



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Sligo County Council

for the

Year Ended 31 December 2010



Comhshaol, Pobal agus Rialtas Áitiúil
Environment, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF SLIGO COUNTY COUNCIL

1 Introduction

- 1.1 I have completed the statutory audit of the accounts of Sligo County Council for the year ended 31 December 2010. My audit opinion on the Annual Financial Statement (AFS) of the Council, while unqualified does contain an emphasis of matter paragraph drawing attention to the serious financial position of the Council, and is stated on page 4 of the AFS.
- 1.2 This report is issued in accordance with Section 120 of the Local Government Act, 2001.

2 Main Issue

The main issue affecting Sligo County Council is its critical financial position and its inability to meet its present obligations, without increasing its loan approval on an ongoing basis. Attention is drawn to the following areas when examining the critical financial position of the Council:

- Concern is expressed in relation to the financial performance of the Council, and the assumptions underlying the budgetary process (paragraph 3.1 and 3.2)
- Concern is expressed in relation to the financial standing of the Council, and its increasing level of debt (paragraph 4)
- Issues were noted in relation to the management and control of capital projects (paragraph 5.3)
- Issues were noted in relation to the collectability of commercial debtors (paragraph 6.1).

3 Financial Performance

- 3.1 The income and expenditure account with comparative figures for the previous year may be summarised as follows:

	2010	2009
	€000	€000
Expenditure	(65,122)	(64,499)
Income	<u>64,575</u>	<u>62,624</u>
Deficit for Year before Transfers	(547)	(1,875)
Transfers from / (to) Reserves	<u>(1,916)</u>	<u>(1,358)</u>
Overall Surplus /(Deficit) for Year	(2,463)	(3,233)
Opening Balance at 1 st January	<u>(7,518)</u>	<u>(4,285)</u>
Closing Balance at 31 st December	<u>(9,981)</u>	<u>(7,518)</u>

The deficit on the Council's revenue account increased by 33% in 2010 to €9.981m. This is a very serious matter for the Council to address.

3.2 Comparison between adopted budget and actual outturn

The Council needs to prepare realistic achievable budgets and these budgets need to be carefully monitored and implemented. This issue was raised in a letter to management after the 2009 audit.

The following anomalies were noted between the 2010 budget and the annual financial statements for 2010.

- Salaries were underestimated by €1.420m or 11%
- Housing rents receipts were underestimated by over €900K or 53%

Manager's Response

In preparing the Budget for 2010, salaries in the revenue account were budgeted at €11m, while the actual out-turn for 2010 was €12.4m. It was hoped that some salaries would have been funded from potential capital works and also that there may have been a possibility of some further early retirements. The reduction in capital activity was much greater than anticipated.

The provisions of the Croke Park Agreement tied us into commitments that we have not been able to afford. Against this background and in an effort to reduce payroll costs to meet the budget in 2010, all staff were offered the facility to take a sizeable period of special leave without pay and all requests for career breaks were granted.

It must be remembered that Budget figures are of course only the best estimate at a point in time and it is entirely understandable particularly in volatile financial times that certain financial events may or may not happen that can affect the ultimate out-turn.

Housing Income is mainly from housing rents and housing loan interest. In recent years the gap between both of these actual receipts has moved although the budget split has remained the same eg the loan Interest is 60% below budget, being €690,000 and rental income is over budget by 53%, being €913,000. The overall net impact is a gain of €223,000 which is just 7% above what was included in the budget for the total housing income. The split of budget income for housing in the 2011 budget has been reflected more realistically.

4 Financial Standing

- 4.1** The Balance Sheet shows net assets of €1.704m at 31 December 2010, consisting of the following:-

	2010	2009
	€m	€m
Fixed Assets	1,664	1,628
Work In Progress and Preliminary Expenses	103	134
Long Term Debtors	17	18
Net Current Liabilities	(5)	(8)
Long Term Creditors	<u>(75)</u>	<u>(64)</u>
Net Assets	<u>1,704</u>	<u>1,708</u>
Represented by:		
Capitalisation Account	1,664	1,628
Income WIP	104	130
Specific Revenue Balance	1	1
General Revenue Balance	(10)	(8)
Other Balances	<u>(55)</u>	<u>(43)</u>
	<u>1,704</u>	<u>1,708</u>

The following matters are of significant concern in respect of the Council's finances:

- There was a debit balance of €9.981m (€7.518m in 2009) on the income and expenditure account at the end of 2010
- The Council's unfunded project balances amount to €844k (€6.3m in 2009)
- Long term debt has increased by €10.7m to €76.9m.

The Council's financial position as outlined above has deteriorated significantly during the course of 2010. The Council needs to prepare a complete review of all its activities, and should develop realistic projected funds-flow statements to assist management in operating under reduced income levels.

Manager's Response

The Council's ability to review its activities is limited by its statutory obligations imposed by Government across all service areas and can be subject to criminal sanctions for non performance. Projecting funds flow is pointless when most income is dependant on incurring expenditure in advance of funding receipts, and the ability of rate payers to pay in the current difficult financial climate.

The Council is working closely with Department officials to identify a solution to the deficit issue. The weak financial base of the Council and the dependency on central Government funds means that no permanent solution to the deficit situation can be overcome without the assistance of the Department.

Overall payroll costs have reduced dramatically since 2008 to date, with €4.7m savings achieved for all non renewal of contracts. The net impact on the cost of water services from 2008 to 2010 has been an increase of €3m and along with a reduction in income of another €3m inflicts an increased burden on the council, which has not been possible to absorb without resulting in a deficit.

The most significant impact on the accounts is from income being less than that expected in the budget, particularly the special grant towards the domestic share of running costs of new water and waste water treatment plants. There has been a reduction in water charges income, due to reduced water consumption as a result of increased water conservation and the provision of alternative sources of supplies by customers.

The unfunded balances have been classified as funded following the application of the €15m loan drawn during the year and this is reflected in the increase in the long term debt balance. The remaining unfunded balances are being followed up with the Department for funding.

4.2 Capital Debt

Capital debt increased by €10.7m to €76.9m at the 31 December 2010. This is as a result of refinancing that occurred in Sligo County Council, where it reduced its short-term overdraft facility, and increased its level of long-term debt by €15m. The Council received sanction from the Department of the Environment, Community and Local Government (the Department) to borrow this long term debt, and also received sanction from the Council members. Sligo County Council should have considered presenting the Council members with more detailed information setting out precisely how this long-term debt was to be spent at the time of seeking loan approval. It is noted however that additional information has since been provided to the Council members, relating to this issue.

Manager's Response

In accordance with Section 106 of the Local Government Act, 2001 covering borrowings by a local authority, the Councils approval was granted by the passing of the necessary resolution at the July 2010 Council Meeting. At this meeting, members were informed that the item on the agenda for an €18m overdraft was being sought as a €15m loan and a €3m overdraft following consultation with the Department. An extensive verbal report was given on the finances of the Council and the requirements for the loan at the Corporate Policy Group meeting and the Council meeting on that day.

Full details of the application of this €15m loan have been supplied in the course of the audit and members were informed of the distribution of the loan on the presentation of the AFS to the May 2011 Council meeting.

5. Capital Account

5.1 The capital account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council. It has been de-aggregated with the various accounts included under relevant account headings in the balance sheet.

5.2 Capital expenditure in 2010 mainly included expenditure on housing and building of €12.1m, roads and infrastructure of €1.9m and water and sewerage network of €7.2m.

5.3 Issues were noted in relation to the management and control of capital projects. It was noted specifically that:

- There was an insufficient audit trail in relation to a number of capital projects. This is a serious matter for the Council to address.
- A review needs to be conducted of capital projects to ensure that all unfunded balances are accurately recorded in the accounts

Manager's Response

Substantial progress has been made with many of the capital balances and it is agreed that further work is necessary. Many of the housing capital balances are subject to the final approval of the Department and therefore cannot be closed off until final approval is received. Every effort will continue to be made to close these accounts.

5.4 Refurbishment of the Model Arts and Niland Gallery and preliminary costs in relation to a new museum

€11.8m has been allocated to these projects up to the 31 December 2010. €6.5m has been funded directly by Sligo County Council. This relates to the refurbishment costs of the Model at a net cost to the Council of €2.15m, and the purchasing of the site for the museum at a cost of €2.52m along with museum development costs of €1.85m.

Manager's Response

The museum project was part of the application to the Gateway Innovation Fund. The terms of the funding stream required projects to be completed within a three year time frame and in order to position Sligo for this funding it was necessary to have the project through design, planning and, ideally, procurement. As it transpired, with the economic down turn, the Gateway Innovation Fund did not materialise.

The €6.5m funded by Sligo County Council includes €4.4m from the €15m loan drawn in 2010 along with prior year provisions from the revenue account and transfers from development contributions totalling €2.1m. The remainder of the funding of €5.3m up to the end of 2010 has been €3m from the Department of Arts, Heritage, and the Gaeltacht, €1.6m from the Border Midland and Western Region, €600,000 from Sligo Borough Council and €100,000 contribution from the Model Arts and Niland Gallery.

5.5 Purchasing and Tendering procedures

Deviations from purchasing and tendering procedures were noted during the course of the audit. Specifically it was noted that:

- Retrospective approval was received for approximately 18% of all purchase requests, after the goods and services had already been received. In excess of 11% of all purchase orders were raised and approved by the same individual. This represents a breach of purchasing procedures.
- There was no evidence of legal services having been tendered for in most cases.

Manager's Response

The issues raised have been reviewed. The retrospective approval has been identified, where purchase orders are raised with the associated goods received on the same day. This amounts to a value of almost €11m out of a total revenue and capital expenditure in 2010 of €94m being approximately 11%. All staff engaged in purchasing have been reminded to raise purchase orders at the time of ordering but in some cases, with recurring bills, the transaction is processed at the time of receipt of bill. The instances where purchases are raised and approved by the same

individual amount to €1.2m in value, which again out of total spend of €94m is just over 1%.

Work on developing and improving procurement procedures is ongoing. Legal services procurement is an objective of ours that we raise regularly with the National Procurement Services and we will continue to ensure that they can see it as a priority.

6. Summary of Major Revenue Collections

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

	2010	2009
Rates	79%	81%
Housing Rents	87%	89%
Housing loans	65%	74%
Commercial Water Charges	49%	47%

Collection yields have decreased in the areas of rates rents and housing loans. They have increased marginally in relation to commercial water charges to 49%. These levels of collections are a serious matter for the council and should be urgently addressed.

Manager's Response

The percentage yields from rates and housing loans is a reflection of the financial situation business and mortgage holders are in. Payment plans have been put in place with customers and these arrangements require continuous follow up.

The Law Reform Commission Report on Personal Debt Management and Debt Enforcement issued in December 2010 recommended the establishment of a centralised debt settlement office to oversee new debt settlement arrangements and recommended more efficient debt enforcement procedures. The Commission recognised that the deterioration of macro-economic conditions in Ireland, which reflects international developments in recent years, has led to increased personal over-indebtedness and repayment difficulties. The reform proposals drew a clear distinction between those who are unable to repay debt and those who are unwilling to repay debts, which is a significant problem with our arrears outstanding.

6.2 Bad Debt Provision

A review of the bad debt provision as included in the accounts for the above collection yields indicate that it is not adequate. A review of the development contribution debtors and harbour debtors indicate that the bad debt provision may not be adequate in these areas either.

Manager's Response

The provision for development contributions bad debts, is 50% and will be reviewed further in 2011. The percentage provision for other income collections are between 10 and 20% of arrears. There is no provision for harbour debtors as amounts outstanding are being pursued legally. In accordance with good accounting practice year on year write-off are charged to the revenue account, where amounts are directly identified as uncollectable.

7. Specific Matters

7.1 Fixed Asset Register:

A review of the Council's registers of lands and buildings indicates that they have not been properly maintained. A land asset management group was established in late 2009, and significant work has been done by this group towards addressing this area. Additional historic assets under the ownership of Sligo County Council were identified as a result of this work. It appears that substantial additional work remains to be carried out here to identify all historical assets.

A formal review of the current use of the lands should be undertaken as part of a physical inspection of these assets.

Manager's Response

The dedicated Land Asset Management Team continue to work on resolving these historic records which involves retrieving a huge number of old records that have moved from storage in Sligo to Dublin. This is a very time consuming operation. All fixed assets purchased in recent years are fully recorded and in some cases still in the process of registration with solicitors and the Property Registration Authority. Significant progress has been made in this area and it will continue to be a priority.

7.2 Lissadell House

Sligo County Council is involved in a complex legal case with the owners of Lissadell House concerning public rights of way over their property. In a judgement delivered on the 20 December 2010 the judge dismissed the case of the owners of Lissadell and ruled in favour of the Council. This case is been appealed to the Supreme Court.

7.3 The Model Arts and Niland Gallery Limited (The Model and Niland)

An external auditor audited the accounts of the above company. The auditor included an emphasis of matter paragraph in the company's accounts, expressing concern in relation to the company's ability to continue as a going concern. The total income for the Model and Niland in 2010 was €1.118m. This includes a sum of €340k identified by the external auditor as donated assets from Sligo County Council. In the absence of these donated assets the Model and Niland would have made a loss of €148k.

7.4 Representations regarding salary allocations

I have relied on representations received from management that all salaries have been appropriately charged against capital jobs in accordance with department guidelines.

8. Governance

Corporate Governance

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

8.1 Risk Register

The County Council has developed a corporate risk register for the organisation. Risk registers should also be prepared for each directorate. The management team should approve these risk registers.

Manager's Response

Work on the risk register is ongoing.

8.2 Internal Audit

Internal audit is an independent appraisal function within an organisation, which operates as a service to management by reviewing and evaluating the effectiveness of the internal control system. There was no internal audit function in Sligo County Council in 2007 or 2008, and there was no full time post dealing with internal audit in 2009 or 2010. Internal audit is a critical management resource, in order to ensure controls are appropriately operating within a local authority. A properly resourced internal audit function is also essential to ensure that the Audit Committee is supported in its important work.

9. Acknowledgement

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

Raymond Lavin

Raymond Lavin
Local Government Auditor
7 October 2011