



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Louth County Council**

**for the**

**Year Ended 31 December 2014**



Comhshaol, Pobal agus Rialtas Aitiuil  
Environment, Community and Local Government

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## **AUDITOR'S REPORT TO THE MEMBERS OF LOUTH COUNTY COUNCIL**

### **1 Introduction**

- 1.1** I have audited the Annual Financial Statement (AFS) of Louth County Council for the year ended 31 December 2014, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on 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 the Environment, Community and Local Government.

My main statutory responsibility is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2014 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 this 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.

- 1.2** 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.
- 1.3** The comparative figures for 2013 have been restated to take account of the merger of the Borough Council and Town Councils with the County Council in 2014.

### **2 Financial Standing**

#### **2.1 Income and Expenditure Account**

The Council had a deficit of €4 million in 2014 after making net transfers of €188k to Capital. The Council's net deficit on the revenue account amounted to €2.6m at 31 December 2014.

### 3 Income Collection

3.1 Details of percentage yields from the main revenue collection accounts for 2014 for the previous year are as follows:

	2014	2013
Rates	56%	51%
Rents and Annuities	82%	83%
Housing Loans	66%	61%

### 3.2 Rates

The Council wrote off €15m of rates in 2014 (€3.98m in 2013) included in the write off was €10.8m in respect of vacant properties for which the Council is awaiting completed declaration forms for ratepayers. The Council's treatment of this €10.8m is incorrectly disclosed in Note 5 to the AFS. The provision for doubtful debts being €12.6m should be increased by €10.8m to €23.4m. The Council has in effect made a notional reduction in the Commercial Debtors figure by this €10.8m.

#### Chief Executive's Response

The provision for write off of Rates included in the write off figure is for properties that we know were closed for refurbishment or vacant to let during the year but we had not received the relevant paperwork by year end. A bad debt provision is where we provide for a business who is liable to pay rates on the premises they are trading from but who get into financial difficulties and cannot pay. When they have gone through the debt collection process and the court or liquidator deems them a bad debt then this amount is written as such. There is a difference between the provision for write off for vacancies and provision for bad debts and it is important to distinguish the two separately which is what we have done in the accounts.

### 3.3 Rent and Annuities

The value of rent accounts in arrears for a period greater than twelve months at the yearend was €932k of which €273k was in respect of closed accounts. The Council's bad debt provision for rents was €420k. Based on the aged analysis and assuming a 20% collection on arrears greater than a year the Council's bad debt provision for rents maybe understated by as much as €380k.

#### Chief Executive's Response

Since the unification of the Councils in June 2014 we have set up a new unit within housing to deal with housing income debt collection. Since then we have carried out a full review of the rent income and collection process and we will provide in our 2015 accounts sufficient provision for bad debts. In deciding on the level of bad debt it is important that we take account of the number of customers who have arrears but are

on payment plans with the council to clear same over a number of months/years depending on their income and the amount outstanding.

### **3.4 Housing Loans**

The collection yield increased by 5% when compared to the previous year's 61%. The Council's net arrears of €443k comprised of 96 accounts in arrears for period greater than 6 months with arrears of €476k. The Council has provided €130k for negative equity in the event of it seeking repossession of a house due to the non-payment of loans.

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

Of the 96 accounts in arrear of greater than 6 months 27 (28%) owe less than €1,000. We are working with our loan customers to improve their payment plans with priority being given to the customers that owe larger amounts to get them onto our Loan Debt Collection process (MARP). We will review our provision for negative equity in 2015 taking into account the capital amount outstanding on each loan and the current market value of the properties.

### **4 Trade Debtors**

From the audit work carried out it appears that the Council's bad debt provision of €1.9m for the debtors examined maybe under provided in the region of €1.1m. It was also noted that a number of capital housing schemes accounted for approximately €1.3m as Government debtors even though discussions have been on going with the Department for a number of years to settle these claims.

A detailed review should be carried out of all debtors to ensure that if there is little likelihood of payment that adequate bad debts provisions are created.

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

Following the setting up of our new debt collection section and the housing debt section we commenced a full review of our debtors and bad debt provisions and our collection processes over all income streams starting with the rates and rents and this work is ongoing at present. Adjustments to our bad debts provisions will be made in 2015 and subsequent years.

### **5 Transfer of Water and Sewerage Functions to Irish Water**

From the 1 January 2014, IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at national, regional and local level. This has had a significant impact on the 2014 accounts of Louth County Council.

## 5.1 Fixed Assets- Water Property, Plant and Equipment

The net book value of fixed assets removed from the accounts relating to (IW) amounted to €182m at 31 December 2014.

In accordance with Circular Fin 02/2015 issued by the Department of the Environment, Community and Local Government (the Department) on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- section 21 provides IW with power to charge for water services
- a mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (Included in Service Level Agreement) pending the ultimate statutory transfer
- the revised accounting Code of Practice, published in December 2014 stipulates that “Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise as asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department of the Environment, Community and Local Government in consultation with the local authorities and Irish Water. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to Irish Water. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

## **5.2 Transfer of other balances to Irish Water**

Discussions are still on-going between IW and Louth County Council in relation to the water schemes capital balances to be transferred to IW. No agreement has been signed off by the Council in relation to the transfer of debtors and development levies at 1 January 2014. The Council's liability of €10.6 m to IW is disclosed in Note 6 to the AFS, this figure may be subject to change pending the outcome of the discussions between both parties involved.

## **5.3 Transfer of loans to Irish Water**

IW related loans amounting to €1.8m are included in the accounts of Louth County Council. The Department will redeem the loans in 2015 being included in the Government debtor figure of €6.2m in Note 5 to the AFS.

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

All transactions in relation to the transfer of Water and Waste Water services to Irish Water is covered by Government legislation and Department regulations. The actual transfers are dependent on different pieces of legislation/regulations which started in 2014 and is still ongoing in 2015. As soon as all issues are resolved and regulations/legislation is complete the accounts will be amended to show the final agreed transferred figures. The amounts shown in the 2014 accounts are in line with accounting policies as at 31<sup>st</sup> December 2014.

## **6. Bridging Finance – Affordable Loans**

Included in the Council's long term borrowings were bridging loans of €5.7m, on an interest only basis, in respect of 48 housing units originally acquired for resale under the affordable housing program.

These units have now been allocated to voluntary housing bodies under the Social Leasing Scheme to address current housing needs. The leases are for an initial five year period with interest costs fully recoupable from the Department provided the houses are occupied by qualifying tenants. A number of these leases are now reaching maturity and arrangements for renewing the leases are yet to be put in place.

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

The renewing of these leases for a further five year period, with the interest costs fully recoupable from the Department, has been approved by Department under the Social Leasing Scheme and each lease will be renewed as they become due.

## **7 Internal Audit Function**

Regulation 9 of the Local Government (Financial and Audit Procedures) Regulations 2014 requires 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.

Local authorities are also obliged to establish audit committees in accordance with section 59 of the Local Government Reform Act, 2014. A key function of the audit committee is to “foster the development of best practice in the performance by the local authority of its internal audit function.” This requires the audit committee to ensure that an internal audit function is in place that operates to professional internal audit standards. This encompasses the approval and monitoring of the annual work plan of the internal audit function and ensuring that management properly engages with internal audit, including the implementation of its recommendations. The audit committee cannot discharge its statutory functions without the support of a properly resourced internal audit function.

The annual work plan was approved by the audit committee and the Chief Executive. The Council has outsourced its internal audit function to a professional accounting firm. In the year under audit the Council renewed this work and appointed a new audit company.

### **Chief Executive’s Response**

The outsourcing of the internal audit function lends itself to a more independent review of our process and compliance levels. The audit committee have reviewed reports presented by the internal auditors and are quite satisfied with the outcome of the audits.

## **8 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.



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Maurice O'Neill  
Local Government Auditor  
November 2014