



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Waterford City and County Council

for the

Year Ended 31 December 2016



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

CONTENTS

	Paragraph
Introduction	1
Financial Standing	2
Income Collection	3
Transfer of Water and Sewerage Functions to Irish Water	4
Capital Account	5
Development Contributions	6
Local Authority Companies	7
Other	8
Governance	9
Acknowledgement	10

AUDITOR'S REPORT TO THE MEMBERS OF WATERFORD CITY AND COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Waterford City and 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 3a 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

Statement of Comprehensive Income

- 2.1 An overall surplus of €374k was recorded for the year after transfers to reserves of €5.3m, reducing the Council's general deficit to €7.6m. The outturn for the year was in line with the Council's 2014 refinancing plan to reduce the deficit over thirty years. This must remain a key objective of management.
- 2.2 The Council addressed an issue highlighted at previous audits by providing funding of €1.3m for housing maintenance expenditure incorrectly charged to capital account. This transaction was funded from revenue transfers and Part V funds.
- 2.3 Significant variances between the adopted budget and the actual financial performance are detailed in Note 16 of the AFS. Member's approval, as required by Section 104 of the LGA 2001, for the expenditure in excess of the annual budget was obtained in September 2017. However, there is a need for more robust procedures to ensure that budgeted expenditure is adhered to.

Passage East Harbour Dredging

- 2.4 At audit I expressed my concern to management at the manner in which this project was administered, the significant over expenditure incurred and the accounting treatment of some transactions. The over expenditure was mainly associated with the removal and transportation of contaminated dredged material from an unlicensed Council facility adjacent to the harbour following legal action by the Environmental Protection Agency (EPA). A total project cost of €575k was incurred compared with the initial untendered quotation of €84k.

Chief Executive's Response

The original cost of dredging the silt from the harbour was for €84k (excl VAT) and based on 4,000m³ of material. The actual quantity removed, to the original location, was greater than tendered at 5,500m³. Following enforcement procedures by the EPA expenditure was again incurred on removal, transportation, authorised landfill fees and other associated costs. The principle reasons for this additional expenditure were due to the classification of the waste material and that no suitably licensed landfill was in the immediate area. This resulted in additional handling, transportation and landfill gate fees costs.

Specific Revenue Reserve

- 2.5 In 2016 the Department of Housing, Planning and Local Government (the Department) by circular letter authorised each local authority to eliminate their Specific Revenue Reserve by either reducing the deficit on their revenue account or the funding of historical deficit capital balances. The Council did not exercise this option and a balance of €495k remains.

Chief Executive's Response

The Council will apply it to historical capital balances.

Statement of Financial Position

Fixed Assets

- 2.6 Net fixed assets values increased by €14m during the year mainly due to the purchase and construction of houses by the Council. At audit, I recommended that a review of the Council's heritage assets be undertaken to ensure that all assets are properly recorded in the fixed asset register and insurances of the Council.

Section 183 Notices (Disposal of Property)

- 2.7 I have requested management to review their procedures and reports to Members that accompany these notices to ensure that more detailed information, including valuations and a business case / management consideration of the transactions is included.

Net current liability

- 2.8 The net current liability position continued its unfavourable trend increasing by €2.5m to close at €7.6m. This was mainly attributable to the Council's ongoing program of capital works that results in the Council operating a bank overdraft on an almost constant basis. The Statement of Funds Flow in the AFS recorded a €16.46m decrease in cash and cash equivalents during the 2016.

Long Term Borrowings

- 2.9 Council's borrowing remain at a high level with continued reliance on bridging finance that remains on an interest only basis. Year end borrowings amounted to €138.5m comprising housing loans of €68.5m and asset loans of €70m. New borrowings amounted to €6.25m in respect of the Greenway and housing. The Greenway borrowings were part of the Council's 2014 refinancing plan which authorised the Council to borrow €33m to fund its then overdraft and deficit capital balances.

Chief Executive's Response

- The Council will undertake a review of its heritage assets in conjunction with Waterford Treasures.
- Section 183 Notices: Property Section will prepare a revised S.183 template incorporating additional information in relation to the proposed disposal for the Council to consider.
- Net Current Liability – Our extensive capital works program has impacted on the cash position, this is continuously monitored. Significant management resources are devoted to ensuring that the Council's finances are kept within authorised limits and that we adhere to the agreed funding plan.
- Long Term Borrowings- repayments are provided for in the Council's annual budget.

3 Income Collection

- 3.1 A summary of the major collections yields and the corresponding closing debtors, with comparatives for the previous year are as follows:

Income source	Yield %		Debtors €m	
	2016	2015	2016	2015
Rates	81	79	8.2	8.9
Housing Loans	58	56	2.1	2.1
Rents and Annuities	79	79	3.2	3.1

- 3.2 Overall performance on the main collection accounts requires further improvement notwithstanding a small reduction in overall arrears to €13.5m. At present the collection performance is keeping pace with current charges. However, a significant portion of debtor balances remain to be addressed and are represented by long standing arrears which have steadily increased over recent years. In addition, the Council should review its internal arrangements, monitoring and accounting structures for its other income streams in order to clearly assign all individual customer accounts to a specific collection responsibility.

Rates

- 3.3 There was a small reduction in rate arrears to €8.2m following the write off of €1.49m in respect of uncollected accounts. Audit analysis of year end debtors outstanding at June 2017 showed that €6.6m remained outstanding with €3.6m relating to 2015 and previous years. The specific bad debts provision in Appendix 7 increased by €500k compared with the previous year as historical arrears remain to be addressed.

Housing Loans

- 3.4 There was a small improvement in loan collection. However, the Council performance was poor compared with other local authorities. Long standing loan arrears remained at a significantly high level with the top fifty customer arrears amounting to €1.65m.

Rents

- 3.5 Arrears increased during the year and previous audit recommendations on improving the effectiveness of collections remain to be addressed. There is also a need to review the three separate rent assessment schemes that continue to operate. At the date of audit minimum rents within the schemes applied to approximately 1,500 units with a minimum rent of €16 on one scheme. A rent review commenced in early 2016 but was not implemented until this year. Management confined the back dated rent adjustments to just six months notwithstanding that a review had not been undertaken for a number of years.

Chief Executive's Response

- A reorganisation of the income receivable function has commenced. This should ensure greater clarity of processing within the section.
- Rates and Loans: we will continue to improve these collections and review our write off policy. Whilst the Council has made provision for bad debts the timing of the actual write offs will be reviewed.
- Rents: measures are in place to improve the effectiveness of rent collection in order to reduce arrears. The need to review the three separate rent schemes is agreed and will be addressed in 2018.

4 Transfer of Water and Sewerage Functions to Irish Water

- 4.1 The responsibility for water treatment was transferred to Irish Water (IW) in 2014. The Council continued to work with IW to address remaining issues which include:
- Legacy transfer of assets: there were over 364 properties listed on the records for transfer to IW. The Council has transferred to date 85 of the largest assets. Title and other property portfolio issues continue to be resolved with the remaining assets.
 - Under the twelve year service level agreement for water treatment services with IW, the Council recorded income of €10.8m (€10.6m, 2015). This income makes a significant contribution to the Council's central management charges.
 - A reciprocal payment provided for in the Final Balancing Statement in respect of a Design Build and Operation Agreement remains to be resolved.
 - Year-end planning contributions of €585k levied since 2014 were recorded as due to IW.
 - Costs associated with water related loans of €5.8m recorded in the AFS were recouped to the Council.

Chief Executive's Response

The Council continues to engage with Irish Water and our relationship is continuously monitored and reviewed.

5 Capital Account

- 5.1 A deficit of €5.69m was recorded at year end as expenditure on capital projects exceeded income and the opening favourable balance. I have previously highlighted the Council's efforts to consolidate project balances following amalgamation. Considerable work remains in completing this exercise. At year end 688 separate projects were recorded comprising 160 deficit balances and 528 favourable balances with cumulative totals of €33.78m and €28.09m respectively. During 2016, the largest single project was the purchase of 81 dwellings at a cost of over €10.6m which was fully funded from state grants. Other major projects for the year included:
- Waterford Greenway
 - WCURS (Waterford City Centre Urban Renewal Scheme)
 - Dungarvan Town Centre Public Realm

Securing funding for these particular projects must remain a key management objective as they resulted in significant financial outflows from the Council.

Waterford Greenway

- 5.2 At the date of audit a deficit of over €11.5m was recorded on this project as cumulative expenditure increased to over €19.1m, including substantial costs associated with accommodation works and other works incurred for adjacent land owners. The project was not tendered as a single project but was instead, directly managed by the Council. Particular elements of the project including structures, construction materials, hired machinery and other services were procured on a piecemeal tender basis or by the use of 'schedule of rates' representing a significant portion of spending. Direct Council costs including payroll charges amounted to over €3.2m. Funding of this scheme continues to present a significant challenge to the Council's overall financial position as the level of funding originally envisaged was not realised. Reports and other assessments required by the Public Spending Code also remain to be completed.

WCURS (Waterford City Centre Urban Renewal Schemes)

- 5.3 This scheme comprises various public realm works to further develop city centre amenities and develop its economic potential. The works were undertaken under three different schemes entitled Actions 1, 2 and 3 and included acquisition of properties, improvement to the road networks along with amenity and street pavement works. The cost of the works, estimated at over €11m, is to be funded from internal resources, capital grants and development contributions. At the date of audit the scheme recorded a deficit of €6m as grants and other funding remains outstanding. The Council also undertook additional works for third parties on this project. I have recommended that these be reviewed, charged and recouped by the Council on a timely basis. I have previously recommended that procedures be improved for monitoring and approving increased costs arising on all construction projects. There should be prior and formal senior management consideration and approval of all increasing costs.

Waterford City Flood Alleviation Works (Phases 2, 3 & 4)

- 5.4 The final account for this project, which commenced in 2012, was settled in 2016 at a cost of €12.38m compared with a tendered sum of €8.8m. The works were tendered under the Public Works Contract for Civil Engineering and scheduled to last 104 weeks. Following a formal risk assessment process and prior to proceeding to formal dispute resolution, a negotiated settlement was reached on over 370 additional cost claims submitted by the contractor. The additional costs were approved and funded by the Office of Public Works (OPW) as they hold ultimate

responsibility for flood alleviation works. A Post Project Review required by the Public Spending Code was not presented. This should report on how successfully the project objectives were met, how effective the project management practices were and the reasons and justification for the additional costs and delays.

Other residual contract works issues still remain to be resolved.

Dungarvan Town Public Realm

- 5.5 This contract was initially tendered at a cost of €1.23m along with associated costs for design supervision and other ancillary works. Expenditure of €3.3m has been incurred and a deficit, after state grants, of €2.9m was recorded at the close of audit mainly due to additional contractor claims. This deficit will have to be funded from Council resources.

Chief Executive's Response

- Waterford Greenway: this scheme is currently nearing completion. End of contract reports are being prepared and will be available for the next audit.
- WCURS: a system of approvals has been instigated to approve and recognise additional costs as they arise in a works contracts. The process for recoupment of costs due to the council from third parties for whom work is carried out during the course of a contract will be revised.
- Waterford City Flood Alleviation Works: the OPW holds ultimate responsibility for the flood alleviation works, with the Council acting as its agent in the execution of the contract. The Council will raise the issue of a Post Project Review with the OPW at the earliest opportunity once the current post project rectification works that have since arisen are completed.
- Dungarvan Town Public Realm: the additional costs were mainly due to unforeseen obstacles and delays encountered during construction and with the difficulty in keeping the business centre of Dungarvan fully serviced and operational during the works. It is apparent that the work was underestimated by the contractor and that the pre-contract surveys failed to identify the existence of significant underground services. Under the current form of public works contract these deficiencies leave the local authority exposed to substantial claims.
- General: funding has been identified for these and other ongoing projects from various sources including: state grants, future planning contributions, loan funding, and other third party sources.

6 Development Contributions

- 6.1 The AFS recorded year end debtors of €1.6m compared to €3.4m on the customer accounts due to a credit adjustment of €1.8m for long term debtors. The bad debt provision was also reduced from €1.7m to €481k, after €2.1m of long term debtors for developments that had not commenced were adjusted in accordance with a change in the national accounting policy. Contributions of €2.7m were collected during the year following an improved collection process. However, there is a need to ensure that a consistent approach continues to be adopted in the collection of planning contributions charges as a number of customer account balances remain to be written off as statute barred due to previous inactivity in the Council's collection process. I have requested that consideration be given to further action on these accounts within the planning enforcement process.

Planning and Development Act 2000, Part V

- 6.2 The Council's records comprise three separate registers in respect of the distinct Council structures that existed prior to amalgamation. At audit, I requested management to review and improve their records in order to ensure the ready availability of decision making arrangements entered into with developers including:
- The detailed calculation of costs and delivery of land and other assets in respect of all agreements
 - Particular attention be given to historical permissions and agreements that remain to be satisfied in respect of constructed houses to ensure the completeness in the delivery of relevant units
 - The need to improve communication between the planning and housing functions.

Chief Executive's Response

- Planning Contributions: the adjustment for long term debtors is referred to in note 10 of the Statement of Accounting Policies in the Annual Financial Statement. The Council's collection of outstanding amounts is continually monitored and reviewed.
- Planning and Development Part V: the records from the previous three separate local authorities are being amalgamated to ensure full compliance with all historical Part V obligations. It is intended that the planning department will be responsible for enforcement of Part V planning conditions. Communications between planning and housing departments will be improved to enhance performance.

7 Local Authority Companies

- 7.1 Appendix 8 of the AFS provides some detail of the Council's interest in companies and joint ventures. Nonetheless, during 2016 the Council advanced funds, property and other supports to a wide variety of entities under various initiatives without having a central reporting system in place. At previous audits I recommended the introduction of an overarching reporting and monitoring system to contribute to consistent corporate governance oversight and reporting arrangements. This was not introduced. Consequently it is difficult to assess what assurance there is in place to identify risks or performance issues that may arise when public funds are advanced. I have also drawn management's attention to Circular 13/2014 Management of and Accountability for Grants from Exchequer Funds which set out the principals required when public funds are advanced.

Chief Executive's Response

The Council is satisfied as to its responsibilities and exposure where material amounts are advanced. To date no governance issues have arisen. We will consider implementing an appropriate oversight and reporting framework.

8 Other

Plant and Machinery

- 8.1 Historically prior to amalgamation each Council operated a machinery yard to centrally manage plant and machinery. The operation of the yards has been impacted by reduced roads grants resulting in the remaining level of Council operations having to absorb the significant overheads, expensive machinery repairs costs and underutilised high value plant purchases. Notwithstanding the Council's need to maintain an emergency response capability. I have recommended that a

review of the efficiency and cost effectiveness of the yards be undertaken. This should assess if better value for money can be achieved in the two yards while ensuring that public services are not impacted.

Chief Executive's Response

The Council is currently working on a number of proposals aimed at improving the efficiency and reducing overheads in the machinery yard and hope to progress this at an early date.

Investigation

8.2 In late 2015, the Council employed consultants and commenced a tendering process for the supply of vehicles. Arising from this a presentation was made to the senior management team in early 2016 without a formal recommendation or decision being made to award a contract as various funding options were to be examined. Thereafter a number of staff at middle management grades engaged in activities, outside of the tender process requirements that led to:

- An order being issued for the supply of 60 vans outside of the Council's purchase to pay policies, procedures and purchasing limits
- Entry into a lease agreement with a financial institution for (incorrectly calculated) monthly payments of €24,436.60 for five years (€1.46m) resulting in the full upfront payment to the van supplier
- Delivery of the vans to Council premises

I was advised that neither the senior management team nor the consultants were aware of these transactions until the matter was brought to their attention after delivery of the vans commenced in early 2017. Payments ceased and an internal investigation was undertaken as management worked to regularise these transactions. When I visited the machinery yard the vans remain unused and in the possession of the Council. This complex and serious breakdown in internal control and supervisory oversight is a matter of concern and merits further review by those charged with governance.

Chief Executive's Response

- The investigation was carried out in accordance with appropriate disciplinary policies and procedures. Disciplinary measures that were invoked remain subject to external appeal.
- There was no loss to the Council and the contracts have now been concluded in full compliance with original tender and established tender procedures.
- The vans are now being brought into use.
- These and other controls will be reviewed.

Credit Cards (Low Value Purchase Cards)

8.3 Over 100 credit cards were in use during 2016 for low value purchases with expenditure of over €850k recorded across a wide spectrum of functions. The manner of usage, direct management oversight and absence of suitable controls for these cards is a matter of concern. Management should review current practices and ensure that proper controls are exercised in respect of purchase limits, oversight approvals and procurement to ensure that this expenditure is properly accounted for.

Chief Executive's Response

A new online system for the cards is currently being implemented that will improve automated

processing, controls and reporting.

Payroll

- 8.4 During 2016 the Labour Court awarded twenty one Council employees over €134k for loss of earnings after their long term 'acting up' allowances were withdrawn following amalgamation. Circular LG (P) 13/09 required the Council to seek Departmental approval prior to granting this allowance. The Council did not seek this approval and continues to pay acting up allowances to other employees.

The Council also paid one former employee €39k in respect of 195 days of untaken leave. Similar awards are expected to be made as significant levels of untaken leave remain. I have again drawn management's attention to the broad range of employee welfare legislation and Departmental Circulars that exists and requested that further efforts are made to comply with these requirements in order to reduce any financial impact.

Chief Executive's Response

- The amalgamation necessitated a complete restructuring of the organisation and resulted in some staff losing acting positions. Where the Labour Court deemed it appropriate they awarded compensation to staff. The Council now operates under Circular EL 02/2016 which grants a conditional delegated sanction to the Council for the management of staff within the Workforce Planning Report 2012.
- The Council has implemented a process of managing the reduction of leave which will bring untaken leave down to a normal level within the next two years.

9 Governance

- 9.1 The Audit Committee met on four occasions during 2016 and I attended their January 2017 meeting to discuss my previous audit report. The Committee's report to Council, as required under S60 of the Local Government Reform Act, highlighted staffing resources issues within the Council's Internal Audit (IA) unit and that the Committee had adopted a self evaluation criteria template to review its own performance.
- It is important that the IA function is properly resourced, with suitably qualified persons, as the work of the Audit Committee is dependent on the unit's ability to support and inform its work. Shortcomings in the resourcing of the unit have been highlighted for a number of years and remain to be addressed.

Risk Management

- 9.2 The Council has recently updated their risk register with each directorate identifying their own risks. At audit I recommended that the main organisational risks be separately identified and submitted to the Audit Committee and Members for consideration.

Records Management

- 9.3 Management should ensure that Council files hold a clear record of the decision making process, including all relevant underlying documentation in order to display proper accountability and transparency in the administration and use of public funds.

Chief Executive's Response

- Governance: it is hoped that recent changes within the IA function will address resource issues. The situation will be monitored in conjunction with the Audit Committee.
- Risk Management: the required information is being extracted from the existing Risk Register.

10 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.



James Moran
Local Government Auditor
24 November 2017