



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Longford County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

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CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF LONGFORD COUNTY COUNCIL	1
1 Introduction.....	1
2 Financial Standing.....	1
2.1 Statement of Comprehensive Income	1
2.2 Financial Position.....	2
2.3 Loans Payable.....	2
3 Income Collection	2
3.1 Summary of Major Revenue Collections.....	2
3.2 Commercial Rates	3
3.3 Housing Rents and Annuities.....	3
3.4 Housing Loans	3
3.5 Tenant Rent Review	3
4 Transfer of Water and Sewerage Functions to Irish Water.....	4
5 Capital Account.....	4
5.1 Unfunded Balances	4
5.2 Capital Credit Balances.....	4
5.3 Turnkey Housing Units at Millrace Park	4
6 Fixed Assets	5
6.1 Property Interest Register	5
6.2 Housing Stock Reconciliation.....	5
7 Procurement.....	5
8 Local Authority Companies	6
8.1 Longford Pool Construction Ltd	6
8.2 Longford Enterprise Development Co Ltd.....	7
9 Governance	7
9.1 Risk Register	7
9.2 Internal Audit	8
9.3 Audit Committee.....	8
Acknowledgement	8

AUDITOR'S REPORT TO THE MEMBERS OF LONGFORD COUNTY COUNCIL

1 Introduction

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

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 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 Council recorded a surplus of €58k after making net transfers to reserves of €1.9m in 2017, resulting in an accumulated surplus of €232k at the end of the year. The variances between the adopted budget and the actual outturn in the revenue account are shown in Note 16 to the AFS and were approved by the members in May 2018.

2.2 Financial Position

The main movements in the finances of the Council included the following;

- Increase in payroll costs (€0.9m).
- Reduction in bad debt provision (€0.9m).
- Increase in fixed assets mainly attributed to the housing additions (€4.3m).
- Increase in trade debtors (€1.5m).
- Decrease in trade creditors (€1.8m).

Chief Executive's Response

Due to continuing tight budgetary controls, effective governance and a high standard of fiscal probity, the Council is encouraged by the fact that we can record a surplus for 2017. All key financial indicators show improvement year on year, with a decrease in creditors and loans payable and a substantial increase in housing fixed assets all contributing to a robust balance sheet at the end of 2017.

2.3 Loans Payable

In 2017, the long term loans payable were reduced by €2.4m to €36m. Included in the closing balance at December 2017 were loans of €8m which will have to be funded from the revenue account in the future.

Chief Executive's Response

Due to loans reaching maturity, along with a review of loans payable carried out in 2017, this resulted in the Council being able to lock in favorable fixed rates over the longer term and we have seen an improvement in our already strong debt ratios in 2017. We are confident in our capacity to carry loan debt over the long term and will budget accordingly in the revenue account each year.

3 Income Collection

3.1 Summary of Major Revenue Collections

A summary of the main revenue collection accounts with comparatives from the previous year were as follows;

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	89%	84%	1.7	1.9
Rents & Annuities	92%	90%	0.47	0.6
Housing Loans	60%	57%	0.68	0.7

The income generation unit in the Council is responsible for debt collection in these areas and has contributed significantly to the improved debt collection performance.

3.2 Commercial Rates

The commercial rates yields increased by 5% in 2017, with net arrears of €1.7m at the end of the year. The bad debt provision of €1.1m (65% of arrears) is high and should be reviewed prior to the completion of the 2018 AFS.

3.3 Housing Rents and Annuities

The net housing arrears decreased by €130k in 2017 to €470k, while the collection yields increased by 2% in the year. As 42% of accounts are in arrears, I consider the bad debt provision of €250k adequate.

3.4 Housing Loans

The housing loan collection yields increased by 3% in 2017 to 60% and while arrears decreased over the same period, further improvement in this area is necessary. I consider the bad debt provision of €533k appropriate.

Chief Executive's Response

The performance of the Council's income generation unit in 2017 in terms of measurable metrics has been exemplary including a 5% increase in commercial rates yield year on year. We are pleased to note the increased yields and reduction in debtors in every major collection stream. This is a direct result of early engagement by our income generation unit with customers who are experiencing difficulties meeting their payments and the offering of a wide range of options, terms and payment plans to co-operating customers to deal with legacy debt. Our commercial rates bad debt provision while high, is nonetheless prudent, and will be reviewed again prior to the completion of the 2018 AFS, to take macro and local considerations into account.

3.5 Tenant Rent Review

The Council has not carried out a housing tenant rent review since 2008. Previous audit reports have recommended that a housing rents review is undertaken as a priority by the Council for all tenants.

Chief Executive's Response

The Housing Section resources have been, and continue to concentrate on the local delivery of the national Action Plan for Housing. This Action Plan is a priority of the Department of Housing, Planning and Local Government (the Department), at this point in time and its delivery is essential to Government Policy. An element of this plan is the national differential rents scheme review, which has not yet been published. Notwithstanding the intensive resource demands a housing rents review requires, until such time as this national differential rents scheme review has been agreed, it would be deemed premature to carry out a local exercise. A housing rent review remains a priority for the Council once clarification has been received from the Department on the national differential rents scheme review.

4 Transfer of Water and Sewerage Functions to Irish Water

The Council continues to deliver services to Irish Water (IW) under a service level agreement, under which the Council received €4m in 2017. The transfer of water services assets from the local authority is being advanced over a number of phases, with the financial transfer reflected in the local authorities' accounts in 2014. There are still some on-going issues in relation to the transfer of assets to IW including registration of titles and way-leaves, and further work is still required to transfer the remainder of the assets.

Chief Executive's Response

The Council continues to work with Irish Water to deliver water services on an agency basis under the terms of the service level agreement. We agree that the legal transfer of ownership of the remaining assets will take time.

5 Capital Account

5.1 Unfunded Balances

A surplus of €8.9m was recorded at the year-end on the capital account and included debit balances with a total value of €1m which were classified as unfunded, and a further €3.1m debit balances classified as funded.

5.2 Capital Credit Balances

Included in the credit balances are two housing projects classified as work-in-progress or completed which were funded from grants from the Department in 2006 and 2012. These balances need to be repaid or allocated to other housing projects by the Council, as agreed with the Department.

Chief Executive's Response

The majority of the €1m unfunded balances relate to industrial sites throughout the county, and it is envisaged that these will be funded by future sales of these sites. During 2018 a number of countywide capital projects have progressed which will diminish the overall credit balance in the coming years. An exercise will be carried out in 2018 to regularise the housing capital credit balances mentioned above.

5.3 Turnkey Housing Units at Millrace Park

This project, which was 100% funded by the Department, involved the acquisition of 14 housing units by the Council in Millrace Park in 2017 at a cost of €2.98m (€213k per unit). A review of the project was carried out by the Internal Audit Unit under the Public Spending Code. Concerns were raised in the report in relation to weaknesses in the appraisal process undertaken to shortlist proposals received by the Council for the project. These proposals were received by the Council following a request for expressions of interest from developers in 2016, and the project was awarded following a short-listing process. The review noted that there were shortcomings in the assessment process used to short-list the proposals received. It also recommended that following the short-listing process, all proposals from the short-listed developers should have been invited to tender for the project.

Chief Executive's Response

The project above was delivered under the current national Action Plan for Housing. The project itself was delivered before time and under budget and was held up as an exemplar of the delivery of such projects nationally.

The contract was awarded to the developer that had the 'ready to go' site at a location where there was an identified need for Council housing at a time when the national Action Plan for Housing required local authorities to identify and build on such sites.

The contract was funded by the Department and in order to be approved and draw down the funding, the Council was required to comply with rigorous evaluation criteria as set down by the Department.

It is testament to the effectiveness of the Control and Compliance Unit (CCU), which was set up post this contract, that some concerns were raised by them in relation to weaknesses in the appraisal process at that time. These concerns were taken on board by the Housing Section and the CCU is now involved in an advisory capacity in the tender process on all large projects.

6 Fixed Assets

6.1 Property Interest Register

As previously reported, the work of reconciling the land property register with the Property Registration Authority is incomplete. The Council needs to ensure that work on updating the register continues, it is properly maintained and reconciled with the fixed assets when it is implemented.

6.2 Housing Stock Reconciliation

A housing stock reconciliation agreeing the assets as reported in the AFS to the houses on the Council's housing database was not completed for 2017. This is an important control and should be prepared annually.

Chief Executive's Response

This important reconciliation will be completed by the Housing Section in 2018 and updated on a regular basis thereafter.

7 Procurement

During the course of the audit a number of instances of non-compliance with procurement regulations were noted. It is acknowledged however, that the new Control and Compliance Unit set up by the Council in 2017 should improve the level of procurement compliance in the Council.

Chief Executive's Response

The establishment of a new Control and Compliance Unit (CCU), which encompasses both procurement compliance and Internal Audit together with the migration of the financial management system to Agresso Milestone 4, which incorporates more robust purchase to pay controls and procurement compliance checks during the latter half of 2017, has resulted in significant improvements in procurement compliance and purchasing procedures.

Quarterly meetings are held between budget holders in each section with the Chief Executive and the Head of Finance, in order to monitor continued procurement compliance throughout the organisation. The CCU is involved on a day-to-day basis throughout the organisation with procurement issues, and is now proactively involved at the inception of all large projects. The Council has experienced a marked change in procurement compliance culture during 2017 and 2018, and is confident that this will continue and improve in the future.

8 Local Authority Companies

The Council's interest in two companies is set out in Appendix 8 in the AFS; Longford Pool Construction Ltd and Longford Enterprise Development Co Ltd (LEDCO).

8.1 Longford Pool Construction Ltd

Longford Pool Construction Ltd is 100% owned by the Council. The most recently audited accounts at 31 December 2016 included an emphasis of matter paragraph by the company's auditors in their report, noting that the company is dependent on the financial support of the Council in order to continue as a going concern.

The accounts show that the company incurred a loss of €326k in 2016 (€272k in 2015) and had a net liability position of €1.8m at 31 December 2016 (2015 - €1.5m). The Council has agreed that it will provide funding as required by the company in the foreseeable future. In 2017, it provided funding of €298k towards the operation of the pool and also paid €178k in loan charges in respect of a loan of €3.2m drawn down to fund the pool in 2007.

The audited accounts also states that the Council has confirmed that, while it reserves the right to recall repayment of a loan €2.5m on demand (2015 - €2.1m) from Longford Pool Construction Ltd, it will not seek repayment within the foreseeable future. This loan is not included under the Council's long-term debtors in the AFS.

Chief Executive's Response

Longford Pool Construction Ltd provides a vital recreation, social and amenity resource to the citizens of County Longford. The Council has deemed it appropriate to continue their support of this subsidiary company and will not seek repayment of the outstanding loan for the foreseeable future.

A new service provider was appointed to operate the leisure centre during 2017 under a three-year fixed-fee contract. The terms of this contract is monitored closely by the Council and revenues have increased in 2017 and 2018. The aim of this strategy is to get to an operational breakeven position in the medium-term. The reclassification of this loan on the balance sheet will be dealt with during 2018.

8.2 Longford Enterprise Development Co Ltd

The most recent audited accounts available for LEDCO for the year ended 31 December 2016 show a surplus of €49k (€124k in 2015) and had a net liability position of €93k at 31 December 2016 (2015 - €132k).

9 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management and the elected members to ensure that sound systems of financial control are in place.

9.1 Risk Register

The Council's corporate risk register was updated in 2018 following consultation with, and a review of, the previous risk register by Irish Public Bodies Insurance. The updated Corporate Register links the risk registers for each Directorate to the overall Corporate Plan.

Chief Executive's Response

The overall risk register has been simplified and cascades to individual sectional risk registers which are critically linked to the Council's Corporate Plan.

A comprehensive awareness programme in risk management was introduced in the Council in early 2018, encompassing every section of the organisation. The aim of the programme was to create awareness amongst every employee of their obligations regarding risk and mitigation of risk in their workday activities and dealings. The feedback from these workshops and the input and direction from our Audit Committee and from Irish Public Bodies Insurance to the risk management process is acknowledged and appreciated.

9.2 Internal Audit

The Local Government (Financial and Audit Procedures) Regulations 2014 require local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit has an important role in providing the Chief Executive with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements.

The internal unit is staffed by two staff members and completed six reports in 2017 and 2018. I have taken account of this work during the course of my audit. The Council also engaged an external consultancy service to provide support and advice to the unit in 2017.

Chief Executive's Response

The establishment of the CCU, which encompasses both Internal Audit and Procurement during the latter half of 2017, has been very successful to date. This unit, and the wider organisation, is further supported by an external consultancy service appointed in late 2017. There is a collaborative knowledge transfer programme in place from the external consultants to the CCU. This coupled with a structured training programme for the staff members in the CCU will add long term value to the organisation and ensure that internal audit is as effective as it can be within the Council.

The role and support of the Audit Committee in this process is also acknowledged and appreciated.

9.3 Audit Committee

The Council's audit committee held five meetings in 2017 and approved the annual internal audit work plan for the year. The committee's work also included reviewing the Council's risk register, audit reports and following up on recommendations from previous audit reports. The committee submitted their 2017 annual report to the members at their meeting in March 2018, in accordance with Section 60 of the Local Government Act 2014.

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.



Anne Halion
Local Government Auditor
27 July 2018

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