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Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Galway County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

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CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF GALWAY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway 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 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 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

In 2017, the Council recorded a surplus of €1.4m after making net transfers to reserves of €2.4m. The cumulative deficit in the Revenue Account decreased by €1.4m to €582K.

The surplus includes the write down of the specific revenue reserve of €1.3m in accordance with the Department’s Circular Fin 11/2016. Therefore, the yearly operational surplus was €0.1m. At year end, the specific revenue reserve was €228K.

Variances between the adopted budget and the actual financial performance are detailed in Note 16 of the AFS. Members’ approval, as required by Section 104 of the Local Government Audit 2001, for the expenditure in excess of the annual budget was obtained at the Council meeting of 23 April 2018.

The Council should continue to apply robust financial management controls to ensure that budgeted expenditure is adhered to.

2.2 Financial Position

The significant movements in the Council finances were:

- Increased accumulated cost of fixed assets of €6.7m mainly attributed to capitalisation of Ballinasloe Library (€4.1m) and Loughrea Area Office (€2.6m).
- Reduction in loans payable of €4.4m mainly due to standard repayments.
- Increase in Local Property Tax (LPT) income of €3.5m mainly due to the inclusion of the Pension Related Deduction in the baseline together with a 10% increase in LPT charge.
- Reduction in long term debtors of €2.9m mainly due to installments (€1.4m) and recoupable loan advances (€1.3m).
- Increase in Government debtors of €1.4m mainly due to increase in monies billed to Fáilte Ireland (€2.3m) and transfer of Department of Culture, Heritage and the Gaeltacht amounts owed for Kilronan Harbour (847K) to capital account.

2.3 Capital Account Analysis

The cumulative credit balance on the Capital Account declined by €470k to €20.1m.

The significant year end credit balances by programme group were:

- Environment Protection of €11m mainly related to Pollboy Landfill (€10.7m) to ensure compliance with EPA waste license.
- Planning Development of €10.1m mainly related to development contributions (€7.6m) and economic development reserve (€1.6m).
- Recreation and Amenity of €9.7m mainly related to development contributions (€9.8m).

In regard to development contributions, the reserves created for development contribution may not transfer into cash.

The significant year end debit balances by programme group were:

- Housing and Building of €4.4m mainly related to land and house acquisitions (€4.8m).
- Road Transportation & Safety of €6.6m mainly related to road improvement works (€5.6m) and Kilronan Harbour Development (€847K).
- Miscellaneous of €2.4m mainly related to Galway Airport (€639K), Loughrea Area Office (€344K) and Tuam Area Office (€2.1m).

Further analysis of capital balances is noted in paragraph 5.

Chief Executive's Response

The objective of continuing to reduce the revenue deficit remains a priority and will be aided by the on-going approach to budgetary control across the Council.

The Capital Account comprises a mixture of both debit and credit balances on various projects. Debit balances represent projects where a source of funding has yet to be identified. Credit balances represent funding set aside to fund future expenditure or as co-funding towards future projects.

Additional comments in relation to Capital Balances are included in paragraph 5 of this report

3 Income Collection

3.1 Summary of the revenue collections

A summary of the revenue collections is:

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	84%	84%	€5,383,782	€6,346,265
Rents & Annuities	90%	91%	€813,797	€740,340
Housing Loans	76%	76%	€644,663	€667,569

3.2 Rates

The closing arrears for rates reduced by €962k to €5.4m. This mainly occurred due to an increase of €592k in the amount collected. The increase in the collection of rates is welcome.

At 30 December 2017, the Council had 291 properties awaiting valuation from the Valuation Office. The Council should continue to work with the Valuation Office to ensure the valuations are completed promptly.

3.3 Rents

The closing arrears for rents increased by €73K to €813K.

The Council has identified some rental tenants being charged incorrectly. This occurred because the rental system was not updated when a tenant reached a specified age qualifying the tenant for a reduced payment. This issue is being addressed.

3.4 Housing Loans

As at 31 December 2017, the Council had 352 loan accounts of which 134 (55%) were in arrears greater than 3 months.

3.5 Conclusion

All efforts should be made to further improve these collection yields.

Chief Executive's Response

The Council will continue our focus on improving collection rates for 2018. We note that the level of rates debtors has declined form a high of €10.6M in December 2013 to the current level of €5.4M.

The housing rents system has been amended to identify any tenants who may qualify for a reduced payment.

The Council will continue to apply the Mortgage Arrears Resolution Process (MARPS) with a view to reducing arrears on loan accounts. However we note that in some cases the ultimate outcome of the MARPS process will clarify that a loan may be unsustainable which will lead to repossession.

4 Transfer of Water and Sewerage Functions to Irish Water

The Water Services Act (No 2) 2013 was enacted in December 2013 and provides for the transfer of water services from the Local Authorities (LA's) to Irish Water (IW) from January 2014. In addition the Act provided for the transfer of assets and certain liabilities related to water services from LA's to IW.

4.1 Balancing Statement

The balancing statement is not yet finalised. It is important that the finalisation of the balancing statement is completed in the short term.

4.2 Service Level Agreement

Approximately €8.8m was accrued for IW with €536K outstanding at year end.

4.3 Water Related Loans

As at 31 December 2017, the Council had loans for water activity with an approximate value of €4.3m. The cost of interest and capital repayments is being funded by the Department.

4.4 Water Related Rates

The Council recouped rates income of €9K for IW businesses from the Department in accordance with Department Circular L3/2017.

4.5 Water Related Development Levies

Development levies related to water works have not been transferred to IW to date, where applicable.

4.6 Water Related Assets

The asset transfer process is ongoing. The ownership of water assets under the following headings is as follows

• Registered to Galway County Council	20
• Registered to 3rd Party	66
• Mixed Registration	12
• Unregistered	17
• To be determined	10
• Transferred to IW	130
• Total	255

Assets registered to a third party, mixed registered, unregistered or registration to be determined represent 41% (105) of assets.

The Council should continue to work with IW and other bodies to resolve the title issues in the short term.

Chief Executive's Response

In relation to the balancing statement between Galway County Council and Irish Water (para 4.1) it is expected that that process will be concluded before the end of 2018.

Amounts collected for water development contributions will be transferred to Irish Water by the end of 2018.

With regard to the transfer of assets (para 4.6) the majority of significant assets, where clean title is available, have already been transferred to Irish Water. It is often the case, though, that title registration for older water services assets may not have been finalised for one reason or another.

The transfer of assets has been acknowledged as a national issue. An Asset Transfer Working Group has been established between the Local Authority Sector and Irish Water to address these and similar issues. This is to ensure that appropriate controls, procedures and governance principles are applied to the transfer of all Irish Water related assets from Local Authorities.

5 Capital Account

5.1 Capital Balances – Unfunded

The review of capital balances identified unfunded balances of €18.3m. The unfunded balances by division are

- Housing & Building €5.3m
- Roads Transportation and Safety €10.1m
- Development Management €0.6m
- Environmental Services €0.1m
- Recreation and Amenity €0.2m
- Miscellaneous Services €2.0m

The general reasons provided for unfunded balance included

- Assets purchased and not yet sold, utilised or financed €7.1m
- Costs on road projects €5.1m
- Project requiring match funding €4.7m
- Other €1.4m

The Council should address the unfunded balances in the short term.

5.2 European Capital of Culture: Galway 2020

Galway will be the European Capital of Culture in 2020.

In April 2017 the Council adopted a motion to make a contribution of €2m to Galway 2020. The adopted contribution (€2m) in terms of the overall unfunded balances (€18.3m) is significant.

The Council minutes for April 2017 records that the funding for the project will be the savings on the annual loan payments for the county hall after the loan redemption in 2019. As a result spends on Galway 2020 is deferred from being charged to the revenue account until 2019. It is my view that the contributions should be charged to the revenue account as they occur.

During the year the Council made a contribution of €500k. At year end the capital account for Galway 2020 had a debit balance of €500k.

Further contributions will need to have regard to the financial capacity of the Council's revenue budget.

Chief Executive's Response

Balances on the Capital account are reviewed on a regular basis with a particular emphasis on funding sources. Provisions have been made in the revenue budget towards the funding of adverse capital balances in prior years and it is anticipated that similar provisions will be made in future budgets.

A substantial element of the current unfunded balances relates to roads projects and we are in discussions with TII with a view to securing funding for these projects. A large portion of the housing and building figure represents assets with a potential value and we are working to realise an element of this value as part of our housing capital projects.

The current budgetary position of the Council militates against making additional provisions in our 2018 revenue account to reduce unfunded balances.

It is envisaged that there will be long term benefit accruing to the County as a result of its involvement in Galway 2020, and accordingly the Council are satisfied that it is appropriate to fund the financial commitments to this project over a number of years.

6 Audit Adjustments

6.1 Overview

An audit adjustment occurs where a financial statement line item differs from the amount as determined by the auditor. During the audit, audit adjustments were identified.

6.2 Audit Adjustments

The following audit adjustments were identified which have no impact on the revenue account:

- Buildings, Houses, Plant and Machinery valued at €11m were not capitalised. Appropriate adjustments were not made to the accounts. It is recommended that the adjustments are applied to AFS 2018.

- The sum owed to the Revenue Commissioners was understated by €2.5m and the bank overdraft overstated by an equivalent amount. Appropriate adjustments were made to the 2017 AFS.

- The sum due from the Department of Culture, Heritage and the Gaeltacht was overstated by €827k and a capital account understated by an equivalent amount. Appropriate adjustments were applied to the 2017 AFS.

- The sum due from Fáilte Ireland was overstated by €334k. An appropriate adjustment was not made to the accounts. It is recommended that the adjustments are applied to AFS 2018, if applicable at the time.

- Deferred income was overstated by €925k due to the inclusion of fire income not yet received. Fire income debtors were therefore overstated by an equivalent amount. An appropriate adjustment has not been made to the AFS. It is recommended that the adjustments are applied to AFS 2018.

None of the audit adjustments have an impact on the revenue account.

Chief Executive’s Response

The audit adjustments highlighted refer to changes to the audited AFS and the copy approved by the members at the April meeting. The adjustments relate largely to timing / technical accounting adjustments and as noted above none of the adjustments have any impact on the revenue account.

7 Government Debtors

7.1 Overview

Government debtors after audit adjustments at year end were €6m. The timely recoverability of amounts due from Government debtors is essential for cash flow management and avoiding overdrafts.

The review of recovery procedures in August 2018 identified five Government debtors having a cumulative outstanding balance of €2.6m, ranging from €100 to €2.3m. The balance largely comprised of Fáilte Ireland at €2.3m.

7.2 Fáilte Ireland

At year end, the Council had arrears owed from Fáilte Ireland for €2.3m. At 30 August 2018, this amount remains due. Efforts have been made to collect the arrears. Nonetheless further efforts must be made to address the substantial arrears.

Chief Executive's Response

The Council will continue to liaise with Fáilte Ireland with a view to collecting all sums owing to the Council. We would note that there has been recent engagement with a view to progressing this matter.

8 Fixed Assets

8.1 Capitalisation of Fixed Assets

The Accounting Code of Practice ("ACOP") requires assets to be recognised on the acquisition or construction of a fixed asset on an accrual basis.

The review found buildings, houses, plant and machinery not capitalised of a cumulative value of €11m.

In addition, clarity is required on the ownership of parks, playgrounds, piers and harbours in the County of Galway.

It was noted that some assets are recognised when grant income is received rather than when the Council benefits from the economic benefits of having the asset in use. This is a deviation from ACOP.

It is recommended to capitalise assets when acquired or constructed.

8.2 Reconciliation of Register of Lands to Fixed Asset Register

The ACOP requires Local Authorities to keep a register of lands acquired in which particulars of all lands acquired or leased are recorded.

A key control to ensuring all related lands are recognised in the AFS is the performance of reconciliation between assets on register of land and asset register (with appropriate investigation documented where differences occur). Currently this control activity is not performed by the Council.

Accordingly it is recommended that reconciliations are performed regularly.

8.3 Assets Management

Currently, the responsibility for managing property assets resides across a number of sections. Systems used for managing assets in various sections vary with the result that there isn't a centralised database of all property assets owned by the Council.

A review of business processes involving process mapping activities, dependency, owners, decision points and resourcing (i.e. asset registrar) may identify efficiencies and improve systems.

I noted the absence of a dedicated person assigned responsibility of an Asset Registrar or Property Manager.

Chief Executive's Response

The Councils policy in relation to assets has been to recognise the asset once all funding had been received. From 2018 the Council will take the approach recommended by the auditor and recognise assets once the Council benefits from the economic benefits of having the asset in use. This change is just a timing issue as to when assets get recognised.

The assets valued at €11M mentioned above, although not reflected as fixed assets in the 2017 AFS were recorded in the Capital Account of the 2017 AFS. We can confirm that they have been capitalised in 2018. Due to shortage of resources it has not been possible to carry out the reconciliation referred to, the Council will endeavour to address this issue in 2018

9 Plant & Materials Account

9.1 Overview

Transactions for plant and materials are disclosed in Note 13 Summary of Plant and Materials Account. Profits on the Plant and Materials accounts are transferred to the “Plant Fixed Assets” job in the Capital Account. In general the profits are used to purchase assets.

9.2 Deficit for the year

In 2017, the Plant and Materials account incurred a deficit of €119K. This was largely attributed to a decline in machinery yard income of €427K.

The Council should ensure that the Plant and Materials account break even or achieve a surplus annually.

9.3 Capital Account

The “Plant Fixed Assets” capital job had a debit balance at year end of €457K. This represented an increase of €271K mainly due to the purchase of vehicles.

The Council should address the debit balance in the short term.

Chief Executive’s Response

The Council will continue to monitor the activities of the machinery yard. The Council proposes to undertake a full review of its fleet management requirements in 2019.

10 Data Protection

10.1 Overview

The EU General Data Protection Regulation (GDPR) provides a single, harmonised data privacy law for the European Union and was directly applicable from 25 May 2018. Public bodies whose activities have a commercial comparative in the private sector are subject to fines in the event of an infringement. As such County Councils are subject to fines.

The Council should ensure that adequate resources are allocated to ensure compliance with the GDPR.

Chief Executive's Response

Noted

11 Ethics

11.1 Overview

Section 171 of the Local Government Act 2001 requires those to whom Section 167 (1) of the Act applies typically council members and senior staff, to submit an annual declaration to the nominated Ethics Registrar. Statutory Instrument No 582/2002 sets the last day of February as the return date for these forms.

The responsibility for completion of the ethics return rests with the Councillor or staff member for whom the Council deemed the legislation applicable.

11.2 Councillors Returns

Three Councillors returns were received after the February 28th deadline in March 2018.

Twenty one Councillors' returns were not fully completed for many sections.

11.3 Staff Returns

Forty staff returns were received after the February 28th deadline in March 2018.

Seven staff had not submitted an ethics form by the opening of the audit on 13th July 2018.

11.4 Administrative processes

An oversight in the printing of the ethics return forms for postal distribution to Councillors led to the omission of many sections in the ethics return forms.

It is recommended that the Council strengthen processes in the management of ethics returns.

Chief Executive's Response

While the responsibility lies with the individual the Council has operated a reminder / follow up procedure to ensure compliance. This procedure will be reviewed to ensure compliance in the future.

12 Fraud

12.1 Fraud Prevention and Contingency Plan

A fraud prevention and contingency plan set out responsibility, roles and tasks for the prevention and detection of fraud. Additionally it sets out the corporate tone and actions when dealing with fraud.

An updated fraud prevention and contingency plan has been prepared. At the close of the audit, it was under consideration by the Senior Management team.

12.2 Fraud

In August 2017, the Council's control environment was breached by a redirect fraud. The Council has recovered 91% of the monies it was defrauded of. The matter is under investigation by An Garda Síochána.

Chief Executive's Response

The Council has always and continues to treat fraud prevention as a priority issue. Following the redirect fraud identified in 2017 the Council carried out a review of our internal controls in this area and implemented additional checks to help prevent a reoccurrence. An Garda Síochána are pursuing the recovery of the remaining 9% (€3,500).

13 Shared Services with Galway City Council

13.1 Overview

The Council and Galway City Council provide some services on a shared basis e.g. fire services and the library. The Council received €6.4m towards service delivery costs in the year 2017.

13.2 Deliberations

In 2017, the Council and Galway City Council held deliberations in relation to the funding of shared services. A process was agreed for an independent assessment of the proportion of fire service costs to be paid by each authority on an annual basis.

13.3 Service Level Agreements or equivalent

A signed service level agreement is not in place.

Chief Executive's Response

During 2017 / 2018 an independent process was put in place to review the costing of the provision of shared services and that process has issued a recommendation on how to split costs which has been accepted by the County and City Council.

14 Risk Management

14.1 Development of Updated Risk Register

The Risk Management environment needs improvement.

The Risk Register continues to be under development. The Risk Register reports risks by Directorate. Risks are assigned to a risk owner. Risks are categorised into financial, operational or reputational. Each risk has a weighted score having regard to impact and likelihood with accompanying control action and frequency e.g. weekly, monthly checks.

Further improvements are required in this area in the short term, particularly relating to risk management guides, co-ordination, monitoring and resourcing.

Chief Executive's Response

Work has continued on the risk register in 2018. However due to staff changes progress has been slower than expected. It is hoped to allocate additional resources to this area in 2019.

15 Acknowledgement

My appreciation for the courtesy and co-operation extended to the audit team by Kevin Kelly (Chief Executive Officer), Gerard Mullarkey (Head of Finance), Áine Fenton (Accountant), Michael McGovern (Accountant) and all management and staff of the Council.

Donal Cahill

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Donal Cahill
Local Government Auditor

30 Sept 2018

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