



**Rialtas na hÉireann**  
Government of Ireland

# **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Leitrim 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 LEITRIM COUNTY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Leitrim 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 4 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 Changes to the AFS

The changes made to the 2017 AFS which were submitted to the Department of Housing, Planning and Local Government (the Department) on 27 March 2018 were the reclassification of the opening balances in Note 9 of the Capitalisation Account.

### 2.2 Statement of Comprehensive Income

The Council recorded a surplus of €837k before making net transfers to reserves of €834k in 2017, resulting in a net surplus of €2k and an accumulated deficit of €264k at the end of the year.

The members, at the Council meeting held in May 2018, approved (by resolution in accordance with section 104(2) of the Local Government Act, 2001) the expenditure incurred in 2017 that was in excess of the adopted budget for the year. These variances between the adopted budget and the actual outturn in the revenue account are shown in Note 16 to the AFS.

## 2.3 Financial position

Significant movements in the finances of the Council during the year included:

- The Local Property Tax allocation of €8.9m remained the same for 2017, however income received under Non Principle Private Residence (NPPR) tax was €278K greater than anticipated with actual income received being €498k.
- Loans Payable increased from €7.5m to €12.04m partly due to the issue of a €5m loan for the Council buildings (see paragraph 7).
- The increase in bank investments to €14.2m from €8.7m was as a result of the above loan being invested as the project has yet to be fully commenced.
- Reduction in creditors and accruals of €3m, this was due to a reduction in deferred income. 2016 included income due under roads grants which was received in 2017.
- Increase in bad debt provision in Income collection of €314k to address the under provision highlighted in previous audit reports (see paragraph 3).

### Chief Executive's Response

Leitrim County Council continued to maintain services within limited available resources during 2017. The overall accumulated deficit has reduced to 264k and the Council will endeavour to reduce this deficit further in future years.

## 3 Income Collection

A summary of the revenue collections are as follows:

### 3.1 General

The arrears and percentage yields from the main revenue collection accounts as outlined in Appendix 7 were as follows;

Income Source	Yield %		Debtors	
	2017	2016	2017	2016
Rates	82%	81%	2.52m	2.42m
Rents & Annuities	88%	88%	285k	281k
Housing Loans	64%	63%	93k	98k

### 3.2 Rates

Rates income as a % of overall income increased from 14% to 15% in 2017 and the collection yield also increased year on year from 81% to 82%.

Movement in the year end debtors showed an increase of €100k to €2.52m. A bad debt provision of €612k (2016: €323k) has been provided for at year end. While the level of provision was increased considerably in 2017, it only represents 24% of rates debtors. This is still an inadequate provision as the amount does not cover the specific doubtful arrears as shown in Appendix 7 of the AFS, which amounted to €1.6m at the end of 2017.

An aged analysis of rates accounts in arrears at 31 December 2017 shows that 43% (2016: 54%) of the rates arrears is aged greater than 12 months.

### 3.3 Housing Rents and Annuities

The collection yield remained unchanged at 88% in 2017 with a small increase in debtors of €4k. The bad debt provision at year end was increased to €44k (2016: €24k), however this is considered inadequate as it only represents 16% (2016: 9%) of the year end arrears.

### 3.4 Housing Loans

The collection yield increased year on year by 1% from 63% to 64% with a reduction of €5k on the arrears at year end. The bad debt provision at year end was increased to €14.5k (2016: €9.5k), however this is considered inadequate as it only represents 16% (2016: 10%) of the year end arrears.

It was noted during the audit that, for a number of housing loans provided by the Council, it could not be ascertained if the mortgages have been registered with the Property Registration Authority Ireland (PRAI). The Council is working with the relevant solicitors to progress these files and the number has reduced in 2018.

#### **Chief Executive's Response**

The Commercial Rate collection yield increased during 2017 and the Council will continue to actively pursue collection and arrears, through all available avenues of enforcement. The matter of mortgage registration with the Property Registration Authority for a small number of cases will be actively pursued and addressed in the coming months.

Leitrim County Council will endeavour to increase the respective bad debt provisions for Commercial Rates, Housing Rents and Loans. It should be noted that increasing these provisions and particularly the Commercial Rates provision, presents a big financial challenge to the Council, particularly in light of the necessary annual budgetary provision to address the commercial vacancy adjustment.

## **4 Irish Water**

### **4.1 Service Level Agreement**

The responsibility for water services functions transferred from local authorities to Irish Water (IW) in 2014. The Council continues to deliver services to IW under a service level agreement. A new service delivery agreement was agreed in 2018.

### **4.2 Transfer of Water and Sewerage Functions**

The transfer of water services assets from the local authorities was being advanced over a number of phases, with the financial transfer reflected in the local authorities' accounts in 2014.

During the course of the 2017 audit, it was noted that there continues to be a number of on-going issues in relation to the transfer of assets to IW including registration of titles and way-leaves. Additional resources have been provided in 2018 and progress has been made on the transfer of the remainder of the assets.

#### **Chief Executive's Response**

Leitrim County Council have assigned an additional dedicated resource to address outstanding issues relating to asset transfer to Irish Water and significant progress has been made on this matter during 2018 to date.

## **5 Capital Account**

### **5.1 Capital Balances – Unfunded**

The review of Capital Balances identified unfunded balances (net of credit balances) totalling €905k. It was noted during the audit that considerable work had been carried out during 2017 to reduce the level of unfunded balances from 2016. The audit found that the remaining unfunded balances at the end of 2017 included one project that was previously classified as funded totalling €167k.

The Capital unfunded balances were mainly made up of three projects in the following divisions;

- Development Management €167k
- Recreation and Amenity €58k
- Miscellaneous Services €717k.

The reason as to why the unfunded balance occurred includes expenditure overruns and funding shortfalls from own resources. It is planned to clear these balances from the Revenue account over a number of years.

## 5.2 Specific Unfunded Balances

The following unfunded projects were reviewed during the audit

**Glencar Amenity Improvement** – This capital improvement job was 75% funded by Fáilte Ireland as the waterfall represents an iconic tourist attraction along the Wild Atlantic Way. The balance of 25% which represents the debit balance on the job represents the Council's contribution and will be funded from the Council's own resources. This matter will be addressed as part of the 2018 end of year.

**The Dock Arts Building** – This building was originally a Courthouse and was refurbished by the Council. The project was initially funded from the capital account. The Council make an annual budgetary provision of €50k per annum to service this capital balance. At this rate, it will take over 14 years to clear the balance.

## 5.3 Leitrim Leisure Centre Fund

A credit balance of €2.54m is included in the closing capital balance which relates to a fund set up to buy-back Leitrim Leisure Centre. This was agreed as part of a public private partnership undertaken in 2005, and requires the Council to pay a sum of €6.1m for the centre in early 2019. The Council will have to put arrangements in place to finance the shortfall from 2019 onwards.

### Chief Executive's Response

Leitrim County Council passed a resolution at the March Council meeting to approve a loan of €3.6m. Application for loan finance approval has been subsequently submitted to the Department and approval is awaited.

The Council will review outstanding unfunded balances and put in place a sustainable strategy to address same over the coming years.

## 6 Fixed Assets

### 6.1 Property Register

The inadequacies of the property and land registers have been highlighted at previous audits. Following a further examination during the current audit, it is noted that while an additional resource has been applied to this area, the reconciling of the land property register with the Property Registration Authority remains incomplete.

The Council needs to ensure that the property interest register is properly maintained and reconciled with the assets as reported in the AFS and that adequate resources are allocated to address this issue. It is a requirement of the Accounting Code of Practice for local authorities that these registers be maintained.

#### **Chief Executive's Response**

The Council has established a Land Management Unit which is currently working to collate all land data held within the Council. Upon completion of same the Council will consider the development of a Land Management System to populate historical records and manage all current and future land related transactions

### 6.2 Asset Register

The audit found that procedures in place for accounting for fixed assets on the assets register is not completed on a timely basis. For a sample of additions and disposals taken during the audit, it was noted that in some cases directorates do not always notify the finance section of assets purchased / disposed of, resulting in inaccurate reporting of fixed assets in the accounts. Procedures and controls in this area need to be reviewed.

### 6.3 Leased Assets

A number of the plant and machinery were replaced in 2017 and financed under a lease agreement for 48mths with two six month extensions. The total cost over the life of this lease is €251k. The Council has leased plant since 2013 and none of these assets have been capitalised or included on the asset register. From a review of the lease agreements the audit determined that they were finance leases as:

- The term of the lease is for the full life cycle of the motor vehicle
- The agreement includes an option to buy the motor vehicles at the end of the term
- A previous agreement included a trade in of Council owned vehicles.

As it is planned to repeat this process for the purchase of new plant and motor vehicles, the Council should review the procedures for including this category of assets on the asset register and ensuring the correct account disclosures for finance leases in the Annual Financial Statements.

#### **Chief Executive's Response**

The Council will review the procedure for accounting for fixed assets, including leased assets in advance of completion of the 2018 AFS.

## 7 Loans Payable

### 7.1 Overview

In 2017, the level of long term loans payable has increased to €12.04m from €7.5m. The analysis is set out below:

Type of Loans Payable	2017	2016
	€m	€m
Council Buildings	5.00	-
Housing related loans	4.02	4.29
Other Directorates	1.36	1.55
Land Acquisition	1.66	1.66
<b>Total</b>	<b>12.04</b>	<b>7.50</b>

### 7.2 Extension to Headquarters

As previously noted, a loan of €5m was drawn down in 2017 for the extension of the Council headquarters. A full review of this development was undertaken in 2018. The cost of the project has an initial estimate of €5.8m however to date only preliminary work has been commenced.

### 7.3 Interest Only Land Acquisition Loan

A loan of €1.66m for land acquisitions is included in the balance sheet and relates to developments which the Council are unlikely to proceed with in the short term.

#### Chief Executive's Response

The Council's review regarding the proposed building expansion is now approaching completion and will inform the next steps in the process.

The Council has now completed the Part 8 process on the site which is the subject of the land acquisition loan. It is now proposed to construct 37 houses on this site. The tender process has commenced in this regard. The remainder of this site can be considered for further development in the future.

## 8 Development Contributions

### 8.1 Overview

The Council increased its development contribution income during the year to €458k (2016: €170k). There was a reduction in the bad debt provision from €264k to €132k. This was due to a review of the arrears position with irrecoverable bad debts written off in 2017. This work is on going in the Council.

### 8.2 Commencement Notices

It is a requirement of the Accounting Code of Practice that when a commencement notice is received all related contributions are initially treated as income and a debtor is raised.

A key control to ensuring all related contributions are treated as income is the performance of reconciliation between Commencement Notices and invoices raised (with appropriate explanations documented where no invoice is raised). Currently this control activity is not performed by the Council. Accordingly it is recommended that reconciliations are performed regularly.

### 8.3 Arrears

A sample of files for development contribution arrears were reviewed and the audit found that the vast majority of the arrears are long outstanding debt aged over 5 years old, with a large amount of it being aged between 8 – 15 years old. It was noted that in 2018 a new debt management unit (Income Unit) has been established to manage this debt and progress was noted during the audit.

#### **Chief Executive's Response**

The Council will commence the performance of reconciliations between Commencement Notices and invoices raised. Development levies remain a condition of planning attached to the relevant development. The Council will continue to pursue the collection of development levy arrears.

## 9 Procurement

### 9.1 Procurement Officer

Following staff reassignments in the Council, the position of procurement officer is currently vacant. In order to continue to monitor compliance with procurement rules and procedures, a new appointment should be made without delay.

### 9.2 Low Value Purchase Cards

From a review of the 2017 transactions, the audit identified suppliers with purchases in excess of €25k. This exceeds the procurement thresholds and no competitive process had been carried out for any of these purchases. The total value of the purchases reviewed was €277k (2016: €224k).

### 9.3 Public Spending Code

The Council has completed the “Public Spending Code - Quality Assurance Report 2018” report for capital projects as at end of 2017. The report reflects the Council’s self-assessment of compliance with the Public Spending Code and was reviewed as part of the internal audit program.

### 9.4 Other Services

During the audit of non-pay expenditure, there were a number of instances where there was a lack of compliance with procurement guidelines. The Council needs to ensure that there are adequate procedures in place to ensure compliance in this area.

#### **Chief Executive’s Response**

Leitrim County Council introduced low value purchase cards a number of years ago with the aim of providing a mechanism whereby low value items below the threshold of €300 per item could be purchased from local outlets, primarily within the county in an efficient and timely manner by staff who needed real time access to such goods and services. This initiative is currently being reviewed by an internal working group. This group will also review the cumulative payment to suppliers in the context of procurement thresholds and introduce additional internal controls and monitoring as appropriate.

The Council are currently running a series of workshops for buyers to highlight procurement compliance issues. The matter has also been listed for monthly consideration by the Management Team who will consider and act upon compliance reporting provided by the Procurement Unit.

The position of Procurement Officer (Senior Staff Officer) will be filled shortly, following the recent establishment of a permanent Senior Staff Officer panel.

## **10 Local Authority Companies**

### **10.1. Disclosures under Appendix 8**

Appendix 8 includes the 2016 information for the associates and subsidiaries of Leitrim County Council as the audits for 2017 were not completed prior to inclusion in the unaudited AFS 2017.

It is noted that the year end presents a challenge to the Council to complete this task however where possible the audit of accounts of subsidiaries' financial statements should be completed prior to completion of unaudited AFS.

#### **Chief Executive's Response**

The Council will endeavor to address this matter with the respective Accountants and Auditors of the associate and subsidiary companies listed in Appendix 8

## **11 Governance**

### **11.1. Risk Management.**

The Council has not updated its risk register since January 2015. It was noted during the audit that the risk register was in the process of being reviewed in 2018 with the assistance of the Irish Public Bodies (IPB) insurers. The draft register has been updated to include all of the Council's directorates however the final register has yet to be approved.

### **11.2 Fraud Prevention and Contingency Plan**

A fraud prevention and contingency plan set out the responsibility, roles and tasks for the prevention and detection of fraud. An updated fraud prevention and contingency plan has been prepared. At the close of the audit, it was under consideration by the Senior Management team.

### **11.3 ICT Policies and procedures**

The audit noted that the current IT policies (acceptable usage, internet etc.) have not been updated since 2009. However, it was noted at the time of the audit, as part of GDPR compliance, new data protection policies have been drafted which will include ICT policies.

These policies include, General Data Protection Policy, Data Retention Policy, Data Access Request policy & procedures, Data Breach policy & Procedures, Privacy statements, and Data Processing Agreement.

In a follow up to previous years' reports, the Council still does not have a disaster recovery plan in place. This is a matter which needs to be addressed as a priority by the Council in 2018.

## 11.4 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.

Since 2016 the internal audit function of the Council has been provided by an external professional firm of auditors. The number of days attributed to internal audit activities under the outsourcing arrangement is 60 with an audit plan to complete four audits each year. In 2017 only two audits reports were completed, one of which was the review of the Public Spending Code.

Given the varied nature and complexities of the Council activities, I consider that the number of reports completed is inadequate and there are an insufficient number of days allocated for internal audit activity. I have noted the work completed in 2018 and have taken account of this work during the course of my audit.

## 11.5 Audit Committee.

The audit committee held 4 meetings in 2017. The Council's annual internal audit work plan was approved by the audit committee in 2017. The committee submitted their 2017 annual report to the members at their meeting in February 2018 in accordance with Section 60 of the Local Government Act 2014.

### **Chief Executive's Response**

The Council has commenced the development of a new risk register, with the guidance and support of Irish Public Bodies. Workshops were held with the Management Team, Audit Committee and the Senior Officers Group. A first draft was completed in mid 2018 which is currently under review. It is anticipated that the process will be concluded in 2018.

The development of a disaster recovery plan for ICT has also been highlighted in the draft Risk Register. The overall ICT infrastructure within the Council is currently being upgraded and procurement in this regard has commenced. The Council will prioritise the development of an ICT disaster recovery plan in early 2019 as part of the overall infrastructural replacement strategy.

The Council has developed a new draft Fraud Prevention and Contingency Plan which is currently under review by the Internal Audit Committee and the Management Team.

The future direction of the Internal Audit function is under review by the Management Team and the Internal Audit Committee. It is acknowledged by all that the currently level of coverage is insufficient to meet developing requirements.

## Acknowledgement

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

A handwritten signature in cursive script, reading "Catherine Tuohy", is positioned above a horizontal line. The signature is contained within a faint, rectangular border.

**Catherine Tuohy**  
**Local Government Auditor**

**10 October 2018**

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