



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Offaly County Council

for the

Year Ended 31 December 2017

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AUDITOR'S REPORT TO THE MEMBERS OF OFFALY COUNTY COUNCIL

1 Introduction

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

2.1 Statement of Comprehensive Income

The Council generated a surplus for the year of €554k after net transfers to reserves of €1.87m. This surplus is in line with budget and has reduced the accumulated deficit on the revenue account to €3.06m. Note 16 to the AFS sets out the variances between the actual outturn and adopted budget. The draft AFS was approved by the members at their April meeting. As per the plan formulated in 2014, this is the fifth year in which a contribution has been made to reduce the accumulated deficit. It is essential that this plan continue until the accumulated deficit has been eliminated.

The draft AFS approved by the members has been amended to take account of the following adjustments

	€
Fixed assets	(15k)
Long Term Debtors	(8k)
Debtors	(318k)
Creditors and Accruals	526k
Loans payable	(215k)
Other balances/ Reserves and Capitalisation	30k

The outturn was reduced by €9k.

Significant movements in the finances for the year include

- decrease in fixed assets of €2.8m
- decrease in long term debtors of €0.3m
- increase in trade debtors and prepayments of €0.8m
- increase in work in progress of €0.4m
- decrease in bank and cash balances of €0.5m
- increase in creditors and accruals of €0.6m
- decrease in loans payable of €2.5m
- increase in other creditor balances of €1m
- increase in refundable deposits of €0.3m

Chief Executive's Response

We have reduced our accumulated deficit from €5.7m to €3.1m in the 5 years between 2013 and 2017. The elected members have retained this provision again in the 2018 budget.

3 Income Collection

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	87%	88%	2.24	2.03
Rents & Annuities	85%	86%	1.03	0.93
Housing Loans	55%	59%	0.37	0.35

3.1 A summary of the revenue collections are as follows:

3.1.1 Rates

Rates debtors amounted to €2.24m at 31 December 2017 (2016: € 2.03m) and are net of credit balances of €368k (2016: €241k). Write offs, waivers and vacant property adjustments amounted to €3.56m compared to €3.29m in 2016. It is important that the council monitor all accounts in order to maintain and improve these collection levels. Bad debts in this area have been adequately provided for.

Chief Executive's Response

2017 was a challenging year for rates collection. Offaly County Council had a full revaluation by the Valuation Office. This led to confusion with rate payers and in some instances delayed payments which caused the marginal drop of 1%. We are monitoring and focusing on this area in 2018 to get back to 2016 and better levels of collection. I am satisfied that we have prudently provided for bad debts.

In addition, as part of the revaluation process, rate payers were allowed to appeal their property valuations to The Valuation Tribunal, after Offaly County Council had finalised the ARV for the 2018 budget.

A number of rate payers have successfully appealed, resulting in reduced valuations. This means the income collectable for 2018 is less than the levels included in the 2018 budget.

We had been advised that the revaluation process would result in neither increase nor decrease in rates income. Due to the prolonged nature of the process, this is not the case.

This is a serious cause of concern in relation to 2018 outturn and 2019 budget. The revaluation process needs to be reviewed and amended to correct this anomaly.

3.1.2 Housing Loan Arrears

The collection yield in respect of housing loans reduced again in 2017 to 55% with arrears at 31 December 2017 amounting to €377k (net of credit balances of €43k). 98% of arrears outstanding are in excess of three months. This includes €71k in respect of two surrendered houses and a further 8 customers, each with arrears in excess of 10k amounting to €170k. Also included in arrears are caravan loans on which no payments have been received for a number of years.

The bad debt provision in respect of the above is sufficient; however it is essential that the council dedicate resources to recover outstanding amounts.

Chief Executive's Response

We have a small number of accounts with significant balances that are long outstanding. Finance are now actively managing these to a conclusion. I am satisfied that we have prudently provided for bad debts.

3.1.3 Rents and Annuities

The collection yield for housing rents and annuities (including income from RAS and LTL) reduced to 85% in 2017. Rent arrears at 31 December 2017 amounted to €1.03m (net of credit balances of €88k).

Rents and annuities in arrears for three months or more, was €0.9m at year end (2016 €0.8m).

The level of long term arrears is partly attributable to substantial arrears added to individual customer accounts on foot of a rent review undertaken in 2015. As the level of arrears is increasing it is important that the Council take action to pursue these debts as a matter of priority to prevent a further loss of revenue.

I am happy that bad debts have been adequately provided for.

Chief Executive's Response

Tenant rent reviews in 2017 added €60k arrears to individual accounts, which will be paid over a period of time agreed with each tenant. Finance has an increased focus on dealing with arrears and bringing matters to finalisation. I am satisfied that the bad debts provision is prudent.

3.1.4 Fire Service Income

Fire Service income per appendix 4 has fallen to 40% of the 2016 income figure, due to a breakdown in the interface between the accounting system at the fire station and the main accounting system. I have highlighted my concerns to management and recommend that this area would benefit from a review by Internal Audit.

Chief Executive's Response

I will arrange an internal audit review of this area to advise me of current practices and issues with recommendations for future operation.

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

4.1 Transfer of assets

The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, so as to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred.

Offaly County Council has to date completed the legal transfer of twenty properties while a further 10 have been cleared for transfer in April 2018. The remaining assets will take some time due to on-going title issues. Progress will be reviewed again at the next audit.

Chief Executive's Response

We have assigned dedicated staff who are working through this process and progress is being monitored.

5. Capital Account

The closing credit balance on the capital account is €8.78m including unfunded balances in respect of:

	€
Historic unfunded housing debit balances	4.16m
Historic unfunded industrial debit balances	1.61m
Historic unfunded other debit balances	0.45m

The Council should consider options for the prompt clearance of all unfunded balances.

Chief Executive's Response

We are examining our housing debit balances in the context of recovering balances on future housing projects and other options. Our Economic Development section and Local Enterprise Office are focused on promoting, utilising and disposing of industrial lands for future projects and needs.

6. Fixed Assets

The net value of fixed assets in the balance sheet at 31 December 2017 was €1,465m of which €317m related to land, housing and buildings.

As mentioned in last year's report the property register has not been properly maintained and is incomplete.

A full time staff member is involved in the compilation of a detailed database of all land and buildings owned by the council and are obtaining information from a number of different sources. This will form the basis of a complete 'Property Asset Register'.

The 2017 AFS does not include the additional items identified to date.

Fixed asset additions of €3.6m included €3.3m for the purchase of 23 local authority houses and the site cost in respect of 5 turnkey units at Mill Race which were completed in 2018.

Disposals at book value amounted to €2.4m and included 17 Council houses and the reduction due to depreciation for the year was €4m.

A follow up on VFM report no 30 'Corporate Estate Management and Maintenance in Local Authorities' was carried out in December 2017 by the Local Government Audit VFM Unit. It is noted that good progress is being made on the recommendations of this report by the Council.

Chief Executive's Response

We have dedicated staff members assigned to Fixed Asset Register and Corporate Estate Management who are implementing and monitoring progress.

7. Loans Payable

Loans payable were reduced by €2.5m in 2017 (€1.7m in 2016).

7.1 Bridging Finance – Affordable Housing

Long term borrowings include an interest only bridging loan of €1m, in respect of six housing units originally acquired for resale under the affordable housing program. These houses were allocated to a voluntary housing body under the Social Leasing Scheme to address current housing needs in 2009. Arrangements to renew this arrangement on an annual roll over basis are currently under negotiation. Tenancy agreements on a further three houses which were leased to the housing body under the original agreement, were purchased by the council in 2013 and are currently in the process of being transferred to the Council. Interest paid on this loan amounted to €14.8k in 2017.

Chief Executive's Response

We continue to apply to the Department for funding for acquisition. In the context of no approval we have continued the leasing agreement.

7.2 Interest only loans – Land Acquisition

Long term borrowings also include €2.4m in respect of land acquired for housing which has yet to be developed, and is being paid on an interest only basis. Interest paid on these loans in 2017 amounted to €36k.

Chief Executive's Response

As outlined in point 5 above, we are endeavouring to utilise housing lands in future suitable housing and other projects. Income from such disposals and usage will be used to reduce borrowing. In the meantime, as we have reached the limit on interest that can be charged to future housing projects on these borrowings, we have budgeted to absorb these interest costs in our revenue budget.

7.3 Variable Loan Land Acquisition – Land Aggregation Scheme (LAGS)

Variable loans in respect of lands transferred to the Housing and Sustainable Communities Limited (HSC) under LAGS remain in the AFS and amount to €4.6m.

The Council recoups the full cost of the capital and interest annuity payments on these loans from the Department.

8. Development Contributions

The capital account includes development contributions which have been collected over a number of years. In 2017 the Council committed funds collected to date to the following projects:

Edenderry Library	€2m
Cycle trail	€0.25m
Blue Way	€0.22m
O'Connor Square Tullamore	€1.5m
Edenderry Swimming Pool	€0.3m

With the exception of special contributions, (to be spent for specific purposes) this significantly diminishes the available reserves. The Council needs to consider its options for the funding of new capital projects including those requiring match funding for the drawdown of capital grants.

Development Contribution Debtors are included in note 5 to the AFS at €2.3m. Bad debts have been adequately provided.

Chief Executive's Response

We will review this situation in the context of reporting to the Elected Members, as part of the budget process, on development contributions and future capital projects funding requirements and options.

9. Procurement

There was a sharp rise in the level of purchase orders raised after the invoice was received for the first 8 months of 2017. The level of compliance was much improved in the final quarter of the year with compliance level reaching 84% by the end of December. This was due to the implementation of Milestone 4 and the return of the procurement officer to a full time role.

Legal services and certain items of plant and machinery hire were not put out to tender.

During 2017 internal audit carried out an audit and made recommendations on procurement in relation to the hire of external plant by Municipal Districts. These recommendations should be implemented without delay.

Chief Executive's Response

Our compliance rate at August, 2018 is 92%. We did suffer a drop in compliance during the implementation of Agresso Milestone 4, our upgraded Finance/Procurement system. This has now been rectified and is being monitored. Internal audit will follow up progress on the recommendations in relation to the hire of external plant by Municipal Districts.

10. Local Authority Companies

The Councils' interest in five companies is recorded in Appendix 8 to the AFS. It is important that appointees of the Council to these companies are aware of their corporate governance responsibilities.

The following matters came to my attention in relation to these companies:

Financial Statements

Three of the companies listed on Appendix 8 have availed of the small companies' exemption from audit in 2017.

10.1 Tullamore Leisure Limited

Note 3 of the unaudited accounts of Tullamore Leisure Limited states, that assurances have been provided by the Council that grants would not be repayable, so long as the terms of the lease entered into between the company and the Council were met. Confirmation was given by the Council that they would provide the financial support necessary to enable the company to continue its operations for the foreseeable future.

The company incurred a net loss of €28k during the year ended 31 December 2017 and, at that date; the company's liabilities exceeded its assets by €200k. This liability is not currently reflected in the AFS of the Council. Consideration should be given to this matter in light of the assurances given above as this company is a 100% subsidiary of the Council. The licence agreement between the Company and the operator of the Leisure Centre was renewed in August 2017 and is deemed to include rates and all other Local Authority charges.

Chief Executive's Response

I have requested the Head of Finance to arrange a review of the financial affairs of this company to advise me in detail on the current situation and what options and issues need to be considered for the future.

10.2 Tullamore Community Arts Centre Limited

Tullamore Community Arts Centre Limited is a company limited by guarantee. The principal activity of the company is the promotion of the construction of an Arts Centre in Tullamore. The company had no income and incurred a loss of €4,821 in 2017.

As mentioned in the 2016 report Offaly County Council have contributed €605k towards the provision of an Arts Centre for Tullamore. This includes the purchase of premises in 2016 with a view to developing it into an Arts Centre. This property is in the ownership of Offaly County Council and is included as an unfunded balance in the capital account.

In January 2018 the Council received confirmation from the Department of Culture, Heritage and the Gaeltacht of an extension to the drawdown period of a previously approved grant until December 2020. This grant is for €2m under the ACCESS 11 scheme. Additional funding will need to be secured before the planned development of the above building can take place.

It is envisaged that the Council will be required to provide an annual supplement to the running costs of the Arts Centre when it is complete.

Chief Executive's Response

Currently we are seeking additional funding so that the project can proceed.

11 Governance

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

Chief Executive's Response

We have regular reviews with Management Team members and their Senior Management Group reports on financial control and monitoring. In addition, as part of the quarterly financial returns to the Department, the Management Team discuss and review progress. We also report on a quarterly basis to our Audit Committee on financial performance against budget and other relevant issues.

11.1 Internal Audit

The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the audit committee and the Head of Corporate when carrying out the work of the unit. I have taken consideration of the work performed by Internal Audit in planning my audit.

11.2 Risk Management in local authority.

The council's risk register has been reviewed and agreed by management in 2018.

Chief Executive's Response

We have reviewed and updated our risk register in 2018. It was signed off by the Management Team in July 2018. It will be presented to our Audit Committee in October.

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.



Fiona Clancy
Local Government Auditor

10th September 2018

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