



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Roscommon County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

housing.gov.ie

CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF ROSCOMMON COUNTY COUNCIL	1
1. Introduction	1
2. Financial Standing	1
2.1 Statement of Comprehensive Income	1
2.2 Statement of Financial Position	1
2.3 Overview	2
3. Income Collection	2
3.1 Commercial Rates	2
3.2 Housing Rents	3
3.3 Housing Loans	3
3.4 Debt Collection	3
3.5 Bad Debt Provision	4
4. Transfer of Water and Sewerage Functions to Irish Water	4
4.1 General Update	4
4.2 Transfer of Assets	4
4.3 Water Loans	5
5. Capital Account	5
5.1 Credit Balances	5
5.2 Debit Balances	5
6. Fixed Assets	6
7. Loans Payable	7
8. Development Contributions	7
9. Procurement	7
10. Local Authority Companies	8
10.1 Roscommon Leisure Centre Ltd	8
10.2 Moylurg Rockingham Ltd	9
10.3 Back Lane Management Ltd	9
11. Governance	10
11.1 Internal Audit	10

11.2	Audit Committee	10
11.3	Ethics Returns	10
11.4	Audit by Revenue Commissioners	11
12.	Unfinished Housing Estates	11
13.	Trade Creditors	11
14.	Acknowledgement	12

AUDITOR'S REPORT TO THE MEMBERS OF ROSCOMMON COUNTY COUNCIL

1. Introduction

I have audited the Annual Financial Statement (AFS) of Roscommon 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 10 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 €11k after net transfers to reserves of €2.8m. At the end of 2017 the Council recorded a cumulative favourable balance of €183k.

2.2 Statement of Financial Position

Fixed assets increased in 2017 due to the inclusion of:

- Corporate headquarters...€21.7m and
- Twenty-six house acquisitions...€3.3m.

The note 2 figure for work in progress and preliminary expenses decreased significantly in the year, due to the re-classification of the corporate headquarters as a fixed asset. A review

of the 40 jobs remaining in work in progress at the year end found 20 of them, representing €5.2m, are completed and will be eligible for re-classification in the 2018 AFS.

The increase of €7.8m in the bank account in the year was a reflection of the Council's improved financial position, with the Council not requiring the approved €6m overdraft facility at any time during the year. The Council should place surplus funds on investment where possible, both to optimise income and to minimise bank charges incurred, particularly in the current climate where negative interest charges apply.

Deferred income increased by €4.3m in the year, due primarily to increased capital grants for road works, which were drawn down in 2017, but are funding jobs during 2018.

The Council drew down the final €1.4m installment of the authorised €22m funding for the corporate headquarters during 2017.

Other balances recorded a €3.45m improvement in the year, as reflected in the capital account movements discussed in paragraph 5.

Chief Executive's Response

The comments in relation to the improved financial position of the County Council are welcomed.

The bank account is monitored on a daily basis, with surplus funds over the designated working capital balance placed on deposit with the Housing Finance Agency, to minimise bank charges.

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 €4.5m, representing improved liquidity. Fixed assets continue to represent substantially all of the Council's total net assets.

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.

3. Income Collection

Income Source	Yield %		Debtors	
	2017	2016	2017	2016
Rates	83%	91%	€2,428,797	€2,216,925
Rents & Annuities	91%	92%	€412,573	€368,370
Housing Loans	56%	58%	€140,224	€150,807

3.1 Commercial Rates

The 8% reduction in the rate collection is reflected in the €0.2m increase in debtors in the year. At 83% the Council's collection percentage is marginally below the 2016 national average of 84%. Despite the reduction in the collection percentage, the cash collected from rates customers increased by €0.3m in the year.

An aged analysis of rate debtors found 53% were less than a year old. A review of €1.1m of the year end debtors found that 24% had either been paid, or had agreed payment plans in place. Of the remaining balance 37% had been or will be written off in 2018, 23% were the subject of legal action or related to firms in receivership or liquidation and 16% required further follow up to determine their status.

As outlined in the 2016 audit report, the resources applied to the collection of rates for the period September 2016 to March 2017 was reduced. Increased resources, along with new procedures were put in place in March 2017. However, there was a six month period during which the pursuit of arrears was significantly curtailed, followed by a lack of handover to replacement staff. The results for 2017 reflect these matters, along with changes to treatment of specific doubtful debts, resulting from clarification provided by the Department of Housing, Planning and Local Government (the Department) prior to the preparation of the 2017 draft AFS.

Chief Executive's Response

The change in the treatment of specific doubtful debts was the predominant reason for the reduced collection rate in 2017.

The required staffing level is now in place within the section, as well as robust monitoring to ensure collection rates improve during 2018.

3.2 Housing Rents

During 2017, the collection level for rents marginally decreased to 91%; despite which the Council remained above the national average (85% in 2016) for this income stream. The rent debtor balances increased by €44k in the year, while the cash collected reduced by €125k. A review of €104k of the year end debtors found just 17% were reducing their arrears, with the remaining 83% requiring follow up and legal action to be initiated where appropriate.

Chief Executive's Response

The comments are noted. Roscommon County Council is one of the highest achieving authorities regarding the collection of housing rents and continues to ensure resources and systems are in place to maximise income.

3.3 Housing Loans

In 2017 the Council's loan collection level decreased to 56%, significantly below the national average (71% in 2016). Despite this, housing loan debtors decreased by €10k, as existing loans age and only one new loan was issued in the year. A review of €108k of the year end debtor balances, found that 61% were reducing with 39% requiring follow up action.

Chief Executive's Response

The collection rate for housing loans is disappointing. However, it is important to note that the majority of the arrears relate to 22 customers who require support in the current climate surrounding housing.

3.4 Debt Collection

Following the framework agreement for legal services negotiated by the Office of Government Procurement, the Council were required to hold mini competitions, to permit the

awarding of the various contracts. A mini competition relating to the provision of legal services for debt collection has been held however to date no contract has been awarded.

The absence of a centralised debt collection unit and the need for a comprehensive debt management policy was highlighted by the Internal Audit Unit (IAU) in the review of debt collection procedures for 2016 and 2017.

In light of the declining collection yields for all of the main income streams during 2017, all of these matters should be addressed to ensure the Council's income is maximised.

Chief Executive's Response

As noted above the tender process has been completed for legal services regarding debt collection, with the contract expected to be awarded at the end of October 2018. The contract will enable the County Council to address long term arrears with customers who refuse to engage and introduce an additional enforcement mechanism to improve collection rates to fund valuable services.

The County Council operates a delegated model of responsibility in relation to finance, and at this juncture does not have plans to set up a centralised debt collection unit.

The debt management policy will be operational in quarter 1 2019.

3.5 Bad Debt Provision

The bad and doubtful debt provision at the end of 2017 represented 69% of gross debtors. While this represents a small reduction from the previous year, it is deemed sufficient based on the audit review of the main income streams. The reduction in the provision in the current year mainly represented those bad debts written off thereby no longer requiring a provision.

Chief Executive's Response

The bad debt provision is reviewed annually and adjustments made accordingly.

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. In addition, the Council paid IW €126k during 2017 for their share of development contributions collected.

4.2 Transfer of Assets

The process of transferring asset titles to IW remained ongoing during 2017. While 200 assets were previously identified for transfer to IW, this list has been reduced to 189 following the elimination of duplicates and other identified errors.

To date, 143 assets have transferred and another 9 are ready for transfer. The remaining 37 assets have registration of title issues to be resolved with the Property Registration Authority

prior to any transfer taking place. The issue of registration of title for all fixed assets is discussed in paragraph 6.

4.3 Water Loans

The Council recorded one water related loan in its AFS, with a €2.3m balance at the end of 2017. The €260k repayments in the year, which included both interest and principal, continued to be funded by the Department, as outlined in paragraph 7.

Chief Executive's Response

Agreed.

5. Capital Account

The capital account recorded a net credit balance of €15.4m at the end of 2017, consisting of:

Over View of Capital Job Balances				
	As at 31.12.2017		As at 31.12.2016	
Job Codes With	No.	Value	No.	Value
Debit Balances	105	3,638,522	120	4,611,458
Credit Balances	166	(19,015,155)	136	(15,718,701)
	271	(15,376,633)	256	(11,107,243)

5.1 Credit Balances

The increase in the capital account credit balances primarily related to:

- €1.6m funding drawn down for projects not spent by the year end and
- €1.5m credit balances on jobs that require offset in the 2018 AFS.

Chief Executive's Response

Agreed.

5.2 Debit Balances

The Council had €3.6m debit balances at the end of 2017, relating to jobs that remained to be funded or had funding claims outstanding. All balances over €70k at the end of 2017 were reviewed and this highlighted:

- €735k has been outstanding since November 2015 in relation to a group water scheme. As outlined in previous reports, this balance remains unfunded pending the agreement of a final account with the Department
- €624k relates to development charges. These accounts need to be reviewed to see if offsets against credit balances are applicable
- €151k had been incurred on void / derelict / pre-let properties, which has not been funded to date

- €139k had been spent on a public private partnership housing scheme, which can only be recouped once this housing scheme commences
- €122k had been incurred on housing adaptation grants, which has not been funded to date
- €103k had been spent on affordable houses that has not been funded to date
- €70k remains due from Irish Water in relation to a domestic water metering project, as outlined in the 2016 audit report.

Chief Executive's Response

The final account in relation to the group water scheme has been prepared and a final claim will be sent to the Department in November 2018. There will still be an outstanding balance to be funded via a contribution from the revenue account.

As part of the 2018 AFS, the €625k development charges will be redistributed to applicable credit balances. The figure highlighted refers to a legacy issue dating back to the introduction of miscellaneous billing.

The 2018 budget included a provision to meet the costs of €151k incurred on void and derelict properties.

The housing adaptation grant expenditure of €122k will be funded through adjustments as part of the 2018 AFS process.

The €103k relating to affordable houses is a legacy issue. The houses in question are currently leased, using bridging finance (for which the County Council is reimbursed) as agreed with the Department. The capital balance can only be repaid, when the County Council is in a position to sell the houses.

The Water Services Section has prepared a claim which will clear the outstanding balance of €70k.

6. Fixed Assets

Last year's audit report discussed progress in relation to the recording of the Council's portfolio of fixed assets. This exercise continued throughout 2017 and to date all asset categories, excluding heritage and road assets, have been substantially reconciled. This represents significant progress in the period since April 2016 when the Asset and Energy Management Unit was established.

A number of matters remain to be addressed:

- The two asset categories outlined above need to be reconciled
- The Fixed Asset Register needs to be updated with the data gleaned from the reconciliations carried out. The Council is investigating the most effective way to complete this exercise
- The recording of way leaves and right of ways as required under the Land and Conveyancing Law Reform Act 2009 needs to be commenced.

Chief Executive's Response

The County Council welcomes the progress in this area. The Asset and Energy Management Unit will continue with its work plan for the remainder of 2018.

This exercise is resource intensive and as Chief Executive it is important that I balance the needs of the organisation to ensure the delivery of services to our citizens. It is my aim that this work will be completed in the medium term in partnership with the Finance Unit.

7. Loans Payable

Loans of €30.6m were payable by the Council at the end of 2017. This balance consisted of:

- €21.2m to fund the building of the new headquarters. Repayments of €712k, which included both interest and principal, were funded from revenue income in 2017
- €3.5m to fund historic capital balances. Repayments of €128k, which included both interest and principal, were funded from revenue income in the year
- €2.3m to fund water loans, as discussed previously in paragraph 4.3
- €1.9m house loans, which are being funded by customers
- €1.7m voluntary housing loans, which continued to be funded by the Department during 2017.

Chief Executive's Response

Agreed. It should be noted that in comparison to other local authorities Roscommon County Council has a small loan portfolio. All repayments are budgeted and funded from the revenue account on an annual basis.

8. Development Contributions

At the end of 2017 development contribution debtors were €6.8m. This represented a €2.3m decrease in the year, €2.1m of which was accounted for by write offs. These write offs arose where the applicable planning permissions had expired. The review of these debtor balances remains ongoing in the current year.

Chief Executive's Response

Agreed and noted. Work is on-going in this area with further reductions expected in 2018.

9. Procurement

During 2017 the Procurement Unit provided updates on two occasions to the senior management team. However, this unit remained under resourced during 2017 constraining the amount of work it was able to complete, particularly in relation to compliance monitoring. Since April 2018 an increased resource has been allocated to the unit.

The corporate procurement plan 2014 - 2016 was updated during 2016 and this amended document was rolled over to cover 2017. A new plan covering the period 2018 - 2020 is currently in draft form, ready for adoption by senior management.

Work has been ongoing in relation to contracts requiring tendering as notified in the 2016 audit report. The only remaining issue relates to legal services. As stated in paragraph 3.4, the debt collection contract is nearing completion. However, to date no mini competition has

been conducted for the main legal services. This needs to be completed and a contract put in place at the earliest opportunity.

I reviewed the quarterly prompt payment reports and found that 8% of invoices were paid after the 30 day deadline. These findings were corroborated by an IAU review of the purchase to pay cycle for area offices, covering invoices received and payments made in the period July / August 2017. This report estimated that a prompt payment liability (both interest and penalties) of €112k per annum may apply if the results are representative of the entire year. In this context, the report recommended that there was a need for robust policies and procedures in each area office and enhanced staff training. The report also suggested that management should consider; (i) centralising all purchasing within the Finance Unit and (ii) the introduction of low value purchase cards, to address issues identified.

The Procurement Unit is central to ensuring that adequate compliance monitoring is being carried out on a continuous basis. It is also ideally placed to evaluate if improvements have occurred since the end of 2017. Based on evidence obtained, management can then evaluate what actions are required to address any recurring issues.

Chief Executive's Response

The Procurement Unit is increasingly involved in compliance monitoring and through the use of controls within the Financial Management System ensures the correct frameworks for purchasing goods and services are utilised. Further controls are being introduced in quarter 4 of 2018, to improve the recording of information and contract management.

The tender process relating to legal services (excluding debt management) will be conducted in 2019.

The Internal Audit report regarding accounts payable is being used as a driver and reference point for improving workflow as part of the Digital Transformation Project. This will allow the Management Team to make a decision as to which processes and structures should be put in place to improve efficiency.

10. Local Authority Companies

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

- Roscommon Leisure Centre Ltd
- Moylurg Rockingham Ltd
- Back Lane Management Ltd.

10.1 Roscommon Leisure Centre Ltd

Roscommon Leisure Centre Ltd (RLC) is wholly owned by the Council. In 2017 the Council provided subvention of €186k to this company (in 2016 it provided €86k), despite which it incurred a deficit of €13k. At the end of 2017 the audited accounts of RLC recorded an accumulated loss of €231k.

The company's income and expenditure for the year were not consolidated into the Council's 2017 AFS. Instead the company was accounted for as an associated company, as currently permitted by the Department's Code of Practice and Accounting Regulations (ACoP). RLC's accounts include a €198k loan repayable to the Council, which is reflected in the Council's debtors, along with the Council's 100% share of net assets. The subvention

provided by the Council was reflected in revenue expenditure in the year.

The auditor's report for RLC included an emphasis of matter paragraph, drawing attention to the company's reliance on the Council to be classified as a going concern. Council management provided assurance in the course of the company's audit that this support will be continued.

Chief Executive's Response

Roscommon County Council will continue to financially support the Leisure Centre as it provides significant value and delivers benefits to the local community.

10.2 Moylurg Rockingham Ltd

Moylurg Rockingham Ltd (MRL) is co-owned by the Council and Coillte. No subvention to this company was required in 2017 or in recent years, since it became profitable. The audited accounts of MRL for the year ended 31 December 2017 disclosed a profit of €204k (€266k for 2016), which reduced the accumulated losses to €445k by the year end.

The company's income and expenditure for the year were not consolidated into the Council's 2017 AFS, as the company was treated as an associated company in accordance with the Department's ACoP. The AFS recorded the Council's 50% share of the company's net assets (€574k) and the working capital loan advanced to the company (€270k), in note 3. The €2m interest free loan provided by the Council at the formation of the company remained unrecorded in the Council's debtors, pending a review of the joint venture agreement. It was anticipated that this review would be completed to permit the necessary adjustments to the Council's 2017 AFS however this did not transpire. This situation needs to be addressed.

Chief Executive's Response

The €2m loan will be recorded in the Council accounts as part of the 2018 AFS process. The joint venture is clear that the loan must be repaid once the company is profitable, which based on current forecasts should be in the next 2 to 3 years.

10.3 Back Lane Management Ltd

This company is 50% owned by the Council. Audited accounts for 2017 were not available in the course of the current audit. As recommended previously, this company's audit should be conducted in time to permit the Council to include the relevant figures in its draft AFS.

I reviewed the audited accounts for 2016 and the income and expenditure recorded was not material to the Council's AFS. There was no subvention or other financial supports provided to this company by the Council disclosed in these accounts.

Chief Executive's Response

Noted and agreed.

11. Governance

11.1 Internal Audit

A single member of staff provided the Internal Audit Unit (IAU) function from the end of January 2017 until early February 2018. During this period, the Internal Auditor had a direct reporting line to the Chief Executive and a direct administration line to the Director of Service responsible for Finance, Housing and ICT. The unit only reported on three of the six areas listed in the annual work plan due to staffing constraints. The member of staff allocated to the unit has been re-assigned since February 2018, resulting in no IAU function being provided since this date.

Chief Executive's Response

The Internal Auditor will be assigned to the unit from 5 November 2018.

11.2 Audit Committee

The Audit Committee held the required four meetings in 2017. I attended the meeting on 20 February 2017 to discuss my 2014 and 2015 reports and I attended the meeting on 6 December 2017 to discuss my 2016 audit report. Following these meetings, the Audit Committee submitted reports to the Council Members as required under Section 60 of the Local Government Reform Act, 2014. These reports were adopted at the Council's May 2017 and December 2017 meetings.

Chief Executive's Response

Noted.

11.3 Ethics Returns

A review of the ethics returns for 2017 found:

- All Councillors' returns were submitted by the statutory deadline
- 99 out of 133 staff returns were received by the statutory deadline. 31 were received late, with three remaining outstanding at the time of review. Two of those outstanding related to former employees, however one related to an existing member of staff.

While responsibility for submitting ethics returns rests with the individual, the Council should ensure that it has procedures for addressing such cases as they arise. S174 of the Local Government Act, 2001 allows the introduction of penalties in the case of non-compliance.

Chief Executive's Response

As indicated above responsibility lies with the individual to comply with this statutory requirement. A review of procedures was carried out and a process introduced in relation to the issue of notices annually to all members, relevant staff and non-elected members of committees of the local authority in regarding their obligations under Part 15 of the Local Government Act 2001.

The procedure also sets out the arrangements in place to monitor the return of the declaration and the issue of further notices in advance of the statutory deadline, where necessary. The process also provides for dealing with non-compliance.

11.4 Audit by Revenue Commissioners

The Revenue Commissioners conducted an audit of the Council in November 2017. An underpayment of €331k VAT for the period July / August 2017 was discovered, with further underpayments of €41k for the years 2016 and 2017. In addition to the underpaid tax, the Revenue Commissioners imposed interest of €14k and penalties of €102k on the Council. All amounts due have been paid by the Council in 2018 and the Revenue Commissioners have advised that the case is now settled.

Chief Executive's Response

Roscommon County Council and Revenue Commissioners accept the error was of an administrative nature. Controls have been implemented to ensure that the situation does not occur again.

12. Unfinished Housing Estates

At the end of 2017 there were 152 unfinished housing estates, consisting of 3,447 housing units in the county (in 2016 there were 170 estates with 3,857 housing units). 23 of these estates are included in the Department's 2017 unfinished housing development list. The Council held 98 bonds worth €15.1m and 25 cash deposits worth €958k in relation to these developments.

In addition, the Council had obtained €2.66m cash from bonds previously drawn down in relation to 24 estates, of which €1.4m remains unspent to date. Of these 24 estates; nine are finished or almost finished, seven are underway, one is at design stage and the remaining seven have no works commenced to date.

Contracts for site resolution works were awarded by the Planning Department for nine estates during 2017; three were funded exclusively from bond monies, two were entirely funded by the National Taking in Charge Initiative (NTICI) and four were funded by a mixture of both funding sources. In addition, two estates were remediated under the supervision of the Roads Section, one of which was entirely funded by the NTICI and the other was funded by a mixture of bond monies and NTICI funds.

Consultant engineers were appointed to draw up plans for the remediation of three estates and a further three estates were taken in charge during the year.

Chief Executive's Response

The number of unfinished estates continues to reduce year on year. The team negotiate with developers and bond companies to maximise funding opportunities, as there is no longer central funding available to finish estates.

13. Trade Creditors

Invoices valued at €417k were included in trade creditors at the end of 2017, which related to goods / services recorded on the financial system as having been received or completed despite this not being the case. This matter remains ongoing despite being highlighted in previous audit reports.

Such transactions circumvent basic controls built into the accounting system. It exposes the Council to the risk of loss as a payment could be released without the receipt of the goods /

services. The practice also represents a breach of both the Department's Code of Practice (accruals concept) and the funding agreements (claims should only be made for expenditure incurred).

Chief Executive's Response

This issue is not unique to Roscommon County Council. The County Council had a contractual obligation to discharge the amounts as they fell due and grant allocations were drawn down as directed by funding departments to cover costs. As noted in previous audit reports there is a conflict between the local authority accounting system which is on an accrual basis and funding departments which operate on a receipts and payment basis.

14. 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.



Mary Keaney
Local Government Auditor

10 October 2018

housing.gov.ie

Department of Housing, Planning and Local Government



Rialtas na hÉireann
Government of Ireland