



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Mayo 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 MAYO COUNTY COUNCIL

1 Introduction

1.1 I have audited the Annual Financial Statement (AFS) of Mayo 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 surplus of €305k after making net transfers of €4.444m. The Council's cumulative deficit on the revenue account amounted to €4.351m at 31 December 2016.

The surplus (€305k) consisted of:

- An operational loss of €933k
- An exceptional surplus arising from the elimination of the specific revenue reserve of €1.238m

The operational loss arose as a result of the Council increasing the bad debt provision by €500k and writing off irrecoverable rates of €738k. The Council should continue to eliminate the closing revenue deficit of €4.351m through stricter budgetary controls.

Over expenditure was approved as detailed in Note 16 at the Council meeting of 2 May 2017.

2.2 Specific Revenue Reserve

The specific revenue reserve was a mechanism put in place to facilitate the changeover in accounting treatment when Local Authorities (LA's) moved from accounting on a cash basis to the accruals basis. In accordance with Circular Fin 11/2016 issued by the Department of Housing, Planning, Community and

Local Government (the Department) on 16 December 2016, LA's are permitted to eliminate their specific revenue reserve in one of the following manners:

1. Write down of general revenue reserve deficits
2. Write down of unfunded capital project balances.

Mayo County Council eliminated their specific revenue reserve by writing down their general revenue reserve deficit by €1.2m

2.3 Financial Position

The significant movements in the Council finances were:

- A reduction in Loans Payable of €7.1m, mainly due to a decline in borrowings
- An increase in Creditors of €2.2m, primarily relating to payments due to landowners in respect of Compulsory Purchase Orders for two major road projects.

2.4 Debt

The Cumulative Debit Balance on the Capital Account increased by €6.85m to €8.69m mainly attributed to an increase in expenditure relative to income. See Note 11 of AFS for further detail.

Chief Executive's Response

The financial performance of the Council has improved by €305k which is positive in the context of the current difficult economic climate. The Council's deficit on the Revenue Account has reduced by €1.04m over the last three years and we plan to continue to reduce the deficit further in the current and future years insofar as resources permit.

3 Major Revenue Collections

3.1 Collection Yields

The collection yields for the past 3 years were:

Category	2016	2015	2014
Rates	82%	78%	80%
Rents & Annuities	85%	83%	84%
Housing Loans	68%	65%	68%

Collection yields remained reasonably consistent over the past three years. There was an improvement in yields in all categories in 2016. Nonetheless all efforts should be made to further improve these collection yields going forward.

- 3.2 The review of loan arrears identified a reduction of €57k in the year ended 31 December 2016. The loan arrears outstanding greater than one year was €1.429m. As at 31 December 2016, the Council had 455 loan accounts of which 258 were in arrears greater than 3 months. The Council should address the arrears in the short to medium term.

3.3 Bad Debt Provisions

Category	2016	%	2015	%
Rates	1,885,246	36	1,385,245	24
Rents	349,886	32	349,886	32
Loans	600,000	40	600,000	39

* % = Provision/Closing Arrears

I consider these provisions adequate for year ended 2016.

Chief Executive's Response

The Council has achieved improvement in collection rates across the main income headings of Rates, Rents and Housing Loans. We will continue our focus on improving collection rates for 2017 and future years.

The Council will continue to apply the Mortgage Arrears Resolution Process with a view to reducing arrears on loan accounts.

4. Transfer of Water and Sewerage Functions to Irish Water

4.1 The Water Services Act (No 2) 2013 was enacted in December 2013 and provided for the transfer of water services from the Local Authorities to Irish Water (IW) from January 1st 2014. In addition the Act provided for the transfer of assets and certain liabilities related to water services from the Local Authorities to IW.

4.2 Loans

The Council had €5.6m in water related loans at the end of 2016. The cost of repaying both interest and capital on these loans is being funded by the Department.

The Council is awaiting direction from the Department on three water loans regarding their future use.

Chief Executive's Response

The Council's Water and Sewerage related borrowings continue to be serviced by the Department and we await direction from the Department regarding their future treatment.

5. Capital Account

5.1 Unfunded Capital Balances

I reviewed a large sample of capital account balances. The review found:

- Projects classified as funded that should have been classified as unfunded having a total value of approximately €6m
- Included in the €6m were 21 unfunded projects with no clear mechanism to fund the debit balance from revenue.

I recommend that management perform a complete review of all capital account balances and identify a clear funding source for those balances.

Chief Executive's Response

The funding of some Capital Account balances continues to be challenging. The Council is actively pursuing outstanding amounts and is in discussion with the Department of the Housing, Planning and Local Government and other Departments to secure funding for these balances. The Council will commence a review of its capital balances in advance of the 2017 audit and identify funding sources of projects

6. Fixed Assets

6.1 Assets Register

A review of fixed assets identified weaknesses pertaining to the recording of these assets. Specifically the Council should ensure that:

- The Property Registration Authority folio number for assets is recorded in the asset register
- Work continues to ensure that the asset register is developed further, kept accurate and up to date.

Chief Executive's Response

The review and update of Mayo County Council's Property Asset Register is an on-going project. The Council will continue this work to ensure the Property Registration Authority folios numbers are included, where applicable, on the asset register.

6.2. Transfer of Titles to Irish Water

The transfer of water assets to IW is an on-going activity of the Council. During the review, the ownership of water assets is as follows

• Registered to Mayo County Council	160
• Registered to 3 rd Party	137
• Mixed Registration	8
• Unregistered	16
• To be determined	23
• Transferred to IW	14
• Total	358

It is noted that 184 (51%) 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

The Council will continue its work with Irish Water to complete the process of transferring title of assets from the Council to Irish Water.

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 Financial Statements.

7.2 Portion of Development contributions payable to Irish Water

The Council is required to transfer any money received, or due to receive, in relation to development contributions to IW. The Council hadn't transferred these monies by the end of 2016.

7.3 The Audit found improvements to existing financial processes are necessary:

- Timely reconciliation of Commencement Notices in Building Control & Management System vs Planning Enforcement Record Database
- Recognising accrued interest at year end for unpaid development contributions

- Up to date inspection register.

The Council should seek to implement the improvements set out above as soon as possible.

Chief Executive's Response

The Council will implement the improvements identified above.

8. Grants – Community Gain Investment Fund

- 8.1 An Bord Pleanála granted planning permission to Shell E&P Ireland Limited as developer/operator of the Corrib Gas Project for the plant at Ballinaboy on 19 January 2011. The permission provided for an Investment Fund of €8.5m over 5 years. The fund was paid in trust to Mayo County Council who managed and distributed the spend.
- 8.2 Administration Fee
Mayo County Council received €170k annually from 2012 to 2015 to administer the grants.
- 8.3 Evaluation Committee
There was no evaluation committee sitting in 2016 as no new projects were awarded funding.
- 8.4 Decommittal

Decommittal is the return of allocations by recipients to the fund.

The Council allocated excess funds in anticipation of monies allocated to recipients being decommitted at a later stage. At year end, the excess allocation was €675,966.

Description	€
Overall Budget	8,500,000
Monies Allocated	<u>9,175,966</u>
Excess Allocated	675,966

As at 31 December 2016, the sum decommitted was €766,290 thereby leaving a sum available for reallocation of €90,324 (€766,290-€675,966).

I was advised

- Sixty projects are under consideration for decommittal of funds
- Approximately 10 groups appealed their decommittal and were reallocated the funds.

My review found

- There is a lack of clarity around the decommittal procedures specifically regarding timelines.
- It is noted that the Council will continue to incur administration costs without the benefit of reimbursement from the fund from 2017 onwards.
- Letters notifying decommittal are not issued to promoters.

The Council should review its procedures in this area.

Chief Executive's Response

The Council will implement the recommendation in relation to procedures for decommittal of funds allocated from the Community Gain Investment Fund.

9. Procurement

9.1 Contract Amendment post award - Acceleration Payment

For the N59 Mulranny Village Pedestrian Upgrade Works contract the initial contract sum of €1.198m increased to €1.74m. Included in the increased sum was an “Acceleration Payment”, for €150k, an incentive to complete the works in a shorter timeframe than originally planned.

In my view the “Acceleration Payment” did not flow from a contract term included in the contract notice or associated documents and thus may constitute an amendment to the contract thereby infringing the principle of transparency and non-discrimination.

The contract was a Public Works Contract for Minor Works (PW –CF5 V1.9).

The contract payments were funded by Transport Infrastructure Ireland.

Chief Executive’s Response

Public Works Contracts for Minor Works has been updated to include acceleration payments.

9.2 Public Spending Code

Mayo County Council published the “Public Spending Code - Quality Assurance Report 2016” on its website. The Reports reflects the Council’s self-assessment of compliance with the Public Spending Code. The report concluded that the Council has a “reasonable level of compliance” with the Code and there is room for improvements notably administrative tasks related to project management.

10. Local Authority Companies

10.1 The Council has an interest in 2 subsidiary companies, namely

- Claremorris Leisure Centre Limited
- Westport Leisure Limited.

The audits of the subsidiaries accounts weren’t completed prior to inclusion in the unaudited AFS 2016. It is noted that the year ends present a challenge to the Council to complete this task.

Where possible the audit of accounts of subsidiaries’ financial statements should be completed prior to completion of unaudited AFS.

Chief Executive’s Response

The Council will work with the Auditors of its Associated Companies and will endeavour to ensure that the audits of these companies are carried out in a timely manner.

11. Governance

11.1 Corporate Governance comprises the systems and procedures by which an entity is directed or controlled. It is the responsibility of the Chief Executive to ensure the sound system of financial management and internal processes are in place.

11.2 I reviewed the reports completed during the past three financial years. These reports have been taken into account as part of my audit.

- 11.3 Since 2015 the Council's Internal Audit Function has been outsourced to a private firm. In 2017 the contract was retendered. Currently, the number of days attributed to Internal Audit activities is 70. Given the scale, diversity and complexity of County Council activities I consider this an insufficient number of days allocated for audit and assurance activity.

Chief Executive's Response

The Council tendered for the provision of Internal Audit Services and have appointed Deloitte. A work programme, which was approved by the Audit Committee, has been agreed. Deloitte have concluded a number of reports and we will continue to keep this function under review in the context of our workforce planning and available resources.

12. Risk Register

- 12.1 The Risk Register reports risks by Directorate. Risks are categorised into financial, operational or reputational. Each Risk has a weighted score having regard to impact and likelihood. Key controls are linked to risks. Risks were assigned to a risk owner. The Risk Register was last updated in 2014.
- 12.2 During the audit I was advised that the Council is currently engaged with Irish Public Bodies Insurance with the intention to carry out a complete review of the Register.

Having regard to the importance of sound risk management processes I recommend

- the updating of risk management process is completed in the short term.
- the Risk Register is updated on an on-going basis i.e. at least quarterly.
- the Risk Register is subject to an annual process review to ensure the methodology and processes are aligned to emerging best practices.

Chief Executive's Response

The Council notes the recommendation of the Local Government Auditor in relation to the Risk Register and will ensure that it is reviewed on a regular basis.

13 Prompt Payment

- 13.1 The European Communities (Late Payment in Commercial Transactions) (S.I. No. 580 of 2012) transposed Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions into Irish Law. The Act places an onus on public bodies to pay suppliers in line with contract terms or within 30 days.
- 13.2 Under Circular Letter OU 01/11 dated 28th March 2011, Local Authorities are to ensure that payments to suppliers in respect of all valid invoices received for goods and services on or after 1st July 2011 are made within 15 days of receipt.
- 13.3 Based on returns to the Department of Jobs, Enterprise and Innovation, I conservatively estimate that the number of invoices to suppliers that should have incurred compensation and interest is significant.

The Council should in accordance with the Government policy pay the interest and compensation to suppliers, where applicable.

Chief Executive's Response

The Council will implement Prompt Payment Procedures in accordance with Government policy.

14. Acknowledgements

14.1 I wish to record my appreciation for the courtesy and co-operation extended to the audit team by Peter Hynes (Chief Executive Officer), Peter Duggan (Head of Finance), the finance team, senior management and all staff of the Council.

Chief Executive's Response

The Council welcomes the Report of the Local Government Auditor. Progress of the issues raised continues to be the focus of the Management Team, in the context of the current economic climate and the availability of finances.

I wish to thank the Local Government Auditor and his team for their assistance and the courtesy they have shown to myself and the staff of Mayo County Council in the carrying out of their work.

DONAL CAHILL

25 Oct 2017

Donal Cahill
Local Government Audit

Date