LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Donegal County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

housing.gov.ie
CONTENTS

AUDITOR’S REPORT TO THE MEMBERS OF DONEGAL COUNTY COUNCIL

1 Introduction .................................................................................................................................................. 1

2 Financial Standing ...................................................................................................................................... 1
  2.1 Statement of Comprehensive Income ................................................................................................. 1
  2.2 Financial Position ................................................................................................................................. 2

3 Income Collection ..................................................................................................................................... 2
  3.1 Summary of the Major Revenue Collection Accounts ........................................................................... 2
  3.2 Bad Debt Provision - Collection Accounts ........................................................................................... 3
  3.3 Other Debtors ........................................................................................................................................ 3

4 Transfer of Water and Sewerage Functions to Irish Water (IW) ................................................................. 4

5 Capital Debt ............................................................................................................................................... 4

6 Capital Account .......................................................................................................................................... 5
  6.1 Funding of old Capital Accounts ........................................................................................................... 5
  6.2 Issues Pertaining to Capital Expenditure ............................................................................................... 5
  6.3 Housing Capital Salaries “Holding Code Cost Centre” – Balance €524k ............................................. 6
  6.4 High Road Car Park ............................................................................................................................. 6

7 Procurement and Tendering ........................................................................................................................ 7
  7.1 Procurement of Consultancy Services .................................................................................................. 7
  7.2 Deviations from Purchasing Procedures ............................................................................................... 7
  7.3 Public Spending Code ........................................................................................................................... 8

8 Fixed Assets ............................................................................................................................................... 8
  8.1 Fixed Asset Overview ............................................................................................................................ 8
  8.2 Irish Water Assets ................................................................................................................................ 8
  8.3 Non Irish Water Related Assets ........................................................................................................... 8

9 Mica Problems in Council Properties ......................................................................................................... 9

10 Other Legal Costs .................................................................................................................................... 9

11 Housing Estates ....................................................................................................................................... 10

12 Irish Public Bodies (IPB) .......................................................................................................................... 11

13 Governance and Propriety ......................................................................................................................... 12
  13.1 General .................................................................................................................................................. 12
  13.2 Anti - Fraud and Corruption Policy ..................................................................................................... 12
  13.3 Corporate Risk register ...................................................................................................................... 12
  13.4 Local Authorities Interest in Companies ............................................................................................ 12
  13.5 Internal Audit ...................................................................................................................................... 14
13.6 Protected disclosures Policy ................................................................. 14
13.7 Data Protection .................................................................................... 14
14 Timelines for Responses and Preparation of Accounts Deadlines ............. 14
Acknowledgement .......................................................................................
1 Introduction

I have audited the Annual Financial Statement (AFS) of Donegal County Council for the year ended 31 December 2018, which comprises 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 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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 18 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 judgments 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

The Council recorded a surplus for the year of €567k. This surplus continues the positive trend that has prevailed since 2014, whereby surpluses have been achieved on the Council’s revenue account. Strict budgetary controls contributed to the Council recording continued surpluses since 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
</tr>
<tr>
<td>Surplus</td>
<td>0.567</td>
<td>0.764</td>
<td>1.254*</td>
<td>0.621</td>
<td>0.786</td>
</tr>
</tbody>
</table>

*The surplus of €1.254m excludes the elimination of the specific revenue reserve
2.2 Financial Position

The following matters pertaining to the Council's finances are of concern:

- The Council has a cumulative deficit of €8.387m (€8.953m in 2017) on the Statement of Comprehensive Income. Whilst acknowledging an improving deficit reduction in recent years, this is still a serious matter for the Council to address.
- Loans payable by the Council amounted to €111.5m at the end of 2017 (€119.5m at year-end 2016) (see paragraph 5).

Chief Executive's Response

The improvement on the revenue account for 2018 was €566,521. The revenue deficit has therefore reduced by €7.365m from year-end 2013 (€15.752m) to year-end 2018 (€8.387m).

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

As is the case each year, the Income & Expenditure report provided to the Elected Members sets out the detailed explanation for the outturn on the revenue account across all Service Divisions.

3 Income Collection

3.1 Summary of the Major Revenue Collection Accounts

<table>
<thead>
<tr>
<th>Income Source</th>
<th>Yield % 2018</th>
<th>Yield % 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>76%</td>
<td>74%</td>
</tr>
<tr>
<td>Rents and Annuities</td>
<td>89%</td>
<td>89%</td>
</tr>
<tr>
<td>Housing Loans</td>
<td>68%</td>
<td>68%</td>
</tr>
</tbody>
</table>

The 2018 collection yield for housing loans and rents remained static. The collection yield for rates increased by 2%. It is noted that the increase in rates collection arises because specific doubtful arrears in this area also increased by 2%. Specific doubtful arrears are not included in the relevant calculation percentage.

The Council operates a dedicated Income Collection Unit. This resulted in the general improvement in collection percentages for the above areas in previous years and the stabilisation in collection percentages in 2018, although further improvement is still necessary. The Income Collection Unit is responsible for rents, commercial rates, housing loans, non-principal private residence (NPPR) charges, development contribution scheme (DCS) charges, fire charges and marine charges.

Chief Executive's Response

Cash collected from commercial rates increased year-on-year from €24.629m in 2017 to €26.675 in 2018 (an increase of €2.047m), and there was an increase in the collection yield figure from 74% in 2017 to 76% in 2018 (an increase of 2 percentage points). Cash collected from rents and loan charges also increased year-on-year. However, the collection yield figures remained static at 89% and 68% respectively.

Notwithstanding the significant improvement in major collection accounts in recent years, efforts will continue to maximise income collection across all headings in 2019. Particular attention will
be paid to legacy debts, and the recovery of outstanding amounts using enforcement procedures where appropriate.

Factors which should impact positively on collection performance over the longer term include housing loan restructurings, a number of which are closing out during 2019; and the Local Government (Rates) Bill 2018, currently at ‘committee stage’ in Dáil Éireann.

3.2 Bad Debt Provision - Collection Accounts

A review of the bad debt provisions for the collections set out in paragraph 3.1 indicated that in my opinion they are adequate in the areas of rents and loans.

A review of rate customers at year-end 2018 indicated that there are a number of customers with significant arrears that are either in legal dispute with the Council or the Council are considering legal action against. There are also circumstances where customers have not always adhered to payment plans. The Council should constantly monitor collection procedures pertaining to rates and should review the adequacy of the rate bad provision in advance of completion of the 2019 AFS.

Chief Executive’s Response

Provisions for bad and doubtful debts are monitored closely on annual basis, with adjustments made as deemed appropriate.

It is recognised that businesses continue to operate in a challenging environment in Donegal, and the positive and proactive engagement from the majority of customers is acknowledged.

The small business grant scheme has been continued into 2019, both as an incentive and as a support, especially to small businesses. The scheme allows customers who pay their rates bill in full by 31 October to avail of a grant of 7.5%, subject to a maximum of €375. In 2018, over 1,800 customers availed of the small business grant at a total cost to the Council of around €430,000.

It is only in exceptional circumstances that cases have to be referred for enforcement or legal proceedings, when there is insufficient or lack of engagement on outstanding monies. However, it is critical that income collection is maximised, as this supports the provision of the various services reflected in the annual budget plan. On this basis, the income collection unit will continue to escalate enforcement actions against customers who do not meaningfully engage with income collection staff.

3.3 Other Debtors

Deficiencies were noted in the audit management letters of 2015 and 2016 setting out issues relating to the management of other debtor balances. The 2017 audit report set out that further work is still required to enhance collection procedures, and ensure the appropriate recording of information pertaining to these balances.

A detailed examination of these debtors during the 2018 audit identified a number of significant issues including:

- The accounting treatment of a Government debtor amounting to €1.215m was incorrect in the 2018 AFS. It was recorded as income receivable and as income deferred. It should have been recorded as income received in 2018, matched against capital expenditure incurred in 2018. Whereas having no impact on the revenue surplus, this does not represent good governance or appropriate management of capital debtor accounts.
- A sum of €114k, invoiced in April 2019, should have been invoiced in December 2018. This sum was accrued at the year-end.
- A number of old invoices were accrued at year-end but should have been invoiced to customers some 16 months earlier.
- A number of outstanding reconciliations on capital accounts should have been reconciled by year-end and appropriate recoupment of monies sought by year-end. Some of these reconciliations still remain outstanding.

The Council should conduct a review of collection procedures pertaining to other debtors with a view to improving them so the above issues are resolved and to prevent reoccurrence.

**Chief Executive's Response**

The comments from the Principal Local Government Auditor in relation to other debtor balances are acknowledged. The accounting treatment of income accrued/deferred has been corrected in 2019. As noted, the accounting treatment does not impact on the revenue outturn. It is also important to emphasise that there is no financial impact on the Council in terms of expenditure incurred by the Council or monies due to the Council. Additional oversight will be applied to this area during 2019.

As noted, the sum of €114k, accrued at year-end, has now been invoiced as appropriate, and any other outstanding amounts are being addressed urgently.

Work has commenced in terms of addressing the outstanding reconciliations on capital accounts, as referred to above. The specific job codes have been identified, and reconciliations will be completed during 2019.

4 **Transfer of Water and Sewerage Functions to Irish Water (IW)**

IW was allocated full responsibility, by statute, for all aspects of water services planning and delivery at national, regional and local level.

The Council operates under a service level agreement (SLA) with IW for the provision of water services. The Council received €16.6m under this agreement in 2018.

5 **Capital Debt**

Capital debt amounted to €111.5m at the 31 December 2018. This is further analysed as follows:

<table>
<thead>
<tr>
<th>Source of Borrowings</th>
<th>Year-2018 €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage and voluntary housing related borrowings</td>
<td>52.6</td>
</tr>
<tr>
<td>Loans fully recoupable pertaining to IW</td>
<td>6.1</td>
</tr>
<tr>
<td>Affordable housing related loans</td>
<td>1.9</td>
</tr>
<tr>
<td>Loans to fund assets and capital</td>
<td>50.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>111.5</strong></td>
</tr>
</tbody>
</table>

The following funding arrangements exist for the above loans:

- Repayments on mortgage and voluntary housing borrowings are matched by corresponding income. A mortgage loan funding surplus of €320k exists for loans receivable, pertaining to mortgage and voluntary housing, in excess of loans payable at 31 December 2018.
- Interest and principal repayments on the IW loans at year-end 2018 of €6.1m are
Loans relating to affordable housing amounting to €1.9m are on an interest-only basis, and are fully funded by the Department.

Of the €50.9m loans to fund assets and capital, these loans are fully serviced on an interest and principal basis from the 1 January 2017, except land acquisition loans of €4.752m, which are on an interest-only basis. If the land acquisition loans were fully serviced on a principal and interest basis in 2018, the increased charge to the revenue account would amount to approximately €57k.

Chief Executive's Response

Loans payable (Note 7 of the Annual Financial Statement) have continued to reduce, with the amount now payable standing at €111.5m at the end of 2018. In total, the value of the principal repayable on loans reduced by over €70.7m over the period 2014 to 2018. €28.9m of this reduction relates to loans redeemed on the Council’s loan book relating to the transfer of functions to IW.

Non-mortgage loans for assets/grants are loans which the local authority must fund from its own resources (i.e. loans that do not have a corresponding income source). At year-end 2018, this class of loan liability is significantly lower in absolute terms (at €50.9m, compared with €106.7m at the end of 2013), and represents around 46% of the Council’s total loan book. At year-end 2013, it was 56% of the Council’s total loan book. This represents a significant improvement on the Council’s balance sheet.

6 Capital Account

6.1 Funding of old Capital Accounts

Over the previous eight years, the Council embarked on an exercise to eliminate unfunded balances from its capital account. This resulted in the Council borrowing loans amounting to €45.1m, up to 31 December 2018, to fund these balances.

This funding was approved by the Department, subject to the stipulation that no further unfunded balances will occur on the Council’s capital account. Significant detailed testing of the capital account indicated that no unfunded balances exist subject to the following issues:

- Satisfactory completion of development contribution reconciliations: A very significant level of work occurred in this area during 2017 and 2018 and work is substantially complete here. This area will be reviewed again at next year’s audit
- Issues raised in paragraph 6.2.

Chief Executive's Response

The capital account will continue to be monitored on an ongoing basis, with a view to ensuring that the Council avoids the emergence of any unfunded balances.

Work will continue to progress in terms of managing development contribution balances.

6.2 Issues Pertaining to Capital Expenditure

A review of work conducted by the Council identified significant levels of engagement by the Council to address its capital account. However a small number of outstanding issues were noted:

- Further on-going work is required by the Council pertaining to old town council balances and the integration of these balances into County Council figures
• A small number of outstanding reconciliations on capital account balances have yet to be finalised

Chief Executive's Response

There are a number of legacy former town council capital job codes that require further examination and reconciliation. Progress was made during 2018 with a number of job codes reconciled. As noted previously, work will continue incrementally with a view to reconciling all these legacy job codes at the earliest date.

Other outstanding reconciliations will be addressed during 2019, including those referred to at 3.3 above.

6.3 Housing Capital Salaries “Holding Code Cost Centre” – Balance €524k

Salaried costs associated with the design and administration of approved housing schemes is eligible for recoupment from the Department, in accordance with the conditions of the housing scheme. The Council charged €980k of payroll to a general capital cost centre in 2016 and 2017 on the expectation of recouping this from the Department. €456k of these monies were recouped in 2018 reducing the sum of €980k to €524k.

A detailed review of this holding code cost centre identified the following:

• Monies can only be recouped from this cost centre when projects reach various stages of completion. To date these projects have incurred considerable payroll costs
• The Council has confirmed no further sums will be charged to this cost centre until costs incurred to date have been recouped
• The Council has prepared detailed projections setting out recoupable sums from the Department amounting to €2.074m up to the end of 2021. These include payroll costs already expended and costs to be incurred up to 31 December 2021. Claims received from the Department will be offset against the above sum of €524k in the first instance.

Chief Executive's Response

The drawdown of eligible recoupable payroll costs is linked to project milestones. Consequently, there is a time lapse from incurring the costs until they can be drawn down. A cost centre was established to charge the ongoing costs as set out above. As projects progress through the various stages, claims will continue to be submitted incrementally to the Department for payment.

As noted, the balance on this code has reduced to €524k at the end of 2018, and a plan is in place to eliminate the balance by the end of 2021 or earlier if possible.

6.4 High Road Car Park

The Council constructed a car park at High Road with an original estimated cost of €185k. The final cost of the project was €255k or 38% greater than original estimates. Some of the reasons identified by the Council for this additional cost were:

• Construction of retaining walls along the front of the High Road
• Increased safety railings leading from the retaining walls
• Additional public lighting
• Additional drainage for car park
• Removal of bulk unsuitable material from site not included in full in original estimates

The Council should review this project to determine if some of the above issues should have been identified at the original budget estimation stage.
Chief Executive's Response

The High Road Car Park project (Tadhg Culbert Car Park) was completed using direct labour. The decision to use direct labour meant that this much needed facility could be delivered at an earlier date, with any necessary changes being incorporated into the design as the project progressed.

The additional works identified during the construction phase added significantly to the usability and visual attractiveness of the facility. For example, the addition of the retaining wall and railings allowed for additional car parking spaces, and improved disabled parking.

The cost of developing the Tadhg Culbert Car Park is to be recovered from parking charges levied at the facility. The additional spaces provided, together with the enhanced usability of the facility, should allow for cost-recovery to occur at an earlier date.

The Principal Local Government Auditor’s comments are noted in relation to the budget for this project. It is accepted that the project budget should have been adjusted during the construction phase to account for the necessary additional works that arose. The importance of doing so will be taken on board for projects of this nature in future.

7 Procurement and Tendering

7.1 Procurement of Consultancy Services

The Council engaged a firm over a number of years for software licensing in the area of financial management. Payments totalling €109k have been made since 2005. The procurement of these services was not in accordance with proper tendering procedures.

Chief Executive's Response

The Local Government sector, in utilising the Agresso financial management system, has, over an extended period, used additional software packages to complement the data analytics within the system. Similar to practically all other local authorities, the Council has utilised a specific, dedicated software package, which requires an annual licence fee payment to its owners for its use. The licence fee in respect of 2018 was €8,160 ex-VAT. Given the dedicated nature of the software, it is not practicable to tender for its procurement.

7.2 Deviations from Purchasing Procedures

Deviations from purchasing processes were noted during the course of the audit, as retrospective approval was received for approximately 4,252 purchase orders (10,300 in 2017) after the goods and services were received. This represents 15% (38% in 2017) of all purchase orders raised by the Council, and is in breach of purchasing procedures. It is acknowledged that this is a significant improvement over previous years since the introduction of central invoice matching in 2017.

Chief Executive's Response

A dedicated CIM (Central Invoice Matching) unit became operational in August 2017. This has had a significant effect on improving purchase ordering process discipline. The statistics show that the compliance rate is now at 85% for 2018. Not all purchasing processes readily facilitate the convention of obtaining purchase order approval in advance of making a payment (certain utility payments for example). Therefore, whilst there is some marginal scope for improvement, it is estimated that the compliance rate is approaching the maximum percentage achievable.
As stated in previous years, it is important to highlight that there is no suggestion that goods or services are being procured or purchased inappropriately or without the appropriate sanction.

7.3 Public Spending Code

Donegal County Council is required to publish an annual report setting out how it complies with the above code. The stated objective of the code is to ensure the State achieves best value for the resources at its disposal. In its report published in May 2018, the Local Authority found no serious areas of non-compliance, and identified a high degree of procurement discipline and achievement of value for money in projects reviewed. The detailed audit work on the above projects was performed by Internal Audit and account has been taken of their work in the performance of this audit.

8 Fixed Assets

8.1 Fixed Asset Overview

A review of the Council’s registers of lands and buildings indicates it was not properly maintained. Issues were identified relating to both the transfer of assets to IW related assets and non IW related assets.

8.2 Irish Water Assets

The 2017 Audit report stated that the Council was in the process of transferring 577 assets to IW, but 57 of these assets or 10% were either unregistered or registered in the name of a third party. The 2017 audit report further stated that the Council needs to address this issue as a matter of urgency.

A review of progress on this issue at the 2018 Audit identified that there were no additional transfers completed in 2018 and the situation as set out in the 2017 Audit Report remains unchanged. I am recommending that the Council should make all efforts to progress this issue as soon as possible.

Chief Executive’s Response

The issues pertaining to asset transfers to IW have been identified as requiring guidance to be provided at a national level. An asset transfer-working group has been established between the Local Authority Sector and IW to address these and similar issues. This is to ensure that appropriate controls, procedures and governance principles are applied to the transfer of all IW related assets from local authorities.

In order to facilitate this work being undertaken at a local level, Donegal County Council has received sanction from the Department to appoint a dedicated member of staff to the Asset Transfer Programme. This member of staff is expected to be in post in Q3 of 2019.

8.3 Non Irish Water Related Assets

The Council has developed a template for a new system for managing and recording its land and building property assets. A review of the functionality of this proposed new system identifies the following:

- The system is designed to deal with property management as well as recording fixed assets
- The system is custom built to Donegal County Council specifications for managing and
recording its land assets

The Council’s aim is to address issues raised in previous audit reports and management letters with the implementation of this new system including that all historic assets are appropriately recorded and safeguarded, way leaves or permissions pertaining to these assets are identified and assets are appropriately registered with the Property Registration Authority.

Management have represented to me that they intend to set up a working group to commence work on implementing this new system shortly. It is clear however from a review of this area that there is significant work to be conducted by the Council here, which is expected to take a long period to appropriately and fully complete.

Chief Executive’s Response

A new and fully integrated property management system (data/mapping and document) has been developed to support the methodology that has been identified for the management of the Council’s land and building property assets. Work has commenced on building up a record of the entire property portfolio and, while this will be an extensive programme of work, the system provides the tools to enable this to be done on a structured and managed basis, whilst ensuring that the assets are safeguarded.

It is intended that additional resources will be applied to the advancement of this work over the coming months.

9 Mica Problems in Council Properties

The Council identified problems due to the presence of a mineral called ‘Mica’ in a number of its social housing dwellings. Preliminary visual inspections by the Council indicate that the problem potentially exists in at least 600 properties or approximately 13% of the total social housing stock.

An expert panel was established by the Minister to investigate and report on this. This panel reported in June 2017. The report made a number of recommendations that fall into broad categories, namely providing technical guidance to homeowners and preventing the problem from recurring. The panel made recommendations in relation to technical guidance including the development of a testing and categorisation protocol by the National Standards Authority of Ireland (NSAI) which would:

- Assess and categorise the damage
- Establish the extent of the problem
- Identify the scope of the tests required and
- Aid the selection of an appropriate remedial solution

The NSAI has currently developed a protocol in this area and the Council is engaging with the Department of Housing, Planning and Local Government in relation to funding the remedial works to affected council houses. No provision has been included in the accounts for these works.

Chief Executive’s Response

The Council is engaging with the Department of Housing, Planning and Local Government in relation to the arrangements for funding a programme of remedial works to council houses.

10 Other Legal Costs

A review of correspondence received from the Council’s solicitor identified a number of legal cases where provision has not been included in the accounts pertaining to outstanding court
cases. The Council solicitor has not made a judgement on whether liability may arise to the Council or not in these cases.

Council management have represented to me that they have not provided for these sums based on their analysis of the cases, or they expect to seek recourse from either an external agency or from the IPB where applicable. The Council should review these liabilities in advance of next year’s audit, and ensure all outstanding court cases are accounted for in accordance with the ACOP and consider if it is prudent to provide any additional provision in the AFS for these matters.

Chief Executive’s Response

Each year, the Council’s solicitors are asked to provide a detailed document outlining the up-to-date position in relation to legal cases pending. Cases pending are reviewed, and an assessment is made as to the appropriate level of provision that the Council should prudently set aside.

The Principal Local Government Auditor’s comments are acknowledged. This matter is closely examined at the end of each financial year. This will continue to be the case when the Council is preparing the AFS for 2019.

11 Housing Estates

The changes introduced in planning legislation during 2008 allowed developers of unfinished housing estates, the majority of home-owners on the estates or the management companies set up therein the power to require local authorities to take such estates in charge. Compliance with the aforementioned legal requirements could result in significant future expenditure being incurred by this Council to bring these estates up to the required standards set out in the conditions to the respective granted planning permissions.

A review of such estates revealed that during 2018, the Council had taken in charge (TIC) 16 estates (987 housing units), and have taken in charge 34 estates in total consisting of 1,632 housing units.

By year-end 31 December 2018, the Council commenced the TIC of an additional 105 estates. The Council plans to TIC all estates that have made an application and comply with the Council’s TIC policy that are directly connected to the public sewerage network.

The additional work to be carried out on the above estates and the management of them could represent a significant financial cost to the Council.

Chief Executive’s Response

To date, most of the significant remedial works have been funded through the availability of security bonds and Department funding, with Council own resources being used to complement these sources or to carry out direct works that will assist the TIC process for those estates where no alternative funding is available. The Council has been very pro-active in securing Department funding to address issues within unfinished estates, in particular under the TIC Initiative, and the Council will again actively pursue any funding opportunities made available. The Council has a very ambitious programme of work in place under the TIC programme, and will continue its engagements with IW in accordance with the Memorandum of Understanding that is in place. The annual provision for TIC in the adopted revenue budget is of the order of €290k.

The provisions within the revenue account have been targeted at specific estates where shortcomings in essential infrastructure have been identified, and for which there is no other available funding to address such deficiencies. These deficiencies in public infrastructure serving the estates include non-functioning public-lighting, minor road repairs (potholes) and repairs to
underground services (blockages and manholes). The annual provision for Unfinished Housing Estates in the adopted revenue budget is of the order of €250k.

12 **Irish Public Bodies (IPB)**

IPB have informed Donegal County Council in writing that they will receive a distribution of €6.829m. Donegal County Council received €3.409m in 2018, and the remainder is to be receivable in four equal instalments from 2019 to 2022.

A review of the Council’s premiums with IPB up to 31 December 2016 indicates that the Council could have additional excess payments for these years up to a maximum of €650k (the manner in which the premium is calculated changed in 2017 and excess payments for years subsequent to 2017, will not arise in the future). Per the Council’s instructions, this sum was prudently deducted from the first sum due to the Council of €3.409m referred to above. Therefore, the net distribution is expected to be €6.179m.

The Council has informed me that of the net distribution receivable from IPB of €6.179m, €2.25m will be transferred to a reserve for the restoration and maintenance of footpaths. This sum will be matched with €1.950m from own resources to create an overall fund of €4.2m over a three year period.

**Chief Executive’s Response**

A report to Council in May 2017 advised the elected members of a structured release of retained earnings from the Council’s insurers, IPB. The original proposal for the release of any funds from this source sought to ring-fence the funds concerned for the write-down of capital balances, or general revenue deficits, where appropriate. However, agreement was subsequently reached to use released funds for the purposes of:

(a) Carrying out capital works targeted at making improvements that mitigate public liability insurance risk (such as improvements to footpaths)
(b) Managing increasing insurance costs resulting from the buy-out of excesses, availing of ‘ground-up’ cover, general increases in the annual insurance premium, and the loss of dividend income

In this context, it was agreed that an amount of €2.25m (€750k per year, over a three-year period) would be ring-fenced from the IPB distribution with a view to carrying out infrastructure improvements that will mitigate insurance risk. €1.95m has been added to this fund, from general development charge contributions and transfers from the revenue account, in order to create an overall fund in the sum of €4.2m for the said purpose.

Additionally, funds released from IPB have been allocated, as exceptional income in Budget 2019, to mitigate increased insurance costs relating to those headings mentioned at (b) above, and to support the provision of a balanced budget for 2019.

To date, one payment totalling €2.759m has been made to Donegal County Council. In addition to this, a sum amounting to €650k has been set aside to offset insurance excess liabilities arising from claims notified prior to 1st January 2017. The sum of these two figures (€3.409m) represents the total figure released to Donegal County Council to date.

It is expected that the balance of the funds will be released to the Council over the period up to 2022, conditional on the agreement of the Central Bank.
13 Governance and Propriety

13.1 General

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management and the elected members to ensure that effective systems of financial management and control exist.

13.2 Anti-Fraud and Corruption Policy

The Council developed and approved in January 2015, its anti-fraud and corruption prevention policy. Since 2015, the Council has not updated this policy.

Chief Executive's Response

The Council will review its Anti-Fraud and Corruption Policy in 2019 to ensure that it remains up to date.

13.3 Corporate Risk register

A review of the risk register identified that the Local Authority have detailed risk registers in every Directorate, however they do not have an overall corporate risk register. The Council should consider developing this register.

Chief Executive's Response

A corporate risk register has been drafted, and is currently under review by senior management. It is expected to be completed shortly.

Each directorate maintains its own directorate-specific risk register that is updated annually.

13.4 Local Authorities Interest in Companies

The Council recorded its interest in eleven companies in Appendix 8 of the AFS. The Council should make all efforts to ensure these companies prepare timely audited financial statements, as only five of the 11 companies prepared up-to-date finalised audited accounts at 12 April 2019 when the Chief Executive and Head of Finance certified the 2018 accounts of Donegal County Council.

The Council needs to improve its oversight and review of the companies to ensure that proper corporate governance arrangements are in place, including the timely preparation of audited financial statements.

The following issues were noted in relation to these companies:

- Finn Valley Swimming Pool Limited (FVSPL) – Donegal County Council provided a €1.9m loan to this company. Agreement has not currently been reached between Donegal County Council and FVSPL regarding the terms and conditions attached to this loan. It should be noted that Donegal County Council is making repayments on this loan to the HFA on behalf of FVSPL

- FVSPL incurred a deficit of €45k for the year ending 31 December 2018, with accumulated losses of €620k at this date. The company’s independent auditor issued an emphasis of matter opinion on the 2018 accounts pertaining to the going concern basis

- An Grianán Theatre Management Limited (GTML) – In a letter dated 20 May 2013,
Donegal County Council confirmed it was committed to the on-going provision of any necessary financial support to enable the company to manage the theatre facility and run its programs. The independent auditor has relied on this letter in forming an opinion that the company is a going concern. The company had accumulated losses of €76k at 31 December 2017.

- Letterkenny Sports Complex Development Limited (LSCDL) – The Company incurred a deficit of €514k for the year ending 31 December 2017, with accumulated losses of €4.765m at this date. Of this sum, €4.324m relates to the depreciation of assets. These accounts include details of a loan payable to Donegal County Council for €20.254m. This loan is not recognised in the accounts of Donegal County Council. The company’s independent auditor has stated that the accounts of this company have been prepared on a going concern basis because the Directors are confident that the company will have the continued financial support of Donegal County Council.

Chief Executive’s Response

The Principal Local Government Auditor’s comments are acknowledged in relation to the timely preparation of audited accounts by these companies. Further engagement will take place with them in this regard.

An appropriate level of oversight is also acknowledged as being required in respect of these companies. Five of these companies were subjected to an Internal Audit review during 2017 and 2018. The conclusions and recommendations of the Internal Audit reviews into these companies have been useful in terms of informing the Council’s approach to governance and oversight of these companies. It is acknowledged that further work is required in this area during 2019.

As was noted in the response to the 2016 and 2017 Audit Reports, the Council continues to finance the loan that was required to co-finance the building of the Finn Valley Swimming Pool (FVSP). It is envisaged that this requirement will continue for a further period. This is being kept under review, with periodic scheduled meetings taking place between Council management and directors of the company to ensure appropriate governance and oversight.

This oversight extends to an ongoing review of the centre’s trading capability, with monies now allocated as part of the Council’s annual budget process being released in line with the company’s cash-flow requirements to continue trading. This process is supported by the review of primary documentation, such as bank records, in conjunction with rolling projected and actual cash-flow statements.

GTML is the management company for An Grianán Theatre in Letterkenny. The Council has provided an allocation annually as a contribution towards its operational and programme costs. This has and continues to be sufficient to meet the operational requirements of the company in continuing to carry out its business. The company is aware of the need to address the deficit of €76k referred to in the Auditor’s report, and ongoing engagement will take place with this company in this regard. The deficit of €76k at year-end 2017 represents a €5k reduction on the deficit that existed at year-end 2016 (€81k).

As was noted in the response to the 2017 audit report, LSCDL was initially formed under the aegis of the former Letterkenny Town Council, for the purposes of managing the construction, development and management of the Letterkenny Sports Complex. The facility itself is managed by a separate private sector company under a management contract. The Local Government Auditor’s comments are noted, and it is planned that matters presenting in this audit report will, in conjunction with the aforementioned Internal Audit report, form the basis of an engagement with the company to effect any necessary adjustments or changes in practice.
13.5 Internal Audit

A reduction in resources had an impact on the ability of Internal Audit to continue to carry out its work in the year, and will have an impact on the Audit Committee’s oversight role. The Council’s staffing arrangements for Internal Audit decreased from three permanent members of staff in May 2017 to one by the 31 December 2018.

The Annual Work Plan, the Internal Audit Charter and the Strategic Internal Audit Plan were approved by the Audit Committee and the Chief Executive. The Head of Internal Audit reports directly to the Audit Committee and to the Chief Executive in respect of the unit’s work. The unit produced two reports during the year which were of a high standard, but output was limited due to reduction in staff. Account has been taken of Internal Audit work.

Chief Executive's Response

The staffing complement of the Internal Audit function is comprised of three permanent staff members at the grades of 1 x Administrative Officer, 1 x Staff Officer and 1 x Assistant Staff Officer. This compares well with other similar sized local authorities, in terms of both number and grade.

Vacancies arose in the Internal Audit unit during 2018 due to the reassignment of former Internal Audit staff to new roles. These vacancies have now been filled, and the Internal Audit Work Programme for 2019 is underway.

13.6 Protected disclosures Policy

The Council have updated its Protected Disclosure Policy. A copy of same is available for viewing on the website of Donegal County Council.

13.7 Data Protection

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 may be subject to fines in the event of infringement. As such, local authorities may be subject to fines.

The Council has appointed a Data Protection Officer in Donegal County Council from July 2018. Whereas work has been conducted in this area, the Data Protection Officer has identified a significant body of work in this area for completion.

Chief Executive's Response

The Council recognises the importance of meeting GDPR compliance requirements. As noted by the Principal Local Government Auditor, a Data Protection Officer was appointed in 2018, and work is ongoing in this area. Initiatives undertaken to date include training and awareness programmes, which were delivered to management and staff across the organisation during 2018. Work will continue during 2019 with a view to strengthening practices and procedures in this important area.

14 Timelines for Responses and Preparation of Accounts Deadlines

It was noted that the draft AFS for 2018 was finalised on 12 April 2019 and submitted to the Department and presented to the audit team on the 18 April 2018. However, the Department’s Accounting Code of Practice, requires the AFS to be prepared by the 1 April of the following year.
It is acknowledged however, that audit requests were responded to in a very comprehensive and timely fashion and this facilitated the conduct of the statutory audit. I would like to particularly thank the Acting Head of Finance who prepared the AFS, the Acting Management Accountant, Financial Accountant, the Audit Liaison Officer, and all the finance staff for their assistance and courtesy during the course of the 2018 audit process.

Acknowledgement

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

Raymond Lavin
Principal Auditor
23.07.2019