



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Galway County Council**

**for the**

**Year Ended 31 December 2016**



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

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## **AUDITOR'S REPORT TO THE MEMBERS OF GALWAY COUNTY COUNCIL**

### **1 Introduction**

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

- 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**

In 2016, the Council had a deficit of €73K after making net transfers of €2.396m. The Council's cumulative deficit on the revenue account amounted to €1.959m at 31 December 2016. The Council should continue to eliminate the closing revenue deficit through stricter budgetary controls.

Over expenditure was approved as detailed in Note 16 at the Council meeting of 24 April 2017.

#### **2.2 Financial Position**

The significant movements in the Council finances were:

- An increase in Roads Transportation and Safety due to additional resources received of €6.5m mainly related to storm damage funding not originally budgeted for
- A reduction in Long Term Debtors of €10.7m due to the application of the accounting policy change for Development Contributions (See paragraph 7)
- Reduction in Deferred Income of €8m mainly related to road projects
- Decrease in Government Debtors of €3m mainly due to receipt of monies from Kilonan Project (€6m) and monies owed (€2.5m) from Department of Housing, Planning and Local Government (Department) for housing purchases.

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

Galway County Council continue to monitor and implement strict budgetary controls on an ongoing basis. While our capacity to reduce the deficit has been limited our financial and budgetary approach has ensured that the position has not deteriorated. The Council will continue its efforts to address this deficit.

## **3 Major Revenue Collections**

### **3.1 Collection Yields**

The collection yields for the past 3 years were:

<b>Category</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Rates	84%	81%	74%
Rents & Annuities	91%	90%	88%
Housing Loans	76%	76%	75%

Collection yields steadily improved over the past three years. All efforts should be made to further improve these collection yields going forward.

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

The reduction in the level of arrears in all income sources continues to be a priority area of focus for this authority. This involves meeting customers to discuss issues, securing payment plan agreements with our customers, and monitoring these agreements. A Mortgage Arrears Resolution Process has been implemented to assist borrowers in difficulty with their housing loans. The collection figures are showing a positive trend and it is intended to maintain the effort to continually increase collections

## **4. Capital Account**

### **4.1 Unfunded Balances**

I reviewed a sample of capital account balances. The review found that the Council is carrying unfunded balances of approximately €15.7m. A large quantity of these balances has existed for more than 1 year. Funding for these balances needs to be identified in order to reduce and eliminate this deficit over a planned period of time.

### **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 Transport Infrastructure Ireland with a view to securing funding for these projects. The current budgetary position of the Council militates against making provision in our revenue account to reduce unfunded balances.

## 5. Fixed Assets

### 5.1 Recognition & Ownership of Fixed Assets

Expenditure on Assets acquired or constructed during the year was not capitalised. I estimate that approximately €20m worth of assets requires capitalisation. Accordingly the value of fixed assets included in the accounts is understated.

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

### 5.2 Registration of Property Assets

#### Management & Control

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 there is no one complete 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.

#### Social Housing

Detail on assets registration showed a number of Social Housing houses currently reside outside the Property Registration Authority Ireland (PRAI) mapped plans. This should be addressed in the short term.

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

Although assets purchased in 2016 were not capitalised at the end of the year the transactions were reflected in the capital account at the end of 2016 and the subsequent accounting journals will be processed in 2017.

In relation to social housing a data cleansing exercise needs to be conducted as from an initial review the issue highlighted relates to locations not corresponding exactly on both systems. Consideration will be given to assigning a coordinating role to a staff member.

## 6. Kilronan and Caladh Mór Harbour

### 6.1 The development of a harbour in Kilronan and a pier at Caladh Mór was originally expected to be funded by Roinn na Gaelteacht. However a dispute occurred that left the Council with these capital projects unfunded on its accounts.

During the year 2016 the Council received payment of €6m bringing the total received on the remaining outstanding balance for 2012 to €6.9m. At year end, approximately €900k remained outstanding and is included in Government Debtors for the development of Kilronan and Caladh Mór harbours in 2012. It is vital the remaining unfunded balance is addressed in the short term.

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

The Council note that the remaining balance on Kilronan and Caladh Mór harbour will need to be funded from the Councils own resources in the absence of further Departmental funding and will be considered further when resources permit.

## **7. Development Contributions**

### **7.1 Change of Accounting Policy**

The accounting treatment of Development Contributions was amended for the year ended 31 December 2016. Short Term Development Levy Debtors are presented in Note 5, whereas income due greater than one year is deferred and is not separately disclosed in the AFS. This treatment is in accordance with Circular Fin 11/2016.

## **8. Shared Services**

- 8.1 Galway County Council has indicated that there are significant legacy arrears due from Galway City Council at end of 2016. Arrears associated with 2014, 2015 and a legacy amount of 370k related to 2012 are subject to discussion between the two authorities. These discussions were not yet finalised at end 2016.

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

Galway County Council and Galway City Council have ongoing discussions in relation to the funding of shared services and it is anticipated that this matter will be resolved by the end of 2017.

## **9. Procurement**

### **9.1 Public Spending Code**

Galway County Council published the "Public Spending Code - Quality Assurance Report 2016" on its website. The reports reflect the Council's self-assessment of compliance with the Public Spending Code. The report concluded that the Council had "a high level of compliance" with the Code. It was acknowledged that more work is required to ensure full understanding of the code.

## **10. Fire Charges**

- 10.1 The Fire Services Information System (FSI) is a standalone system used by the fire service for billing of fire charges. The FSI system is currently undergoing an upgrade.
- 10.2 The Fire Charges in the AFS 2016 are recorded on a cash basis in the Accounts. The Council is moving towards an accrual basis.
- 10.3 In 2016, the Council analysed the FSI system data and identified €593k of outstanding fire charges. In 2017, these charges were imported into Agresso Debtor system for years up to and including 2016.
- 10.4 Approximately €87k (15%) has been collected of the 593k of historical debt owed to the end of 2016, at the time of the audit. The Council should ensure fire charges are collected promptly.

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

As noted above the Council has now brought the collection of fire charges into the debt collection unit located within the finance function. As a result fire charges will now be pursued in a similar manner to all other income streams. Additional staff resources have been allocated to the collection of fire charges resulting in cash collected in 2016 being 50% ahead of budgeted levels.

## 11. Irish Water

11.1 The Water Services Act (No 2) 2013 was enacted in December 2013 and provides for the transfer of water services from the Local Authorities 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 the Local Authorities to IW.

### 11.2 Balancing Statement

The Balancing Statement process is not completed.

### 11.3 Service Level Agreement

A sum of €9.05m was paid by Irish Water with €646k outstanding at year end.

### 11.4 Water Related Loans

As at 31 December 2016, the Council had 2 water related loans with a cumulative value of €4.9m. The cost of repaying both interest and capital on these loans is being funded by the Department.

### 11.5 Water Related Assets

The Asset transfer process is incomplete. The ownership of water assets under the following headings is as follows

· Registered to GCC	8
· Registered to 3rd Party	86
· Mixed Registration	11
· Unregistered	19
· To be determined	16
· Transferred to Irish Water	87

It is noted that 132 (58%) of the above assets are either registered to a third party, mixed registered, unregistered or registration is not determined. This is a significant issue for the Council to address. The Council should seek to resolve this issue as soon as possible.

### Chief Executive's Response

In relation to the Balancing Statement between Galway County Council and Irish Water (para 11.2) it is expected that that process will be concluded before the end of 2017 or in the first quarter of 2018.

With regard to the transfer of assets (para 11.5) 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 to older water services assets may not have been finalised for one reason or another. It is more a priority for Irish Water than the council to have these assets transferred to their ownership but the resourcing of this is significant, will require input from Irish Water, the Council and the Department of Housing and Local Government.

## **12. Governance**

### **12.1 Internal Audit**

I reviewed the internal audit reports completed during the year 2016. These reports were reviewed by the Audit Committee and have been considered in the planning of this audit.

## **13. Ethics Returns**

13.1 S171 of the Local Government Act, 2001 requires those to whom S167 (1) of the Act applies, to submit an annual declaration to the nominated ethics registrar. SI No 582/2002 set the last day of February as the return date for these forms.

13.2 The review of 2016 Council returns, where were due by end of February 2017, found that six Council members' returns were not returned as at September 2017. Of the 33 Council returns received, 3 were received late.

13.3 The review of 2016 Staff returns, found that 54 staff members for whom the Council deemed the legislation applicable, failed to submit the requested return. Of the 162 Council Returns issued, 25 were received after the cut-off date. In addition, two staff were omitted from ethics requests.

13.4 The Council should review its procedures and protocols pertaining to 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.

## **14. Risk Register**

14.1 In 2015 the Council commenced an update of its risk management framework. The objective was to have a Risk Register containing department risk at all levels and having them linked to organisations strategies and goals at a higher level.

14.2 In 2016, the updated risk management framework was trialled and further training was identified. Further improvements are required in this area in the short term, particularly relating to risk management guides, co-ordination, monitoring and escalation processes.

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

Work on the compilation of a corporate risk register has continued in 2017 and it is expected that the executive team will be in a position to sign off on this item by the end of 2017.

## **15. Low Value Purchase Cards (LVP)**

15.1 The review of the management and operation of LVP Cards identified deficiencies relating to use of the suspense account for unapproved transactions. Many of the transactions have remained unresolved for greater than one year.



- 15.2 A review of operational procedures and control for LVP cards should be undertaken in the short term.

**Chief Executive's Response**

The suspense account relates to transactions properly undertaken but not fully closed out on, in the accounting system and the relevant units have been asked to address this. Management continue to review and monitor the use of LVP cards within the Council. All staff have been reissued with the procedures and policies relating to the use of LVP cards and an additional internal audit will be conducted to monitor compliance.

**16. Acknowledgement**

I wish to record my appreciation for the courtesy and co-operation extended to the audit team by Kevin Kelly (Acting CEO) Gerard Mullarkey (Head of Finance), Áine Fenton (Financial Accountant), the finance team, senior management and all staff of the Council.

DONAL CAHILL

25 Oct 2017

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Donal Cahill  
Local Government Auditor

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Date