



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Clare 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 CLARE COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Clare 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 5 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

The Council recorded a surplus for the year of €750k after transfers to / from reserves of €9.950m which resulted in the opening deficit on the general revenue reserve of €250k being eliminated at the year end. There was a cumulative credit of €500k in the general revenue reserve at the end of 2016. The progress made in the elimination of this deficit balance over the past number of years is commendable. Transfers to reserves and increased expenditure from amounts approved at budget were both approved by the Council at its meeting in June 2016. Details of income and expenditure budget variances are disclosed in Note 16 to the AFS.

The end of year capital account favourable balance as noted in paragraph 5 below includes €3.156m relating to a loan drawn down in previous years for the elimination of the revenue account deficit balance. As this process has been achieved in 2016, consideration should be given to the either the redemption of this loan balance or, with both members, and departmental approval (where necessary) being transferred to fund other issues such as the loan balances referred to below.

The Council has loan balances relating to housing land acquisitions which are currently on an interest only basis for five years. Proposed funding arrangements will have to put in place to finance the €6m principal balance at the end of 2016 on which interest payments of €106k were paid during the year.

Significant movements in the finances of the Council during the year included:

- Increase in fixed assets of €8.92m
- Increase in net trade debtors and prepayments of €5m
- Decrease in net creditors and accruals of €4.2m
- Increase in bank investments of €13m
- Decrease in cash at bank €16m

The gross increase in fixed assets includes additions to housing stock of €6.3m, business unit acquisition at the Quin Road, Ennis of €0.8m with work in progress transfers to infrastructure of €2.3m relating to the Ennis Market development (€1.72m) and Kiltrush sports facility (€617k) respectively.

The totals noted on the increase / decrease in the bank investments and cash in bank respectively arose mainly from an audit recommendation that investments should yield satisfactory interest returns to the Council. The majority of the investments are now on a medium term basis here.

Chief Executive's Response

The council had operated with an accumulated revenue deficit for many years and so the elimination of the cumulative deficit in 2016 was a noteworthy achievement. The council continues to manage its resources carefully with the objective of maintaining this position.

The position on the corporate loan facility which was obtained to fund revenue deficits is under review. The audit comments will be taken into account as part of this process.

The land loans are in place to fund land banks that were acquired to enable the construction of social housing. After a number of years with low levels of social housing construction, more funding is being made available for construction projects. The existing land holdings are being addressed in that context. It is expected that some of this land will be used for social housing in the coming years which will lead to a reduction in the level of loans outstanding. The existing loan facilities will continue to be available for another two years which provides an opportunity to assess the level of house construction use that will arise. At that point, the long term funding of any planned residual balance will be considered having regard to any national initiatives in this area which is a significant national issue.

3. Income Collection

3.1 Summary of Collection Accounts

Details of collection yields from the main revenue collection accounts for 2016 with comparative percentages for the previous year are as follows:

	2016	2015
Rates	84%	82%
Housing Rents & Annuities	86%	87%
Housing Loans	60%	58%

3.2 Rates

The collection yield for 2016 increased by 2% to 84% which resulted in year-end debtors of €11.071m and this represents a decrease of €1.06m on the 2015 comparative amount. The bad debt provision is €8.87m and is 80% of the closing debtor figure. It is recommended that a review of this provision is undertaken in 2017.

An analysis of the 2016 closing position of rate accounts disclosed the following;

- There are 3,741 rate accounts in Clare County Council per the year end debtor listing with 1,768 (or 47%) of these accounts in arrears of €11.226m (excluding credits) at the year end.
- 287 of the above 1,768 accounts have arrears exceeding €10,000 with an aggregate value of €7.109m. Therefore the top 16.2% of accounts in arrears account for 63.3% of total arrears at year end 2016.
- There are 311 rate accounts with closing credit balances totalling €155k with the remaining 1,662 rate accounts having a €nil balance.

At the conclusion of the audit I am informed that there are one hundred and seventy five cases with the Valuation Office awaiting adjudication on various amendments to rates issues raised. These include amongst other matters, the following; new rateable valuations and potential changes in rateable valuations relating to the apportionment of rate valuations.

Some of these cases are going back to 2013, and while the outcome of such determinations will not materially affect the details in the AFS it is essential that these issues are finalised as a matter of urgency.

Chief Executive's Response

The rates collection percentage has continued to improve which is a positive development.

The council engages on an ongoing basis with the Valuation Office in highlighting the need for a shorter timeline in completing valuations. The council will continue to emphasise the importance of timely valuations with the Valuation Office.

3.3 Rents and Annuities

A collection level of 86% was recorded in 2016 which was a decrease of 1% on the prior year. At the year-end rent arrears amounted to €1.075m (€937k in 2015). A provision for bad debts of €1.1m (representing 89% of the gross book debt excluding credits) is included in the overall 2016 bad debt provision.

There were a total of 3,461 rent and annuities accounts in Clare County Council at the end of 2016 of which 2,302 were in arrears at the year end with an aggregate value €1.23m

This total includes 275 rent accounts which have arrears exceeding €1k with an aggregate value of €820k. Therefore just 8% of the rent accounts have arrears representing 76% of total arrears at the end of 2016. Many of the larger debit balances relate to shared ownership rents.

There are 924 accounts with credit balances totalling €153k at the year end with the remaining 235 rent accounts having a €nil balance.

It was noted that a previous audit recommendation with regard to undertaking a review of rent data was done in 2017.

Chief Executive's Response

The council continues to work with housing customers to collect outstanding rent amounts. All rent accounts are reviewed on a monthly basis and where necessary enforcement action is taken.

3.4 Housing Loans

Housing loan arrears amounted to €651k (net) in 2016 (€691k in 2015). There has been an increase of 2% in the collection yield for housing loans. It was also noted that while the overall arrears decreased, individual arrears on some accounts continued to increase as mortgage payments received are insufficient to cover the monthly loan instalment.

There are a total of 360 active housing loan accounts of which 170 of these are in arrears for greater than one month and these amount to €688k. This total includes €378k in the top 20 arrear accounts and these represent 54% of the total housing arrears.

Shared Ownership loans account for 35.35% of the total housing arrears at the year end. These arrears decreased slightly from €231k at the year end to €213k (unaudited) at the end of September 2017.

The level of bad debt provision at €0.6m is based on the arrears balances at the year-end which amounted to €651k. The Council continues to engage with mortgagees in order to reduce the arrears on these accounts.

Chief Executive's Response

As noted a 2% improvement in the collection rate was recorded in 2016. Active engagement with all loan customers in arrears to secure sustainable solutions is a key part of the council's policy, as well as intervention to deal with pre-arrears cases. The Mortgage Arrears Resolution Process (MARP) has proved beneficial in dealing with arrears cases and the council continues to implement this process. The top 20 loan customers in arrears are being actively managed so that affordable repayment options or other arrangements are agreed to deal with these cases.

4. Transfer of Water and Sewerage Functions to Irish Water

4.1 Fixed Assets

In 2014 all of the Council's water and waste water assets were removed from the Council's AFS. The legal transfer of twenty properties has taken place to date. The legal transfer of ownership of the remaining assets (three hundred and twenty) will take some time due to the ongoing title issues and will be reviewed at next year's audit.

4.2 Service Level Agreement

The Council acts as an agent for IW under the terms of a service level agreement (SLA). The Council received €10.435m from IW under this agreement in 2016.

4.3 Water Utility Loans

In addition to the above, Government Debtors includes €1.87m relating to a Departmental loan for water related assets which was discharged in 2015 by the Council and was not refunded to it by the appropriate central funding agency concerned until 2017 .

4.4 Lump Sum and Pension Payments

In the years 2014-2016 lump sum gratuities and pension payments respectively were paid to staff retired from the water section of the Council. In accordance with the SLA with IW the Council recoup the Central Management Charge apportioned to the Water Services Division under the National Costing Model. A portion of this charge related to pensions and for the aforementioned period all pension costs relating to staff of the Water Section were fully recovered.

The value of pension changes from year to year and the uncertainty around this matter is currently being examined by the Local Government Section nationally.

Chief Executive's Response

The council continues to receive payment for the cost of pensions allocated to that part of the Water Services function which supports Irish Water related functions; as provided for in the Service Level Agreement with Irish Water. As noted the position on pensions is being reviewed at a national level and the council awaits the output that may arise from this review process.

5. Capital Account

5.1 Closing Accumulated Credit Balance

Total income €32.38 m exceeded expenditure of €29.57m by €2.81m resulting in the closing end of year favourable balance increasing to €20.046m at the year end. This closing accumulated favourable balance includes, the following;

- €3.156m relating to a loan drawn down to fund the revenue deficit balance (see paragraph 2)
- €3.506m on specific revenue balances (see paragraph 5.3)
- €1.444m relating to various significant Housing favourable balances
- €5.6m on the main planning contribution favourable balances.

Chief Executive's Response

The planning contribution balances above include amounts receivable that have yet to be collected.

The specific balances referred to are reviewed as part of the AFS process and any adjustments required will be assessed.

5.2 Funding of Excess Expenditure on Grant Aided Projects

Included in the capital account are unfunded balances totalling €1.745m. These are made up of three separate projects, one completed project (€851k) and two uncompleted development projects (€894k). The make-up of these of these balances is as follows;

- Cliffs of Moher Centre (Capital) €851k
- Blakes Corner Road Improvement Works €540k
- Housing Land costs at Roslaven, Ennis €354k

Chief Executive's Response

The historic unfunded balance on the Cliffs of Moher Visitor Experience is being funded on an annual basis and has shown a significant reduction in recent years. It is planned that the phased reduction of this balance will continue as part of the AFS 2017.

The funding options for the balance existing in relation to Blakes Corner will be addressed when a scheme is advanced for this location.

The housing land balance represents land available for use as part of a social housing development progressing in 2018.

5.3 Specific Favourable Balances

There were seventeen specific favourable capital balances verified on a sample basis where no movement on the balance occurred during 2016. These amounted to €3.506m. I have again, requested that a review on these capital codes should be undertaken and, where necessary, the appropriate accounting adjustments be reflected in future AFSs.

Chief Executive's Response

The specific balances referred to are reviewed as part of the AFS process and any adjustments required will be assessed.

6. Fixed Assets

Fixed assets were included in the AFS for the first time in 2003. The complete asset bases held at that date were valued in accordance with the guidelines issued by the Department. Since 2003 all assets either purchased or constructed are included in the Balance Sheet at cost.

In 2013 the financial value of the assets base was further enhanced with the inclusion of assets held by the former town council's of Ennis, Kilrush, Shannon and Kilkee respectively.

At the end of 2016 payments of €1.537m in respect of eight housing acquisitions (€875k) and business unit at the Quinn Road (€662k) were drawn prior to all of the legal formalities having been completed on the acquisitions concerned.

Chief Executive's Response

In relation to the property acquisitions mentioned, payments to the county solicitor were drawn in order to be available to fund payments to the vendor on closure of the purchase, which in some cases took some time to complete.

7. Development Levies

Included in trade debtors and prepayments at 31 December 2016 was €4.22m (2015 €4.902m) in respect of development contributions due to the Council (note 5 to the AFS).

A provision for bad debt of €3.1m (representing 73% of the debt book) has been made and is included in the overall 2016 year-end bad debt provision of €14.35m.

I have recommended to management that a review should be completed on the status of any special contributions payments that could have been paid in prior years to the Council in respect of planning permissions granted. Section 48 (12) (b) of the Planning & Development Act 2000 requires repayment of special contributions to the planning applicant (together with any interest arising) where the specific infrastructure works were either not commenced within five years or not completed within seven years of when any such payments was made to the local authority.

The purpose of the review is to clarify whether any repayments, as provided for under the 2000 Act are required. This matter will be further reviewed at the next audit.

Chief Executive's Response

The Planning Department maintains a Register of Special Contributions and records details of all payments made in respect of special contributions. The current assessment is that the current sum of any refunds to be made is minor in amount. The details requested will be provided at the next audit as requested.

8. Refundable Deposits

The closing balance on refundable deposits (Note 8) in the AFS amounted to €3.962m at the year end. This total includes €3.629m on short term refundable deposits which are included as part of the Cash Investments on the Balance Sheet.

Some of these short term refundable deposits have been on the books of the Council for many years. It has again been recommended to management that reviews should be completed to verify that all of the relevant planning conditions attached to the planning permission granted have been fully complied with. Should the outcome of these inspections show full compliance, and then the parties concerned should be contacted, in order to apply for refunds of the individual sums concerned.

Chief Executive Response

The Planning Department has reviewed the content of the register of cash deposits in respect of Planning Permissions. A substantial part of the deposits held relate to Residential Estates which are not yet taken in charge and on which the bond is required to be retained, and commercial developments for which the bond is also required to remain in place for the lifetime of the permission. These amounts account for over 85% of the total held. The remaining balance will be reviewed to ascertain if any refunds apply.

9. Cliff of Moher Centre

In mid 2016, arising from queries identified through the bank reconciliation process surrounding the recording and lodgement of cash receipts, the Council carried out an independent audit review of the financial processes and procedures at the centre. This audit was also the foundation for a total review being completed on the control and operational procedures on site. Where weaknesses were identified new and revised procedures have been implemented.

This review also included a review of the staffing levels in this centre and these have been expanded to cater for the continued increased visitor capacity year on year.

As a result of the findings of the independent investigation report, and the significant changes that have been implemented since, a full report on these improvements was presented to the audit committee in September 2017.

The Garda Investigation in relation to the break-in in October 2016 has been concluded, a file referred to the Director of Public Prosecutions (DPP) and the decision of the DPP has been not to initiate a prosecution. The funds lost as a result of the break-in have been recovered from the Council's insurers.

Chief Executive's Response

As noted, expanded staffing and enhanced controls have been implemented at the centre. It is planned that the continuing effectiveness of controls will be further reviewed in due course.

10. Housing Rental Vacancies

The Council expended €1.487m on the refurbishment of its vacant housing stock prior to letting in 2016. As at 30 September 2017, the summary of the waiting periods of refurbishment on the seventy units recorded in this category includes twenty three units which have been awaiting refurbishment or re-allocation to tenants for a period exceeding twelve months.

Chief Executive's Response

The lengthy turnaround time for houses becoming vacant and requiring improvement work is recognised. As part of the process of addressing this issue the council has commenced a procurement process for a housing planned maintenance programme over the coming years. This programme will improve the condition of older houses in the council stock so that on becoming vacant less intervention, and consequently less time, will be required prior to re-letting.

11. Local Authority Companies

Glor Irish Music Limited and the Cliffs of Moher Centre Limited are subsidiaries of Clare County Council. These subsidiaries are excluded from consolidation as the income of the companies represents less than 5% of the local authority's income. The value of the shareholding is treated as an associate company in Note 3 of the AFS.

Chief Executive's Response

Subsidiary and Associate companies are disclosed in Appendix 8 of the Annual Financial Statement in accordance with the accounting requirements of the Accounting Code of Practice issued by the Department. The accounting treatment adopted is in line with the Accounting Code of Practice.

12. Corporate Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

Chief Executive's Response

The auditor's comments are noted. The importance of maintaining a strong internal control system is recognised.

12.1 Risk Management

An effective risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed.

Following an internal review undertaken since my last audit report, updated registers have been agreed and implemented across all of the Council's administrative areas.

In accordance with best practice, risk management should be a standing agenda at all management team meetings.

Chief Executive's Response

The audit comments are noted.

12.2 Internal Audit Function

The quality of output of the Internal Audit unit is of a high standard. The Internal Auditor reports directly to the Audit Committee and the Chief Executive. The unit produced ten reports during the year in addition to a number of inspection reports with regard to internal control procedures.

I have taken account of the work of the Internal Audit unit in carrying out my audit.

Chief Executive's Response

The auditor's comments are noted. The work of the internal audit group is seen as an important part of the overall council control and governance environment.

12.3 Audit Committee

The audit committee met on five occasions during 2016 and issued its annual report.

The work undertaken by the audit committee greatly contributes to the independent oversight of corporate governance within the Council.

13 Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to the audit team by the management and staff of the Council.



Thomas O'Callaghan
Local Government Auditor
31st October 2017