help it understand how well the local authority are managing their risks. It supports management in documenting and testing internal controls, reporting their findings and follow-up on the implementation of recommendations. It will be important for the audit committee to understand what impact the restrictions have had on the work of internal audit, and if risks have been reassessed requiring updates to the risk registers. The work performed in other sections of the local authority may also be impacted by restrictions in services offered in other public sector bodies such as the courts service in hearing cases around arrears of rents/loans etc.

5.2.1.d Impact on work of internal audit and other sections (audit committee questions) (b) (d)

Is the resourcing of the internal audit section sufficient to complete the required work programme? Has the internal audit programme been updated to respond to any new risks facing the local authority?

Does the work plan have sufficient coverage to include COVID-19 related audits or investigations?

Has the staffing and the internal audit work schedule been disrupted?

What has been the impact on the work of the various sections in the local authority, due to the closure/restrictions in other public bodies such as the courts service, valuation office and other agencies?

5.3 Fraud risks

There are a number of factors, which may have increased the risk of fraud within the local authorities such as rapid organisational changes, where staff must work remotely (or on a rotational basis on-site) which the normal organisational controls to prevent and detect fraud were not designed for. This may mean less scrutiny and monitoring by management and hence, staff compliance with controls, policies and procedures may be lessened. Control procedures around procurement may also be by-passed due to demand for short supplies, such as new technology requirements etc.

5.3.1 Cyber / ICT / Data Security

Data is an important asset of the local authority and safeguards must be put in place to protect access to systems and the integrity of their data. Heightened risk around data security and fraud may emerge as part of organisational change, where more staff connect remotely to local authority systems, use online video conferencing facilities and are possibly connecting through personal devices. Audit committee membership will consist of a mix of experience and backgrounds and some membership with ICT expertise is appropriate to assess the effectiveness of the controls and integrity of the systems in place.

5.3.1.a General ICT controls (audit committee questions) (e)

Has the committee reviewed and discussed risks and mitigating control measures put in place to prevent a cyber attack on the local authorities ICT systems?

Has the work of the ICT section been certified as complying with a recognised accreditation such as NIST Cyber Security Framework / ISO 27001?

Have appropriate policies and procedures been documented (hard copy available) in the event of a systems failure or cyber attack on the local authorities ICT systems e.g. Business Continuity Plan, Business Impact Assessment, Disaster Recovery Plan etc.?

Are there appropriately trained teams in place to execute the above plans and to run the procedures on a test basis from time to time, and to improve processes as a result?

Have third party experts been engaged (with contact numbers) under contractual arrangements in the events of ICT security breaches?

Where third parties have access to your data and systems, do you have contractual arrangements in place with clear service level agreements regarding expectations around cyber security? Have their controls changed?

5.3.1.b ICT controls pertaining to remote working (audit committee questions) (e)

Discuss with management if there were any instances of key controls being over-ridden in order to deal with the new working environment?
Have staff been provided with training and ongoing communications to remind them that they must safeguard against attempts to gain access to systems via email scams known as phishing, identity and payment fraud emails, ransomware attacks and crude attacks on cloud services etc.?
Were there any instances of actual or suspected fraud and have management reviewed the surrounding circumstances?
What infrastructure controls were put in place to allow staff to work securely from home? Do these controls need to be strengthened further? Have these controls been tested?
Is data protected outside the formal work/office environment, including when in transit?
If there were changes in ICT applications, databases or operating systems, how did ICT management ensure the integrity and access security of the systems?
How does ICT ensure that file and network security is maintained on an ongoing basis?
Are all device and software updates in place, and is access monitored for any unusual activity to ensure that there is a robust digital infrastructure in place?

5.3.1.c Application controls (audit committee questions) (e)

Was remote access limited to the necessary applications only, with all the usual controls in place (or were access and controls modified for remote working, if so how?)
How is access via remote devices monitored (especially where private sensitive data is involved)?
Did remote working impact on the segregation of duties controls, if so how, and were any other controls put in place to compensate?
If employees were reassigned to different roles in the local authority, were their access rights appropriately amended?
How were key controls around access to amend supplier account details, bank details and treasury management functions maintained?

5.4 Personnel/staff related risks

Audit committees should address areas which, may be of specific additional fraud risk during the period of restrictions such as suspension of normal checking work performed by internal audit, or pausing of fraud investigation work or operation of whistle-blowing/protected disclosure procedures. In addition, the audit committee should enquire how other monitoring and control procedures were operating such as:

5.4.a Operation of controls (audit committee questions) (e)

Was there implementation and monitoring of controls which identify fraud, appropriate to a remote/virtual working environment?

Were there any staff changes, which may have weakened internal controls, and was the appropriate segregation of duties maintained?

How were financial transactions processed, authorised and independently verified during remote working and lack of on-site supervision?

Was physical access and security controls maintained over assets such as vehicle licenses and other certificates, and other important documentation to maintain adequate audit trails?

Were key reconciliations carried out by an independent person from the transactions processing, on a timely basis?

Have staff been reminded to take necessary measures to ensure the privacy of work data, and ensure compliance with GDPR requirements at all times?

5.4.b Other (audit committee questions) (e)

How has management monitored and maintained ongoing contact with staff working off-site?

How have health and safety measures been implemented for return to work plans in the future?

Has training been provided to staff regarding remote and virtual working?

What types of health and wellbeing supports have been put in place and how has employee engagement been monitored (via staff surveys etc.?)

5.5 Engagement with external stakeholders

Section 60 of the 2014 Act, requires the audit committee to consider the audited financial statement and Local Government Auditor's report or special report at the next practicable meeting following receipt. The audit committee must report to the Council on its findings at the next practicable meeting of the Council.

In general, the committee should seek management assurances regarding issues raised by the auditor during the course of his or her audit. The audit committee should undertake and review any follow-up examinations in relation to any significant issues such as the impact of COVID-19, which may have been raised by the auditor in their report.

The audit committee, in exercising this function, should consider the findings relevant to their local authority performance of all service divisions and should take account of any finding or recommendation made by the LGAS or NOAC. The assurances of management and appropriate audit reporting will assist the committee as to the use of indicators and measures of performance, which are an important feature of the local authority.

5.5.a Engagement with the Local Government Auditor (audit committee questions) (c) (d) (e)

Has the committee discussed issues raised by the auditor during the course of his or her audit?

Does the committee seek management assurances regarding issues raised by the auditor?

Has the committee undertaken to review any follow-up examinations in relation to any significant issues such as the impact of COVID-19, which may have been raised by the auditor in their report?

Has the committee given consideration to the recommendations made in VFM reports and the performance and benchmarking of their local authority against comparative authorities?

5.5.b Engagement with NOAC (audit committee questions) (d)

Has the committee given consideration to issues raised in NOAC performance reports and benchmarked their results against comparative authorities?

Have recommendations made in NOAC reports been implemented in their local authority, and is there a systematic follow-up process in place?

6. Acknowledgement

The LGAS would like to thank the following for their cooperation and advice during the course of this review:

- Department of Housing, Local Government and Heritage
- Local Authorities
- Local Government Audit Staff.

References

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