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Government of Ireland

# **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Galway City 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 GALWAY CITY COUNCIL

## 1. Introduction

I have audited the Annual Financial Statement (AFS) of Galway City 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 6 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

The surplus for the year amounted to €721k after net transfers to reserves of €10.3m. At the end of 2017 the Council recorded a cumulative favourable balance of €1.7m.

### 2.2 Statement of Financial Position

Fixed assets increased in 2017 due to the inclusion of:

- Ballinfoile / Castlegar Community Centre...€6.3m
- Westside Sports Campus...€1.8m and
- Seven house acquisitions...€1.3m

The work in progress and preliminary expenses balance decreased by €7.4m, with the corresponding income decreasing by €7.9m. This completed the re-classification of capital

jobs requested in the course of previous audits. All jobs remaining in note 2 to the AFS at the end of 2017 relate to active projects.

The increase of €10.9m in bank investments in the year was a reflection of the Council's improved financial position.

The Council continued to redeem capital debt, reducing the balance by a further €7m to €63.5m by the end of 2017.

Other balances recorded a €12m improvement in the year. This included capital reserves of €6.6m – see paragraph 5.1 for details.

### 2.3 Overview

The overall budgetary control process within the Council continued to operate effectively throughout 2017. The differences between the adopted budget and actual outturn are shown in note 16 to the AFS.

During 2017, the Council's net current asset position improved by €8m, representing improved liquidity. Fixed assets continue to represent substantially all of the Council's total net assets.

### 2.4 Members' Approval

The approval of members was obtained at the Council's April 2018 meeting for: (i) the draft AFS, (ii) transfers to / from capital and (iii) over expenditure in specific divisions.

#### Chief Executive's Response

Galway City Council's generation of a surplus again in 2017 is evidence of ongoing prudent budgetary management.

## 3. Income Collection

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	78%	75%	€10,681,431	€12,006,933
Rents & Annuities	80%	76%	€2,065,571	€2,421,346
Housing Loans	82%	80%	€287,570	€371,946

### 3.1 Commercial Rates

The 3% improvement in the rate collection is reflected in the €1.3m reduction in debtors. An aged analysis of the debtor balances at the end of 2017 shows 57% is less than a year old. Despite ongoing improvements, at 78% the Council's collection percentage remains below the national average, which was 84% in 2016.

I reviewed €2.4m of the year end debtors to receipts in the first four months of 2018 and noted €0.5m (22%) had been paid. Of the remaining balance, a further €1.1m (48%) had payment plans in place to address the amount outstanding.

The cash collected in the year increased by €0.4m to €34.6m, which is a welcome

development given that rates accounted for 46% of the Council's total revenue income in 2017.

### **Chief Executive's Response**

The steadfast efforts of the team in the Debt Management Unit are reflected in the increased collection percentages – Galway City Council are working towards a further improvement target in 2018.

## **3.2 Housing Rents**

In 2017, the collection level for rents increased by 4%. The debtor balances decreased by €356k in this period and this was primarily as a result of adjustments to rent charges.

The Council introduced a new rent scheme in 2016 in conjunction with which a reassessment of all rent accounts was undertaken. During 2017 debtor account balances reduced by €530k as a result of (i) the cancellation of maximum rents previously applied to accounts for which information was not submitted by the tenant, (ii) correction of errors in the calculations outlined above and (iii) the application of the twelve week rule, which was agreed with the Housing Strategic Policy Committee and back dated to the period covered by the reassessments. I reviewed the rental assessment system and identified a number of weaknesses, both in the adopted scheme and in its application. I have made a number of recommendations in relation to this area, which I have been advised Housing Section is working to implement.

A review of €511k of the year end debtor balances found €284k (56%) were reducing their arrears, with the remaining €227k either not making payments or not meeting their current debts as they fell due. While the cash collected in 2017 increased by €336k, the Council's collection percentage remained below the national average, which was 85% in 2016.

### **Chief Executive's Response**

The Housing Department intend to introduce a revised Rent Scheme in Qtr 4 2018 to address the issues noted and to ensure that the scheme is simplified and equitable.

## **3.3 Housing Loans**

In 2017 the Council's loan collection level increased to 82%. The Council has been amongst the best performing local authorities in the country for this income stream in recent years. Housing loan debtors continue to decrease, as existing loans age with no new loans having issued for a number of years.

### **Chief Executive's Response**

Galway City Council continues to work in a proactive manner with our existing loan customers.

## **3.4 Bad Debt Provision**

The bad and doubtful debt provision at the end of 2017 represented 65% of gross debtors. While this is a reduction from the previous year, this is deemed to be sufficient based on a review of post year end receipts from the main income streams. The

reduction in the provision in the current year represented both the bad debts written off thereby no longer requiring a provision and improved collection levels.

#### **Chief Executive's Response**

The Debt Management Unit within the Finance Section will continue to review, utilise and maintain our bad debt provision as required.

## **4. Transfer of Water and Sewerage Functions to Irish Water**

### **4.1 General Update**

All functions relating to the provision of water and sewerage, other than rural water schemes, transferred to Irish Water (IW) from 2 January 2014, with a twelve year service level agreement signed between the parties on this date. During 2017 the costs incurred by the Council relating to the provision of services under the terms of this agreement continued to be recouped as recorded in Appendix 4 to the AFS.

### **4.2 Transfer of Assets**

The process of transferring asset title to IW remained ongoing during 2017. To date, eleven assets have transferred and another four are ready for transfer. The remaining nine assets have issues relating to registration of title, that need to be resolved to permit any transfer to take place. The issue of registration of title for all fixed assets is discussed in paragraph 6 below.

### **4.3 Water Loans**

The Council continued to record two water related loans in its AFS, which at the end of 2017 had a cumulative balance of €1.9m. The €400k repayments in the year continued to be funded by the Department, as outlined in paragraph 7 below.

### **4.4 Development Levies**

The Council paid IW €341k in 2017 for their share of development contributions collected. An accrual for a further €109k was included in the AFS, which was paid to IW in April 2018.

#### **Chief Executive's Response**

Galway City Council continues to engage with IW under a service level agreement. Our water services department, in conjunction with our legal advisors, are currently rectifying title on the remaining assets in order to facilitate the transfer of these assets to IW.

## 5. Capital Account

The capital account recorded a net credit balance of €20m at the end of 2017, consisting of:

### Over View of Capital Job Balances

Capital Job Codes	As at 31.12.2017		As at 31.12.2016	
	No.	Value	No.	Value
Debit Balances	65	9,775,215	55	18,410,653
Credit Balances	81	-29,823,772	78	-32,330,668
	<u>146</u>	<u>-20,048,557</u>	<u>133</u>	<u>-13,920,015</u>

There was an €8.6m reduction in both of the figures listed above as a result of the offset of three related capital job balances in the year.

#### 5.1 Credit Balances – Reserves

The increase in the capital account balance primarily related to reserves created for future capital projects. These totalled €19m at the end of 2017, as identified in note 10 to the AFS. Many of these reserves have built up over a number of years and were approved annually by the Council Members as part of the process of adopting the draft AFS.

All material balances were reviewed during the audit and one capital job was noted, with unspent funding of €176k relating to a housing project that did not progress and has failed to do so for a number of years. This job code needs to be reviewed prior to the next audit. If this funding cannot be spent on the scheme to which it was provided, or if an alternative scheme cannot be agreed with the funding provider, then any funding previously advanced should be returned.

#### Chief Executive's Response

Galway City Council is actively working on the many projects for which it has set aside funding. The housing department will work in conjunction with the Department to review and resolve the balance relating to the housing project.

#### 5.2 Debit Balances – Funding Sources for Jobs

The Council had debit balances at the end of 2017 of €9.8m. These related to balances that remained to be funded or had funding claims outstanding.

Unsold affordable houses continued to account for €7.7m of this balance, In addition to this, the Council had loans of €5m due in relation to these properties at the end of 2017. The intention was that both of these balances would be cleared from sales proceeds when the 76 housing units to which they relate were sold however no disposals have taken place to date.

A review of all other significant balances identified that funding sources exist.

### **Chief Executive's Response**

Our housing department is continuing their review with regards to the potential funding of the unsold affordable houses, which are currently leased to Approved Housing Bodies.

### **5.3 Galway Palas Cinema Project**

The Council purchased a site in 2007 on Lower Merchants Road for €1.7m. This site was leased to Solas – Galway Picture Palace Ltd in April 2009 for a period of 99 years. At the September 2016 Council meeting management advised of material variations to this lease; the term of the lease was reduced to 30 years and a third party was added to the lease, namely EP Picture Palace Ltd. The Council paid €233k in 2017 to facilitate the completion of the cinema development, which opened in February 2018.

The Charities Regulator issued an investigative report in May 2018 into Solas – Galway Picture Palace, the registered charity who held the original lease from the Council for this property. This report concluded that "...there were lessons to be learned from the inspectors' report."

### **Chief Executive's Response**

The recommendations in the report do not relate to or have any impact on Galway City Council.

## **6. Fixed Assets**

Previous audit reports discussed shortcomings in relation to the recording and management of the Council's fixed asset portfolio. The lack of progress and the need to allocate dedicated resources to this project was outlined in last year's report.

With effect from April 2018, management applied a full time resource to this project, supported by various part time resources. Progress has been made in relation to a number of matters and I welcome these developments. Based on my review, I am satisfied that should adequate resources continue to be applied, progress will be visible in the course of future audits. I understand that management is now taking an active role in overseeing this project and regular updates from the team are being sought. This is vital for the project to progress.

It is recommended that timelines be adopted for the completion of various elements of the project. This would both facilitate its ongoing management and would permit the evaluation of the adequacy of resources, to ensure the timely completion of the project.

### **Chief Executive's Response**

Work is ongoing in this area, resourced and managed within the corporate services department and progress is regularly monitored.

## **7. Loans Payable**

The Council has continued the process of redeeming loans payable, with a further €7m redeemed in 2017, bringing the balance due at the end of the year to €63.5m.

This balance includes:

- €32.3m loans to purchase land and €5m loans for unsold affordable houses, both of which continue to be repaid on an interest only basis
- €13.7m water and voluntary housing loans, which continue to be funded by the Department
- €12.5m house loans, which are funded by customers

Interest of €559k was incurred on the €37.3m interest only loans during 2017. If the Council had to repay principal on these loans, repayments would be substantially higher placing an additional burden on the Council's revenue budget.

### **Chief Executive's Response**

Galway City Council continues to highlight the long term funding for these land loans and the extent of such loans in all local authorities is under review nationally. Provision for funding the interest only element of these land loans repayments continues to be provided through the revenue account budget. A portion of these lands is on the proposed route for the Galway City ring-road and we are currently in discussions regarding compensation for same. A further portion of the lands will be utilised for the development of houses as part of a Public Private Partnership bundle and we expect the costs of this land to be recovered as part of same. The interest costs relating to the unsold affordable houses, currently leased to Approved Housing Bodies continue to be recouped from the Department.

## **8. Development Contributions**

Development contribution debtors decreased by €2.4m in the year. €2.2m of this reduction reflected credit adjustments to prior year income, where the applicable planning permission had expired during 2017. These credits more than offset 2017 actual charges, resulting in an overall negative income figure for the year, as shown in note 10 to the AFS.

### **Chief Executive's Response**

The debtors relating to development contributions are monitored and managed on an ongoing basis.

## **9. Procurement**

Since 2017 the Procurement Team has been conducting compliance monitoring, as evidenced throughout the audit. With their assistance, a review of €8.2m of non-pay expenditure in 2017 was conducted as part of the audit. This review found €927k of expenditure for which no evidence could be supplied to indicate compliance with procurement rules and regulations. However arrangements are in place to properly procure €722k of this expenditure in 2018 and a further €96k related to expenditure that will not be incurred by the Council in future years. The remaining €109k remains to be addressed.

I previously recommended that the Internal Audit Unit (IAU) should spot check tender openings and this oversight commenced from mid-2017.

It would appear from the above findings that if management continues to implement these controls, improved procurement compliance should be evident in future years.

## Chief Executive's Response

The Procurement Team continue to work with all directorates to ensure that the Council is in compliance with the existing rules and regulations while maximising the benefits in achieving value for money and efficiencies for Galway City Council.

## 10. Local Authority Companies

As identified in Appendix 8 to the AFS, the Council had two companies in which it recorded an interest during 2017. These were:

- Galway Salthill Failte (Leisureland) and
- Galway Cultural Development and Activity Company (Galway 2020).

### 10.1 Leisureland

Leisureland is a wholly owned subsidiary company, whose transactions are reflected in the Council's 2017 AFS. The Council adopted a subvention of €300k in its 2017 budget to assist the company in managing and promoting the Leisureland Complex on its behalf. The company operated within the budgeted subvention for the second year in a row, which is a positive trend.

The company's audited figures were included in the Council's draft AFS for the first time in 2017 and this is a welcome development. As in previous years, the audit report for Leisureland included an emphasis of matter paragraph, drawing attention to the company's reliance on the Council to be classified as a going concern. The Council has undertaken to provide this support for a further twelve months i.e. until 23 March 2019.

#### Chief Executive's Response

The Board at Leisureland is to be complimented on the financial performance of this company in recent years and Galway City Council will continue to work with them in their ongoing efforts to develop this facility.

### 10.2 Galway 2020

This company was incorporated on 3 February 2016 however it did not begin to trade until 1 June 2017. After commencing trading, the Council continued to incur payroll related costs for a three month period and transferred the first tranche of funding to the company in July 2017. By the end of 2017 the Council had incurred total costs of €2.45m consisting of:

- |                             |        |
|-----------------------------|--------|
| • Pre-bid expenditure.....  | €1.60m |
| • Post-bid expenditure..... | €0.60m |
| • Funding transfer.....     | €0.25m |

The Council paid a second tranche of funding to this company in February 2018 of €0.25m, following which a service level agreement was signed on 8 May 2018. As at the date the agreement was signed, the Council committed to provide further funding of €3.3m subject to (i) the recoupment of seconded staff costs and (ii) Council's approval for the proposed expenditure for 2019 and 2020.

In total, this agreement commits the Council to supplying funding of €6m to this company up to the year 2020 and this includes all of the expenditure outlined above.

The Council's draft 2017 AFS has been amended to include the audited figures for Galway 2020 in Appendix 8, which became available since the Council prepared its draft AFS. The signed service level agreement includes a requirement to have audited accounts available to the Council on or before the end of March annually. This should permit the Council to include this company's data in future draft AFS's.

#### **Chief Executive's Response**

The Council will continue to oversee the delivery of the service level agreement by Galway Cultural Development and Activity Co Ltd by guarantee and the appropriate updated information will be included in our 2018 financial statements.

## **11. Governance**

### **11.1 Internal Audit**

Throughout 2017 the Internal Audit Unit (IAU) continued to consist of a single member of staff, supported by an externally procured service. The Unit produced six reports in the year, all of which were considered where relevant. The annual plan listed ten areas for review, five of these were reported within the year, with a sixth audit completed, which was not scheduled on the original plan. The work completed by the IAU was constrained by the available resources. The Internal Audit function is intended to provide vital assurances to management on the adequacy of internal controls, risk management systems and governance arrangements within the Council. Consequently I would recommend the allocation of increased internal resources to support this vital function and to thereby provide a greater level of assurance to management.

The Internal Auditor has a direct reporting line to the Chief Executive and a direct administration line to the Head of Finance.

#### **Chief Executive's Response**

The resourcing of this section, as with all other areas across the Council will continue to be considered by the Chief Executive.

### **11.2 Audit Committee**

The Audit Committee held the required four meetings in 2017. I attended their meeting on 29 November 2017 to discuss the 2016 audit, following which the Committee submitted a report to the Council Members as required under Section 60 of the Local Government Reform Act, 2014. This report was noted at the Council's February 2018 meeting.

### **11.3 Alleged Breach of Procedure**

An internal investigation into alleged breached procedures has been ongoing since early 2017. I have been advised that this matter has not yet been brought to a conclusion. The outcome of this investigation will be reviewed once available.

#### **Chief Executive's Response**

We will provide our auditor with details on outcome once investigation completed.

## 12. Inter Local Authority Balances

During 2017 Galway City Council paid Galway County Council €8.2m for charges levied in the year. This was the first year that the City Council had supporting documents for all payments made to the County Council, which provides enhanced clarity in relation to these costs.

However there continues to be no signed service level agreement between the parties in relation to the shared services for fire, library etc. This matter need to be addressed including agreement on any legacy issues arising.

### **Chief Executive's Response**

The terms for the shared services costs have recently been agreed for a three year term. Discussions are currently in place with regards to agreement on arrears.

## 13. Acknowledgement

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



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**Mary Keaney**  
**Local Government Auditor**

**2 August 2018**

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