Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Kerry County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF KERRY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Kerry County Council for the year ended 31 December 2017, which comprise the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Planning and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 13 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

This report is prepared in accordance with Section 120(1) (c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2 Financial Standing

2.1 Statement of Comprehensive Income / Financial position

The Council recorded a surplus for the year of €88k after transfers to and from reserves of €8.13m. There was a cumulative surplus of €6.44m in the general revenue balance at the end of 2017. Both transfers to reserves and over expenditure were approved by the Council at its meeting in April 2018. Details of over/under expenditure are contained in note 16 to the AFS.

The previous audit report noted that I directed that corrections were to be made in the 2017 AFS of Kerry County Council in accordance with Section 16(b) of the Local Government (Financial and Audit Procedures) Regulations 2014. These relate to the accumulated losses in the Plant and Machinery account of (€1.452m) and a credit balance of €1.078m on a dividend income from the Irish Public Bodies Insurance.

Due to the materiality of these sums it was agreed with senior management that both accounting adjustments would be effected in the 2017 AFS. The finalisation of these items was agreed as part of the audit process for 2017.

The attention of senior management has also been directed to ensure in future that only expenditure applicable to the capital account is charged to that account.

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

- Increase in fixed assets of €11.1m
- Increase in net trade debtors and prepayments of €1.3m
- Decrease in net creditors and accruals of €0.4m
- Decrease in bank investments of €13.4m
- Increase in cash at bank of €11.2m

The increase in fixed assets includes additions to housing assets valuation of €9.32m (including transfers from work in progress and historical cost adjustments), and increases in the road asset valuation of €2.29m.

The previous statutory audit reports referred to the funding requirement of €7.94m, which the Council will have to provide for relating to the Killorglin Area Service Centre. At the end of 2017 a provision of €2.88m has been made in the Capital Account to meet this financial commitment. The Council will need to identify a funding source for the remainder of this balance.

Chief Executive's Response

As in previous years the Council has implemented effective budgetary control measures and optimised collections which have aided the Council in achieving a positive revenue balance as at 31st December 2017.

The Local Government Auditor's recommendation in relation to the Plant and Machinery Account and its inclusion in the Revenue Account was implemented from 1st January 2017 and the 2017 AFS Income and Expenditure Account, Balance Sheet, Notes and Appendices to the Accounts reflect the Accounting Code of Practice requirements in relation to this accounting treatment.

The Plant and Machinery debit balance is reduced significantly, and the Council will aim to eliminate this debit balance over the coming years with transfers from the revenue account.

Following on from the Local Government Auditor's direction in AFS 2016, the pre-2017 Irish Public Bodies Dividend of €1.078m balance was transferred to the Revenue Account as income for 2017 as per the initial allocation to capital.

In respect of the funding requirement of €7.94m for Killorglin Area Service Centre, Kerry County Council will continue to make an annual financial provision towards this liability, which falls due in 2020. This is a significant burden on the Councils already limited discretionary funding.

3 Income Collection

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	83%	81%	€7.85m	€8.44m
Rents & Annuities	93%	94%	€0.95m	€0.79m
Housing Loans	82%	81%	€0.22m	€0.27m

3.1 A summary of the revenue collections are as follows:

Commercial Rates

Commercial Rates arrears have continued to decrease in 2017 and have fallen by over 12.5% over the past two years from €8.98m at year end 2015 to €7.85m at year end 2017 inclusive of credit balances. The collection yield for commercial rates has increased in 2017 to 83% from 81% in 2016.

There are a total of 5,512 individual rate accounts at year end 2017 with 1,814 of these accounts in arrears with an aggregate value of €7.995m. The number of accounts with credit balances at year end 2017 totaled 148 with an aggregate value of €0.148m. The number of accounts with a €nil balance at year end 2017 totaled 3,550.

There were 178 accounts with arrears each exceeding €10,000 at year end 2017 with an aggregate value of €4.26m. Therefore the top 10% of accounts in arrears represented 54% of total arrears. There were 23 accounts with credits exceeding €2,000 at year end 2017 with an aggregate value of €0.105m. Therefore the top 15% of accounts in credit represented 71% of total credits.

From the sample of rate accounts reviewed at audit I am satisfied that the rates department is endeavouring to engage with account holders in arrears on an on-going basis in order to resolve issues arising.

Chief Executive's Response

The Local Government Auditor's positive comments are noted. The profile of our customer base is reflected where 77.1% (4,459) of properties account for 19.8% of the Rate Demand. The profiles of most of these businesses are small family owned/sole trader businesses with an annual rate demand of less than €5,000.

Following the amalgamation of the four local authorities and the centralising of the rates collection/debt management function in 2014, substantial efforts have been made to reduce arrears and to increase collections. This is evidenced by an increase of 7% in overall collection levels from 76% in 2013 to 83% in 2017.

Of 178 arrears accounts with a balance exceeding €10,000 at year end 2017 referred to above, 21% of these accounts have fully, substantially or partially cleared their outstanding balance. A number have long term payment plans in place ensuring that the arrears will be addressed over the coming years. The remaining accounts are incorporated into the 2018 arrears management priorities and are being actively pursued for payment through a variety of collection methods including our revenue collectors, administrative support, payment plans and legal proceedings if necessary.

Housing Rents

The rental accrued income for 2017 is €12.17m which represents an increase of €0.48m (4%) on the 2016 comparative amount of €11.69m including RAS & Social Leasing accounts.

This income of €12.17m represents a variance of 4.5% on the adopted budget which was €11.62m. Management has advised that this was due to a better than expected increase in weekly rents in the rent assessment completed in June 2017 due to an increase in household incomes. Management noted that a partial rent review took place during 2017 which focused on the municipal districts of Tralee and Killarney and also advised that there was an improvement in the number of void properties in 2017 which led to increased stock being in tenancy in 2017, over that anticipated.

Rent arrears have increased by €257k over the past two years from €699k at year end 2015 to €956k at year end 2017 (including credit balances). The collection yield for housing rents has decreased to 93% in 2017 compared with a rate of 94% in 2016.

There are 7,162 individual rent accounts listed at year end 2017 with many accounts having no financial activity during 2017. Included in these are 2,278 accounts in arrears at year end 2017 with an aggregate value of €1.342m which represents an increase of 15.6% in monetary terms on the 2,131 accounts in arrears at year end 2016 with an aggregate value of €1.161m.

While the increase in arrears is disappointing, management has advised that a major re-organisation of the areas covered by their rent collectors took place in March 2017 with a strong emphasis on the promotion of automated payments. Management has advised that this process has been successful and has allowed a greater focus on arrears as the year progressed, resulting in a slowing in the rate of increase in arrears during the second half of 2017.

From the files selected for review at audit it was noted that in almost all cases there was evidence of engagement or on-going attempts at engagement by the housing rents section with rent account holders in arrears.

Chief Executive’s Response

The collection of this income stream remains challenging and arrears management continues to be a high priority for the Housing Department. The ongoing movement of tenants to automated payment methods is a significant part of this process. Almost 60% of payments are now receipted through Direct Debit, Standing Orders and Household Budget method. There is an ongoing effort to implement a targeted approach to the arrears management process and this is having a tangible impact in 2018. The reorganisation of the Rent Collectors areas has enhanced this process.

Housing Loans

Housing loans arrears have continued to decrease in 2017 and have reduced by 22% over the past two years from €286k at year end 2015 to €223k at year end 2017 inclusive of credit balances. The collection yield for housing loans has increased from 81% in 2016 to 82% in 2017.

There were a total of 512 active housing loan accounts during 2017 with 155 loan accounts in arrears at year end 2017 totalling €320k. 41 (26%) of the loan accounts in arrears had arrears exceeding €1,000 with an aggregate value of €291k, therefore representing 91% of debit balances. There were 235 loan accounts with credit balances at year end 2017 totalling €97k. 21 (9%) of the loan accounts in credit had credits exceeding €1,000 with an aggregate value of €48k, therefore representing 49% of total credits. There were 122 loan accounts with €nil balance at year end 2017.

From the samples selected for review at audit there is significant evidence of ongoing and continued engagement with housing loan account holders in arrears.
It is noteworthy that for a number of accounts in arrears reviewed at audit, significant resources have been committed to facilitate agreed payment plans with customers who subsequently fail to adhere to the terms of said payment plans. The Council should follow through on potential legal action where the terms of such agreements with account holders are not adhered to.

Chief Executive's Response

The Local Government Auditor's positive comments are noted. A robust policy is in place for dealing with customers in loan arrears and again early intervention is crucial, particularly in light of customer's ability to meet their monthly loan instalment payments. The Council has also implemented the DHPLG directive in relation to Mortgage Arrears Resolution Process (MARP) for customers experiencing difficulties and have successfully re-negotiated some of the more distressed loans with our customers.

In 2017, the Council continued to actively engage, through MARP, with all loan arrears customers in an effort to secure sustainable solutions for all in relation to the Shared Ownership Scheme. The Council also actively deals with customers who may be in a pre-arrears situation. The new Tenant (Incremental) Purchase Scheme will have a substantial impact in this area as many of the applicants have indicated that they will require a local authority loan should they qualify for the Scheme.

Housing is actively engaging with all accounts in arrears, in particular the 41 accounts mentioned above. Further progress is expected during 2018 to come to a mutual agreement with customers, who have an unsustainable debt, in relation to various options available under MARP, in particular the Mortgage to Rent Scheme.

4. Transfer of Water and Sewerage Functions to Irish Water

Issues with regard to the transfer of title of properties transferred to Irish Water (IW) including the subdivision of folios, right of way issues and sites not registered were highlighted in the 2014 – 2016 audit reports. The Council is continuing to work with IW on these matters.

In all there are 371 water assets to be transferred to IW. The most significant details included in this total are as follows;

- 222 assets have to date been transferred to IW;
- 149 assets remain to be transferred to IW

Progress made with regard to the remaining assets to be transferred will be reviewed at the next audit.

As part of the Service Level Agreement (SLA) the Council continued to operate the water service on behalf of IW which included all matters relating to the raising and the collecting of domestic water bills. This function ceased in December 2016. During 2017, €14.9m was expended by the Council on the provision of these operational services and such costs were fully recouped from IW.

At audit it has been confirmed that all water development levies collected in 2017, of which €234k was due to IW, have been offset against service level agreement charges issued by Council at year end.

Chief Executive's Response

Work continues in conjunction with Irish Water on the transfer of assets. There are a number of issues pertaining to partial folios, boundary matters and other outstanding issues that are being proactively worked through presently for the remaining assets. All assets where there are single folios and no queries regarding boundaries etc. have now been transferred to Irish Water.

The Council continues to operate water services on behalf of Irish Water and costs in this area are fully recouped from Irish Water as part of the Service Level Agreement.

5. Capital Account

The favourable balance in the capital account at the end of 2017 decreased to €52.83m from €54.77m at the end of 2016. There are a total of 891 capital codes in the capital account. The closing balance is the aggregation of 335 capital codes with deficit balances totalling €20.95m and 556 capital codes with favourable balances totalling €73.78m.

5.1 Capital Balances

The main elements of these capital balances are as follows;

• General Reserves	€39.04m Cr.
• Development Levies	€11.2m Cr.
• Reserves Asset Funding	€10.5m Cr.
• Realised Tenant Purchase Annuities	€3.2m Cr.
• Reserves Insurance Fund	€2.5m Cr.
• Non-Project Balances	€4.9m Dr.
• Capital Projects	€6.9m Dr.
• Affordable and Voluntary Housing	€1.9m Dr.

It was noted during audit that 325 of the capital balances representing 36% of all capital codes had either no financial activity or no movement in the balance on the capital code during 2017. The aggregate total value of capital balances without financial activity or movement during the year under review is €20.30m Cr. consisting of €3.43m of deficit balances and €23.73m of favourable balances. The vast majority of these favourable balances relate to general reserves (€13.48m), asset replacement reserves (€7.71m) and development levies (€2.29m).

I have requested that management carry out a comprehensive review of all capital codes and balances in order to rationalise same where possible. Specifically, I have requested that the Chief Executive ensures a comprehensive review to be completed on the favourable reserves balances before the end of 2018 with a subsequent report prepared on any findings prior to the commencement of the next audit. This report should also address the deficit and favourable balances in other capital code categories (see paragraph 5.3 below).

Previous audit reports have referred to the significant number of both debit and credit balances in this account. While a reduction in these balances has occurred with transfer of the Plant and Machinery Account to the revenue account as noted previously there are still a significant number of debit balances (335) and credit balances (556) in this account.

It is further recommended that a review of all residual debit and credit balances (i.e. less than €20k) where no financial activity has taken place in 2017 should be reviewed and, where appropriate, rationalised through the offsetting of debit and credit balances within each programme group.

A report on these findings should be prepared and filed for review by relevant interested parties as a priority. This matter has been raised during previous audits.

A review of the outstanding paying orders at the end of May 2018 identified 9 land acquisition cases totalling €95k which are still not cashed where legal issues and formalities had not been completed even though paying orders were drawn for the sums involved during both 2016 and 2017.

It has been recommended to senior management during previous audits that more robust review procedures on the follow up of outstanding paying orders not cashed within reasonable time frames are put in place. While some work has been carried out regarding this matter, it has not yet been fully resolved.

Chief Executive's Response

Financial management and tracking of capital projects and funding are more effective through the use of individual capital codes. In addition, compliance with the Public Spending Code guidelines requires careful management of all aspects of capital projects, specifically financial management and while this may present as a large number of capital codes this method is effective as a budgetary management tool.

The general reserves balance of €39.04m includes provisions for future known liabilities such as the Killorglin Area Services Centre, provision for exceptional superannuation payments in a year, and land liabilities provisions. It also includes amounts which require mandatory Departmental sanction prior to the utilisation of specific credit balances. Significant compulsory obligations also arise under our ownership of the landfill at Muingnaminnane for the requirements of the EPA license for this facility; the Closure, Restoration, Aftercare Management Plan (CRAMP) requires financial provision for the management of the landfill for the next 30 years. It should also be noted that Kerry County Council has a significant land loan liability.

The development contribution scheme is aligned to the capital programme as adopted during the budget process and where own resource contributions are required. In addition, funds have been committed for various specific capital works across the divisions. The future undertaking of some of these projects will be dependent on matching funding arrangements from various sources being put into place.

The majority of residual balances for less than €20,000 referred to by the Auditor are attributable to individual job codes set up for House Purchases for the Social Housing

Strategy programme. Roads and Transportation Department codes are mainly PDC Development Contribution codes and development contribution specific works codes. Other capital programme balances refer to individual rural scheme codes which are near completion.

The capital account is reviewed by Management on an ongoing basis both at an overall level and individually within each Directorate. The Auditor's comments are noted, and the Council will continue to monitor capital balances and offset debit/credit balances as appropriate. As part of AFS 2018, a further in-depth review will be undertaken on all aged capital balances with a view to completing projects and closing codes. The Chief Executive commits to preparing the report as requested by the Auditor and undertaking the review.

The significant increase in capital projects particularly in the housing capital programme and national roads programme has resulted in an increase in activity in the capital account. The capital account balance reflected in AFS 2017 reflects the balances on these rolling capital projects as at 31 December 2017.

With regard to the comment on the €95k of the total outstanding pay orders at the end of 2017 which remain outstanding at 30 May 2018. A review of existing procedures significantly improved 2016 position, however pay orders may remain uncashed in certain cases due to remain unanticipated legal issues. These remaining uncashed pay orders will be reviewed in 2018 and the recommendations of the Local Government Auditor taken into consideration for the preparation of AFS 2018.

5.2 Capital Expenditure

There was a significant increase in overall expenditure in 2017. Total expenditure of €60.74m (including transfers) was €24.3m or 66.7% greater than that incurred in 2016 €36.44m. The main items of expenditure were those in Housing and Building of €21.15m and Roads Transportation & Safety of €25.74m. The combined expenditure totals in these categories totals €46.89m and accounts for 77.20% of the overall expended total in 2017.

Housing Capital

The expenditure items listed hereunder accounted for €16.36m or 80% of the total housing expenditure of €20.38m (excluding transfers to/from revenue) incurred in 2017 as follows;

- Housing Acquisitions €7.30m
- Part land loan redemption €3.00m
- Three Housing Construction Projects €3.11m
- Regeneration Projects €1.53m
- Voluntary and Other Housing Bodies €1.42m

Roads Capital

The following are the main roads capital projects underway in 2017, representing €17.52m or 68% of the €25.63m (excluding transfers to/from revenue) total roads expenditure incurred in the year under review;

• N86 Lispole to Mountoven	€4.77m
• N72 Kilbonane, Beaufort	€2.61m
• N86 Tralee – An Daingean	€1.79m
• N70 Caharn Bridge to Deelis Bridge	€1.80m
• N70 Kilderry Bridge Improvements	€1.44m
• Munster Bridges Rehabilitation	€2.10m
• Other Projects	€3.01m

Chief Executive's Response

The expenditure outlined by the Local Government Auditor reflects the increased capital funding provided by the Transport Infrastructure Ireland and the Department of Transport, Tourism and Sport. It also reflects the continued expansion of the Housing Capital Programme under the Rebuilding Ireland Programme and the redemption of land loans as part of our financial planning strategy. The financial planning to reduce the Local Authorities liabilities is a matter which the Council has taken into consideration each year and has been an important factor in contributing to financial prudence.

5.3 Specific Credit Balances

There were 64 specific credit balances verified on a sample basis where no change had taken place in the opening and closing credit balances during 2015. These amounted to €12.95m. These credit balances were again reviewed at the current audit and while movements were noted on eleven of these credit balances the end of year total had risen to €13.25m. These balances account for 25% of the closing balance as noted above.

At audit it was noted that there are twenty nine of these specific closing balances where €5.436m or 40% of the year-end total have shown no movement in the period 2015-2017. The continuing failure by senior management to address this issue at audit is disappointing. I have again requested that a review of these capital codes should be undertaken and where necessary, the appropriate accounting adjustments be reflected in the 2018 AFS and progress on this matter will be reviewed at the next audit.

Chief Executive's Response

The comments of the Local Government Auditor are noted. An in-depth review of these credits was undertaken by the Finance Department for AFS 2017 and adjustments were completed where applicable. The local authority has a number of provisions which were provided to offset liabilities as outlined previously and a number of these will be utilised for funding the 2018 – 2020 Capital Programme as adopted by the elected members. This matter will be further examined as part of AFS 2018.

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 of Housing, Planning and Local Government (the Department). Since 2003 all assets either purchased or constructed are included in the balance sheet at cost.

In 2014 the financial value of the assets base was further enhanced with the inclusion of assets held by the former town councils of Killarney, Tralee and Listowel.

The net book value of fixed assets increased by €11.1m during 2017 with the most significant increase relating to housing additions which accounted for €9.3m of the increase.

Chief Executive's Response

The comments of the Local Government Auditor are noted. The fixed asset register is strictly monitored within the Finance Department with all movements being processed and recorded in a timely manner and in accordance with the Accounting Code of Practice.

7. Loans Payable

Kerry County Council has loans payable totalling €74m at year end 2017 of which 59% are non-mortgage loans (€43.82m). The vast majority of loans payable are Housing Finance Agency (HFA) borrowings (88.75%) with DEPFA holding 5.77% of loans and IPBMI holding the remaining 5.48%.

Non-mortgage Loans

The €43.82m of non-mortgage loans as at 31 December 2017 are made up as follows;

- 76% or €33.3m relate to land loans
- 9.75% or €4.27m relate to roads loans
- 6.75% or €2.96m relate to corporate buildings loans
- The remaining 7.5% or (€3.29m) relate to burial grounds (€1.09m), civic amenity sites (€290k), landfill sites (€1.14m), leachate treatment (€98k) and Sports & Leisure Centre (€662k)

Loan repayments made during 2017 totalled €4.31m which consisted of principal repayments totalling €3.28m and interest payments of €1.03m. This represents a decrease on the 2016 loan repayments which totalled €4.68m (principal of €3.38m and interest of €1.3m).

During 2017, loan redemptions on various loan facilities of €4.08m, were undertaken by the Council and included a part loan redemption of €3m on land loans which are referred to in the next paragraph.

In addition to the part loan redemption, repayments on the land loans of €33.3m at the year-end, which are being repaid on an interest only basis, totalled €533k during 2017. These repayments are non-recoupable and are therefore funded by Kerry County Council's own resources through the revenue budget.

Recoupable Loans

There are recoupable loans totalling €18.84m at year end 2017. These consist of voluntary housing loans (€16.88m) and water related loans (€1.96m). The total repayments on these loans during 2017 were €1.23m and are fully recoupable by Kerry County Council. As these loans are fully recoupable, the loan balances are now recorded in the AFS as loans payable with a matching amount in long term debtors in accordance with Department Circular Fin 01/2018.

Chief Executive's Response

Kerry County Council Loans Payable totalled €74m at year end 2017 from €81.2m at year end 2016; a reduction of €7.2m. Kerry County Council actively monitors its loans portfolio with redemptions carried out on a timely and financially efficient basis.

The Council has loan balances of €33.3m with the Housing Finance Agency (HFA) applicable to land acquisition for housing projects. Effective from January 2014, agreement was reached with the HFA for a 5-year interest only repayment schedule for these loans. This local authority will be in a position to utilise some of these lands as part of the Social Housing Capital Programme (2015-2017) which will reduce the overall balance due, however a significant liability remains in relation to this loan portfolio. Provisions made by this Council specifically to discharge known financial liabilities were effected in 2017. Financial planning for these known future liabilities is a key priority for Kerry County Council.

8. Development Contributions

A sum of €1.785m was collected from Development Contributions in 2017. The closing debtors for development contributions amounted to €2.358m on which a bad debt provision of €1.346m has been provided. The current collection performance on development contributions was 43.06% of the total due.

Senior management should review the overall debtors total on an age analysis basis and where necessary make appropriate accounting adjustments on sums that are non-collectable or statute barred. Consideration should also be given to increasing the bad debt provision in this area in 2018 given the poor collection yield in 2017.

Chief Executive's Response

The development contribution income becomes due and payable on receipt of a commencement notice for the development, and income is accrued as per accounting guidelines.

The figures referred to above include development contributions in relation to water levies which are payable to Irish Water. The closing debtor of €2.358m is inclusive of water levies (€1.672m net of water levies). Of the debtor sums due 50% are engaged in payment plans typically phased over a two-three year time frame in line with phased development where applicable. It is expected that 25% of the closing debtor will discharge the debt at the water connection application phase and the remaining 25% represent developments that may not have not yet commenced.

Over 50% of the current debtors are less than 24 months old, and these are kept under constant review. The Revenue Department will undertake a further aged analysis of debtors as requested by the Local Government Auditor.

9. Procurement

9.1 Procurement of Consulting Services

The Council engaged a firm over a number of years for software licencing in the area of financial management. Payments totalling €218k have been made since 2002. The procurement of these services was not completed in accordance with proper tendering procedures.
At the conclusion of the audit I requested a report on the procurement procedures relating to the provision of treasury services. This matter will be reviewed at the next audit.

Chief Executive's Response

The Local Government sector, in utilising the Agresso Financial system has, over an extended period, used additional software packages to compliment the data analytics within the system. Similar to local authorities using Agresso, the Council has utilised a specific, dedicated software package, which requires an annual license fee payment to its owners for its use. The license fee in respect of 2017 was €9,850 exclusive of VAT. Given the dedicated nature of the software, it is not practicable to tender for its procurement.

In relation to the provision of treasury services, Kerry County Council will review this area again following national procurement guidance.

9.2 Public Spending Code

Kerry County Council is required to publish an annual report setting out how it complies with the above code. The stated objectives of the code are to ensure the State achieves best value for the resources at its disposal. In its report published in April 2017, 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 in respect of projects examined as part of the Public Spending Code was performed by internal audit. Account has been taken of their work in the performance of the audit.

Chief Executive's Response

All major capital projects are now subject to appraisal under the Public Spending Code Guidelines published by the Department of Public Expenditure and Reform. Kerry County Council completed the quality assurance requirements as set out in the Public Spending Code for the financial year 2017 and published a report to present the results of each of the five steps in the quality assurance exercise and reported on compliance with the requirements of the Public Spending Code. This report is published on Kerry County Council website and forwarded to National Oversight and Audit Commission.

Internal audit in-depth checks were undertaken as part of the quality assurance exercise. Overall this exercise provided reasonable assurance to the management of Kerry County Council that the requirements of the Public Spending Code are being met.

10. Local Authority Companies

The Council's interest in companies is set out in Appendix 8 to the AFS. This table includes information with regard to the extent of control exercised by the Council, brief financial details and the date of the latest financial statements received to which this information relates. None of these companies are consolidated in the Council's AFS.

10.1 Killarney Sports and Leisure Centre Limited

The principal activity of this company is the provision of sports and leisure facilities to the public. In 2017, the Council made payments totalling €135k to this company relating to the subvention of the operating costs.

The most recent audited accounts received in respect of this company are for the year ended 31 December 2016, when it recorded a deficit for the year of €284k (€349k in 2015). Proposals will have to be formulated and implemented to address the accumulated deficit of €2.98m at the year end.

The accounts of Kerry County Council disclose that it continues to fund the repayment of loans on the above facility which as at 31 December 2017 stood at €662k.

Chief Executive's Response

Killarney Sports and Leisure Campus Limited. (KSLC) is a wholly owned subsidiary of Kerry County Council. The former Town Council established this subsidiary as the most financially efficient structure to deliver and operate the facility. The financial planning underpinning the ongoing and future operation of the facility incorporates a historical subvention from the Council to the company. The loan funding provided by the former Town Council transferred to Kerry County Council in 2014 and provision is made in the budget annually.

This Council maintains an Internal Management Committee comprising of senior staff from Kerry County Council which reports to the Board of Directors of KSLC Limited. The committee meets bi-monthly with the Operators of the pool to review the activities of the complex including operational and financial activity. Operational efficiency improvements have been identified to reduce overall costs and increase income. These proposals will be implemented to ensure elimination of losses through the increased profitability in conjunction with the operators of the pool and is kept under constant review.

It should be noted the accumulated deficit €2.98m at year end represents €1.394m of accumulated depreciation and €1.586 m of accumulated subventions made by the former Town Council and Kerry County Council. This prudent approach has continued since incorporation of the company and will be reviewed in the context of AFS 2018.

10.2 Tralee Bay Wetlands Limited

The Tralee Bay Wetlands Company Limited operates the Tralee Bay Wetlands Centre. In 2017, the Council made payments totalling €101k to this company as a subvention towards the operating costs.

The most recent unaudited accounts received in respect of this company are for the year ended 31 December 2016, when it recorded a deficit for the year of €168k (€135k in 2015).

Proposals will have to be formulated and implemented in order to address the accumulated deficit of €755k at the year end.

It has been recommended to senior management that the exemptions being provided for by Chapter 25 of Part 6 of the Companies Act 2014 and under the conditions specified in section 358 of the Companies Act 2014 should be waived to allow for a complete audit of these accounts to be undertaken.

Chief Executive's Response

The operations at the Centre were carefully monitored throughout 2017 and regular meetings of the Executive and of the Board of Directors were convened. During 2017, a number of measures were taken to reduce deficits and address operating costs.

The Council has strengthened the management of the Centre with the establishment of an Executive Management Committee comprising of senior staff of Kerry County Council and management of the Centre which meets monthly to review the operating activities of the Centre. This includes review of financial activity and is in the process of developing a 5-year business plan with a view to eliminating the deficit. This Committee reports to the Board of Directors of the Tralee Bay Wetlands Company Limited. The Local Government Auditor's recommendation in relation to the appointment of an auditor will be implemented.

11. 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.

11.1 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 a significant number of reports during the year in addition to a number of inspection reports with regard to internal control procedures.

These include the following;

- Transfer Stations
- Rural Water Group Scheme
- Derelict Sites
- Community Support Fund
- Rented Equity
- Compliance with Prompt Payment Regulations
- Pay Parking VFM
- Parking Enforcement
- Review Process for the calculation of the Central Management Charge (CMC)
- Kerry Fire Services and Compliance with KCC Procurement Policy and Procedures

I have taken account of the work of the internal audit unit in carrying out my audit. It is important that the recommendations made in the reports prepared by internal audit are implemented by management in a timely manner.

Chief Executive's Response

The comments of the Local Government Auditor in relation to internal audit are noted. The recommendations made by Internal Audit in their reports are tracked by that unit and are reported at Senior Management level and Audit Committee on a continuous basis.

11.2 Audit Committee

The Audit Committee met five times during 2017. The annual report of the Audit Committee was presented and approved by the Council in February 2018. The minutes and report of the committee were made available to me at audit.

Chief Executive's Response

The comments of the Local Government auditor are noted.

11.3 Corporate Risk Register

At the conclusion of the audit, I am informed that reviews are currently underway on the various directorate risk registers and that any such findings arising there from will be incorporated into the Corporate Risk Register in due course. This matter will be reviewed at the next audit

Chief Executive's Response

The comments of the Local Government auditor are noted. A revised risk management system is currently being rolled out through the organisation.

12. Other Matters

12.1 VFM Report no. 31 – Coroners Service

In April 2018 Value for Money Report no. 31 – Coroners Services was published. This report erroneously made reference to the fact that a coroner was in receipt of two retainer fees.

Arising from this comment, which was subsequently amended, I wish to confirm that in the period 2017 that no coroner was incorrectly paid retainer fees for services provided to the Council.

12.2 State Grant Claim

An examination of a claim for state grant funding revealed a breach in grant claim procedures. It was noted that a claim had been made for expenditure which had not been incurred at 31 December 2017. The total sum involved (VAT included) amounted to €102k. The works in question were not completed until April 2018 and the paying order for these works was released in May 2018.

I have highlighted to managements that claims/recoupment's should refer to actual expenditure only and should be in accordance with the requirements of Circular 13/2014 "Management of and accountability from exchequer funds" issued by the Department of Public Expenditure and Reform.

Chief Executive's Response

The Local Government Auditor's comments are noted. This was an isolated case where works were to be completed by year end and due to circumstances outside the contractor's control, the supply of parts for the works were delayed by five months. These issues have subsequently been addressed and the Council will ensure that there is full compliance with the above Circular 13/2014 in future.

12.3 Deferred Income

Deferred income is recorded in AFS 2017 as €18.86m which is consistent with the 2016 figure of €18.88m and is made up as follows;

- Capital : €16.59m
- Revenue: €1.38m
- Irish Water SLA: €0.89m

The most significant elements of the capital expenditure deferred income amount noted above of €16.59m are as follows;

- Roads Capital: €13.83m (Grants €10.75m and Other €3.08m)
- Housing & Building: €1.95m
- Other Projects: €0.81m

At audit it was noted that over €2m of deferred income relating to draw downs in the years prior to 2017 remain unexpended at the time of audit. This matter needs to be addressed as a matter of urgency.

Previous statutory audit reports have also referred to the fact that state grant funding of €1.44m drawn down a number of years ago for two Part V social housing schemes remains unspent at the time of audit. This has been due to various legal formalities remaining unresolved. While these are legacy issues which arose a number of years ago, such grant monies should not have been claimed at the time due to the aforementioned comments.

Senior management have confirmed at the conclusion of the audit that these matters have been progressed significantly and the work effort by staff currently involved in this area to bring these outstanding issues to a conclusion is commendable.

Chief Executive's Response

Deferred income capital of €16.59m is now reduced to €6.35m which includes a reduction of €8.16m on TII grants funding on advances of €10.75m. Other roads advances for road restoration projects for Wind farms, ESBI Project, Eirgrid and Gas networks have been reduced by €1.65m. Advance funding on rural schemes are now minimal and progress reports are issued to Department of Rural Community and Gaeltacht Affairs on a regular basis. Funding of €0.23m was received for a Cork - Kerry hydrometric work programme which is at a preliminary stage.

The revenue advances of €1.38m are reduced to €0.46m which includes refundable aid funds for the Local Enterprise Office.

The €0.89m Irish Water SLA amount is advance working capital from Irish Water. It is to be treated as deferred income for the life of the SLA (12 years) and will be netted off against the final payment due to the LA under the SLA agreement in 2025.

In order to comply with the Part V Agreement in the developments referred to above, it was agreed that Approved Housing Bodies (AHB) were to purchase the social housing units and these purchases were to be funded through monies provided by the Department under the Capital Assistance Scheme (CAS). In these two cases, the grants were fully drawn down by Kerry County Council but subsequently issues arose with the delivery and transfer of the units to the AHB. These issues have arisen for a number of reasons including some of these developers ceasing to trade or having difficulties completing projects. These are difficult and complex cases involving receivers in a number of cases.

The Council is actively pursuing the finalisation of these cases which are dependent on the completion of negotiations with various interested parties. The Council is fully committed to bringing these complex cases to a successful conclusion as soon as practicable.

12.4 Plant & Machinery Account

The operation of the plant and machinery account had been administered through the capital account rather than the income and expenditure account. During previous audits I recommended that this should be accounted for through the income and expenditure account in order to comply with the requirements of the Accounting Code of Practice (ACoP). This was completed in 2017, and the staff work effort involved is to be commended in light of the level of balance transfers that were needed.

However, there remains a legacy accumulated loss deficit balance at the end of 2017 of €322k which management have confirmed will be eliminated during 2018.

The previous statutory audit report referred to the need for a report to be compiled on the elimination of the losses being incurred in this area of the Council's operational activity. In 2017 there was a significant increase in the roads work programme which could benefit the operation of this account going forward. This account will need to be closely monitored as continuing deficit balances on such operations are not sustainable. The Chief Executive's response sets out the proposed recommendations which are being put in place in order to return the operation of this account to profitability.

Chief Executive's Response

The Auditor's recommendation in relation to the inclusion of the plant and machinery account in the revenue account has been implemented from 1st January 2017. Note 13 to the Financial Statements discloses the treatment of the plant and machinery account in the capital account for 2017, this is also disclosed under the Statement of Accounting Policies, as in previous years.

The operation of the machinery yard had been impacted in recent years by the significant reduction in grant aid for road works, and there has been a continual on-going rationalisation in resources and non-replacement of equipment as a consequence. Measures have been identified and implemented to reduce the debit balance, including the need for replacement of plant where maintenance costs are not sustainable, changes in chargeability to promote greater efficiencies, which will be reflected in future accounts. The accumulated losses will be offset where possible against any gains arising and funding from the revenue account over the coming years.

12.5 Unfinished Housing Estates

Changes introduced in planning legislation during 2008 allowed developers of unfinished houses estates, the majority of home owners on the estates or the management companies set up therein the power to require local authorities to take estates in charge. There were 140 such estates (in excess of fourteen housing units) in Kerry at the end of 2017. Compliance with the aforementioned legal requirements could result in significant future expenditure being incurred by this Council in bringing these estates up to the required standards under the conditions to the respective granted permissions.

At the conclusion of the audit the Council has lodged one hundred and nine claims with both Financial Institutions and other Surety Providers seeking payments of the bonds or the completion of outstanding works completed. This matter will be reviewed at the next audit of accounts.

Chief Executive's Response

The Councils Housing Estates Unit has been very proactive in addressing issues identified in unfinished housing estates over the last number of years. Many of the more problematical estates have now been resolved. Processes and procedures are in place to minimise against the risk of financial exposure to this Local Authority. Where bonds are in place, the Council ensures that a valid costed claim is submitted before the bond expires. These are monitored and reviewed on a regular basis. Where no bond or only a partial bond is in place, enforcement action under the relevant planning legislation is pursued. Progress is being made in resolving outstanding bond claims with our larger bond holders which include, Allied Irish Bank, Liberty Insurance and Irish Bank Resolution Corporation (IBRC). The Council currently has 44 Taking in Charge applications on hands which are being processed in accordance with our Taking In Charge of Estates Policy and our memorandum of understanding with Irish Water.

12.6 Future Superannuation Awards

During 2017 the Council incurred €2.046m in respect of various payments of superannuation awards with €623k of specific superannuation credits being transferred to the revenue account and €428k transferred to capital to meet these costs. At the end of 2017 various credit balances amounting to €2.804m remain in the capital account in respect of future superannuation.

During previous audits I requested that Departmental approval be obtained for the operation of this accounting practice. This matter has again not been adequately progressed at the conclusion of this year's audit.

Chief Executive's Response

This is an increasing cost on this Council in recent years and to address the uncertainty with this increasing liability it is considered prudent to match the revenue provision with capital transfers from specific credit balances approved by Member, ring-fenced for pension liabilities, to provide for any exceptional superannuation payments in any given year. Capital transfers are included in the Revenue Budget in support of National Road Design Office pensions. The total also includes provision for fire fighters' gratuities, members' gratuities and staff retirements. It is noted that the Accounting Code of Practice refers to the requirement relating to pensions and their application to local authority accounting remains under consideration at Central Government level.

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 August 2018

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Department of Housing, Planning and Local Government

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