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Government of Ireland

# **Statutory Audit Report to the Members of Louth County Council for the Year Ended 31 December 2020**

## **Local Government Audit Service**

Prepared by the Department of Housing, Local Government and Heritage

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## Contents

Auditor's Report to the Members of Louth County Council.....	1
1 Introduction.....	1
2 COVID-19 – Impact on Local Authorities.....	1
2.1 Overview.....	1
2.2 Restart Grants Scheme .....	2
2.3 Rates Waiver Scheme .....	2
2.4 Reimbursement for loss of goods and services income and COVID-19 related expenditure.....	3
3 Financial Standing.....	3
3.1 Statement of Comprehensive Income.....	3
3.2 Statement of Financial Position.....	3
4 Income Collection.....	4
4.1 Summary of Income Collection .....	4
4.2 Rates .....	4
4.3 Rents and Annuities.....	4
4.4 Housing Loans.....	5
4.5 Provisions for Bad Debts .....	5
5 Government Debtors .....	5
6 Capital Account .....	5
6.1 Capital Balances .....	5
6.2 Programme Group 1 - Housing Capital Balances .....	6
6.3 Funding of Debit Balances - Other Programme Groups .....	6
6.4 Fleadh Cheoil Festival .....	7
7 Fixed Assets.....	8
7.1 Acquisition of Housing Units via Compulsory Purchase Order Process (CPO).....	8
7.2 Housing Stock Reconciliation.....	8
7.3 Part V Acquisition.....	9
7.4 Property Register.....	9
7.5 Disposal of Land .....	9
8 Loans Payable.....	10
8.1 Loans Payable .....	10
8.2 Loans Borrowed for the Acquisition of Land.....	10
8.3 Variable Affordable Housing Loans.....	11
8.4 Loans Borrowed to Fund Landfill Energy Recovery Project.....	11

9	Development Contributions / Cash Bonds.....	12
10	Procurement.....	12
11	Ethics Register.....	12
12	Local Authority Companies .....	13
13	Governance and Propriety .....	13
13.1	Governance .....	13
13.2	Risk Management.....	13
13.3	Internal Audit.....	13
13.4	Fraud and Contingency Plan.....	14
13.5	Protected Disclosures Policy.....	14
	Acknowledgement.....	14

# 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 2020, which comprises 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, Local Government and Heritage.

My main statutory responsibility, following 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 2020 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 judgments 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 COVID-19 – Impact on Local Authorities

### 2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities during 2020. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level, the Government introduced a number of schemes including the restart grant schemes and rates waiver scheme to support businesses, as

noted in paragraphs 2.2 and 2.3 below. In addition, local authorities were reimbursed by the Department for the loss of income from goods and services and for additional COVID-19 expenditure incurred by them (see paragraph 2.4).

In June 2021, it was agreed by the General Accounts Working Group to amend Note 23 and include an additional Note 24 in relation to Restart Grants / Plus in the audited Annual Financial Statements 2020.

## **2.2 Restart Grants Scheme**

During 2020, the Government decided to support commercial micro, small and medium businesses, through the Restart Grant Scheme and later the Restart Grant Plus Scheme. The qualifying businesses were required to have a rateable premises and experienced a loss of turnover due to the COVID-19 restrictions. The scheme provided for assistance with the costs of reconnecting with the marketplace, reopening their business and re-employing staff. Qualifying businesses who met the specified eligibility criteria could apply to the local authority for grants under these schemes.

Under the service level agreement between Enterprise Ireland, Department of Enterprise, Trade and Employment, the Department and each local authority, the Council had responsibility to manage within its functional area the processing of applications and payments, in accordance with the criteria specified, and to make reports to the above Government departments to enable oversight and review of the scheme. Each business was responsible to self-certify in completing its application that it met these criteria.

The Council only verified the application against a rate account, where one existed, and confirmed that the applicant had fully completed the application including the declaration. The Council did not have to verify any other information included in the application. Where rates were not assessed in 2019 or 2020, estimates of liability were made by the local authority. This was necessary to determine the support available to the relevant business.

Accordingly the audit of expenditure under these schemes, which amounted to €18.3m in Louth County Council for the year ended 31 December 2020, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

## **2.3 Rates Waiver Scheme**

In order to support both the local government sector and commercial ratepayers, a funding package of €900m was allocated by the Government to fund the cost of a waiver of commercial rates for nine months from 27 March 2020 to 27 December 2020.

The waiver was available to businesses, which were forced to close, and those,

which experienced significant negative economic disruption due to public health restrictions, imposed in response to COVID-19.

The total amount received by Louth County Council for the year ended 31 December 2020 was €19.4m.

The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

The methodology and manner for calculating rates income collection differs in 2020 compared to prior years.

## **2.4 Reimbursement for loss of goods and services income and COVID-19 related expenditure**

The Department reimbursed the Council for the loss of goods and services income and additional expenditure incurred by them as a result of COVID-19. The total amount received by Louth County Council for the year ended 31 December 2020 was €2.6m, split between €1.4m for the loss of goods and services income and €1.2m for additional COVID-19 related expenditure.

# **3 Financial Standing**

## **3.1 Statement of Comprehensive Income**

A surplus of €57k for the year was recorded by the Council after net transfers to reserves of €6.8m. Details of over / under expenditure are included in note 16 to the AFS. These were approved by the members at the April 2021 meeting of the Council in accordance with Section 104 of the Local Government Act 2001.

## **3.2 Statement of Financial Position**

Details of significant movements in the finances of the Council included the following:

- There was an increase in work in progress and preliminary expenditure of €4.9m. This increase includes €1.4m and €1.9m on the Cox's Demense housing regeneration scheme and the Father Finn Park housing construction scheme respectively.
- Long term debtors/creditors 'Other' increased by €19.2m and €18.5m respectively and is due to the provision of capital asset leasing facilities to approved housing bodies (AHBs).
- Trade debtors and prepayments increased by €7.1m. This includes government debtors of €1.7m and rates arrears of €2.1m. It also includes accrued income of €2.2m in respect of housing acquisition claims not invoiced at year end (see paragraph 7.1).
- Bank investments and cash at bank increased by €8.8m and €3.8m respectively. This improved cash position includes the timing of grants

received and also the impact of the rates waiver support as mentioned at paragraph 2.3 above.

- The increase in creditors and accruals of €15.2m includes in excess of €2.2m on expenditure accruals relating to social housing acquisitions and deferred income of €10.2m which includes income of €2.9m for house purchases where contracts have not yet been finalised, and a sum of €3.5m pertaining to the rates waiver deferral.

## 4 Income Collection

### 4.1 Summary of Income Collection

Income Source	Yield %		Debtors €m	
	2020	2019	2020	2019
Rates	63	83	11.0	8.9
Rents & Annuities	81	80	3.0	3.1
Housing Loans	85	82	0.3	0.3

### 4.2 Rates

The table above indicates a 63% collection yield in 2020 (83% in 2019). However, due to the effect of COVID-19, the Department put in place a nine month waiver (credit in lieu) of commercial rates from 27 March to 27 December. This had an effect on the actual amount collected. As outlined in appendix 7 to the AFS, for prior year comparison purposes, if this sum had been categorised as 'collected' rather than as 'waivers and credits' the percentage collected would have been 80%.

#### Chief Executive's Response

The auditor's comment is noted. The Government's introduction of the Rates Waiver Scheme probably prevented a major loss of income for the local authority in a very difficult year.

### 4.3 Rents and Annuities

The collection yield in respect of rents and annuities in 2020 was 81% (80% in 2019). Gross arrears of rents decreased to €3.3m compared to €3.5m in 2019. Rent accounts continue to be monitored and arrears pursued for payment.

#### Chief Executive's Response

The account managers continue to have early engagement with defaulters and such actions are helping maintain the growing yield.

## 4.4 Housing Loans

There was an increase in respect of the collection yield to 85% compared to 82% in 2019. Gross arrears decreased to €351k from €402k in 2019. Loan accounts continue to be monitored and kept under review.

### Chief Executive's Response

The increase in the collection of housing loans can be attributed to the improved collection procedures and the one to one relationship with account managers. The pursuit of outstanding accounts continues to be a priority of the team.

## 4.5 Provisions for Bad Debts

The provision for bad debts in respect of the above collection accounts are considered adequate. Given the current and potential future effects that COVID-19 may have on the economy, these provisions should be kept under review.

### Chief Executive's Response

The auditor's comment is noted. All bad debt provisions are kept under review.

# 5 Government Debtors

At the end of 2020, there was an amount of €7.5m (€7.2m in 2019) outstanding from the Department in relation to invoices issued with regard to housing activities. At the current time €1.1m of this amount remains outstanding. A balance of €709k and €349k relates to invoices issued in 2020 and 2019 respectively with the remaining €30k pertaining to 2017 and 2018.

### Chief Executive's Response

There was a delay in issuing Building Energy Rating (BER) Certificates due to COVID-19 restrictions which has resulted in some payments being delayed. Engagement with the Department to bring the outstanding matters to a satisfactory conclusion are at an advanced stage.

# 6 Capital Account

## 6.1 Capital Balances

At the end of 2020 there was a net credit balance of €30.4m (€26.5m in 2019) on the capital account. This includes €24.8m of debit (adverse) balances which have remained static over the last number of years of which €12.9m relates to the purchase of lands.

## 6.2 Programme Group 1 - Housing Capital Balances

A review of housing capital balances noted the following:

- Debit balances totalling €4.7m remains to be resolved / reviewed with the Department. €3.9m of this amount is included in the static balance figure of €24.8m mentioned at paragraph 6.1 above.
- A net sum of €3.6m (which includes a credit (favourable) balance of €881k), requires investigation for funding / miscoding to other housing capital projects. €3.3m of this amount is also included in the static balance figure mentioned above.
- A sum of €596k of debit balances which is also included in the figure for static balances is required to be funded from a combination of internal capital receipts and the revenue account.

Income of €2.3m, a significant amount of which was transferred from the former town councils, continues to be deferred in the AFS and relates to housing capital projects. This income should be examined as part of the review of the capital debit housing balances which need to be resolved.

### Chief Executive's Response

Work continues on reviewing all outstanding capital balances and identifying funding sources for each capital scheme. New structures in the housing finance section have ensured an improved level of engagement with the Department to bring a resolution to outstanding capital balances.

## 6.3 Funding of Debit Balances - Other Programme Groups

At the end of 2020 there was a debit balance of €1.1m included in programme group 7 in respect of the purchase in 2019, of lands at Dundalk Port. This balance will be funded when the lands are developed.

In addition, balances totalling in excess of €7.0m will be required to be funded from development contributions, which have yet to be collected while balances totalling €11.9m were identified which will require funding from the revenue account. Details of the larger debit balances and the associated funding source is outlined in the table below:

<b>Programme Group</b>	<b>Description</b>	<b>Closing Debit balance 2020 €m</b>	<b>Funding Source</b>
2	Clanbrassil St & St Nicholas Quarter Rejuvenation Scheme	3.4	Development Contributions yet to be collected
2	Port Access Northern Cross Route	3.3	Development Contributions yet to be collected
4	Rejuvenation of Market Square '06. DTC	1.3	Revenue Account / Development Contributions yet to be collected
5	Whiteriver Landfill Site - Development of Phase V	4.8	Revenue Account
5	Improvement To Town Dump DTC	0.8	Revenue Account
5	New Civic Amenity Centre DBC	0.6	Revenue Account
5	Landfill Energy Recovery Project	0.6	Revenue Account
5	Landfill Capital Works 2016 to 2018	0.5	Revenue Account
8	New County Offices	2.1	Revenue Account

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

Capital projects are funded from a mixture of grants, development levies and/or from the revenue account over a number of years. We budget for these projects as part of the annual budget within the limitations of our resources and we monitor the funding from development levies for projects as they progress. We continue to look for funding opportunities for all our capital projects.

## **6.4 Fleadh Cheoil Festival**

At the end of 2020 there remains a debit balance in the capital account relating to the provision of cash flow facilities for this festival of €1.3m (€1.1m in 2019). Funding for this issue needs to be resolved.

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

A proposal to fund this debit balance over a number of years from the revenue account was presented to the Council members in 2021 but the proposal was rejected by the members. This will, therefore, remain as an unfunded balance on our capital account until a funding source is identified.

## **7 Fixed Assets**

### **7.1 Acquisition of Housing Units via Compulsory Purchase Order Process (CPO)**

Louth County Council has been involved in a CPO process of acquiring vacant properties to provide for social housing. The total approved budget allocated by the Department for this scheme was €15.6m. A sum of €18.4m has been expended on this programme at 31 December 2020. The Council has represented to me that currently, it is estimated that this programme will cost in the region of €22.1m to complete. This will be €6.5m greater than the approved budget allocated to this programme.

The Council have included accrued income in the 2020 AFS for monies receivable from the Department of €2.0m in excess of the approved budgetary costs.

I have been informed that there are issues with regard to agreeing final compensation payments with the previous owners of some of these properties. I understand that the local authority is currently engaging with the Department with a view to resolving the funding issues for this programme.

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

Significant progress has been made in confirming final compensation payments in a majority of cases. Reconciled CPO programme accounts have now been prepared and discussions with the Department are at an advanced stage. This matter is expected to be concluded in quarter 1 2022.

### **7.2 Housing Stock Reconciliation**

A total of 163 houses were added to the Council's housing stock in 2020.

The housing stock reconciliation provided at audit identified differences between the number of housing units included in the AFS and what was included in the rents section housing records. This should be investigated and corrected.

The year-end housing stock reconciliation is an internal control and should be completed in conjunction with the preparation of the AFS. This will enable any adjustments to be completed at that time.

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

The fixed asset register will be amended for these three properties for the 2021 AFS. The housing stock reconciliation will be prepared in conjunction with the preparation of the AFS in future.

### **7.3 Part V Acquisition**

In 2019, the Council received a sum of €162k from the Department to fund the purchase of a house under the Part V process. However, this acquisition did not proceed and a financial contribution was paid by the developer to the local authority to fulfil the Part V condition. The Council should arrange to refund this sum to the Department or obtain approval to use on other housing projects.

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

Discussions are at a closing stage with the Department and our housing finance section to conclude this matter.

### **7.4 Property Register**

It has been highlighted at previous audits that the Council were in the process of developing the property register to accurately record all acquisitions and disposals of property. I have been informed at this audit that a data transfer has been completed and that training is currently being provided for the input of records to this system.

It is recommended that when all data has been entered onto this register, a reconciliation be completed with the local authority's financial management system (FMS) to ensure completeness and accuracy of records.

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

The existing property register has been imported into a new GIS platform and is currently being tested. When this is completed a reconciliation with the FMS will be undertaken.

### **7.5 Disposal of Land**

It was highlighted at the previous audit that in 2019, an amount of €400k in respect of the disposal of land was receipted in the AFS. However, the cost of this land was not disposed of in the AFS to date. I have been informed that the necessary adjustment will be made for the 2021 AFS.

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

Confirmation that the legal process was completed in respect of the transfer of this land was only received in 2021. This asset will be disposed of in the 2021 AFS.

## 8 Loans Payable

### 8.1 Loans Payable

A summary of loans payable at the end of 2020 is as follows:

<b>Loan Type</b>	<b>Balance Outstanding at 31/12/2020 €m</b>
Mortgage Loans	23.91
Non Mortgage Loans	63.47
Bridging Finance	5.74
Voluntary Housing Loans	48.43
Share Ownership- Rented Equity	0.03
<b>Total</b>	<b>141.58</b>

### 8.2 Loans Borrowed for the Acquisition of Land

At the end of 2020 the total balance outstanding in respect of loans borrowed for the purchase of land amounted to € 57.5m. A sum of €3.4m of this amount relates to a loan which forms part of the land aggregation scheme and as such, both the principal (capital) and interest element are fully recoupable from the Department.

The remaining balance of €54.1m consists of five interest only loans (i.e. only the interest element is due to be paid for a period and which, upon expiry of this period, the principal element also becomes due for payment). Details of the closing balance on each of these loans along with the date of commencement of repayment of principal are shown below:

<b>Loan No.</b>	<b>Amount Outstanding at 31/12/2020 €m</b>	<b>Date of Commencement of Repayment of Principal</b>
1	19.5	Jul-20
2	16.6	Jul-20
3	4.2	Jan-21
4	7.4	Jan-21
5	6.4	Jan-22
<b>Total</b>	<b>54.1</b>	

As may be seen from the table above, principal repayments commenced to be made in respect of two of these loans in July 2020. Overall, total principal and interest paid in respect of the above loans amounted to €523k and €482k respectively for the year, totalling €1.05m. This was funded from the revenue account.

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

We continue to engage with the Department regarding the land costs. A "stage one" application for the construction of 80 housing units has now been submitted and we are confident that, on approval, land costs in respect of approximately three acres will be recouped. Options for the use of the remaining lands will continue to be considered.

## **8.3 Variable Affordable Housing Loans**

It has been highlighted at previous audits where, due to an oversight, two variable affordable loans were borrowed by the former Dundalk Town Council in lieu of bridging finance. While bridging finance incurs interest only and is recoupable from the Department, variable affordable loans incur both interest and capital with the interest element only being recoupable. Total capital repayments made on these loans by the Council since their takeover in 2014 to the end of 2020 totalled €1.0m.

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

Engagement with the Department on this matter has continued. Discussions have now concluded and a satisfactory decision from the Department on the matter is imminent.

## **8.4 Loans Borrowed to Fund Landfill Energy Recovery Project**

Both principal and interest is being charged to the capital account in respect of two loans borrowed some years ago to fund the production of gas from the landfill of the Council. However, the funding being received from the sale of the gas produced is diminishing annually and is insufficient to cover the total principal and interest payments accruing against this project. At the end of 2020 there was a debit balance of €0.6m on this project (included in the table at paragraph 6.3 above) which is due to be funded from the revenue account in the future. This balance includes capital expenditure which had been incurred on the setting up of this facility.

In accordance with circular Fin 18/2020 only non-mortgage loans for capital projects which have an associated and identifiable future capital funding source should be accounted for through the capital account. Accounting for these loan charges should be reviewed.

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

This loan will be funded through the revenue account from 2022 onwards.

## **9 Development Contributions / Cash Bonds**

During a review of the cash bonds register, it was noted in the case of two separate planning permissions where the development had been fully completed, both the development contributions and cash bonds pertaining to these had only been part paid to the Council. One developer subsequently went into receivership while the other development company has since been dissolved. All housing units constructed have since been sold to private parties.

It is recommended that regular site inspections be completed by the local authority to ensure compliance by developers to pay development contributions and cash bonds as they fall due, in addition to compliance with the other conditions associated with their grants of planning.

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

In order for the development contribution system to work, ongoing site inspections of all developments are not normally required nor would the Council have the resources to carry it out. Aside from our own invoicing and reminder system non-payments are normally highlighted when due diligence on conveyancing is being done on the sale of the properties.

## **10 Procurement**

The new financial management system, which became operational in the Council in 2017, includes a procurement module. This module provides improved transparency in the purchase to pay cycle, analysing actual expenditure against national and local frameworks. This module has not been implemented. As one of the key controls is to ensure compliance with recommended public procurement practice and value for money in the tendering for goods and services it is recommended that this module be implemented.

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

Due to COVID-19 this project was delayed. It will recommence in 2022 with a view to have it completed by the end of that year.

## **11 Ethics Register**

A number of ethics declarations were not returned within the required timeframe. There are a number of declarations still outstanding for return. This is in breach of Part 15 Section 171 of the Local Government Act 2001.

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

Any staffing non compliances with this requirement will be addressed under the staff disciplinary policy. Likewise, any member's non-compliance will be referred to the appropriate authority.

## **12 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.

## **13 Governance and Propriety**

### **13.1 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.

### **13.2 Risk Management**

In October 2020 the Council implemented a new Risk Management Policy combined with the development of a new Strategic Corporate Risk Register. This register is reviewed by senior management on a quarterly basis.

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

In addition to the above, individual directorate risk registers are reviewed annually within directorates with a view to escalating or de-escalating risks to and from the Strategic Corporate Risk Register.

### **13.3 Internal Audit**

The Council's internal audit function consists of a contract with a firm of professional financial service providers. The contract provides that Louth County Council may schedule up to ten internal audits a year. The audit plan for 2020 included for the completion of eight audits. At the end of 2020 four internal audits were completed while the remaining four had not yet commenced.

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

Notwithstanding the COVID-19 impact, where third parties were not allowed on our premises, the matter of the non-completion of the required number of audits has been raised with the supplier.

### **13.4 Fraud and Contingency Plan**

The Council has an 'Anti-Fraud and Corruption Strategy & Investigation Procedures' policy in place. This policy was updated in November 2020.

### **13.5 Protected Disclosures Policy**

A Protected Disclosures Policy adopted by the members in February 2019 is in place in the local authority.

## **Acknowledgement**

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

A handwritten signature in black ink on a light yellow background. The signature reads "Patrick McCabe" in a cursive style.

Patrick McCabe

Local Government Auditor

21 October 2021

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