



**Rialtas na hÉireann**  
Government of Ireland

# **Statutory Audit Report to the Members of Galway City Council for the Year Ended 31 December 2022**

## **Local Government Audit Service**

Prepared by the Department of Housing, Local Government and Heritage  
[gov.ie/housing](http://gov.ie/housing)

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# Auditor's Report to the Members of Galway City Council

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway City Council for the year ended 31 December 2022, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Local Government and Heritage.

My main statutory responsibility, following completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2022 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 7 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgments made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

This report is prepared in accordance with Section 120(1) (c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

## 2 Financial Standing

### 2.1 Statement of Comprehensive Income

The Council recorded a surplus of €69k in 2022, after net transfers to reserves of €5m. At 31 December 2022, the Council had a positive cumulative balance of €2.6m on the revenue account.

## 2.2 Statement of Financial Position

The Council recorded a stable financial position at the end of 2022.

The commercial banks ceased charging negative interest on balances in excess of €1m during 2022, as a consequence the balance held by the Council in the current account had increased by year end. The loans payable by the Council increased substantially during the year, due primarily to the €45.5m loan drawn down to purchase the new corporate headquarters.

In common with most local authorities, fixed assets accounted for virtually all of the Council's net assets at the year end. Fixed assets increased by €58.6m primarily due to:

- The purchase of Crown Square at a cost of €44.8m
- The purchase of land at a cost of €2m, with a transfer of land costing a further €3.2m from work-in-progress
- The acquisition of 2 housing units at a cost of €0.5m and improvement works at a further cost of €3.3m, with the transfer of 27 houses, which cost €7.5m from work-in-progress
- The disposal of 11 housing units under the Tenant Purchase Scheme, which had cost the Council €2m

The balance was accounted for by other asset additions and disposals, as well as the annual depreciation charge.

## 2.3 Members' Approval

The Council Members approved (i) the 2022 draft financial statements, (ii) the over expenditure in the year as outlined in note 16 and (iii) the transfers to / from reserves, at their monthly meeting on 17 April 2023.

## 3 Income Collection

### 3.1 Summary of Income Collection

A summary of the main collection accounts are as follows:

| Income Source       | Yield % |      | Debtors Year End |        |
|---------------------|---------|------|------------------|--------|
|                     | 2022    | 2021 | 2022             | 2021   |
| Rates               | 84%     | 67%  | €9.5m            | €11.6m |
| Rents and Annuities | 80%     | 80%  | €2.3m            | €2.3m  |
| Housing Loans       | 88%     | 88%  | €0.2m            | €0.2m  |

These figures indicate a general improvement in collection levels in the period, with a corresponding reduction in debtor balances, specifically in relation to the rates income stream.

## **3.2 Rates**

The rates collection level outlined in Appendix 7 to the AFS increased substantially in the year to 84%. This increase was impacted by a number of factors, primarily the application of Departmental guidelines in relation to waivers and credit balances. As the value of waivers awarded reduced substantially in 2022, this accounting treatment had less impact on the 2022 collection level. However, if this accounting treatment was not applied in 2021, the collection yield for rates would have been 80%, which despite the improvement, remained amongst the lowest in the country.

Rates debtor balances decreased by €2.1m during the year, with 9% of all rate accounts at 31 December 2022 in credit totalling €0.5m. A review of a sample of credit balances found that the Council is actively engaging with clients in relation to these. A review of all rate balances due in excess of €50k, found that 30% have been paid, 8% have an agreement in place regarding payment and 1% have been written off since the year end. Of the remaining cases, 8% are subject to legal action and 53% are being pursued by the Council.

### **Chief Executive's Response**

Galway City Council's debt management unit continue to seek methods of improving the collection rate of commercial rates as reflected in the increase in collection rates from 2021. Galway City Council is working towards an improved target in 2023.

## **3.3 Rents and Annuities**

At 80% the Council's rents and annuities collection percentage was unchanged. For 2021, the national average was 87%, placing the City Council below average in relation to this income stream.

At 31 December 2022, 45% of customer accounts were in credit totalling €0.3m. A review of a sample of these, found that 60% required proactive engagement with clients to advise them of their options in relation to these balances.

A review of all rent debtors with balances in excess of €14k, found that 56% were performing or engaging with the Council. The remaining 44% were being monitored, with some cases being referred or considered for referral to the Council's legal representatives. A more proactive position will need to be

considered by the Council if this collection level is to improve.

No global HAP rent review has been completed by the City Council for several years, however, there are ongoing reviews of individual cases where changes of income are identified. A global review of all HAP cases should be carried out on a periodic basis to ensure that rent charges are up-to-date. While these rents do not accrue to the Council, they impact public funds.

### **Chief Executive's Response**

Galway City Council continues to work in a proactive manner with tenants and have a procedure in place for dealing with rent arrears. Cross departmental discussions between Housing and Finance continue in an effort to increase collection rates.

In relation to HAP rent reviews, there is currently insufficient resources to carry out a global review due to the volume and complexity of calculations. When HAP was established, it was envisaged that the DHLGH would devise a national differential rents scheme, which has never happened. This resourcing will be reviewed with a view to employing additional staff to carry out this work in due course.

## **3.4 Housing Loans**

The housing loan collection level remained at 88% for 2022. Based on the 2021 figures, the City Council is performing well compared to other local authorities in relation to this income stream.

At 31 December 2022, 37% of debtor accounts had credit balances totalling €65k.

The remaining loan debtors owed €270k to the Council. Five clients accounting for 53% of this. A review of a sample of these debtors found that satisfactory action is being taken by the City Council to address these arrears.

### **Chief Executive's Response**

Galway City Council continues to work in a proactive manner with our existing customers.

## **3.5 Bad Debt Provision**

At 47% of applicable debtor balances, the provision for bad debts at the end of 2022 appears to be low, specifically in relation to rates and development contributions. There are no documented policies and procedures in place to determine how these provisions are calculated. These matters should be addressed for future audits.

## **Chief Executive's Response**

Galway City Council continues to maintain strong debt management oversight and processes through active and ongoing engagement with debtors. Provisions for bad debt are reviewed regularly throughout the year. The Debt Management Unit will have a new policy in place in Q1 2024,

## **4 Procurement**

### **4.1 Procurement Oversight**

The Council has a Procurement Unit that was resourced with three full time staff members throughout 2022. This Unit is involved in drafting policies and procedures in relation to procurement, as well as in providing guidance to staff both through training courses and by updating the intranet with applicable circulars and guidelines.

The Procurement Unit plays a significant role in ensuring compliance with these procedures. Previously this included its role in the Procurement Steering Group, which has not met since March 2022 and through periodic updates to the Senior Management Team, (SMT) but again none have taken place recently. I recommend that the role of the Procurement Steering Group be reviewed, to ensure that this monitoring role continues and that it entails periodic reporting to the SMT and the Audit Committee.

## **Chief Executive's Response**

The terms of reference of the Procurement Steering Group shall be reviewed with a view to recommencing meetings and ensuring the SMT of Galway City Council are briefed periodically on the findings of this group.

### **4.2 Public Spending Code**

The Council's 2022 annual Quality Assurance Report on the Public Spending Code, was dated 10 August 2023. This report was due to be submitted to the National Oversight and Audit Commission (NOAC) by 31 May 2023, making the City Council's submission more than two months late. The Internal Audit Unit (IAU) completed the required in depth checks on sample projects and programmes, which recorded an overall finding of general compliance.

## **Chief Executive's Response**

The Public Spending Code report is prepared by the Internal Audit Unit, which has had no Head of Internal Audit since the beginning of the year, which impacted on the delivery of the report. Recruitment has been underway to replace this position.

### **4.3 Payments to Suppliers**

A review of the Council's quarterly prompt payment returns for 2022, found that 95% of invoices by value were paid within 30 days. Once paid within 30 days, invoices do not attract interest or penalties under the European Communities (Late Payment in Commercial Transactions) Regulations - formerly the prompt payment legislation. While most of the remaining cases were classified as not eligible for late payment interest and compensation costs, there were 7 invoices for which the City Council paid €426 interest and penalties during the year.

#### **Chief Executive's Response**

Galway City Council has a robust system of controls across accounts payable to ensure that invoices are processed and paid in a timely manner, whilst maintaining an appropriate level of checks.

### **4.4 Procurement Review**

A sample of contracts in place were reviewed, to determine if the procurement controls were operating effectively. This review involved both capital and revenue expenditure, and included both the tendering and quotation processes. In the majority of cases, the contracts were validated as having been appropriately procured. However, some instances were noted, where relatively small value services had not been properly procured. These instances had previously been identified by the Procurement Unit and addressed prior to audit.

#### **Chief Executive's Response**

The Procurement Team continues to review arrangements in place with all suppliers and works with all directorates to ensure the rules and regulations are complied with whilst achieving value for money.

## **5 Uisce Éireann**

### **5.1 Transfer of Functions to Uisce Éireann**

All functions relating to the provision of water and sewerage, other than rural water schemes, transferred to Uisce Éireann (UÉ) formerly Irish Water from 1 January 2014, with a twelve-year service level agreement (SLA) signed between the parties on 31 December 2013. As this agreement is due to terminate in December 2025, negotiations took place with a view to finalising the SLA on the basis of UÉ taking full operational control of public water services. An agreement "Framework for Future Delivery of Water Services" was reached at the Workplace Relations Commission (WRC) in June 2022. This agreement ensured protection of local authority workers' rights during the transition to a single public utility (SPU) for water services i.e. Uisce Éireann. Preparations then began in late 2022 to plan the SPU transformation process

in each local authority.

During 2022 costs totalling €3.57m, which were incurred by the Council relating to the provision of services under the terms of this agreement, were recouped from UÉ as reflected in Appendix 4 to the AFS.

### **Chief Executive's Response**

Following the reaching of an agreement on "Framework for Future Delivery of Water Services" at the WRC, the Master Services agreement (MSA) was established in August 2022 between all parties. A schedule to transition the full operational responsibility to UÉ, as per the MSA, was established for all local authorities. Galway City Council transferred on the effective date of 26 July 2023 bringing into effect the MSA, which supersedes the SLA in place. Galway City Council staff continue to work in the water section directed by UÉ management and this partnership of labour supply to UÉ will continue up to 31 December 2026 at which time staff working in the water section will transfer to UÉ or get reassigned to the Council in another section.

DHLGH have now confirmed it will take responsibility for the central management charge and any stranded costs and will reimburse local authorities for same.

## **5.2 Transfer of Assets to UÉ**

The position regarding the transfer of assets to UÉ has not changed since last year's audit report. Of the 24 water related assets identified for transfer, to date 17 assets (71%) have transferred in full or part, with the remaining 7 assets having ongoing ownership issues, which makes their transfer more complex. These issues need to be resolved to enable these transfers to be completed and as this matter has been ongoing for a considerable period, I recommend that additional resources should be applied to conclude this task.

### **Chief Executive's Response**

The status regarding the transfer of the final 7 assets to UÉ from GCC still remains. This has been further delayed due to staffing vacancies. Local authorities were directed in July 2022 to cease recruitment of staff into their water sections under the new framework agreement. UÉ took formal responsibility for all recruitment in January 2023. This has created gaps in staffing and to date not all vacancies have been filled. The staff resources to manage these transfers and undertake the due diligence are currently not in place. We await UÉ putting in place the staff to complete this work.

## **6 Loans Payable**

### **6.1 Loans Payable**

At the end of 2022, loans of €97.8m were payable by the Council as outlined

in note 7 to the AFS. This balance consisted of:

- €73.5m non-mortgage asset loans - this balance includes: (i) €45.5m loan to fund the purchase of the new corporate headquarters, (ii) land loans totalling €20.4m for which both interest and principal are being repaid and (iii) land loans of €7.6m for which interest only was repaid to date. The Council funded the €1.1m repayments for these loans in the year from its revenue income.
- €13.5m mortgage loans plus €0.7m shared ownership loans - housing customers funded the repayments on these loans.
- €8.3m recoupable loans - these are loans to fund the purchase of houses by AHBs and historic water loans. The Department funded the repayments of both interest and principal for all of these loans at a cost of €1.5m in the year. The €43k remaining balance on water loans at the end of 2022, will be cleared in 2023.
- €1.8m bridging finance loans - these are loans for unsold affordable houses, which have been leased to AHBs. The Department funded the €62.6k interest only repayments for these loans in the year.

### **Chief Executive's Response**

A working group has been established by the Department to examine the treatment of unsold affordable homes and outstanding loans to be recouped by local authorities. The Council awaits further guidance from the Department in relation to the process agreed for the repayment of these outstanding loans. The Minister has indicated to local authorities that further funding, to continue to address this issue, will be made available on a phased basis over the coming years.

## **7 Capital Account**

### **7.1 Overview of Capital Income and Expenditure Account**

The capital account recorded a net credit balance of €49m at the end of 2022, which represents a decrease of €3.5m in the year. The component parts of the closing balance are reflected in notes 2 and 10 to the AFS and details of the income and expenditure in the year are outlined in note 11.

Capital expenditure (net of transfers) in the year totalled €96.7m, with nearly three quarters incurred on the following projects:

- Office accommodation Crown Square... €44.4m
- Various Social Housing Investment Programme (SHIP) projects...€11.6m
- Salmon Weir Pedestrian and Cycle Bridge...€5.5m
- Land acquisition for housing purposes...€5.2m
- Various Capital Advance Leasing Facility (CALF schemes)...€4.1m.

## 7.2 Capital Account - Unspent Balances

The Council had credit balances valued at €73m included in the capital account at the end of 2022. In summary these included:

- €22.3m development levy balances. These funds can only be allocated to capital projects once collected and can only be applied in accordance with the terms and conditions of the development contribution scheme under which they were charged. Of this income, €8m remained uncollected at the end of 2022.
- €6.9m was ring fenced for housing projects.
- €4.4m was ring fenced for road projects.
- €37.1m was ring fenced for projects under the remaining service divisions.
- €0.4m was refundable.

The balance of €1.9m may be applied to projects with unfunded balances or no identified funding source.

### Chief Executive's Response

These reserves have been built up to fund and co-fund capital projects and important infrastructure development. The capital account is reviewed regularly to identify projects that have completed or have alternative funding in order to re-direct any balance to another project. Outstanding levies are subject to extensive and ongoing review. In all cases where levies are payable they are actively pursued.

## 7.3 Capital Account - Balances to be Funded

There were debit balances valued at €24m at the end of 2022. While most of these represent ongoing jobs that will be funded as the project advances, the following issues were identified:

- €4.2m expenditure on land purchased for future housing developments, which will not be funded until the project advances to design and build stage.
- €3.1m expenditure in relation to the building of affordable housing units, which remains unfunded to date.
- €2.3m related to a balance remaining on an affordable housing project, after the applicable HFA loans for these units were redeemed by the Department. This balance will have to be borne by the Council from its own resources.
- €1m balance in relation to a number of Part V housing units. An external funding source will need to be identified for these balances, failing which the balances will need to be funded by the Council from its own resources.
- €0.8m was under investigation, as the source of funding this balance was unclear.

- €0.8m relates to LED public lighting replacement programme, which will have to be borne by the Council from its own resources.

### **Chief Executive's Response**

All remaining properties categorised as unsold affordable are leased to AHBs. Galway City Council continues to engage with the Department on the issue whilst determining a mechanism to fund these debit balances. Other balances relating to future development will be funded as the project advances.

## **8 Fixed Assets**

### **8.1 Registration of Title**

A working group has been in place in the Council for the last number of years, addressing identified deficits in relation to the registration of title to the Council's land and building assets recorded in the Property Interest Register (PIR). As at September 2023 the position was that 70% of these assets have now been registered in the name of the City Council, with a further 5% currently going through the registration process, these are with the law agents and Tailte Éireann, formerly the Property Registration Authority, for first registration. Work on the registration of the remaining 25% of land and building assets has not yet commenced.

### **Chief Executive's Response**

The Property Project Team continue to progress the registration of lands owned by Galway City Council with Tailte Éireann. The migration to a new asset management system has assisted in addressing the outstanding issues. However, this is a lengthy project and will continue to be a priority until all land records pertaining to Galway City Council are registered. Preparatory work on the outstanding 25% has been undertaken.

### **8.2 Central Unit for Managing the Fixed Asset Portfolio**

Consideration should be given to resourcing a centralised unit to address the registration of title issues in a timely manner and to manage all future asset additions and disposals, not just the land and building assets which are currently dealt with by the working group referred to in paragraph 8.1. A centralised unit had previously been in place in the City Council and the issues now identified have arisen since this was disbanded. Such a resource would allow in-house expertise to be developed in relation to the management of the entire Council's asset portfolio. It could also facilitate the management of estates that have been taken-in-charge by the Council, leases, maintenance and all issues relating to Council property.

### **Chief Executive's Response**

Galway City Council have initiated a review of the current register of buildings with a view to creating a centralised unit to manage the Council's estate. An

additional human resource has been requested in the 2024 budget estimate process to support the approach proposed above.

### **8.3 Reconciliation of Fixed Asset Records**

The working group's focus to date has been on ensuring the registration of the most significant land and building assets. In tandem with first registration of title, the project team have identified a significant number of FAR references which they have recorded and reconciled with PIR records. A number of these reconciliations will still need to be verified by the Finance Section who maintain the FAR and this aspect of the exercise needs to be completed if the Council wishes to fully benefit from the resources applied to this project to date.

#### **Chief Executive's Response**

The Property Project Team will work in consultation with Finance Section to reconcile the FAR to the Property Interest Register.

### **8.4 Housing Stock Reconciliation**

A housing stock reconciliation, which reconciles housing units as recorded on the housing system to the records held in the financial system, was not available for audit review. While this exercise has been part completed for the last two years, a full reconciliation has not been finalised in recent years. This is an important internal control and should be brought up-to-date at the earliest opportunity. This reconciliation should form part of the annual AFS preparation.

#### **Chief Executive's Response**

The Finance Department will work in consultation with the Housing Directorate to ensure the housing stock reconciliation is complete.

### **8.5 Registration of Rights of Way and Way Leaves**

The City Council needs to ensure that all rights of way and way leaves accruing to it have been properly identified by all Directorates and where appropriate, these entitlements have been registered and thereby protected. The proposed centralised property management section as recommended in paragraph 8.2, could address this matter, which has been highlighted in previous audits.

#### **Chief Executive's Response**

The Property Project Team will work with Planning and other directorates in identifying wayleaves and rights of way and ensuring these burdens, in favour of Galway City Council, are registered with Tailte Éireann where appropriate.

## 9 Local Authority Companies

### 9.1 Council's Interest in Companies

Appendix 8 to the AFS lists two companies in which the Council had an interest during 2022. These were:

- Galway Salthill Failte Co. CLG (Leisureland)
- Galway Harbour Company

The 2022 audited accounts of both companies were made available to me in the course of the Council's audit.

### 9.2 Leisureland

Throughout 2022, Leisureland continued to be a wholly owned subsidiary of the City Council, with the Council consolidating the company's transactions for the year into its AFS. The 2022 audited accounts for Leisureland were not available for inclusion in the draft AFS, as they were not finalised until 28 April 2023. The Council budgeted a €280k subvention for this company during 2022, which was only partially required, with the balance ring fenced for future capital expenditure on the premises. The company generated a loss of €53k for the year (2021: a surplus of €26k). Due to the commitments given by the City Council to continue to support the business for the twelve months following the signing of the accounts (i.e. to 28 April 2024), the company was classified as a going concern.

#### Chief Executive's Response

Galway City Council commits to continuing to provide financial support to Leisureland for the foreseeable future.

### 9.3 Galway Harbour Company

The results of Galway Harbour Company are reflected in Appendix 8 to the AFS, where it is classified as a wholly owned entity. However, the results of this company are not otherwise recorded in the AFS. For future years, the Council should establish the correct accounting treatment for this entity in accordance with the Accounting Code of Practice (ACoP). An exemption from preparing consolidated accounts for a subsidiary company may be availed of where the entity's transactions are below specified levels, in which instance the entity can instead be treated as an associated company.

Galway Harbour Company generated a profit of €0.5m for 2022 compared to a profit of €1.1m for 2021. During the year this company received no subvention from the City Council, with the City Council receiving no dividend from this company.

## **Chief Executive's Response**

Galway City Council will review the accounting treatment of Galway Harbour Company for the AFS for the year ending 31 December 2023.

# **10 Governance and Propriety**

## **10.1 Governance – Overview**

Corporate governance comprises the systems and procedures by which organisations are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place. In addition, the Audit Committee provides an independent role to advise the Council on financial reporting processes, internal control, risk management and audit matters.

## **10.2 Internal Audit**

The Local Government (Financial and Audit Procedures) Regulations 2014 requires local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. The Internal Audit Unit (IAU) has an important role in providing the Chief Executive with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements, as well as providing a vital support function to the audit committee.

The IAU for Galway City Council was internally resourced for 2022 with support from the external resource during this period. Eight reports were produced in the year, which included the 2021 Public Spending Code Quality Assurance Report for the National Oversight and Audit Commission (NOAC) and the SICAP Review for 2021.

Since January 2023, the post of Head of the IAU has been vacant.

## **Chief Executive's Response**

Recruitment is underway to replace the vacant Head of Internal Audit position.

## **10.3 Audit Committee**

Audit Committees are required to hold a minimum of four meetings per year and the City Council's Audit Committee met this requirement during 2022. I attended the meeting on 28 November 2022 to discuss the 2021 audit report.

The Audit Committee's Review of the 2021 AFS and audit report, as required under Section 60 of the Local Government Reform Act, 2014 and the Audit Committee's Work Programme for 2022 were noted by Council at the plenary meeting on 17 April 2023.

### **Chief Executive's Response**

The Audit Committee continue to support and advise Galway City Council on financial reporting, internal control and risk management.

### **10.4 Ethics Returns**

Part 15 of the Local Government Act, 2001 requires Council Members and designated staff members to submit an annual declaration of interests in a prescribed format, by the end of February in the following year. All Council Members met their legal requirements. However, of the 143 staff contacted and eligible to make a return, 134 made a return (94%), with 3 of these returns being after the cut-off date. 9 staff members failed to make their statutory return. I could find no evidence of action being taken in relation to these breaches.

### **Chief Executive's Response**

The ethics returns remain a priority of the Senior Management Team.

## **Acknowledgement**

I wish to record my appreciation for the courtesy and co-operation extended to audit by the management and staff of the Council.



Mary Keaney

Local Government Auditor

27 October 2023

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