



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Laois 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 LAOIS COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Laois County Council for the year ended 31 December 2018, which comprises 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 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 5 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgments 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 Financial position

The Council recorded a surplus of €59.7k in 2018, after net transfers to reserves of €3.6m leaving a debit balance of €68k on the General Revenue Reserve. The main variances between the adopted budget and the AFS are detailed in Note 16 of the AFS. The transfers to reserves and over expenditure have been approved by the members at their meeting on the 29th April 2019, pursuant to S104 of the Local Government Act, 2001.

2.2 Movement in Finances

Significant movements in the finances of the Council in 2018 include the following:

- **Increase in Work in Progress of €4.4m**

This is mainly attributable to expenditure of €1.3m on 33 Social Units at Connberry Way, Portlaoise and €2.9m expenditure on the Southern Circular Stradbally Road, Portlaoise in 2018.

- **Decrease in long term debtors of €3.2m**

This decrease in long term debtors relates mainly to the repayment of mortgage loans of €2.6m, a reduction in voluntary housing loans principal of €1.5m and an increase in Capital Advance Leasing Facility of €1.1m.

- **Decrease in long term creditors of €6.3m**

The decrease in long term creditors is due to a reduction in mortgage loans of €2.2m and non mortgage loans of €4.1m, of which €2.1m relates to shared ownership rented equity restructure.

2.3 Deferred Income

Included in Deferred Income is an amount of €1.25m relating to Higher Education Grants owing to the Department of Education since 2014. A review was undertaken to establish the exact amount owing and it has now been finalised. The money is currently being processed for payment.

Chief Executive's Response

A comprehensive review was completed in 2019 and this matter has now been resolved. The payment to the Department of Education was completed in 2019.

3 Income Collection

3.1 Revenue Collection Summary

Income Source	Yield %		Debtors €m	
	2018	2017	2018	2017
Rates	76	75	3.76	3.58
Rents & Annuities	96	96	0.22	0.25
Housing Loans	72	68	1.41	1.67

3.2 Rates

The rates collection yield shows an increase of 1%, increasing from 75% in 2017 to 76% in 2018.

It was noted that 663 accounts are in arrears compared with 604 accounts in 2017, 111 accounts were in excess of €10k compared with 91 accounts in 2017. This equates to €2.32m or 61% of the arrears. The table below is an analysis of the status of these 111 accounts and compares the 2017 figures with 2018.

Rates Collection Status	No of Accounts		Arrears €m	
	2018	2017	2018	2017
Payment Plans	26	32	0.66	0.83
Liquidation/Legal Process	7	10	0.11	0.29
Being pursued	<u>78</u>	<u>49</u>	<u>1.55</u>	<u>1.01</u>
Total	<u>111</u>	<u>91</u>	<u>2.32</u>	<u>2.13</u>

The Council has a bad debt provision of €950k in the AFS for rates. This is satisfactory.

Chief Executive's Response

Work in relation to the reduction of rate arrears is ongoing. There was an increase of €535,000 in the amount collected in 2018 compared to 2017. Our focus is in on pursuing outstanding debt through engagement with our customers where we can agree payment plans to tackle the arrears. Where the customer fails to engage we will pursue the outstanding debt through the legal process.

3.3 Rents & Annuities

The collection yield is high at 96% in 2018 maintaining the same percentage as 2017. This percentage is net of the accounts in credit. The credits have increased from €140k in 2017 to €259k in 2018.

A comprehensive rental income review is required. The last full review was undertaken in 2013. All income details need to be updated to avoid inaccurate rent assessments. Incorrect rental assessments often give rise to significant retrospective adjustments and consequent arrears difficulties. The bad debt provision for rent of €35k is satisfactory.

Chief Executive's Response

A full rent review has commenced and will be completed in 2019. This will bring all rent accounts into line and where there have been changes in circumstances this will be reflected in the rent accrual. Ongoing monitoring of rent accounts has ensured that the collection yield remains high. Where a customer fails to address rent arrears they will be pursued through the legal process after all other options have failed.

3.4 Housing Loans

Housing loan collection yield has increased from 68% in 2017 to 72% in 2018 reflecting an overall improvement in arrears management. At year end, there were eight hundred and nineteen loan accounts with a total value of €1.41m. These are analysed as follows:

Debt Category	2018 - Arrears €	2017- Arrears €	2018 No of accounts	2017 No of accounts	% Change Arrears	% Change No of accounts
Legal /Sales / Redeemed / Repossessed	276,128	133,254	38	15	107%	153%
Mortgage to Rent (MTR)	77,280	189,943	6	17	-59%	-65%
Mortgage Arrears Resolution Process (MARP)	244,097	617,470	36	70	-60%	-49%
Restructuring	715,258	597,824	63	52	20%	21%
Payment Plan	308,799	333,584	75	102	-7%	-26%
Arrears (<1k)	48,904	42,103	164	146	16%	12%
Nil Balance / Credits	-258,582	-239,059	446	438	8%	2%
TOTAL	1,411,884	1,675,119	828	840		

The increase in category legal/sales/redemptions is mainly due to loans that will be redeemed in 2019. A reduction in the Mortgage to Rent arrears figure is due to the completion of the review of qualifying accounts, identifying the customers that qualify with an income of less than or equal to €25k and the house being the customers principal private residence. The MARP process for many customers has

been completed and as a result, a large number of these accounts have transferred into the restructuring or payment plan categories.

It is noted that there remains approximately 120 shared ownership customers to be restructured into annuity loans. Given that the period of time can take up to a year in each case, from the issue of the options letter to final restructure, consideration needs to be given to the assignment of resources to this process. The current average number of accounts processed to completion is circa 20 a year, therefore the implementation of this policy could potentially take up to 6 years to complete. In terms of arrears management and financial risk, this needs to be addressed.

The bad debt provision of €150k is low and should be reviewed given the level of payment plans and restructuring in place.

Chief Executive's Response

Loan arrears decreased by €263k from 2017 to 2018 and by a further €121k to the end of September 2019. Significant progress has been made in the restructuring of loans despite the time constraints being experienced due to the nature of the legal process. The categorisation of the loans ensures that the arrears are being effectively managed through either the MARP or restructuring process. A review of the bad debt provision will be undertaken.

4. Transfer of Water and Sewerage Functions to Irish Water (IW)

4.1 IW Fixed Assets

In 2018, three assets were transferred to IW, giving a total to date, of forty nine of the estimated one hundred and fifty six assets to be transferred under Ministerial Orders to IW. In addition, a further sixteen have been submitted for inclusion in a Ministerial Order and three assets were classified as disused and will not be transferred to IW. The remainder are presenting with various issues ranging from unregistered lands to boundary and mapping anomalies. The process to address these issues is ongoing.

Chief Executive's Response

The transfer of assets to IW is ongoing but the issues raised above are delaying the process.

5. Capital Account

5.1 Debit Balances

The capital account recorded a credit balance of €6.1m as at the 31st December 2018, which represented an increase of €3.91m on the previous year's closing credit balance figure of €2.19m. This is mainly due to transfers to reserves in Roads, Environment and Miscellaneous services.

The capital account includes 111 accounts with debit balances totalling €14m in 2018. This represents a further reduction of €1m, on the 2017 figure of €15.2m.

Notwithstanding this, a number of large debit balances still remain, some of which are identified below:

	<u>2018</u>	<u>2017</u>
Togher Enterprise Lands	2,102,610	1,787,937

Spec Imp Togher Link Road, Portlaoise	2,040,000	2,120,000
Portlaoise LURD (2006/07)	885,245	944,102
Portlaoise Western Circular	825,000	900,000
Arthouse at Stradbally	750,000	820,000
Industrial Land Clonminam (5.448 acres)	598,981	594,355

The number of accounts with debit balances need to be addressed.

Chief Executive's Response

There is a plan in place to reduce the overall capital debit balance and this €14m will continue to reduce over the coming years. Some of the balance relates to ongoing capital works which will be funded by grants. The remaining debit balances will be funded from future development levies and budget provisions and are regularly reviewed to ensure that funding is available. The sale of certain assets also contributes to the funding with the balance on the Togher Enterprise Lands at €1.378m at 30/09/19. The Specific Improvement Togher Link Road balance at 30/09/19 is €1.805m whilst the balances on the remaining 4 schemes have reduced by €280,000.

6 Loans Payable

Loans payable in 2018 are recorded at €97m in Note 7 to the AFS. The loan categories comprise of mortgage and non-mortgage loans including, interest only loans, MyPay loans, and Land Aggregation Loans (LAGs).

6.1 Interest only Loans

Interest only loans are recorded at €14.5m (2017, €14.5m). €11.7m are in respect of seventy four housing units acquired for resale under the affordable housing scheme. These have been leased to an Approved Housing Body (AHB) on an 11 month renewable lease as part of the Social Housing Current Expenditure Programme (SHCEP) scheme. These interest payments are recouped from the Department of Housing, Planning and Local Government (the Department) in advance.

The balance of €2.8m (2017, €2.8m) is in respect of interest only loans relating to land acquisitions which are funded from the revenue account.

Chief Executive's Response

The balance on the loans for land acquisition will form part of the site costs when these lands are developed.

6.2 MyPay Loans

Laois County Council is the lead authority for this Shared Service Centre for all local government payroll and superannuation. Included in loans payable is a recoupable loan relating to this centre. This has reduced from €1.69m in 2017 to €1.51m in 2018, representing a decrease of €180k on last year's figure. This loan was borrowed from the Local Government Management Agency (LGMA) to fund 'MyPay' operations and is being repaid from charges collected by 'MyPay' for its shared service operations.

6.3 Land Aggregation Scheme (LAGs)

The Council's loan book also includes LAGS loans to the value of €4.6m (2017, €4.8m). These are fully recouped from the Department.

7 Interests in Associated Companies

Appendix 8 to the AFS identifies the Council's interest in seven companies all limited by guarantee.

With the exception of Portarlington Enterprise Centre, all other associated companies accounts for 2018 were available at audit. It is important that the associated company accounts be available for the year being audited.

The findings of my review are as follows:

7.1 Laois Arts Theatre Company Limited

In 2018, this company recorded a deficiency in net assets of €94k (€90k, 2017). This deficit has increased this year and needs to be addressed. This represents a risk for this company.

The activities are largely financed by the receipt of grant aid from Laois County Council and the Arts Council of Ireland as well as from box office receipts from the Dunamaise Theatre and Centre for Arts. In the year 2018, grant aid from Laois County Council was €130k, from the Arts Council of Ireland €117k and gross box office receipts €308K, equating to 79% of total income.

Chief Executive's Response

The Council is aware of the difficulties being experienced by the Leisure Centre and will continue to work with the Board of Management to increase the revenue streams and provide a more stable financial standing.

7.2 Portlaoise Leisure Centre Ltd

In 2018, the above company recorded a deficiency in net assets of €66k (€112k, 2017) after a prior year adjustment. It also recorded net liabilities of €69k. The deficiency in assets and the liquidity ratio needs to be addressed.

The prior year adjustment referred to above was made in relation to expenditure incurred on the building and pool that by their nature were the direct responsibility of the licensor (Laois County Council). The relevant expenditure was identified and written back in the accounts with the agreement of the licensor. The impact of these adjustments was that the opening reserves position at 1st January 2017, were improved by €37k and the liability to Laois County Council was reduced by that amount. Pool and Building maintenance and consequently the closing reserves improved by €59k with the liability to Laois County Council reduced by the same amount.

In addition, an emphasis of matter is included by the company's auditor in their accounts, which expresses a material uncertainty as to the entity's ability to continue as a going concern.

Chief Executive's Response

The Council is aware of the difficulties being experienced by the Leisure Centre and will continue to work with the Board of Management to increase the revenue streams and provide a more stable financial standing.

8 Housing

8.1 Approved Housing Bodies (AHBs)

The occupancy of properties under the CLSS schemes needs to be verified on an annual basis to records held by the AHBs. In this regard, It is important that a system is put in place to ensure that all annual management and maintenance payments made to AHBs funded under the CLSS schemes are verified accordingly. Annual statements of loans should also be provided to AHBs.

The mortgage registers should be completed with the property registration folio numbers. While a mortgage register is maintained some details of property folio registration numbers are not recorded. It is recommended that the recording of mortgages is updated to ensure that all mortgage folio numbers are included.

Chief Executive's Response

A system will be put in place to ensure that payments made to AHBs under the CLSS schemes are verified and that statements of loans are provided. The mortgage register will be updated.

9 Planning Income

9.1 Development Contributions

Development contributions recorded in the Agresso financial management system needs to be reconciled to the listing of actual development contributions in the Iplan planning system. In the case of potential development contributions, a close examination and inspection of all developments needs to take place to account for any development that may have commenced without a commencement notice being in place.

Currently, a spreadsheet records pre 2008 development contributions owing, however, these need to be recorded in the Agresso financial system to ensure that the completeness and accuracy of the records are maintained. This would also facilitate effective follow up action.

In addition, refundable bond deposits need to balance back to the bond register both pre 2008 and post 2008 for the Iplan planning system.

Chief Executive's Response

A review of the development contributions with reconciliations carried out between Agresso and Iplan is ongoing. The pre 2008 development contributions owing will be reviewed to determine if they can be included in the Agresso FMS.

9.2 Default Planning Permission

It was noted at audit that a planning permission for a housing estate of 87 houses went by default as a result of a system technical error in relation to the recording of further information / application for extension. Laois County Council granted planning permission for this development in this instance.

Chief Executive's Response

The LGMA has been requested to review the Iplan processes to deal with such scenarios. Iplan is currently being upgraded and I have been advised that this matter will be considered as part of the

upgrade. Due to the nature and the consequences of the error, this matter has been discussed within the planning department to highlight the awareness of the issue and to ensure that such a scenario does not happen again.

10 Governance and Propriety

10.1 Fixed Assets and the Property Interest Register (PIR)

While considerable work has been undertaken on the Property Interest Register in 2018, significant work still remains. It is noted that 2,070 records were matched, 72 records need to be digitised, 140 houses have yet to be geographically located and digitised, 24 records need to be removed as a result of sales and the balance of 46 records need further review.

A full reconciliation needs to be undertaken of all fixed asset categories to their underlying records for each of the areas, to ensure completeness, accuracy and non obsolescence. In addition, it is also important that the Insurance Schedule, the Fixed Asset Register and the Property Interest Register be fully reconciled to ensure all assets are adequately protected.

Chief Executive's Response

It is noted that significant progress has been made in this area. We will endeavor to complete a reconciliation of the fixed asset register, PIR and the insurance schedule in the coming months. A new PIR system is being purchased in January 2020 which will provide for easier reporting and reconciliation of all registers going forward.

10.2 Risk Register

The Risk Register needs to be monitored regularly to ensure that all risks are recorded with mitigating controls put in place. This register is essential to the corporate governance structure of the organisation and is fundamental to ensuring that all business processes are properly protected.

Chief Executive's Response

Each Director of Service carries out a review of the Risk Register for their area of responsibility which is then discussed by Management team and updated accordingly.

10.3 Internal Audit Function

In 2018, the Council's internal audit function consisted of one member of staff with a relevant academic qualification. In accordance with the Audit Charter, he reported to the Chief Executive and the Audit Committee. Six internal audit reports were produced which I have taken account of in carrying out my statutory audit.

It is noted that the Internal Auditor also undertakes checking duties which is conflicting with his duties as an Internal Auditor and the importance of maintaining independence. A resource needs to be identified outside of the Internal Audit function to fill this work commitment. This unit provides important assurance as to the adequacy of control systems and procedures in place.

Chief Executive's Response

I am satisfied that the Internal Auditor undertakes his duties only in relation to the Annual Audit Plan or any attendant matters associated with the plan.

10.4 Ethics Register

A significant number of staff ethics returns was received after the statutory period. All staff needs to be informed of the importance of complying with the statutory submission expiry date.

Chief Executive's Response

The Council will ensure that returns are completed and returned within the statutory period.

Acknowledgement

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

A handwritten signature in black ink, appearing to read 'Ita Howe'. The signature is written in a cursive style with a large initial 'I'.

Ita Howe

Principal Auditor

30 October 2019

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