



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Louth County 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 LOUTH COUNTY COUNCIL

1. Introduction

I have audited the Annual Financial Statement (AFS) of Louth 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 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 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

The Council recorded a surplus of €396k for the year after net transfers to reserves of €75k. Details of over/under expenditure are contained in note 16 to the AFS and were approved at the April 2018 Council meeting.

Significant movements in the finances of the Council are set out below:

2.1 Fixed Assets

Operational assets increased by €5.7m to €687.3m (€681.6m in 2016). This is due to the addition of 44 houses to the Council's housing stock.

2.2 Long Term Debtors

There was a net increase in long term debtors of €2.4m. This included an increase of €4.9m in capital asset leasing facilities to approved housing bodies (AHBs) coupled with a decrease of €2.7m in recoupable loan advances.

2.3 Trade Debtors and Prepayments

There was a net increase in trade debtors and prepayments of €3.1m. This included an increase of €4.0m in government debtors, €3.4m of which relates to claims submitted in respect of the construction of Colaiste Chu Chulainn. There was an increase of €2.0m in development contributions, while there was a decrease in rates debtors of €2.2m. There was an increase in the provision for doubtful debts of €1.4m.

2.4 Bank / Bank Investments

There was an increase in cash at bank of €2.9m while there was a decrease in cash investments of €3.0m.

3. Income Collection

Details of collection yields from the main revenue collection accounts for 2017 with comparative percentages for 2016 were as follows:

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	75	68	12.5	14.7
Rents & Annuities	69	71	5.1	4.4
Housing Loans	75	73	0.4	0.4

3.1 Summary of the Revenue Collections are as Follows:

Rates

There has been an ongoing improvement in the collection yield with regard to rates over the last number of years with a 7% increase in 2017 compared to the previous year. This is highlighted in the table below:

Year	2017	2016	2015	2014
Collection Yield	75%	68%	60%	56%

Included in the net arrears figure of €12.5m are credit balances totaling €6.5m at year end. €6.1m of this sum relates to vacant properties where the relevant paperwork has yet to be received by the Council.

Gross arrears (net of credit balances) decreased by €3.2m to €19.0m (€22.2m in 2016).

Chief Executive's Response

Our collection procedures are working as indicated in the figures reported above, but as stated in previous years it will take a number of years to get the collection rates back to the levels of the pre-economic downturn. The number of customers on payment plans continues to increase and while these customers will clear their current rates in the financial year it will take some customers a number of years to clear their arrears. Processes in place will continue to be monitored and every available option to improve collection rates will be used.

Rents and Annuities

The collection yield with regard to rents and annuities continues to decrease as may be seen from the table below:

Year	2017	2016	2015	2014
Collection Yield	69%	71%	73%	82%

At the end of 2017, gross arrears (net of credit balances) of rents and annuities increased to €5.4m (€4.6m in 2016). A rent review in 2017 resulted in significant arrears being applied to a number of rent accounts.

A review of a sample of accounts in arrears indicated that payments are being received in excess of the weekly rent accrual, having the effect of reducing these arrears balances.

It was highlighted at previous audits that the provision for bad debts was considered inadequate. The Council increased its provision for bad debts in 2017 to €2.1m (€1.5m in 2016). This provision appears to be adequate.

Chief Executive's Response

New collection procedures were introduced in the latter half of 2017 that has resulted, at the end of the year, in 39% of our tenants having either clear or credit balances and a further 23% entered into payment plans. The number of customers on payment plans continues to increase in 2018 but it will take most customers a number of years to clear their arrears. The increase in arrears at year end related to final adjustments from the rent reviews

The bad debt provision will continue to be reviewed in the context of the annual budget process.

Housing Loans

The collection yield in relation to housing loans continued to improve with a slight increase in 2017 of 2% to 75% in 2017. Details of the percentage collection yield between 2014 and 2017 are included on the table below:

Year	2017	2016	2015	2014
Collection Yield	75%	73%	69%	66%

Gross arrears (net of credit balances) at the end of 2017 amounted to €444k (€437k in 2016). A sample of accounts selected for review indicated that the Council is actively pursuing accounts in arrears. The provision for bad debts was increased to €250k (€200k in 2016). This provision appears to be adequate.

There are a number of loan accounts with credit balances. These balances should be reviewed and any necessary adjustments made.

Chief Executive's Response

The loan debt procedures continue to show improvements in the collection rates achieved. Our loan approval process ensures that applicants have the actual ability to honour the commitments made.

We will review all accounts with credit balances in 2018 and make adjustments where necessary.

3.2 Closing Balances / Provision for Bad Debts – Other Debtors

During 2017 the Council carried out a review of debtor balances including those transferred from the former town councils as part of their amalgamation with Louth County Council. The purpose of this was to ascertain their collectability and if appropriate remove these balances from the accounts. However, there still remain balances going back a number of years that are still to be dealt with. These balances and their related provision for bad debts should be examined.

Chief Executive's Response

This matter remains under review and the Council continues to increase its bad debts provision year on year. The Council will continue to increase the provision for bad debts within the limitations of its resources until a satisfactory level for each income department has been reached.

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

4.1 Transfer of Title of Properties

During 2017 the Council continued its work with IW with regard to the transfer of title of water and sewerage assets including those with right of way issues, sites not registered and subdivision of folios.

Chief Executive's Response

This project is progressing and as assets are ratified and Ministerial Order is received, the assets are transferred to IW. Works to close out the remaining assets are continuing.

4.2 Operation of the Service Level Agreement between the Council and IW

At the end of 2017, there was a balance due to the Council of €284k in respect of the operation of the service level agreement that the local authority has with IW. However, no reconciliation was completed, reconciling this balance with the records maintained in water services section in respect of invoices raised and monies received from IW.

Chief Executive's Response

Regular meetings are held with IW in relation to the service level agreement which includes the reconciliation of billing for works carried out by the local authority on behalf of IW. This issue will be reviewed and a full reconciliation will be carried out for the end of 2018.

5. Capital Account

5.1 Capital Balances

5.1.1 Static Debit Balances

Total net capital balances at the end of the year amounted to a surplus of €25.3m. This sum includes €24.9m in respect of debit (adverse) balances on job codes where the balance has either increased or remained static over the last three years. €22.7m of this amount relates to housing capital balances with €12.1m relating to the purchase of land where currently, there are no plans to develop.

Chief Executive's Response

A review of all capital balances is ongoing and funding sources will be identified for each. The housing section continue to apply for all development schemes that the Department advertise.

5.1.2 Funding of Debit Balances from Revenue Account

In excess of €15.6m of debit capital balances are currently being funded / planned to be funded from the revenue account in the future. Included in this figure are the following projects and their related debit balance:

Project Description	Closing Balance at 31.12.2017 €m
Whiteriver Landfill Site - Development Phase V	6.7
Improvement To Town Dump Dundalk Town Council	1.0
Landfill Capital Works 2016 to 2018	0.5
New Civic Amenity Centre Drogheda Borough Council	0.8
New County Offices	2.7
Total	11.7

5.1.3 Funding of Debit Balances from the Future Collection of Development Contributions

At the end of 2017 there were debit balances on a number of projects totalling €5.2m which are dependent on being funded from the future collection of development contributions. €3.0m of this amount relates to the project 'Port Access Northern Cross Route' while €1.3m relates to the rejuvenation of the market square in Dundalk.

Chief Executive's Response

It is not unusual for capital projects to be funded out of future development levy contributions. The development levy scheme is calculated based on future capital schemes the Council wants to carry out. The timing of the works and funding of same are not always consistent and the works will have commenced before all levies are collected. The local authority reviews all capital balances on an ongoing basis and funding is allocated to them as funding and final accounts sign off is achieved.

5.2 Housing Capital Debit Balances to be Resolved with the Department of Planning, Housing and Local Government (The Department)

At the end of 2017 there were a number of capital housing projects completed some years ago, with debit balances totalling €3.5m. Details of these are as follows:

Project Description	Closing Balance at 31.12.2017 €m
Greenore Rd Carlingford Social Housing	1.0
Toberona Housing Scheme	0.7
Cappocks Gate Phase 2 Social Housing	0.7
Barrack Street Smart Home Project	0.5
Gort Uaine - Phase 3	0.3
Oaklee Voluntary Housing Tierney St Ardee	0.1
Termonfeckin Housing Phase 2	0.1
Tierney Street Ardee Communal Facility	0.1
	3.5

These debit balances should be addressed. I have been informed by management that the funding of these has to be resolved with the Department.

Chief Executive's Response

A full review of all housing capital balances is currently in process and final account claims will be lodged with the Department in respect of any outstanding amounts.

5.3 Development Contribution Reserves

There are debit balances totalling €3.3m on a number of development contribution reserves, €3.1m of which relates to water and waste water reserves. A review of these should be undertaken and the necessary adjustments made to eliminate these balances.

Chief Executive's Response

These accounts will be reviewed in 2018 and the necessary adjustments made to clear these debit balances.

5.4 Deferred Income – Housing Capital Projects

A sum of €2.4m was identified in deferred income as follows:

- €1.4m pertaining to grant claims made to the Department by former town councils. Some of this amount relates to claims made between the years 2007 and 2012
- €410k relating to two bridging loans borrowed by the Council in 2009. The housing projects to which these loans relate have been completed and sold
- €293k in respect of two voluntary housing loans borrowed by the former Dundalk town council in 2013. The projects to which these loans relate have since been completed

- €213k pertaining to a grant claim made by the Council in 2009 to fund an affordable housing project which has since been completed.

A review of these amounts should be undertaken, including a full review of all former town council balances transferred to Louth County Council in 2014 as part of the amalgamation of the town councils with the County Council.

Chief Executive's Response

As stated above a full review of all housing capital balances is currently in process and the issues raised above will be investigated and resolved as part of this review.

6. Fixed Assets

6.1 Controls Pertaining to Council Properties

The Council's land register is in the process of being updated in conjunction with the creation of a database of all land and buildings. As part of this process, the Council should ensure that it holds proof of title and registration of title where appropriate in respect of all of its properties.

Chief Executive's Response

Work is continuing in relation to the registration of all relevant property with the Property Registration Authority. All properties are recorded on the property interest register and the Council will ensure it holds proof and registration of title where appropriate.

6.2 Disposals of Houses

Four houses with a total cost of €629k were disposed by the Council to tenants through the tenant purchase scheme. However these disposals are not reflected in the AFS. This should be corrected in 2018.

It has been highlighted at previous audits that a housing stock reconciliation was not completed. This reconciliation provides assurance that all housing stock of the Council is accurately reflected in the accounts in the local authority and in agreement with the records maintained in the housing directorate. This reconciliation should be completed at each year end.

Chief Executive's Response

Housing procedures have been amended to reflect and include a notification to the finance section when units are disposed of, to allow amendment of the Property Interest Register. These disposals will be reflected in the AFS in 2018 and a full stock reconciliation will be carried out as part of the year end process going forward.

7. Loans Payable

A breakdown of loans payable is analysed as follows:

Loan Type	Balance outstanding at 31/12/2017 €m
Mortgage Loans	12.86
Non Mortgage Loans	76.7
Bridging Finance	5.74
Voluntary Housing Loans	56.8
Share Ownership- Rented Equity	0.02
Total	152.12

The Council had a mortgage loan funding surplus at the end of 2017 of €2.7m. Further details of this are included in note 12 to the AFS. Voluntary housing loans are fully recoupable from the Department.

7.1 Non Mortgage Loans

7.1.1 Loans Borrowed to Fund the Purchase of Land

Included in non mortgage loans at the end of 2017 is €69.2m relating to the purchase of land for housing. This figure includes €3.9m in respect of a loan which is being funded from the land aggregation scheme and is fully recoupable from the Department. The balance of €65.3m relates to loans that are currently on an interest only basis, i.e. no capital (principal) repayments have yet been made by the Council in respect of these.

These loans incurred interest of €978k in 2017. €127k of this amount was added to the principal sum, while the balance of €850k was paid by the Council. These interest payments are being funded from the Council's internal capital receipts. This is having a significant impact on these. At the end of 2017 internal capital receipts on hand amounted to €3.0m (€5.3m in 2016).

Chief Executive's Response

This issue has been raised with the Department on a regular basis and we continue to apply for all available housing projects which will reduce the loan burden on the Council. We have been successful in getting one scheme approved in 2018.

7.1.2 Loan Borrowed to fund Affordable / Social Housing Scheme at Lisdoon, Dundalk

A balance of €1.53m remains outstanding to be paid in respect of a loan borrowed to fund the construction of an affordable and social housing scheme at Lisdoon, Dundalk. However these housing units have since been constructed and sold / let. This matter should be reviewed.

Chief Executive's Response

This issue is being addressed as part of the overall review of housing capital balances referred to in 5.2 and 5.4 above.

7.1.3 Variable Housing Affordable Loans

It was highlighted at the previous audit that the former Dundalk town council borrowed two variable housing affordable loans in 2009 and 2012 totalling €4.8m to fund the construction of 24 affordable houses at Lis Na Dara Dundalk. Bridging loans which should have been used, incur interest payments only, while the variable affordable housing loans incur both interest and capital payments. The Council is continuing to work with the Department in relation to this matter. In 2017 the Council made repayments totalling €189k in respect of these loans. Although recoverable, the Council is not recouping all of these charges from the Department. This matter should be addressed.

Chief Executive's Response

The Council has previously requested the approval of the Department to convert these loans originally borrowed by Dundalk Town Council to bridging finance. These requests will be pursued.

The Council will undertake to recover any outstanding recoups from the Department.

7.2 Bridging Loans

There are four bridging loans included in loans payable with balances totalling €5.74m. These loans were borrowed during the years 2009 and 2010 by the former Dundalk town council to finance the construction of 30 affordable houses. However, due to the downturn in the economy, these houses were not sold and at the present time are included as part of the Council's housing stock for tracking purposes. They are currently being leased to AHBs. Similar to above in respect of the variable housing loans, although recoverable, the Council is not recouping all of these charges from the Department.

Bridging loans are not receipted to the capital account when borrowed and as such do not affect the balance on this account. However it is noted that in the case of the four bridging loans mentioned above, these were receipted to the capital account when borrowed and as such are being treated similar to the non mortgage loans of the Council.

Chief Executive's Response

All charges relating to these loans will be recouped in 2018 as per the agreement with the Department in relation to same. The treatment of the bridging loans in the accounts will be reviewed in the 2018 accounts.

8. Procurement

Following the recommendations of an internal audit report, the Council set up a procurement section within the local authority in January 2017. However due to a lack of resources the programme of work associated with this unit had not been fully implemented. It is recommended that this matter be addressed as soon as possible.

Chief Executive's Response

A resource was established but is on long term sick leave. A new resource has been appointed to the role and work has commenced on implementing the recommendations of the internal audit report.

9. Housing

9.1 Accounting for the Provision of Housing by Approved Housing Bodies (AHBs)

A national Value For Money report 'The Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies' completed in December 2015, made a number of recommendations with regard to the implementation of controls in the management of social housing provided by AHBs. A review of these recommendations highlighted that weaknesses still exist in controls in this area.

Chief Executive's Response

The Council is now implementing the actions identified in the VFM Report No 28 which was reviewed by a subsequent Report No 7. It is now also the legal responsibility of the AHBs to maintain their properties under the Housing (Rented Dwellings) Regulations.

9.2 Leases with AHBs

It was highlighted at previous audits that the lease agreements drawn up by the local authority with AHBs, in respect of the leasing of 25 housing units were not renewed since their expiry in 2015 and 2016 despite the fact that the AHBs continue to lease these properties from the Council. This was still found to be the case at the current audit.

Chief Executive's Response

Louth County Council lease unsold affordable units to AHBs under short term leasing arrangements. Each lease requires the approval of the Department of Housing, Planning and Local Government. Some of these approvals are still awaited from the Department. Revised Service Level Agreements (SLAs) have been prepared which will implement the lease and manage the relationship between the local authority and the AHBs.

9.3 Recoupment of Cost of House Additions from the Department

In 2017 the Council incurred costs of €2.1m in the acquisition of 20 houses. These houses were included in fixed assets at the year end and consisted of a combination of house purchases and derelict house acquisitions. However, although recoverable, the Council has not sought recoupment of this expenditure from the Department.

At the end of 2017 there was an amount of €4.3m outstanding from the Department in relation to invoices issued with regard to housing activities. At the conclusion of the audit €1.8m of this amount remains outstanding pertaining to invoices issued in 2016 and 2017.

Robust procedures with regard to the recoupment of expenditure / follow up of outstanding invoices should be put in place to ensure that all such costs are recovered in a timely manner. Due to the value of the amounts involved, such costs can have a significant impact on the Council's cash flow.

Chief Executive's Response

These recoupments have been prioritised and procedures will be amended to include immediate recoupments for any acquisitions made. All other outstanding recoupments will be followed up with the Department.

10. Ethics Register

A number of declarations due to be returned by the end of February 2018 remained outstanding for return at the time of concluding the audit. The position was similar with a number of donation statement forms due to returned by the end of January 2018.

This is in contravention to Part 15 Section 171 of the Local Government Act 2001 which states these declarations should be furnished within the required timeframe.

Chief Executive's Response

Those that have not returned their forms are being pursued and their obligations outlined to them.

11. Local Authority Companies

The Council's interest in companies is set out in appendix 8 in the AFS. None of these companies are consolidated in the Council's AFS.

11.1 Drogheda Port Company

In accordance with a ministerial order (Statutory Instrument No. 424 of 2017) all shares in the share capital of Drogheda Port Company were vested in Louth County Council on 2 October 2017.

11.2 Highlanes Gallery

This is a wholly owned subsidiary of the Council. The principal activity of this company is the conduct of an art gallery and other associated activities.

The most recent audited accounts received in respect of this company are for the year ended 31 December 2016 when it recorded a deficit of €8k (€24k in 2015) increasing the cumulative deficit at the end of 2016 to €104k (€96k in 2015). The director's report associated with the accounts discloses that the principal risk and uncertainty faced by the company is the possibility of a reduction in funding from Louth County Council and the Arts Council. The Council made payments totalling €196k in grants during 2017 to this company.

11.3 An Tain Arts Centre Limited

The Council owns 43% of the voting shares in this company which is limited by guarantee. The principal activity of this company is the management of An Tain Arts Centre Dundalk and the advancement of arts and culture in Dundalk and the wider region.

The most recent audited accounts in respect of this company are for the year ended 31 December 2016. In 2016 it recorded a deficit €15k (surplus of €50k in 2015). According to the director's report the principal risk and uncertainty associated with the company is the absolute reliance on the continued support of Louth County Council by way of grants, facilities and other services. The Council made payments totalling €150k in grants to this company in 2017.

Chief Executive's Response

The auditor's comments are noted. Highlanes Gallery have full museum accreditation which ensures proper controls are in place including Corporate Governance. The funding issue in relation to Highlanes Gallery will be examined with the Board of the company in 2018. The Council does not have a controlling or management role in An Tain Arts Centre but does have representation on the board. The Council agreed a three year service level agreement with An Tain Arts Centre Ltd in 2017.

12. Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

12.1 Risk Register

The corporate risk register which encompasses the risks of all directorates / areas of the local authority is updated on an ongoing basis.

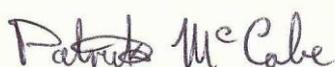
12.2 Internal Audit

In 2017 the Council's internal audit function consisted of a contract with a firm of professional financial service providers for 58 days. The annual work plan was approved by the Chief Executive and the Audit Committee. Internal Audit reports directly to the Chief Executive. In 2017, seven reports were completed including three follow up reports and an annual assurance report. These reports have all been reviewed by the Audit Committee.

I have taken account of the work of internal audit in carrying out my audit.

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.



Patrick McCabe
Local Government Auditor
12 October 2018

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