



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Tipperary County Council

for the

Year Ended 31 December 2016



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

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AUDITOR'S REPORT TO THE MEMBERS OF TIPPERARY COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Tipperary 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 Income and Expenditure Account

The Council generated a surplus for the year of €5k after net transfers to reserves of €6.5m. This surplus brings the accumulated surplus on the revenue account to €5.5m. Note 16 to the AFS sets out the variances between the actual outturn and adopted budget. The over/underexpenditure for 2016 as detailed in note 16 of the AFS was presented to and approved by the members at their June 2017 meeting.

Significant movements in the finances for the year include:

	€m
Increase in fixed assets	16.8
Decrease in Work in Progress	-1.3
Decrease in long term Debtors	-4.9
Increase in trade debtors and prepayments	5.4
Decrease in bank and cash balances	- 14.7
Decrease in creditors and accruals	5.4
Decrease in loans payable	5.8

Chief Executive's Response

The Management Team continues to monitor income and expenditure on an ongoing basis throughout the year in order to stay within budgets and adjust expenditure accordingly to adhere to budgets.

3 Income Collection

The percentage yields from the main revenue collection accounts were as follows:

	2016	2015	2014
Rates	81%	78%	75%
Housing Rents and Annuities	97%	95%	92%
Housing Loans	79%	77%	76%

Chief Executive's Response

As outlined in my response for the Annual Financial Statement 2015, I established and chair an Income Task Force which sets target percentage collections for major income headings and assesses the achievement of those targets. While I accept that collection yields for rates and housing loans require improvement, it should be noted that the trend for percentage collection under each of these headings is improving.

3.1 Rates

The collection performance improved to 81% in 2016 and is calculated after taking account of specific doubtful arrears of €1.41m. Debtors amounted to €7.69m at 31 December 2016 (2015: €8.6m) and is net of credit balances of €301k. €3.9m of the outstanding balance refers to amounts owed in respect of previous years representing 49% of outstanding debit balances.

Write offs/ vacant property adjustments amounted to €5.34m which is a 13% reduction on the 2015 figure. Bad debts have been adequately provided on outstanding debtors.

It is essential that the Council continue to improve its collection yield.

Chief Executive's Response

The Council is actively engaging with customers and continues to put in place payment plans where possible. Regular meetings are held throughout the year with staff engaged in collection of the major income streams and target collection levels are set.

3.2 Housing Loan Arrears

The collection yield in respect of housing loans increased to 79% in 2016.

Housing loan debtors at 31 December 2016 were €414k (net of credit balances of €111k), of which 91% are outstanding for 3 months or more. €311k is owed by 29 clients. Bad debts have been provided at 19% of outstanding debtors.

It is essential that the Council improves its collection yield.

Chief Executive's Response

The Council is actively engaging with customers and continues to use the Mortgage Arrears Resolution Process (MARP) where appropriate.

3.3 Rents and Annuities

The 2016 collection yield per Appendix 7 of the AFS is calculated at 97%. Fluctuations in the level of credit balances affect this calculation.

	Debtors per appendix 7 €	Debit balances €	Credit balances €
2016	362,633	919,705	557,072
2015	639,241	1,091,807	452,566

Credit customer balances are netted against debit balances to calculate the net closing arrears of €363k, per appendix 7 of the AFS. The year on year improvement in debtors figure is as a result of a reduction in debit balances of €172k and an increase in credit balances of €105k.

Rent and annuity accounts in arrears for longer than three months amounted to €671k, representing 73% of the total rent arrears of €920k. €105k of this amount is owed by 16 clients. Bad debts have been provided at 21% of outstanding debtors.

Chief Executive's Response

The Council is actively working on all of the large credits and would expect to see this credit reduce in 2017. Likewise for customers in arrears, including the largest 16 clients, we have either entered into repayment agreements or are considering alternation of arrangements to address the arrears.

3.4 Maintenance and Aftercare of Landfill Sites

Note 16 to the AFS shows a net over expenditure on Environmental Services. An amount of €2.36m was spent in 2016 against an adopted budget of €1.59m for landfill operation and aftercare. Management have informed me that this is due mainly to pumping trials at the Ballaghveny Landfill site. These trials are to ascertain reasons for the contamination of groundwater which has led to higher than expected volumes of leachate being tankered off the closed landfill site. This matter is ongoing and will be followed up at the next audit.

The contract process for the capping of Donohill landfill site is currently on hold as a result of an audit carried out by the EPA in 2017. The level of aftercare costs are expected to reduce once the capping of this site is complete.

Chief Executive's Response

A recent meeting with the EPA has resulted in an agreement-in-principle to the lifting of the compliance investigation against the council regarding ground water contamination at Ballaghveny.

However, the old unlined cells must be capped and the ground water pumping and leachate management systems must be maintained on an ongoing basis. A combination of these actions is expected to ensure licence compliance while also reducing leachate volumes.

4. Transfer of Water and Sewerage Functions to Irish Water

4.1 Balancing Statement with Irish Water (IW)

A balancing statement was agreed between the Council and IW in July 2016 resulting in €7.8m being owed to IW. €3m of this balance is being retained by the Council in respect of actual and contingent liabilities, until such time as responsibility for these liabilities is determined between the Council, IW and the Department of Housing, Planning, and Local Government (the Department). This will be reviewed again in 2017.

Chief Executive's Response

To date no determination has been made in respect of the responsibilities for these liabilities.

4.2 Water Related Loans

Recoupable IW related loans of €1.17m remain at 31 December 2016. Interest and principal repayments on these loans are fully serviced by the Department.

Chief Executive's Response

The Council continues to recoup the costs in accordance with Circular L3/14. This facilitates the recoupment to Local Authorities of principal and interest charges incurred, in respect of loans taken out by local authorities, to fund their contribution to the capital costs of the provision of water assets.

4.3 Transfer of assets

The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of different categories of assets to IW. Considerable work is involved in the transfer of over-ground assets, in order to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred.

Tipperary County Council has to date completed the legal transfer of 100 overground properties. A further 50 underground assets were transferred under SI 13 of 2015. The remaining assets will take some time due to on-going title issues. Progress will be reviewed again at the next audit.

Chief Executive's Response

Work is continuing on the transfer of assets in line with resource constraints and in the context of resolving legacy issues concerning obsolete assets with the Department of Housing, Planning and Local Government.

4.4 Migration of non-domestic water accounts

The successful migration of non-domestic water accounts from the Council to IW took place in late November 2016. At this time the Council transferred account information, including account name, address, billing history, account balance and transaction history for all clients to IW.

Chief Executive's Response

The migration was completed in full by December 2016.

5. Capital Account

The capital account recorded a net credit balance of €76.3m at 31 December 2016. The balance on project and non-project balances classified as unfunded amounted to €20.7m. The main unfunded balances were:

	€
Land/Sites purchased for housing	14.4m
Land for industrial use	4.0m
Design and Engineering costs Glenconnor	1.7m

The Council should consider options for the prompt clearance of all unfunded balances.

Chief Executive's Response

Unfunded balances on land and sites will be recouped through social housing investment programme or the sale of private sites. Costs associated with land for industrial use will be recouped by onward sale of these sites or via rental of sites for industrial use.

6. Fixed Assets

The net value of fixed assets in the balance sheet at 31 December 2016 was €3,732m of which €756m related to land, housing and buildings. Fixed asset additions and transfers from work in progress amounted to €19.22m. This included the following:

	€
83 local authority houses and refurbishments	11.2m
Industrial site at Streamen Nenagh	1.2m
Thurles Town park	2.4m
Nenagh Town Park and Leisure Centre	1.6m

6.1 Clonmel Greenway

Following a successful bid for funding, consultants were appointed to develop designs for works on the Greenway between Clonmel and Carrick on Suir along the River Suir towpath. The Main contractor was appointed in May 2015 following the submission and acceptance of the tender amounting to €1.1m (€1.3m including VAT). This project was scheduled to complete December 2015, however, there were significant delays on site and consequently this project is still on going to date. The contractor submitted claims in excess of the tender price and following the appointment of a conciliator, payments to date amount to 30% in excess the agreed contract price. The retention amounts and final account have yet to be agreed. This project will be reviewed again on completion.

Chief Executive's Response

The Council expects the project to be completed shortly and final costs will be determined once conciliation is complete. Tipperary County Council will continue to engage with the Contractor and the Conciliator to ensure the completion of the contract, the opening of the Greenway/ Blueway and the agreement of the final account. The Council also intends to engage in further discussions with the Department of Transport, Tourism and Sport in order to secure additional funding to cover any shortfall in the project.

7 Loans Payable

7.1 Bridging Finance – Affordable Housing

Long-term borrowings include an interest only bridging loan of €3.25m, rolled over on an annual basis, in respect of 23 housing units originally acquired for resale under the affordable housing program.

These houses were allocated to a voluntary housing body under the Social Leasing Scheme in 2011. The lease on these houses plus one other property was renewed on 12 June 2017 for a further six year period. This agreement provides for an annual rebate to the council based on the rents payable net of the AHB's management fee.

Total interest paid and recouped from the Department on these loans amounted to €55k in 2016.

Chief Executive's Response

The Council expects to continue to recoup the interest costs from the Department.

8. VFM report number 30 “Corporate Estate Management and Maintenance in Local Authorities”

VFM report number 30 was issued by the Local Government Audit Service in January 2017. It is noted that the recommendations of this report are being implemented/ followed up by the Council. A presentation was made to the members of the audit committee at their February 2017 committee meeting.

9. Local Authority Companies

The Council's interest in seven companies is recorded in Appendix 8 to the AFS.

9.1 Financial Statements

Six of these companies did not provide audited accounts for 2016 on time for inclusion in the draft AFS. It is evident that these companies are heavily dependent on funding being provided on an annual basis from the council. As the Council may need to make provisions in its own AFS in respect of these companies it is important that the Council stress the requirement to have accounts submitted on a timely basis.

9.2 The following matters came to my attention in relation to these companies.

Thurles Swimming Pool Limited and Roscrea Swimming Pool Limited

The accumulated losses as at 31 December 2016 in the balance sheets of these two companies was €226k and €343k respectfully.

Nenagh Arts Centre Limited and Thurles Regional Arts Centre Limited

Nenagh Arts Centre had an accumulated deficit at 31 December 2016 of €51k, while Thurles Arts Centre Limited has being operating at breakeven and has no accumulated reserves.

9.3 South East Regional Craft Centre Limited

The auditors' unqualified report for this company for the year ended 31 December 2016 included an emphasis of matter paragraph regarding the company's ability to continue as a going concern. This paragraph highlighted the dependence of the Company on Community Employment Scheme funding from the Department of Social Protection which is subject to annual review and may be discontinued. The continuing operation and ongoing viability of the company is dependent on approval of a new Scheme.

The Council needs to consider its position in respect of this company should funding be discontinued.

Chief Executive's Response

The completion of accounts in a timely manner for Local Authority Companies as set out in Appendix 8 as well as the need to address the accumulated deficits has been communicated to all Boards of Directors. The council will consider its position in respect of the South East Craft Centre Limited once clarity over the Community Employment Scheme funding is determined.

10. Governance

Corporate governance comprises the systems and procedures by which enterprises 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.

10.1 Internal Audit

The Council's internal audit function remained at 2.6 whole time equivalent personnel in 2016. The head of Internal Audit, who is a qualified accountant, reports directly to the Chief Executive and the Audit Committee and they have approved the annual work plan. The unit produced a number of reports during the year which were reviewed by the audit committee. Internal audit formally tracks the implementation of its recommendations.

I have taken account of the work of internal audit in carrying out my audit.

10.2 Risk Management in local authority

The councils risk register is currently under review.

Acknowledgement

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

A handwritten signature in black ink that reads "Fiona Clancy". The signature is written in a cursive style with a large initial 'F'.

Fiona Clancy
Local Government Auditor
19 October 2017