



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Louth County Council**

**for the**

**Year Ended 31 December 2015**



**An Roinn Tithíochta, Pleanála, Pobail agus Rialtais Áitiúil**  
Department of Housing, Planning, 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 2015, 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, Community 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 2015 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 5 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

- 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.

### 2. Financial Standing

The Council recorded a small surplus of €97k for the year after transfers to reserves of €1.562m. This surplus is subject to audit adjustments that I have identified in paragraph 4 and directed management to adjust in the 2016 accounts. Details of over/under expenditure are contained in note 16 to the AFS.

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

- Net increase in fixed assets of €10.6m
- Decrease in net trade debtors and prepayments of €6.7m
- Decrease in net creditors and accruals of €3.6m

The increase in fixed assets included additions to housing stock at a cost of €11.6m which includes 30 unsold affordable housing units (6 in Ardee and 24 in Dundalk). Included in the decrease in net trade debtors was a reduction in government debtors of €3.6m and development levy debtors of €1.3m in the year. The decrease in net creditors is due to a reduction of €4.7m in deferred income. €2.4m of this reduction relates to surplus grant income on capital projects which, while deferred in 2014, was not deferred in 2015 in error (see paragraph 4).

There is a deficit of €2.5m on the general revenue balance at the end of 2015 (€2.6m in 2014). It is imperative that the Council operates strict budgetary controls in order to reduce this deficit.

Transfers to reserves over and above what was provided for in the budget were not separately approved by the Council. In accordance with the Accounting Code of Practice, Council approval should be obtained for these individually.

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

The Council is providing an amount of €2.5m over the coming years to reduce the deficit, with €250k budgeted for in 2016 and again for 2017, with any surplus income in the outturn at year end also being used to reduce this deficit.

Each year, the Council approves the statutory accounts including the over/under expenditure as reported in note 16 (to the accounts). This is fully in line with the Accounting Code of Practice. Approval for transfers to reserves over and above what is provided for in the budget will be presented to the Council for approval separately.

## **3. Income Collection**

### **3.1 Summary of Collection Accounts**

Details of collection yields from the main revenue collection accounts for 2015 with comparative percentages for the previous year were as follows:

	<b>2015</b>	<b>2014</b>
<b>Rates</b>	60%	56%
<b>Housing Rents &amp; Annuities</b>	73%	82%
<b>Housing Loans</b>	69%	66%

### **3.2 Rates**

The methodology for calculating rates yields was amended for all local authorities in 2015 after allowing specific doubtful arrears to be excluded from the total for collection figure. This is reflected in appendix 7 to the AFS. This revised methodology had been substantially adopted by Louth County Council since 2010, therefore resulting in no amendment to corresponding yield figures for 2014.

At the end of 2015, arrears of rates totalled €18m (€18.7m in 2014). While there was an increase in the collection yield, it is unsatisfactory at 60%.

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

The new procedures introduced, following the setup of the centralised debt collection section, have resulted in improvements in the level of rates collected in 2015 and this trend continues in 2016. As previously reported, it will take a number of years to get our collection rates back to the levels of the pre-economic downturn but the indications are that the changes implemented by the Council are working to date. It is important that account is taken of the number of customers who are on payment plans with the Council to clear their balances over a number of years. Processes are constantly reviewed to ensure that every available option is used to improve collection levels.

### **3.3 Rents and Annuities**

The collection yield in respect of rents and annuities has fallen from 82% in 2014 to 73% in 2015. In 2015, a review undertaken by the Council in relation to the calculation of rents resulted in a significant increase in arrears due from €2.3m in 2014 to €3.7m in 2015. A sample reviewed noted that while the balances on some accounts are decreasing, arrears continue to increase on a number of accounts as the rent payments received are insufficient to match the weekly accrual. Balances on the ten largest accounts in arrears range from €16k to €31k.

The Council made a bad debt provision in the accounts of €930k in 2015 which is 25% of the total arrears (€420k in 2014, representing 19% of total arrears). It is my opinion that this provision is inadequate.

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

As indicated, the quantum of arrears arose due to the rent review that was undertaken. The actual rent income received increased. Staffing resources have been assigned to pursue rent arrears, and the number of accounts with agreed payment plans has increased. The introduction of the Housing Assistance Payment (HAP) has led to some changes in the household budget payment process which now guarantees any commitment signed at tenancy or payment plan stage. This will increase payment compliance over time. Some historic legacy arrears files will continue to challenge the process. The bad debt provision will be increased in 2016.

### **3.4 Housing Loans**

While there has been an increase in the collection yield with regard to housing loans, arrears on some accounts continue to increase as payments received are insufficient to match the monthly loan accrual. Balances on the ten largest accounts range from €14k to €42k. The Council is pursuing arrears and engaging with mortgagees to try and reduce the balances on these accounts.

Housing loan arrears amounted to €512k in 2015 (€512k in 2014). €424k of this total relates to arrears greater than one year with €206k of this amount greater than three years. The Council made a bad debt provision of €150k in 2015 which is 29% of total arrears (€130k in 2014, representing 25% of total arrears). It is my opinion that this provision is inadequate.

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

The Council continues to pursue housing loan arrears in line with the Mortgage Arrears Resolution Process (MARP) and has seen an increase in the collection rate in this area. The bad debt provision will be increased in 2016.

### **4. Audit Adjustments to Accounts**

I identified that the following items were incorrectly treated in the 2015 accounts.

- The Council deferred income in the 2015 accounts relating to revenue grants for two environmental projects amounting to €607k. This income should not have been deferred but included in the revenue account
- A sum of €397k of revenue expenditure was included in accruals at the end of 2015, pertaining to a former town council. A review of this expenditure identified that no such liability existed
- It is my opinion that the bad debt provision relating to rents and housing loans is understated (see paragraphs 3.3 and 3.4)
- Capital Income amounting to €2.4m pertaining to various projects was not deferred at the end of 2015. This has no impact on the revenue account

- Adjustments to the liability owing to IW were identified, amounting to €1.34m (see paragraph 6.1). These adjustments have no impact on the revenue account
- A long term debtor (with corresponding creditor) for €2.4m has not been included in the accounts at the end of 2015 in respect of capital asset leasing facilities provided to approved housing bodies. This is a balance sheet item and has no impact on the revenue or capital account

I have directed that the above corrections pertaining to the capital account, the liability to IW, and the long term debtor (with corresponding creditor) in respect of capital asset leasing facilities be processed in the 2016 Accounts of Louth County Council in accordance with Section 16(b) of the Local Government (Financial and Audit Procedures) Regulations 2014. I have further directed that the revenue adjustments totalling €1.0m above (€607k plus €397k) be made in the 2016 accounts. I am furthermore recommending that management review the bad debt provisions for rents and housing loans above and increase these in 2016.

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

Items 1, 2 and 5 above were not finalised until 2016, and the 2016 accounts will reflect these adjustments. The Council is building its bad debt provisions over a number of years and will continue to do so in 2016. Capital income will be treated as deferred income where appropriate in future. The long term debtor and corresponding creditor have now been included in the 2016 accounts.

### **5. Capital Account**

#### **5.1 Unfunded Balances**

The net capital balance at the end of the year showed a surplus of €19.3m. Included in this sum is an amount of €11.6m in respect of a number of projects including the purchase of land which has remained static for years. Plans should be drawn up to fund these balances.

There are four capital final accounts with the Department of Housing, Planning and Local Government (the Department) in respect of housing projects which at the end of 2015 had debit (adverse) balances totalling €1.6m. The Council needs to liaise with the Department with a view to bringing these to a conclusion as soon as possible.

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

A significant amount of the €11.6m with regard to the static balances, relates to the purchase of land for the construction of housing. These balances have been identified and notified to the Department. The local authority is reviewing all capital balances on an ongoing basis with a view to funding debit balances.

The Council will endeavour to conclude the final accounts with the Department as soon as possible.

#### **5.2 Narrow Water Bridge Construction Project**

In 2008 the Council undertook a project to construct a bridge over Carlingford Lough, connecting the county with Northern Ireland. The Council secured funding of €17.4m from the European Region Development Fund, based on the cost estimate prepared by consultants engaged by the Council. This estimate which was prepared in 2011 indicated the construction element of the cost to be in the region of €15.9m. However when the project went to tender in 2013, the lowest tender received was significantly higher than this amount at €30m, giving rise to funding issues. As a result, the project was suspended.

The following issues are of concern in relation to this project:

- Total costs incurred on this project at the end of 2015 amounted to €1.95m which includes payments of €1.3m to the consultants engaged by the Council on the project;
- The €17.4m of funding which was secured by the Council was subsequently withdrawn as the time limit had expired in June 2015; and
- A dispute ensued between the consultants and the Council pertaining to costs. Following conciliation the Council was ordered to pay €304k to the consultants.

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

The auditor's comments are noted.

### **6. Transfer of Water and Sewerage Functions to Irish Water (IW)**

There is a liability included in the 2015 accounts of €11.5m payable to IW. This sum includes €2.43m in respect of cash received / short term debtors for water development contributions, and €9.07m in respect of the transfer of water debtors, development contributions and water related capital balances to this body in 2014. It was highlighted at the previous audit that discussions were ongoing between the Council and IW pertaining to agreeing the final figure of €9.07m due to be paid in respect of the transfer of these balances. The Council has represented to me that at the conclusion of this audit, agreement has been reached with IW in relation to this figure and that the Council has received a reduction of €1.34m in the amount due to be paid. This reduction consists of the elimination of the capital replacement fund due of €1.28m and a reduction of €58k due in respect of the takeover of miscellaneous debtors by IW. This reduction has not been reflected in the 2015 AFS (see paragraph 4) as agreement of the final figure was only reached between both parties in October 2016.

There are ongoing issues with regard to the transfer of properties to IW including the subdivision of folios, right of way issues and sites not registered. The Council is working with IW and the Department in order to address these matters.

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

The figures reported in the 2015 accounts represented the financial position as at the end of 2015. The final figures were agreed with IW in October 2016 and the 2016 accounts will be amended to take account of the final adjustments.

The change manager continues to work with the property interest register manager on a case by case basis to facilitate the smooth transfer of assets to IW. The necessary financial resources to facilitate the first registration of assets in the current round are in place and this will accommodate the subdivision of folios where necessary.

### **7. Development Contributions**

There was no report available providing details of total cash in hand at the end of 2015 in respect of development contributions received, broken down by individual type of contribution. This information is essential for the purpose of funding capital projects.

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

This report is being worked on at present and will be completed by the end of 2016. The Council has been prudent in its spending of development levy monies over the last number of years and only spending what has been collected each year.



## **8. Provision of Housing by Approved Housing Bodies**

### **8.1 Accounting for the Provision of Housing by Approved Housing Bodies (AHBs)**

A review of controls in place with regard to accounting for the provision of housing by approved housing bodies highlighted weaknesses in some areas including the following:

- A review to ensure that mortgages on all properties that have been registered has not been conducted by the Council
- The total paid to the AHBs in respect of mortgages have not been reconciled to the payment amounts as approved by the Department
- Annual statements of occupancy have not been obtained from each AHB in respect of properties funded by the Department
- There are no records maintained of details of property inspections to review tenant nominations and vacancies
- There are no periodic inspections of properties carried out

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

The Council will review these matters and endeavour to put controls in place subject to resources being available.

### **8.2 Leasing of Affordable Housing Units to AHBs**

The Council are currently leasing a number of affordable housing units to AHBs. These leases are for periods of five years. In respect of 12 of these, the lease expired in November 2015. Departmental approval to lease these units for a further five years has been obtained, however the lease agreements have not yet been signed by the relevant housing body. In the meantime the housing body is continuing to lease these properties.

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

The lease in the above case was not signed as the AHB was considering an outright purchase of these units (tenants not affected). The Council will finalise this lease as soon as possible.

## **9. Loans Payable**

### **9.1 Loans Borrowed for the Purchase of Land**

Included in loans payable at the end of 2015 is €68.962m borrowed to fund the purchase of land for housing some years ago. No capital (principal) payments have yet been made by the Council in respect of these. These loans incurred interest of €1.28m in 2015. €281k of this cost was added onto the principal sum while the balance of €1.0m was paid by the Council. The relevant lands remain undeveloped.

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

The issue of the land loans is being dealt with at a national level and there are a number of schemes that the Council has applied for to the Department in order to resolve this issue.



## 9.2 Bridging Finance / Affordable Housing Loans

Included in loans payable at the end of 2015 were four bridging finance loans totalling €5.744m and two variable affordable housing loans totalling €4.239m in respect of 54 affordable housing units originally built and acquired for resale under the affordable housing programme.

The 54 affordable houses remained unsold and as a result were taken into the Council's housing stock. Interest costs associated with these loans amounted to €166k in 2015. While the Council is recouping these costs from the Department, it is not recouping the principal element of the variable loans which for 2015 amounted to €139k. The variable housing loans were borrowed in error (instead of bridging loans which incur interest only) as these incur both principal and interest.

### Chief Executive's Response

The 54 units are being recorded in the Council's housing stock system for tracking purposes only. An approved housing body is managing these units on a 5 year lease. The interest on these loans is recouped from the Department. The Council is working with the Housing Finance Agency at present to convert these variable housing loans to bridging loans.

## 10. Part V Register

Part 2, Section 3 of the Planning and Development (amendment) Act, 2002 requires developers to provide land for public housing. This could be in the form of a financial contribution, land or a combination of these, to the local authority at an agreed cost. The purpose of this requirement is to assist in the provision of social and affordable housing.

The Part V register provided to me at audit has not been updated and therefore did not provide details of outstanding agreements entered into with developers, including financial contributions due to the Council. This register should be maintained and updated on a regular basis and at year end.

### Chief Executive's Response

Prior to the Local Government Reform process, the three housing authorities maintained their own records of Part V discussions and agreements. In recent years there has been almost no activity in this area, however it is an area now that is becoming more active. As part of the current social housing investment program (SHIP) reporting structure, an electronic Part V register is being introduced and the Council will, in the first quarter 2017, input all historic data into this system, which will address the issues raised.

## 11. Ethics Register

The following was noted with regard to the return of the annual declarations:

- A number of declarations were still outstanding
- Some declarations were not complete
- Declarations were, in some instances returned after the statutory deadline

In accordance with Part 15, Section 171 of the Local Government Act, 2001 these declarations should be furnished to the ethics registrar within the required timeframe. Returned declaration forms should be fully completed.

## **Chief Executive's Response**

A compulsory seminar on the requirements of Part 15, Section 171 of the Local Government Act 2001 will be given to all appropriate staff in respect of the return of the annual declarations for February 2017. A similar program will be provided to the elected members. Further controls have been put in place for follow up and escalation as appropriate within the organisation.

## **12. Controls Pertaining to Council Properties**

### **12.1 Registration of Title/Reconciliation with Fixed Assets**

At the time of audit, the Council were in the process of reviewing and recording an inventory of all its properties. A key part of this review is to ensure that the Council has registration of title and is liaising with the Property Registration Authority in this regard. When this exercise is completed a reconciliation of all properties should be undertaken to ensure their inclusion in fixed assets in the accounts.

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

This work is ongoing and will take a number of years to complete.

### **12.2 Housing Stock Reconciliation**

A housing stock reconciliation, agreeing the number of houses included in fixed assets to the number of houses included on the Council's rent register was not completed for 2015. This is an important control and should be prepared annually.

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

This reconciliation will be completed for 2016. Changes being made to the relevant Council's systems will allow this reconciliation to be more readily available in future.

## **13. 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.

### **13.1 Highlanes Gallery Limited**

This is a wholly owned subsidiary of the Council. The principal activity of this company is the conduct of an art gallery and other associated activities. The Council made payments totalling €190k in grants during 2015 to this company.

The most recent audited accounts received in respect of this company are for the year ended 31 December 2014 when it recorded a deficit of €5k (€4k in 2013). The associated audit report in respect of these accounts includes an emphasis of matter paragraph concerning a decision by the directors not to effect an impairment of the valuation of the buildings owned by the company. These buildings were valued at €2.183m at the end of 2014.

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

As Highlanes Gallery Limited is owned by the Council, the accounting policy applied to fixed assets is uniform with that as applied in the local authority.

## **13.2 Business Investment District Scheme Dundalk Limited**

The Council owns 20% of the voting power of this company which is limited by guarantee. The principal activity of this company is to actively manage and expand Dundalk town's businesses and to provide additional services used for the development and promoting of the Dundalk business district.

The most recent audited accounts in respect of this company are for the year ended 31 December 2014. In 2014 it recorded a surplus of €19k (€14k in 2013). The audit report associated with the 2014 accounts included an emphasis of matter paragraph stating that this company is dependent on financial support from Louth County the Council. This paragraph also states that the directors have been unable to obtain any guarantee from the Council regarding monthly subvention for the forthcoming financial year, however, there is no indication that funds are likely to cease. Accordingly, the directors have formed the view that it is appropriate to prepare the financial statements on a going concern basis.

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

The Business Investment District Scheme Dundalk Limited (BIDs) is funded by a 1.5% levy that is placed on the rate customers in the former Dundalk Town Council rates area. These monies are collected by Louth County Council and paid over to the BIDs Company. To assist the company manage their cash flow, Louth County Council pays the company an agreed monthly instalment with a reconciliation carried out at the end of the year and the balance of money collected, paid over. This procedure is reviewed annually with BIDs.

## **14. Corporate 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.

### **14.1 Risk Registers**

Internal audit recently undertook an audit of risk management and corporate governance in the Council and is due to present its findings to the Audit Committee. The Council is currently undertaking a review of the corporate risk register (which incorporates all risk registers of the Council).

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

A comprehensive review of the corporate risk register will be completed before the end of 2016.

### **14.2 Internal Audit**

In 2015 the Council's internal audit function consisted of a contract with a firm of professional financial service providers for 50 days. The annual work plan was approved by the Chief Executive and the Audit Committee. Internal audit reports directly to the Chief Executive and the Audit Committee. Three reports were completed in 2015 with work in progress ongoing on a number of other reports. The completed reports have all been reviewed by the Audit Committee.

I have taken account of the work of internal audit in carrying out my audit.

**Chief Executive's Response**

The auditor's comments are noted.

**15. Acknowledgement**

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



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**Patrick McCabe**  
**Local Government Auditor**  
**7 December 2016**