



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Louth County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

housing.gov.ie

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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 2018, 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, Planning, and Local Government.

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 2018 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 Financial Standing

2.1 Statement of Comprehensive Income

The Council recorded a surplus of €150k for the year after net transfers to reserves of €603k. Details of over/under expenditure are contained in note 16 to the AFS and were approved at the April 2019 Council meeting.

2.2 Statement of Financial Position

Significant movements in the finances of the Council are set out below:

- There was a net increase in long term debtors of €9.6m. This included an increase of €10.9m in capital asset leasing facilities to approved housing bodies (AHBs), for which there is also a corresponding amount included in long term creditors in respect of this amount. There was also an increase of €1.6m in long term mortgage advances coupled with a decrease of €2.7m in recoupable loan advances

- There was a decrease of €3.5m in trade debtors and prepayments. This was due in the main to a decrease in rates arrears of €3m
- Bank investments increased by €13.1m while there was a decrease in cash at bank of €1.4m.

3 Income Collection

3.1 Summary of Income Collection

Income Source	Yield %		Debtors €m	
	2018	2017	2018	2017
Rates	80	75	9.5	12.5
Rents & Annuities	76	69	3.8	5.1
Housing Loans	76	75	0.4	0.4

3.2 Rates

There has been an ongoing improvement in the collection yield with regard to rates with an increase of 5% in 2018 compared to the previous year. The table below highlights the improvement in the collection yield over the last four years:

Year	2018	2017	2016	2015
Collection Yield	80%	75%	68%	60%

Gross arrears, (net of credit balances) which amounted to €9.8m (€12.9m in 2017) are being actively pursued for collection. A provision for bad debts of €8.0m was made in the accounts representing 81% of total gross arrears outstanding at year end.

Chief Executive's Response

Our collection procedures in place have proven successful in addressing the poor collection rates in past years and we are well on the way to returning to the collection levels of the pre-economic downturn. We continue to monitor the process and every opportunity to improve our collection levels is implemented as it arises.

3.3 Rents and Annuities

There was marked improvement in the collection yield in respect of rents and annuities in 2018. Details of the collection yield in respect of the last four years are as follows:

Year	2018	2017	2016	2015
Collection Yield	76%	69%	71%	73%

Gross arrears (net of credit balances) amounted to €4.2m in 2018 (€5.4m in 2017). A review of a sample of rent accounts revealed that the Council is vigorously pursuing these arrears. A provision for bad debts of €3.1m was made in the accounts representing 74% of gross arrears outstanding at year end.

Chief Executive's Response

The auditor's comment is welcomed and Louth County Council will continue to vigorously pursue the arrears.

The new collection procedures introduced in late 2017 have proven successful in improving our collection rates. The number of customers on payment plans continues to increase but as previously advised it will take most customers a number of years to clear their arrears in full.

3.4 Housing Loans

The collection yield in relation to housing loans increased by 1% to 76% at the end of 2018 (75% in 2017). Details of the percentage collection yield between 2018 and 2015 are included on the table below:

Year	2018	2017	2016	2015
Collection Yield	76%	75%	73%	69%

The Council is actively pursuing the recovery of arrears. Gross arrears (net of credit balances) decreased to €421k compared to €444k in 2017. A provision for bad debts of €300k representing 71% of total arrears outstanding at year end was made in the accounts.

Chief Executive's Response

The comment is welcome and Louth County Council will continue to pursue the recovery of the arrears.

Again, our debt collection procedures continue to show improvements in our collection rates. We will continue to work with our customers to ensure the improvement continues in the coming years.

3.5 Provision for Bad Debts

The provision for bad debts in respect of the above collection accounts, while considered adequate, should be kept under review for possible over provision as arrears decrease.

Chief Executive's Response

This is due to the commitment given in previous audit reports to address the shortfall in our bad debt provisions through prudent budgeting and improvements in our debt collection. We will continue to review our provisions and keep them in line with the outstanding customer balances at year end.

4 Debtors

4.1 Government Debtors

At the end of 2018, there was an amount of €5.6m outstanding from the Department of Housing, Planning and Local Government (the Department), in relation to invoices issued with regard to housing activities. Currently €1.5m of this amount remains outstanding with €927k of this relating to invoices issued in 2016.

Chief Executive's Response

Correspondance is ongoing at present with the Department to address any outstanding amounts due and ensure that recoupments going forward are paid within a resonable time frame.

4.2 Other Debtors

It was highlighted at previous audits, debtor balances outstanding for long periods, including some balances that were transferred from the former town councils as part of their amalgamation with Louth County Council. A review of these at the current audit indicated that the Council is continuing to examine these as to their collectability and where appropriate carry out any necessary adjustments including adjusting the provision for bad debts. This work should continue pending a full review of all of these balances.

Chief Executive's Response

As stated above, this work is ongoing at present and we hope to have all accounts examined as to their collectability and make any necessary adjustments by year end.

5 Plant and Machinery Account

The plant and machinery account adjustment (an adjustment made to remove income and expenditure from this account) was not made to the accounts, resulting in an overstatement of both income and expenditure of €1.1m in the category of 'Miscellaneous Services' in the income and expenditure account. It should be noted that this does not affect the overall surplus for the year of €150k.

Chief Executive's Response

The plant and machinery account has always been reported as part of the budget and the annual financial statement. The adjustment set out in accounting manual was not implemented in previous years. The above adjustment will be introduced in budget 2020 as it was not included in the budget for 2019.

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

Transfer of Title of Properties

The Council is continuing to engage with IW to address issues such as sub-division of folios, first registration of assets and the sub-division of sites for the purpose of transfer of title. A total of 29 properties have transferred to date to IW with a further 12 properties prepared for transfer subject to agreement and all necessary approvals. I have been informed that in addition to this, progress has been made on the transfer of a number of underground pumping stations and that there are approximately 70 assets remaining to be considered for transfer to IW.

Land Sites

Five sites were identified in fixed assets in the accounts with a total cost of €1.7m that are subject to subdivision of folio, whereby a portion of these lands will transfer to IW while the remainder will be retained by Louth County Council. The percentage of land to be transferred to IW has not yet been agreed by both parties.

Chief Executive's Response

The transferring of assets to IW is a slow process due to the registering of properties, transfer of title, ministerial approvals and updating of the Property Registration Authority records. Work is also delayed where there are right of way issues and subdivision of folios required. This work is ongoing and we will continue until all assets are transferred. Work on the five land sites above is progressing but we are prioritising the straight forward asset transfers first.

7 Capital Account

7.1 Static Capital Balances

Total net capital balances at the end of the year amounted to a surplus of €29.1m. This sum includes €29.5m in respect of debit (adverse) balances on job codes where the balance has either increased or remained static over the last three years.

Chief Executive's Response

Work continues on reviewing all outstanding capital balances and identifying funding sources for each capital scheme.

7.2 Debit Balances - Land Purchases

At the end of the year, debit balances totalling €12.92m were identified relating to land acquisitions. The following is a breakdown of these:

Project Description	Closing Balance at 31/12/2018 €m
Land Acquisition - Drogheda	5.64
Land at Mullavelley Louth	5.13
Land at Kilkerley	1.13
Land at Dunleer	0.13
Land at Marlbog Haggardstown	0.52
Land at Mount Avenue - Dundalk	0.19
Land at Lower Point Road - Dundalk	0.04
Land at Collon	0.14
Total	12.92

These balances form part of the static balances total of €29.5m mentioned at paragraph 7.1 above.

Chief Executive's Response

The Council continues to apply to the Department for housing schemes for our lands and priority is given to the lands on which there are outstanding loans, as the repayment of interest on these loans are depleting our internal capital receipts.

7.3 Funding of Debit Balances

In excess of €15.5m of capital debit balances are currently being funded or are planned to be funded from the revenue account in the future (€1.8m of this amount is included in the figure of €29.5m categorised as static balances mentioned above.) The balances on these projects range from €4k to €6.7m, with the largest balances relating to the Whiteriver Landfill site, €6.7m and New County Offices €2.6m. In addition, there is a static debit balance of €1.3m relating to the rejuvenation of the Market Square, Dundalk. It is planned to fund this balance from the revenue account and development contributions, in the future.

Chief Executive's Response

It is usual for some capital projects to be funded from the revenue account over a number of years. We continue to budget for these projects as part of the annual budget within the limitation of our resources.

7.4 Housing Capital Balances

A number of capital housing projects with debit balances totalling €3.4m have to be resolved with the Department. Details of these are as follows:

Project Description	Closing Balance at 31/12/2018 €m
Greenore Rd Carlingford Social Housing	1.0
Toberona Housing Scheme	0.7
Cappocks Gate Phase 2 Social Housing	0.7
Barrack Street Smart Home Project	0.5
Gort Uaine - Phase 3	0.3
Termonfeckin Housing Phase 2	0.1
Tierney Street Ardee Communal Facility	0.1
Total	3.4

These balances are included in the static capital balances figure of €25.9m mentioned at paragraph 7.1 above.

Chief Executive's Response

Louth County Council is actively progressing a resolution of these outstanding balances.

The review of all housing capital balances continues and, as previously stated, final account claims will be lodged with the Department in respect of any outstanding amounts.

7.5 Housing Capital Debit Balances for Investigation

There are a number of housing projects with debit balances that require examination. Included in these are the following:

Project Name	Balance at 31/12/2018 €m
Tierney Street Ardee Sites	0.29
Tierney Street Ardee Affordable Housing	0.16
Oriel Road Collon (Voluntary)	0.23
CPO for 2 Slieveroe Crescent	0.01
Land at Armagh Road Part V Voluntary Housing	0.09
Turnkey Social Housing at Rock Road (46 units)	0.04
Clanmil Voluntary Housing Tom Bellew Avenue	0.22
Respond Housing Toberona	0.11
Stamarran Blackrock Capital Acquisition Leasing Facility Scheme	0.04
Blackrock Phase 2- Private Sites Gort Na Glaise (5)	0.34
Oaklee Voluntary Housing Tierney Street Ardee (48)	0.12
Respond Marley's Lane 18 Affordable Houses	0.22
Disabled Persons Grants - Private Houses Capital	0.13
Tredagh View Phase 2 - Community Facility	0.03
Tredagh View Phase 2 - 16 Affordable Houses	0.27
Tredagh View Phase 2 - 8 Loan Subsidy Scheme	0.06
Tredagh View Phase 2-25 Capital Assistance Scheme Houses	0.16
Total	2.52

All of the above debit balances are included in the figure for static balances of €29.5m mentioned at paragraph 7.1 above.

Chief Executive's Response

Louth County Council is actively pursuing the resolution of these outstanding balances. The above are also being reviewed as part of the housing schemes review and final account claims will be submitted to the Department in respect of any outstanding balances.

7.6 Housing Capital Projects – Deferred Income

A review of housing capital projects identified an amount of €2.9m which continues to be treated as deferred income in the accounts. €2.0m of this sum relates to amounts transferred from the former town councils in 2014 while €0.9m pertains to Louth County Council which includes amounts deferred since 2009 and 2016.

This deferred income should be reviewed as part of the examination and elimination of housing capital debit balances which have been in existence for years.

Chief Executive's Response

The deferred income is being reviewed as part of the capital balances examination referred to above and will form part of the elimination of the debit balances on the different housing schemes.

7.7 Expenditure Charged to the Capital Account

Planning Compensation Claim

An amount of €443k was charged to the capital account in respect of the settlement of a planning compensation claim in 2018. €100k of this amount was funded by a transfer from the revenue account, leaving a debit balance of €343k of expenditure in the relevant job code. This in my opinion is revenue expenditure and as such should be charged to the revenue account.

Fleadh Cheoil

County Louth hosted the Fleadh Cheoil Irish Music Festival in Drogheda during 2018, and will do so again in 2019. It was noted that a total of €803k was charged to the capital account in 2018 leaving a debit balance of this amount on the relevant project code relating to this festival. This is due to Louth County Council agreeing to cash flow the Fleadh for these two years. The Head of Finance has confirmed to me in writing that it is anticipated that the Fleadh committee will raise sufficient funding over the cumulative two-year period to clear this expenditure. This will be reviewed at the next audit.

Chief Executive's Response

The planning compensation claim will be funded from the revenue account in 2019. With regard to the Fleadh Cheoil funding, it was agreed that the Council would cash flow the Fleadh Cheoil committee over the two years the Fleadh would run and the Fleadh committee will raise sufficient funding to clear this capital balance over this two year period.

7.8 Construction of Colaiste Cu Chulainn Dundalk

Louth County Council acted as Project Executive for the Department of Education and Skills in overseeing the construction of a post primary school in Dundalk. This also included making the necessary payments to the contractor involved in its construction with subsequent recoupment of this expenditure from the Department of Education and Skills. The approved tender contract for this scheme was €16.3m.

In December 2018, a claim for €1.2m was submitted by the contractor for additional works. In May 2019, a conciliation hearing was held to address this matter. The conciliator recommended that a payment of €568k be made to the contractor in full and final settlement of this claim. This cost as well as all the professional fees incurred in relation to this matter are being funded by the Department of Education and Skills.

The above figures are inclusive of VAT.

8 Fixed Assets

8.1 Land / Property Register

While work continues on updating the Council's land register, I have been informed that consideration is being given to the implementation of a new computerised system to more accurately record all acquisitions and disposals of property. This system is separate from the financial management system used in the recording of fixed assets in the accounts.

Weaknesses in controls were noted with regard to updating the property register currently in operation in the Council. These weaknesses should be addressed.

Chief Executive's Response

The updating of the current property register is cumbersome but it was the most suitable system to meet our needs at the time it was introduced. Advancement in technology has resulted in more user friendly systems now available and the Council is currently looking at options to upgrade/replace the current register. Work is continuing to identify and register all properties owned by the Council.

8.2 Housing Acquisitions - Compulsory Purchase Acquisition Process (CPO)

During 2018, the Council added 37 houses to its housing stock, 28 being acquired through the compulsory purchase order process (CPO). To date 50 such acquisitions have been capitalised to fixed assets. The Council took possession of each individual property by means of a 'Vesting Order', a court order that passes legal title in lieu of a legal conveyance.

The Council obtains an independent valuation for each property and uses this in the calculation of the cost to be capitalised to fixed assets. The amount of this valuation is accrued as both income and expenditure in the accounts until an agreed amount for payment to the previous owner of the property is reached.

8.3 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 made available at audit. This is an important control and should be prepared annually at the end of the year.

Chief Executive's Response

A procedure to ensure this will be carried out on an annual basis will be introduced in 2019.

8.4 Proof of Title

Evidence of proof of title was sought in relation to a number of properties of the Council. However in the case of three properties, namely, Land at Toberona, Carlingford Courthouse and Dundalk Library Bookstore, there was no evidence on file that the Council held proof of title in respect of these.

Chief Executive's Response

These properties have been in the ownership of the Council for a number of years. We will investigate the reason why the evidence is not on the relevant files and address this during 2019.

9 Loans Payable

9.1 Loans Payable Summary

A breakdown of loans payable is analysed as follows:

Loan Type	Balance Outstanding at 31/12/2018 €m
Mortgage Loans	16.01
Non Mortgage Loans	76.14
Bridging Finance	5.74
Voluntary Housing Loans	54.05
Share Ownership - Rented Equity	0.02
Total	151.96

The Council had a mortgage loan funding surplus at the end of 2018 of €1.1m (€2.7m in 2017). Further details of this are included in note 12 to the AFS. Voluntary housing loans are fully recoupable from the Department.

9.2 Loans Borrowed to Fund the Purchase of Land

(a) Financing of Land Loans

At the end of 2018, non mortgage loans included an amount of €69.1m relating to the purchase of land for housing. €3.8m of this sum relates to a loan that forms part of the land aggregation scheme and as such, both the capital (principal) and interest charges pertaining to this loan are fully recoupable from the Department. No capital repayments were made by the Council in respect of the remaining balance of €65.3m as these loans are currently on an interest only basis. The position at the end of 2018 with regard to the commencement of capital repayment of these loans was as follows:

Loan No.	Amount Outstanding at 31/12/2018 €m	Date of Commencement of Repayment of Capital (Principal)
1	19.8	Dec-19
2	16.8	Dec-19
3	4.2	Jun-20
4	7.4	Jun-20
5	1.5	Jun-20
6	8.7	Jun-21
7	6.2	Dec-22
8	0.7	Jun-23
Total	65.3	

Interest totalling €816k was charged to the Council in respect of these loans in 2018. €108k of this amount was added to the principal sum while the balance of €708k was funded from the Council's internal capital receipts. As highlighted at the previous audit, this is having a significant impact on the Council's internal capital receipts, which are used to fund housing maintenance and refurbishment programmes.

(b) Loan Borrowed to Purchase Land for Affordable / Social Housing Scheme

€1.53m remains outstanding on a loan borrowed in 2002 to purchase land which was used to construct an affordable / social housing scheme at Lisdoon, Dundalk. The housing units pertaining to this scheme have since been sold or let. Therefore, the amount outstanding on this loan should be redeemed.

Chief Executive's Response

As responded to at paragraph 7.2 above, the Council continues to apply to the Department for housing schemes for our lands in an effort to eliminate the finance charges associated with the loans borrowed to acquire these.

The loan of €1.53m outstanding to purchase land at Lisdoon will be redeemed with the Housing Finance Agency in 2019.

9.3 Variable Housing Affordable Loans

The Council borrowed two variable affordable housing loans in 2009 and 2012 in error, in lieu of bridging finance to construct affordable houses at Lis na Dara. While bridging loans incur interest only, which is recoupable from the Department, variable affordable loans incur both capital and interest. The interest on these affordable loans is recoupable, the capital repayable element is not and is borne by the Council. In 2018, the Council paid a total of €150k in capital repayments. I understand that the Council is working with the Department with a view to reclassifying these loans.

Chief Executive's Response

We will continue to liaise with the Department to attempt to resolve this issue.

10 Non Compliance with Planning Permission

During a review of planning bonds, it was noted that planning permission was granted in January 2017 for the decommissioning and removal of fixtures and other production elements associated with a business that had previously been carried out on the site. One of the conditions associated with this permission was that, prior to the decommissioning of the site, a refundable approved insurance company bond or a cash deposit of €500k be lodged with the Council. These monies would act as security, ensure the satisfactory completion of the decommissioning of the site and if necessary, empower the Council to apply any part thereof to achieve this.

Decommissioning of the site did commence, however, this condition of the planning permission was not complied in that the bond was not lodged with the Council by the relevant party who is now in liquidation.

Chief Executive's Response

This matter was investigated by the planning enforcement section when they were notified that some production elements were being removed from the site. It was found that the permission had commenced but the company had not complied with a number of pre-commencement conditions pertaining to this permission, which included the payment of a €500k bond. Legal proceedings were quickly considered and proposed but the company went into liquidation before the injunction proceedings could be instigated and subsequently legal opinion advised that the planning enforcement route had been exhausted in this instance. The significant decommissioning of this site as approved under planning permission has not been undertaken. The environment compliance section is currently following up on this case.

11 Pay-Parking Income

In 2018, due to issues regarding the bye-laws in operation, pay parking was suspended in Drogheda for a period in excess of four months. This resulted in a loss of approximately €300k in income during the period.

Chief Executive's Response

The bye-laws have since been updated and approved by the Drogheda Borough District and they are now in force in Drogheda.

12 Payment of Stamp Duty Tax

In 2018, the Council made a payment to the Revenue Commissioners of €231k in full and final settlement in relation to stamp duty due in respect of a number of acquisitions of lands associated with the Port Access Northern Cross Route road scheme.

13 Procurement

A central procurement unit has been put in place in the Council.

The new financial management system (Milestone 4) which became operational in the Council in 2017 includes a procurement module for use in the procuring of goods and services. However this module has only been partially implemented. As one of the key

controls is to ensure compliance with recommended public procurement practice in the tendering for goods and services, it is recommended that this module be fully implemented.

Chief Executive's Response

It is proposed to commence the full roll out of the procurement module in 2019.

14 Ethics Register

A number of declarations were not returned by the statutory deadline of end of February 2019. While some of these have since been received, others remain outstanding. In addition, a number of donation statement forms were not returned by the statutory deadline of the end of January 2019.

Chief Executive's Response

Those that have not returned their forms are being pursued and their obligations outlined to them.

15 Local Authority Companies

15.1 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.

15.2 An Tain Arts Centre

The Council owns 43% of the voting shares in this company which is limited by guarantee. The principal activity of this company is the management of An Tain Arts Centre Dundalk and the advancement of arts and culture in Dundalk and the wider region.

The company's most recent audited accounts, for the year ended 31 December 2017 recorded a deficit for the year of €51k (€15k in 2016).

The Council made payments totalling €150k in grants to this company in 2018.

16 Governance and Propriety

16.1 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.

16.2 Protected Disclosures Procedures

During 2018, the Council developed a policy and procedures document with regard to dealing with protected disclosures. This was adopted by the Audit Committee in February 2019.

17 Risk Registers

The corporate risk register, which encompasses the risks of all directorates / areas of the local authority, is updated on an ongoing basis. A copy of this register was provided at audit. The registers pertaining to the individual directorates however were in need of significant updating at the time of audit.

Chief Executive's Response

The updating of the risk registers is an ongoing process. During 2019 all directorates' risk registers will be updated in line with the corporate risk register. The audit committee review the risk registers as part of their annual programme and the Directors of Services present their directorate's risk register at the audit committee's meetings.

18 Internal Audit

The Council has in place a contract with a firm of professional service providers who carry out the internal audit function for 58 days per annum. The internal audit plan, which was provided to me, was approved by the Chief Executive and Audit Committee. Eight reports including a follow up review report were completed. These reports have been reviewed by the Audit Committee.

Delays between the scheduled completion date and the actual completion date of some audit reports were noted. It is important that management responses in relation to issues raised be completed in a timely manner to assist in the completion of these reports.

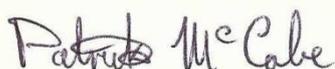
I have taken account of the work of internal audit in carrying out my audit.

Chief Executive's Response

The issue of delays in finalising responses to audit reports will be addressed in 2019.

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.



Patrick McCabe
Local Government Auditor
2 July 2019

