



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Galway County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF GALWAY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway County Council for the year ended 31 December 2018, 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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 7 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

In 2018, the Council recorded a surplus of €570K after making net transfers to reserves of €1.9m. The cumulative deficit in the Revenue Account decreased by €570K to €12K.

The income for rates exceeded the budgeted provision by €505K. This was largely due to budgeting for potential appeals on properties valued in 2018, which did not materialise.

The income from local property tax declined by €1.5m to €14.5m. This was mainly due to the Council decision not to vary the baseline in 2018. The sum of €14.5m represents a decline of 1.9% of the overall proportion of total revenue income from 2017 to 2018.

Variances between the adopted budget and the actual financial performance are detailed in Note 16 of the AFS. Members' approval, as required by Section 104 of the Local Government Audit 2001, for the expenditure in excess of the annual budget was obtained at the Council meeting of 29 April 2019.

Overall, there is a need to continue to maintain strong financial management controls to ensure that the cumulative deficit is addressed in the short term.

2.2 Financial position

The significant movements in the Council finances were:

- An increase in capital spend of €23.2m, mainly due to increases in spend on local authority housing (€16.6m), road improvement (€3.6m) and fire services (€1.6m). The increase in capital spend was matched by an increase in grants income (€22.3m) and other sources of income (€2.9m).
- An increase in accumulated cost of fixed assets of €16m mainly due to purchases of accommodation units (€3.7m), housing completions (€10m), disposals of houses to tenants (-€1m), plant and machinery (€1.2m) and various other additions (€2m).
- An increase in road transportation and safety division expenditure of €7.6m mainly due to grant allocations in excess of budgeted amount.
- Gap in year between pension payments (€8.7m) and pension income (€1.4m) of €7.3m.
- Reduction in loans payable of €2m mainly due to standard repayments.
- Increase in rates income of €2m mainly due to completion of valuation procedures on wind farms.
- Increase in trade creditors of €1.8m mainly due to payments for house purchases not cashed at 30 December 2018.

2.3 Capital Account analysis

The cumulative credit balance on the Capital Account increased by €1.1m to €21.3m. The reserves created for development contribution included in the capital account may not realise into cash.

Chief Executive's Response

The on-going approach to budgetary control across the Council will continue. The revenue account deficit has been largely dealt with and needs to be maintained at this level. There

are many capital projects that require co-funding from the Council and we must ensure that we are in a position to fund them from the Capital Account.

3 Income collection

3.1 Summary of the revenue collections

A summary of the revenue collections is:

Income Source	Yield %		Debtors €	
	2018	2017	2018	2017
Rates	86%	84%	€5,472,309	€5,383,782
Rents & Annuities	91%	90%	€746,362	€813,797
Housing Loans	76%	76%	€635,663	€644,663

3.2 Rates

The closing arrears for rates reduced by €88k. There was an increase in the amount collected of €1.4m. The increase in the collection of rates is welcome.

At 30 December 2018, the Council had 192 properties awaiting valuation from the Valuation Office. The Council should continue to work with the Valuation Office to ensure the valuations are completed promptly.

3.3 Rents

The closing arrears for rents reduced by €67K to €746K.

Rent reviews of Housing Assistance Payment tenants (HAP)

A large-scale rent review of HAP tenants has yet to be undertaken by the Council. This review is necessary to ensure conformity with the terms of the rental agreements.

Administration Costs of the HAP scheme

In 2018, the administration costs were €321K. The income received from funding providers towards the administration costs was €53K, resulting in a deficit of €268k in the HAP scheme.

3.4 Housing loans

As at 31 December 2018, the Council had 535 loan accounts of which 130 (24%) were in arrears greater than 3 months.

3.5 Conclusion

All efforts should be made to further improve these collection yields.

Chief Executive's Response

The Council will continue our focus on improving revenue collection levels for 2019. We note that the level of rates debtors has declined from a high of €10.6M in December 2013 to the current level of €5.5M.

HAP rent reviews will be undertaken when resources are available.

The Council will continue to apply the Mortgage Arrears Resolution Process (MARPS) with a view to reducing arrears on loan accounts. However, we note that in some cases the ultimate outcome of the MARPS process will clarify that a loan may be unsustainable which will lead to repossession.

4 Transfer of Water and Sewerage Functions to Irish Water

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

4.1 Balancing Statement

The balancing statement is not yet finalised. It is important that the finalisation of the balancing statement is completed in the short term.

4.2 Service Level Agreement

Approximately €8.9m was accrued for IW with €536K outstanding at year end.

4.3 Water related loans

As at 31 December 2018, the Council had loans for water activity with an approximate value of €3.8m. The cost of repaying capital and interest on these loans is funded by the Department of Housing, Planning and Local Government (DHPLG).

4.4 Water related rates

The Council recouped rates income of €10K for IW businesses from the DHPLG in accordance with Department Circular L3/2017.

4.5 Water related development levies

Development levies related to water works have not been transferred to IW to date, where applicable.

4.6 Water related assets

An asset transfer working group was established between the local authority sector and IW to resolve title issues and similar matters in the short term.

At June 2019, the ownership of water assets is as follows

• Registered to 3 rd party	78
• Mixed registration	9
• Unregistered	19
• To be determined	1
• Transferred to IW	<u>142</u>
• Total	249

All water assets previously registered to the Council have transferred to the ownership of IW. Accordingly, assets registered to a third party, mixed registered, unregistered or registration to be determined represent 43% (107) of water assets.

The Council should continue to work with IW and other bodies to resolve the title issues in the short term.

Chief Executive's Response

In relation to the balancing statement between Galway County Council and IW (para 4.1) the Council's final position has been submitted to IW and it is expected that that process will be concluded before the end of 2019.

Amounts collected for water development contributions will be transferred to IW by the end of 2019.

With regard to the transfer of assets (para 4.6) the majority of significant assets, where clean title is available, have already been transferred to IW. It is often the case, though, that title registration for older water services assets may not have been finalised for one reason or another.

The transfer of assets has been acknowledged as a national issue. An Asset Transfer Working Group has been established between the Local Authority Sector and IW to address these and similar issues. This is to ensure that appropriate controls, procedures and governance principles are applied to the transfer of all Irish Water related assets from Local Authorities.

5 Capital Account

5.1 Capital balances – unfunded

The review of capital balances identified unfunded balances of €10.1m. The unfunded balances by division are

• Housing & Building	€3.0m
• Roads Transportation and Safety	€6.4m
• Development Management	€0.1m
• Miscellaneous	€0.6m

The general reasons provided for unfunded balance include

- | | |
|---|-------|
| • Costs on road projects | €3.8m |
| • Assets purchased and not yet sold, utilised or financed | €3.6m |
| • Projects requiring funding | €2.7m |

Cost on Roads Projects

These costs relate to residual balances on completed road projects. Management should continue to liaise with Transport Infrastructure Ireland to resolve the residual balances.

Assets purchased and not yet sold, utilised or financed

This category largely comprises of two asset types.

- Land purchased before year-end 2008 (€3m)
The Council has obtained stage one approval or higher for seven housing schemes from DHPLG. Further development of unused lands, where suitable, may contribute to addressing the remaining debit balances.
- Lands at Galway Airport (€639K)
The Council in conjunction with the City Council purchased lands at Galway Airport. The Council contributed 50% of the cost.

Projects requiring funding.

These costs relate largely to two projects;

- | | |
|--------------------------------------|-------|
| • Car park at Oranmore train station | €1.6m |
| • Kilonan Harbour development | €0.9m |

These debit balance needs to be addressed in the short term.

Overall, the Council should address the unfunded balances in the short term.

Chief Executive's Response

Balances on the Capital Account are reviewed on a regular basis with a particular emphasis on funding sources. Provisions have been made in the revenue budget towards the funding of adverse capital balances in prior years.

The Council has in 2019 commenced an annual transfer of €500,000 from the Revenue Account to the Capital Account for a specific purpose and hopes to continue this provision for a number of years in order to address unfunded capital balances.

A substantial element of the current unfunded balances relates to roads projects and we continue to engage with Transport Infrastructure Ireland with a view to securing funding for these projects.

A large portion of the housing and building figure represents land acquired by the Council in prior years. Due to the global financial downturn these lands were not developed as quickly as originally envisaged. However various construction projects are currently underway and these land costs will be recouped as the housing projects are brought to completion.

Some work was undertaken in 2019 in respect of the balances on the capital account but the Council needs to remain in a position to capitalise on grant opportunities by having the co-funding requirements available.

6 European Capital of Culture: Galway 2020

6.1 Overview

Galway will be the European Capital of Culture in 2020.

In April 2017, the Council adopted a motion to make a contribution of €2m to Galway Cultural Development and Activity Company Limited (hereinafter Galway 2020). The Council minutes for April 2017 records that the funding for the project will be the savings on the annual loan payments for the county hall after the loan redemption in 2019. The final loan payment for the county hall occurred in December 2018.

During the year 2018, the Council made a contribution of €875K bring the total paid to Galway 2020 to €1.375m

6.2 Service Level Agreement

A Service Level Agreement (SLA) was agreed between the Council and Galway 2020 in March 2018. The SLA was agreed between the Chief Executive of Galway County Council and Chief Executive Officer of Galway 2020.

The SLA sets out a funding schedule, roles, deliverables, performance monitoring, eligibility rules and audit requirements.

As noted above, the Council approved a further €2m in funding in May 2019. Accordingly, to reflect the increased contributions the SLA should be updated with appropriate oversight arrangements.

Chief Executive's Response

The requirement for a revised SLA has been discussed with the Chief Executive of Galway 2020 and will be put in place. No arrangements have yet been made for the additional monies but this and the revised programme will be addressed in a revised SLA, which it is expected will be put in place in the short term.

7 Fixed Assets

7.1 Capitalisation of Fixed Assets

The Accounting Code of Practice (ACOP) requires assets to be recognised on the acquisition or construction of a fixed asset on an accrual basis.

The review found assets not capitalised at an estimated value of €13.9m. It is recommended to capitalise assets when acquired or constructed.

In addition, clarity is required on the ownership of parks, playgrounds, piers and harbours in the county of Galway.

7.2 Assets management

At present, the responsibility for managing property assets resides across a number of business areas. The business areas use different systems for managing assets.

It was noted during the audit that

- The property interest register was a work in progress.
- A reconciliation of iHouse (i.e social housing IT system) to Fixed Asset Register was a underway.
- A reconciliation of burial grounds on the asset register to State Property Asset Register was underway.
- A reconciliation of register of land to asset register was a work in progress.

I noted the absence of a dedicated person assigned responsibility of an Asset Registrar or Property Manager in the Council for 2018.

Chief Executive's Response

The assets valued at €13.9M mentioned above, although not reflected as fixed assets in the 2018 AFS were recorded in the Capital Account of the 2018 AFS. We can confirm that they have been capitalised in 2019.

A property interest register working group consisting of staff members from key units, Corporate, Housing, Roads, Law Agents, IT and Finance was established in March 2019. The group meet on a regular basis and significant progress has been made in 2019. The group will continue to work on the reconciliations outlined above.

8 MyPay shared services

8.1 Payroll shared services

MyPay is the service provider for payroll shared services in local government. An ISAE audit (International Standard of Assurance Engagements (ISAE 3402)) type 2 report is required annually from the payroll shared services. The Council received an audit report titled "My Pay Shared Services Centre Report on controls placed in operation for the period 1 October

2017 to 31 March 2018". However, the audit report does not cover all the financial year notably 1 April 2018 to 31 December 2018.

It is my view that audit reports should be completed on or before 31 March annually and provide full coverage of the previous financial year i.e. 1 January 2018 to 31 December 2018. This matter needs to be addressed at the next formal annual review.

8.2 Pensions shared services

MyPay is the service provider for pensions shared services in local government. An ISAE audit report is required annually from the pensions shared services. No type 2 audit report covering pensions shared services was received for the period 1 January 2018 to 31 December 2018.

Chief Executive's Response

The comments are noted and the Council will write to the Local Government Payroll and Superannuation Shared Service Centre, MyPay outlining the concerns raised.

9 Audit adjustments

9.1 Overview

An audit adjustment occurs where a financial statement line item differs from the amount as determined by the auditor.

9.2 Audit adjustments

During the audit, the following audit adjustments were identified which have no impact on the revenue account:

- Assets valued at €13.9m were not capitalised.
- Long-term loan income due from capital advance leases were not disclosed in long-term debtors.
- Investment in Irish West Airport for €912.5k was not disclosed in long term debtors.
- Debtors were overstated by €904k due to the inclusion of an amount not billed at year-end.
- Salt barns valued at €706K were posted as plant and machinery. The salt barns should be classified as buildings.

None of the audit adjustments have an impact on the revenue account. It is recommended in each of the above points, that the appropriate adjustment is made

Chief Executive's Response

The adjustments relate largely to timing / technical accounting adjustments and the relevant adjustments have now been completed. As noted above none of the adjustments have any impact on the revenue account.

10 Development Contributions

10.1 Overview

Development contribution income increased by €1.1m. Development contribution debtors increased by €0.3m to €1.7m.

Income from development contributions not due to be paid within the current year is deferred and is not separately disclosed in the AFS. This is in accordance with current accounting policies.

10.2 Bad debt provision

Short-term development contribution debtors were €1.75m. The bad debt provision remained unchanged for the short-term development contribution debtors at €859K. The bad debt represents 49% of development contributions.

10.3 Development contribution scheme before 2004

Income of €92K for the Development Contributions Scheme before 2004 is recorded on a cash basis.

Chief Executive's Response

The Auditor's comments are noted

11 Plant & Materials account

11.1 Overview

Transactions for plant and materials are disclosed in Note 13 Summary of Plant and Materials Account. Profits on the Plant and Materials accounts are transferred to the "plant fixed Assets" job in the Capital Account. In general, the profits are used to purchase assets.

11.2 Deficit for the year

In 2018, the Plant and Materials account incurred a deficit of €25K. This was largely attributed to a decline in machinery yard income. The Council should ensure that the plant and materials account break even or achieve a surplus annually.

11.3 Capital account

At year end, the “plant fixed assets” capital job had a debit balance of €459K. This balance remained unchanged since year end 2017. The balance largely relates to the purchase of vehicles. There was no income or transfers recorded in this account in 2018.

The Council should address the debit balance in the short term.

Chief Executive’s Response

The Council will continue to monitor the activities of the machinery yard. The Council proposes to undertake a full review of its fleet management requirements and in this regard a dedicated resource has been applied to this from September 2019.

12 Shared Services with Galway City Council

12.1 Overview

The Council and Galway City Council provide some services on a shared basis e.g. fire services and the library. The Council received €6.5m towards service delivery costs in the year 2018.

12.2 Arrears

In 2017, the Council and Galway City Council held deliberations in relation to the funding of shared services. A process was agreed for an independent assessment of the proportion of fire service costs to be paid by each authority on an annual basis.

The independent assessment has issued a recommendation on how to split costs which has been accepted by the County and City Council. Further discussion between the County and City are ongoing on how to progress the recommendations in relation to the calculation and payment of arrears.

Chief Executive’s Response

Following agreement on the division of future costs, discussions have been undertaken with regards to agreement on arrears and it is expected that this will be concluded before year end.

13 Governance

13.1 Overview

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

13.2 Internal audit

The IAU completed a programme of audits during 2018. I took account of the internal audit reports as part of my audit planning.

13.3 Risk management

The risk management environment needs improvement.

The risk register continues to be under development. The risk register reports risks by directorate. Risks are assigned to a risk owner. Risks are categorised into financial, operational or reputational. Each risk has a weighted score that has regard to impact and likelihood. Also, risks have an accompanying control action and a designated frequency for review e.g. weekly, monthly checks.

The ISO 31000 Risk Management was updated in 2018. Work needs to be undertaken to ensure that all sections are aligned to the risk management updates.

In addition, more improvements are required in this area in the short term, particularly relating to risk management guides, co-ordination, monitoring and resourcing.

13.4 Data protection

The EU General Data Protection Regulation (GDPR) provides a single, harmonised data privacy law for the European Union and was directly applicable from 25 May 2018. Public bodies whose activities have a commercial comparative in the private sector are subject to fines in the event of an infringement. As such, County Councils are subject to fines.

The Data Protection Officer (DPO) is a leadership role in the implementation, administration and compliance with GDPR. It is welcome that the Council has appointed a full time person to the role of DPO.

There is a large body of work on going in this area in the Council. The DPO requires sufficient time and resources to monitor compliance with the GDPR, preparation of an annual report, work planning, learning and development, contributing to the risk register, overseeing an up to date record of processing activities, etc. Accordingly, the Council should ensure that adequate resources are allocated to ensure compliance with the GDPR.

13.5 Ethics

Section 171 of the Local Government Act 2001 requires those to whom Section 167 (1) of the Act applies, typically council members and senior staff, to submit an annual declaration to the nominated Ethics Registrar. Statutory Instrument No 582/2002 sets the last day of February as the return date for these forms.

The responsibility for completion of the ethics return rests with the Councillor or staff member for whom the Council deemed the legislation applicable.

All members and staff returned their annual declaration before the statutory deadlines. This is a significant improvement from recent years. All members and staff should continue to ensure the statutory deadlines are met going forward.

13.6 Fraud policy

A fraud prevention and contingency plan sets out responsibility, roles and tasks for the prevention and detection of fraud. Additionally it sets out the corporate tone and actions when dealing with fraud.

An updated fraud prevention and contingency plan is under review by the Executive Team.

13.7 Procurement – compliance checks

A procurement check system on requisitions in the financial management system (i.e. Agresso) is not fully in use. It is recommended that the procurement checks are put in use for key products such as protective equipment, plant hire & ICT consumables.

13.8 Public Spending Code

The Council has completed the “Quality Assurance Report for 2018”. The report reflects the Council’s self-assessment of compliance with the Public Spending Code.

The report concluded that the Council has a “high level of compliance” with the code.

Chief Executive’s Response

Work has continued on the risk register in 2019. Risk management is being addressed across the organisation. Risk registers are in place for each unit and the corporate risks have been identified. The approach to link the risk register directly with the actions in each business plan is currently being reviewed.

The fraud prevention and contingency policy has been presented to the executive team and amendments are currently being made.

The procurement post had been vacant for a period but a new officer has been appointed in September 2019 and will assist in addressing the issues raised in the audit.

The Council has a robust procurement strategy in place.

14 Acknowledgement

My appreciation for the courtesy and co-operation extended to the audit team by Kevin Kelly (Chief Executive), Gerard Mullarkey (Head of Finance), Áine Fenton (Accountant), Michael McGovern (Accountant) and all management and staff of the Council.

Donal Cahill

30 SEPT 2019

Donal Cahill
Local Government Auditor

Date

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