



**Rialtas na hÉireann**  
Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Wexford County Council**

**for the**

**Year Ended 31 December 2017**

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# AUDITOR'S REPORT TO THE MEMBERS OF WEXFORD COUNTY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Wexford County Council for the year ended 31 December 2017, 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 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 4 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.

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 / Financial position

The Council recorded a surplus of €530k for the year ended 31 December 2017 which reduced the accumulated deficit to €4.8m at that date.

The members, at the Council meeting held in May 2018, approved (by resolution in accordance with section 104(2) of the Local Government Act, 2001) the expenditure incurred in 2017 that was in excess of the adopted budget for the year.

## Chief Executive's Response

The ongoing improvement in the revenue deficit is welcome and has been achieved by concentrated effort to stabilise the financial position of the Council. This work will continue but will need to be balanced against the need to deliver and improve services within the county.

## 3 Income Collection

### 3.1 A summary of the revenue collections are as follows:

A summary of the collection performances showing the 31 December arrears position in respect of the main income categories with the comparative figures for the previous year are as follows:

| Income Source     | Yield % |      | Debtors €m |      |
|-------------------|---------|------|------------|------|
|                   | 2017    | 2016 | 2017       | 2016 |
| Rates             | 82      | 79   | 7.24       | 8.40 |
| Rents & Annuities | 92      | 90   | 1.38       | 1.60 |
| Housing Loans     | 92      | 86   | 0.31       | 0.59 |

### 3.2 Rates

The collection yield continued to improve in 2017, a 3% increase on the previous year resulting in the 2017 year-end debtors decreasing by €1.16m. Write-offs and vacant property adjustments in 2017 amounted to €4.0m (2016 €2.6m). The Council continues to engage with customers in an effort to further reduce these arrears. The bad debt provision is 53% of year end debtors.

### 3.3 Rents and Annuities

The collection yield for this income category recorded a small increase in 2017 of 2% which contributed to a decrease in the year-end debtors to €1.38m. The Council continues to engage with customers in an effort to further reduce these arrears. The bad debt provision is 47% of year end debtors.

### 3.4 Housing Loans

The collection yield for housing loans recorded a further increase in 2017 of 6% resulting in year-end arrears decreasing by €282k at the end of the year. This is a significant improvement in the performance of this debt book over the last 2 years. The Council continues to pursue arrears and engage with the relevant mortgagees in an effort to reduce the level of arrears even further. The bad debt provision is 55% of year end debtors.

### Chief Executive's Response

The Council are pleased with the ongoing improvement in the collection levels reported and will continue to work and develop debt management within the organisation with a firm focus on improving collection levels further.

## 4 Transfer of Water and Sewerage Functions to Irish Water

The Council continues to deliver services on behalf of the national utility company, Irish Water (IW) under a service level agreement. The current position with regard to the Council's obligations to the company is as follows:

- Issues with regard to the title of properties transferred to IW including the subdivision of folios, right of way issues and sites not registered were highlighted in a previous audit report. These issues are not yet resolved, and management continues to work with IW with a view to expediting the process.
- The Balancing Statement agreed between IW and the Council confirmed that a payment of €6.2m was due to the Council. This has not been paid to date. However, the Council has retained water and wastewater development contributions, which would ordinarily be due to IW, details of which are as follows:

|   | €           |
|---|-------------|
| Contributions collected prior to transfer date        | 4.1m        |
| Development contributions collected from 2014 to 2017 | <u>2.3m</u> |
|   | <u>6.4m</u> |

These matters are currently the subject of ongoing discussions between the Council and IW, and need to be resolved without undue delay.

### Chief Executive's Response

The Council are fully engaging with Irish Water on the matters mentioned here and would be hopeful that the matters are moving towards a conclusion.

## 5 Amounts due in respect of Wexford Main Drainage

As reported previously, included in creditors at 31 December 2017 is an amount due by the Council of €2.8m in respect of the Wexford Main Drainage scheme. It was noted that the letter of representation (LOR) signed in November 2016 by both the Council and IW did not include any obligation on the Council to fund future liabilities arising on this scheme. This amount is again included in creditors in the 2017 AFS. The Council has funded this with water and wastewater development contributions collected prior to transfer date (referred to in paragraph 4) which would otherwise be due to be paid to IW.

It still remains unclear as to whether the Council will have any liability in respect of this matter. It is important that this is resolved between IW and the Council as soon as possible.

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

This matter is the subject of a meeting scheduled with Irish Water in October 2018 and the Council is hopeful that the matter can now be brought to a conclusion.

## **6 Wexford Main Drainage Scheme Legal Proceedings**

The issues relating to legal costs in respect of the Wexford Main Drainage scheme have been reported in previous audit reports. The Council incurred €1.83m to date in legal and consultancy fees successfully defending claims made against them in this matter in both the High Court and the Supreme Court. The Council was only successful in recovering €926k of these costs from the Department of Housing, Planning and Local Government (the Department), €500k of which was received in 2013 with the balance of €426k received in 2017. It should be noted that the Council incurred €190k in costs to recover the €426k noted above. This has increased the Council's exposure in the matter to date to €904k.

The Council now needs to critically review this matter in order to ensure that any learning can be applied to future legal cases.

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

The case in question, managed by the former Wexford Borough Council, accumulated significant costs dealing with litigation which involved the then Department of Communications, Marine and Natural Resources as a co-defendant to the proceedings. An order for costs was ultimately made in favour of the Council against the Department.

We have been advised that in virtually all litigation an order for costs does not amount to a full indemnity in respect of the costs actually accrued so there was never any prospect of the Council recovering the €1.83m but rather the costs were to be independently determined, as with all High and Supreme Court litigation by the taxing master of the High Court.

The Council commenced the statutory taxation process by instructing legal cost accountants on our behalf. The costs were resolved by negotiation prior to determination by the taxing master. The Council was appropriately advised and guided through the process by specialist legal costs accountants and the Council is satisfied that every possible effort was made to maximise the cost recovery in this case. It is also worthy of note that the €190k costs associated with the recovery process would always have been a matter for the Council to discharge as there is no provision in the taxation/negotiation process for these particular costs to be awarded against the Department.

## **7 Capital Account**

The capital account recorded a credit balance of €12.3m at 31 December 2017, a decrease of €17k on the previous year.

There remained some residual deficits at 31 December 2017, as outlined below, that will require additional revenue budgetary funding unless alternative sources can be identified.

|                                | €                    |
|--------------------------------|----------------------|
| Council Properties             | €10.1m               |
| Land Purchases                 | € 4.5m               |
| Roads and Car Park Development | € 5.3m               |
| Landfill and Civic Amenity     | € 3.9m               |
| Quays and Harbours             | € 1.7m               |
| Housing                        | € 1.5m               |
| Other                          | € 3.2m               |
| <b>Total</b>                   | <b><u>€30.2m</u></b> |

It is recommended that the ongoing review of capital codes is completed in order that management establish a funding plan for the above deficits.

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

A full review of the capital account is ongoing and will take some time to complete. This exercise will see each of the projects listed above critically analysed to determine if all relevant funding credits have been applied. When this is complete the Council will address any funding shortfalls with a proposed and relevant funding mechanism(s).

## **8 Fixed Assets**

The net value of the Council's fixed assets at 31 December 2017, after accounting for depreciation was €2,706m, a net increase of €18m from 2016. The main additions during the year were land €1.3m, houses €21.0m and plant & machinery €1.4m.

The Council continues to address the previously identified shortcomings in the property and land registers, with a number of corrections of historical omissions occurring during the year. The creation and management of a property register, which remains a work in progress, should be completed in a timely manner. It is a requirement of the Accounting Code of Practice for local authorities that these registers be maintained.

As noted above, the transfer of the water assets from the Council to Irish Water (IW) also highlighted a number of shortcomings in the Council's asset management. It is imperative that the Council establishes and maintains adequate procedures and controls in order to safeguard all of its assets.

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

As noted in previous responses the fixed asset register maintained within the financial management system is compiled in line with the current Accounting Code of Practice (ACOP) for local authorities and contains records of assets with values as required in this code of practice. The Council is satisfied that the reconciliation of assets has been completed with relevant databases i.e. housing property register, insurance register. Work will continue on a programme of reconciliation with other records held by the Council including those being regularised by the relatively recently established property section.

## 9 Loans Payable

The Council owed €134.5m at 31 December 2017 (2016: €134.7m) in respect of medium to long term loans. During 2017 the Council borrowed an additional €7.2m for the purpose of funding mortgage loans to borrowers.

Included in the loans payable amount at 31 December 2017, were amounts totalling €70.3m that related to borrowings by the Council in respect of the funding of projects that are not recoupable. The cost of servicing these loans was €7.3m in 2017.

### Chief Executive's Response

The Council's annual budget includes provision for the repayment of these loans. The Council will continue to use long terms loans to fund programmes for the economic development of the county and expect to be increasing the level of long term borrowing over the next few years to facilitate the delivery of the economic and community development investment programme for the county agreed with the Council and currently being rolled out.

## 10 Development Contributions

Included in trade debtors and prepayments at 31 December 2017 was €11.0m (2016 €10.7m) in respect of development contributions due to the Council (note 5 to the AFS). A provision for bad debts of €5.6m (representing 51% of the debt) has been made and is included in the overall 2017 year-end bad debts provision of €13.8m. I do not consider this to be adequate based on the aged debt analysis of the debt book and consequently should be increased.

I have again requested management to expedite the completion of the review of these debtors to ensure that the amounts currently recorded as outstanding are both accurate and complete, and to follow-up the collection of these outstanding accounts, some of which are significant. Furthermore management should adopt a policy position in relation to the collection process to ensure that receipts are maximised.

### Chief Executive's Response

The debt associated with development contributions remains a condition of the planning permission on a property which provides relevant certainty to the Council that the monies due in respect of levies will be collected if planning compliance is to be confirmed in the event of a sale or transfer of the property. The Council feels therefore that the bad debt provision is adequate to provide for development contributions that may be raised but will be removed if the associated development does not proceed before the expiry of the planning permission. Having said that, the current review of debtors should assist in further establishing the correctness of the bad debt provision and this will continue to be monitored as the review progresses.

The work on reviewing individual development contribution debtors is ongoing and there has been positive movement in the collection of outstanding levies over the last year together with the progression of accounts to legal proceedings. There is increased activity in the building market resulting in additional development contribution income being accrued under this heading. The movement achieved in collection of "older" debt will not therefore be easily identified in the summary debtor totals.



## 11 Local Authority Companies

The Council has an interest in a number of companies, the details of which are disclosed at Appendix 8 of the AFS.

### 11.1 New Ross Sports and Leisure Limited

The company, New Ross Sports and Leisure Limited (NRSL), oversees the day-to-day management of the Apex Leisure Centre in New Ross and is wholly owned by the Council. The company's accounts for the year ended 31 December 2017 were finalised in October 2018. The company recorded an accumulated deficit of €1.3m at the end of 2017, of which €90k was incurred in 2017. In line with national protocols these results have not been consolidated into the AFS.

Part of the deficit arose in 2014 and 2015 due to significant storm damage in February 2014 and the resultant closure of the facility until April 2015. The ongoing insurance claim in respect of this matter is still not resolved. The company also has a loan of €2.9m from the Council on which it is making regular repayments.

It is recommended that the Council advises the company to ensure that the financial accounts are prepared in line with the timeframe for the Council's own accounts.

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

The Council continues to be supportive of this much needed community facility and will continue to work to try and bring this complex insurance claim to a positive conclusion for the facility. The Council has already been in discussion with management at the facility to emphasise the need to have their accounts prepared in sufficient time to inform the inclusion of this subsidiary company in the Council's AFS and will revisit this with them in the coming months.

## 12 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, his management team and the elected members all have a role in ensuring that there are sound systems of financial management and internal control in place.

### 12.1 Risk management

An effective risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed. An up to date risk register is maintained by the Council. In accordance with best practice, risk management should be a standing agenda item at all management team meetings.

## 12.2 Internal Audit

In 2017 the Council's internal audit function consisted of four people. The annual work plan was approved by the Audit Committee and the Chief Executive. The head of internal audit reports directly to the Audit Committee, the Head of Finance and also has direct access to the Chief Executive in carrying out the work of the unit. The unit produced 7 reports during the year, which I have taken account of in carrying out my audit.

## 12.3 Audit Committee

The committee met on four occasions during 2017 and issued its annual report for that year in April 2018. I commend the work undertaken by the committee which continues to contribute to the independent oversight of corporate governance within the Council.

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

The Council is increasingly aware of the value of audit and risk management to the organisation. The risk register is subject to periodic review and will be included as a standing item at each management team meeting.

## 13 New Ross Port Company

The Harbours Act 2015 provides for the future transfer by way of Ministerial Order of 5 named Ports, including New Ross Port Company (the Company), to local authority led governance structures.

Recent correspondence with the Department of Transport, Tourism and Sport (DTTAS) confirms that the Council has been actively working with DTTAS in the due diligence and transfer process, which are not yet complete. The due diligence process has to date highlighted a number of potential liabilities. In addition the company's financial statements for the year ended 31 December 2017 recorded an accumulated deficit of €1.4m. The financial impact of this transfer on the Council should be assessed by management and incorporated into the risk register.

Management should continue to engage with the relevant Government Departments to ensure that this matter is satisfactorily concluded.

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

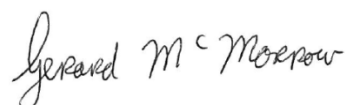
This particular matter is one of great concern for the Council and will be managed very carefully in order to protect, in as far as possible, the financial position of the Council. The Council is continuing to actively engage with the relevant government department and current management of the New Ross Port Company with a view to fully establishing the financial exposure and to securing associated funding to address the liabilities identified.

The Council has made a formal submission to DTTAS providing a preliminary assessment of the extent of the known liabilities to date and the concerns the Council has in respect of the contingent liability arising for the Council.

As a result the matter is being added to the Council's risk register and consideration of a note on the contingent liability here is also being considered for the 2018 AFS.

## 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 "Gerard McMorro". The signature is written in a cursive style with a large initial 'G' and 'M'.

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**Gerard McMorro**  
**Local Government Auditor**

**26 October 2018**

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Department of Housing, Planning and Local Government



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