



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Longford County Council

for the

Year Ended 31 December 2016



An Roinn Tithíochta, Pleanála agus Rialtais Áitiúil
Department of Housing, Planning and Local Government

CONTENTS	Paragraph
Introduction	1
Financial Standing	2
Income Collection	3
Transfer of Water and Sewerage Functions to Irish Water	4
Capital Account	5
Purchasing and Procurement	6
Local Authority Companies	7
Governance	8
Acknowledgement	9

AUDITOR'S REPORT TO THE MEMBERS OF LONGFORD COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Longford County Council for the year ended 31 December 2016, which comprise 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, Planning and Local Government.

My main statutory responsibility, following the 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 2016 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 6 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 judgements 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.

- 1.2 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 €31k after making net transfers to reserves of €3m in 2016, resulting in an accumulated surplus of €174k at the end of the year. The variances between the adopted budget and the actual outturn in the revenue account are shown in Note 16 to the AFS and were approved by the members in May 2017.

2.2 Fixed Assets

As highlighted in previous audit reports, the reconciling of the land register with the Property Registration Authority records and the assets as reported in the AFS remains incomplete. While progress has been made in this area, it is slow primarily due to lack of resources. The Council should prioritise the work in this area without further delay.

Chief Executive's Response

The GIS Officer has been given the remit of creating a Property Interest Register which will, amongst other things, reconcile the land register with the Property Registration Authority records and the assets as reported in the AFS. As noted, progress has been made in 2016, but a lot of this work is dependent on the progress of a national steering group that has been set up by the Department of Housing, Planning and Local Government to publish a national property register. The Council is represented at meetings of this group by the GIS Officer.

2.3 Loans Payable

In 2016, the long term loans payable was €38m. Included in the closing balance at December 2016 were loans of €8.8m which will have to be funded from the revenue account in the future.

Chief Executive's Response

Funding for these loans will continue to be budgeted for in the revenue account for the foreseeable future.

3 Income Collection

- 3.1 The arrears and percentage yields from the main revenue collection accounts as outlined in Appendix 7 were as follows;

	Arrears		Collection Percentage	
	2016	2015	2016	2015
Rates	€1.96m	€2.09m	84%	82%
Housing Rents and Annuities	€575k	€689k	90%	88%
Housing Loans	€721k	€715k	57%	55%

3.2 Commercial Rates

The collection yield for 2016 increased by 2% to 84% when compared with 2015, resulting in year-end debtors of €1.96m and represents a decrease of €136k on the previous year. The Council wrote off €332k in respect of rates in 2016 (€767k in 2015) a reduction of €435k on the previous year.

Chief Executive's Response

The Council is pleased to note both the increase in commercial rates collection yields and the reduction of debtor balances during 2016. The establishment of the Income Generation Unit and the methodical pursuit of commercial rates debtors, together with the wide range of payment options and plans that we offer to our customers has improved our yields over the last couple of years. This is continuing in 2017 and we remain on track to achieve our increased collection percentage of 84.75% for 2017.

3.3 Housing Rents and Annuities

Rents and annuities arrears amounted to €575k at the end of 2016 a decrease of €114k on the previous year. The Council wrote off €49k in respect of rents and annuities during the year.

It is also noted that the Council has not carried out an overall tenant rent review since 2008. I recommend that a housing rents review is undertaken as a priority by the Council for all tenants.

Chief Executive's Response

Again, we are pleased to note improvements in both housing rents collection yields and a reduction in housing rents debtor balances over the last couple of years. These have been achieved for similar reasons outlined above in relation to commercial rates and also due to an upturn in the economy experienced over the last couple of years.

Due to the unprecedented demands currently being made of the Housing Section in response to the national housing and homeless crisis, a rents review at this time would prove challenging not only in terms of operational and logistical resources, but also in terms of the political appetite for such a review. However, we will examine the possibility of carrying out such a review in 2018.

3.4 Housing Loans

The housing loan collection arrears increased slightly by €6k in 2016, with accumulated arrears of €721k at the year end. Despite the increase in the collection, the collection yield of 57% remains below the 2015 national average of 68%. An analysis of the arrears show that 16 out of a total of 139 accounts in arrears represents over 50% of total housing loans balance outstanding at the year end.

Chief Executive's Response

It is disappointing to see, despite numerous attempts to tackle loan arrears with the tools and mechanisms available to us (up to court action), that the arrears have increased slightly during 2016. Despite every effort being made on the collection side, this has proven to be a stubborn problem over the last few years. This is mainly down to aged housing loan debtors of 3 years and over which represents over 70% of the outstanding loans arrears. It is intended in 2017 to utilise a portion of the accumulated bad debt provision to tackle this.

3.5 Bad and Doubtful Debt Provision

The bad debt provision of €6.86m included in Note 5 to the AFS represents 61% of gross debtors and includes the following;

	Bad Debt Provision	% of Arrears
	€m	%
Rates	1.42	72
Housing Rents and Annuities	0.47	82
Housing Loans	0.53	74
Development Contributions	3.19	93

This provision was examined during the course of the audit and based on my review I consider it to be excessive. I recommend that the provision for all income categories is reviewed prior to the completion of the 2017 AFS.

Chief Executive's Response

The recommendation that the bad debt provision for all income categories be reviewed prior to the completion of the 2017 AFS is agreed.

4 Transfer of Water and Sewerage Functions to Irish Water

The responsibility for water services functions transferred from local authorities to Irish Water (IW) in 2014. The Council continues to deliver services to IW under a service level agreement. The transfer of water services assets from the local authorities' is being advanced over a number of phases, with the financial transfer reflected in the local authorities' accounts in 2014. There are a number of on-going issues in relation to the transfer of assets to IW including registration of titles and way-leaves, and further work is still required to transfer the remainder of the assets.

Chief Executive's Response

The Council continues to work with Irish Water to deliver water services on an agency basis under the terms of the service level agreement. We agree that the legal transfer of ownership of the remaining assets will take time.

5 Capital Account

- 5.1 The capital account recorded a credit balance of €9m, an increase of €1.4m on the previous year and includes balances with a total value of €1.1m which have been classified as unfunded. An analysis of the balances classified as funded in the capital account identified accounts with debit balances of €3.3m at the year-end. These balances should be reviewed and their funding clarified.

Chief Executive's Response

The majority of these unfunded balances are related to industrial sites throughout the county, and it is envisaged that these will be funded by future sales of these developed sites. During 2017 a number of countywide capital projects have been commenced which will diminish the overall credit balance in the coming years.

6 Purchasing and Procurement

The Council appointed a Procurement Officer in April 2016, who was responsible for developing and updating the Council's procurement procedures, policies and guidelines. While a number of minor breaches of procurement regulations, and the Council's own purchasing guidelines were found during the audit, the appointment of the Procurement Officer and the introduction of Milestone 4 of Agresso should enhance the Council's compliance in this area.

Chief Executive's Response

It is encouraging to note that the appointment of the Procurement Officer has enhanced the Council's compliance in this area during 2016.

Further improvements in this area have been made in 2017 including:-

1. The establishment of a new Control and Compliance Unit, which encompasses both procurement compliance and internal audit.
2. The migration of the Financial Management System to Agresso Milestone 4, which incorporates more robust purchase to pay controls and procurement compliance checks.
3. Quarterly meetings involving the budget holders in each section, with the Chief Executive and the Head of Finance in order to monitor continued procurement compliance throughout the organisation.

7 Local Authority Companies

The Council's interest in two companies is set out in Appendix 8 in the AFS; Longford Pool Construction Ltd and Longford Enterprise Development Co Ltd (LEDCO).

7.1 Longford Pool Construction Ltd

Longford Pool Construction Ltd is 100% owned by the Council. The most recently audited accounts at 31 December 2015 included an emphasis of matter paragraph by the company's auditors in their report, noting that the company is dependent on the financial support of the Council in order to continue as a going concern.

Draft accounts for the year ended 31 December 2016 available at the date of this report, show that the company incurred a loss of €326k in 2016 (€272k in 2015) and it had a net liability position of €1.8m at 31 December 2016 (2015 - €1.5m). However, the Council has agreed that it will provide funding as required by the company and it has further confirmed that, while it reserves the right to recall repayment of its loan of €2.48m on demand (2015 - €2.1m), it will not seek repayment within the foreseeable future. The Council paid €180k in loan charges in respect of a loan drawn down to fund this project during 2016. This loan is not included under the Council's short or long-term debtors in the AFS.

Chief Executive's Response

Longford Pool Construction Ltd. provides a vital recreation, social and amenity resource to the citizens of County Longford. Therefore, the Council has deemed it appropriate to continue their support of this subsidiary company and will not seek repayment of the outstanding loan for the foreseeable future.

A new service provider, Coral Leisure Ltd, was appointed to operate the leisure centre in 2017 under a three year fixed-fee contract. The terms of this contract is monitored closely by the Council and revenues have increased in 2017 under it. The aim of this strategy is to get to an operational breakeven position in the medium term.

8 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management and the elected members to ensure that sound systems of financial control are in place.

8.1 Internal Audit

The Local Government (Financial and Audit Procedures) Regulations 2014 require local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit 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.

The internal unit completed seven reports in 2016 and 2017 and I have taken account of this work during the course of my audit.

8.2 Audit Committee

The Council's audit committee held 6 meetings in 2016 and approved the annual internal audit work plan for the year. The committee submitted their 2016 annual report to the members at their meeting in March 2017, in accordance with Section 60 of the Local Government Act 2014. The Council's draft risk register was submitted to the audit committee for review in September 2017. The risk register when finalised, should be implemented across all of the directorates and be reviewed and updated annually.

Chief Executive's Response

As previously highlighted, a new Control and Compliance Unit was established in 2017. This unit comprises the Internal Audit function which is staffed by an Administrative Officer (Internal Auditor) and an Assistant Staff Officer and a procurement compliance and monitoring function which is staffed by two Senior Staff Officers and a Clerical Officer. The Administrative Officer (Internal Auditor) heads up this unit and reports directly to the Chief Executive.

The risk register when finalised will be implemented across all of the directorates and will be reviewed and updated annually.

9 Acknowledgement

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



Anne Halion
Local Government Auditor
13 October 2017