



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Leitrim County Council

for the

Year Ended 31 December 2014



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

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AUDITOR'S REPORT TO THE MEMBERS OF LEITRIM COUNTY COUNCIL

1 Introduction

- 1.1** I have audited the annual financial statement of Leitrim County Council for the year ended 31 December 2014, which comprise the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes on and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Accounting Code of Practice for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the annual financial statement (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 6 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 opinion on the statement and to report my opinion to you. 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 annual financial statement. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the financial statement, 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

- 2.1** The Council recorded a surplus of €153k after making net transfers to reserves of €113K in 2014, resulting in an accumulated deficit of €1.4m at the end of the year. I note however, that gratuities amounting to €254k were charged to the capital account at the year end. The Accounting Code of Practice (ACOP) issued by the Department of Environment, Heritage and Local Government (the Department) states that "payments in respect of pensions and gratuities are treated as current expenditure and are charged to the revenue account in the accounting period in which the payments are made". In compliance with the ACOP, this sum should be recharged to the revenue account.

2.2 The variances between the adopted budget and the actual outturn in the revenue account are shown in Note 17 to the AFS and were approved by the members in May 2015.

The net capital balance surplus at the end of the year decreased by €1.35m, and showed an overall surplus of €13.6m. Included in this sum is an amount of €1m classified as unfunded, and for which funding proposals need to be put in place to eliminate these balances in the future. The Council may be required to utilize €6.1m of this surplus for the buy-back of the Leitrim Leisure Centre in 2018, which was agreed as part of a public private partnership undertaken in 2005.

Chief Executive’s Response

During 2014, the Council experienced an unprecedented situation where half (11 members) of the then Council, either retired prior to the 2014 local elections or lost their seats in these elections. As a consequence of this the Council became liable to pay gratuities amounting to €416k to these former members, broken down as follows;

- 1. Retirees - €200,266
- 2. Lost seats - €215,484

The timing of the payments of these gratuities is dependent on the individual former members reaching 50 years of age. The following is the payment profile for these gratuity payments;

Year	2014	2015	2019	2023	2027	2029	Total
Payable	€295k	€27k	€33k	€17k	€33k	€11k	€416k

As the Council’s revenue account had taken very large charges in 2012 and 2013 as a result of employee redundancies and associated payments and gratuities, this resulted in the Council entering a cumulative deficit situation of €1.426m at the end of 2014. It was deemed unviable for the Council’s revenue account to sustain the charge of €295k in 2014, and it was decided to provide €60k per annum over the 5 year period of the new Council (2014-2019) to cover these (2014) gratuities. The Council is committed to reducing this deficit in the coming years, but deem this treatment as the most practical and prudent course of action in the circumstances. This course of action would in effect result in this sum should being recharged to the revenue account by 2018, in compliance with the ACOP. The Council will also charge the future gratuity payments listed above in the accounting period in which the payments are made.

During 2016 funding proposals will be put in place in order to address the circa. €1m unfunded capital balances as mentioned above with a view to eliminating these. A fund of over €2m has been built up in the capital account since 2006 in order to offset the €6.1m liability due to crystallise in 2018. The Council makes provision from its revenue account to this fund each year and is committed to doing so. The amount of this annual provision is wholly dependent on what can be afforded each year. The Council will examine all options open to it in order to meet this liability in 2018.

3 Income Collection

3.1 The percentage yields from the main revenue collection accounts with comparatives over the previous four years were as follows;

	2014	2013	2012	2011	2010
Rates	60%	65%	64%	72%	78%
Housing Rents and Annuities	87%	91%	91%	93%	94%
Housing loans	60%	63%	65%	71%	74%

3.2 Commercial Rates

Commercial rate arrears increased by €482k to €2.67m at 31 December 2014 on the previous year. The Council wrote off €650k in respect of rates in 2014 have included a bad debts provision of €183k (7% of arrears) for these debtors. This continuing deteriorating collection yield is unsatisfactory and the Council needs to continue to review its debt collection procedures to address this matter. The bad debts provision is also inadequate and needs to be reviewed.

Chief Executive's Response

During 2015 the Council has committed to providing an additional €450k in respect of commercial rates write-offs for vacant premises which will bring the write-off in the year to €1.1m (a 70% increase). We have again, as part of the budgetary process, committed to providing the same amount for 2016. These additional provisions should go a long way to eliminating aged uncollectible commercial rates debt, which has proven to be the main encumbrance on the rates collection percentages.

In conjunction with these measures we have, during 2015, strengthened the accounts receivable team with the addition of an Administrative Officer and introduced a new debt collection system. A rates revaluation will commence in County Leitrim in 2016 and will take account of rental values in each local authority area. This will result in a more equitable distribution of commercial rates among ratepayers and should also assist with collections.

3.3 Housing Rents and Annuities

Rents and annuities arrears increased by €70k to €272k at the end of 2014, against which a bad debt provision of €4.5k has been provided for. The collection procedure and the adequacy of the bad debt provision needs to be reviewed.

Chief Executive's Response

During 2015, the Council strengthened the accounts receivable team for housing rents and annuities, with the addition of an Administrative Officer and the introduction of a new debt collection system. The rents bad debt provision will be increased in 2015 if funds allow.

3.4 Housing Loans

The housing loan collection yields continued to decrease in 2014 with accumulated arrears of €121k at the year end. A bad debt provision of €4.5k has been provided for against these loans.

Chief Executive's Response

The majority of housing loan arrears are over 2 years old and relate to high interest bearing loans granted 15-25 years ago. In 2015, the Council strengthened the accounts receivable team for housing loans with the addition of an Administrative Officer and the introduction of a new debt collection system.

4 Irish Water

The responsibility for water services functions transferred from local authorities to Irish Water (IW) in 2014. The Council continues to deliver services to IW under a service level agreement. This has had a significant impact on the 2014 accounts of the Council including the following.

4.1 Water Property, Plant & Equipment

The net book value of fixed assets removed from the accounts relating to Irish Water (IW) amounted to €157m at 31 December 2014. In accordance with Circular Fin 02/2015 issued by the Department of the Environment, Community and Local Government (The Department) in 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."

Considering that the future economic benefits will no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with 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 over a 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 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.

During the course of the audit, it was noted that a number of on-going issues in relation to the transfer of assets to IW, including registration of titles and wayleaves. These matters will be kept under audit review.

4.2 Water Related Loans

Water related loans of €5m were included in loans payable in Note 8 in the AFS at the end of 2014. These loans are showing as due within one year on the basis that they will be repaid to the HFA in full and recouped from the Department in 2015.

4.3 Balancing Statement with Irish Water

In August 2015, agreement was reached between the Council and IW as part of the due diligence process which included a statement of relevant debtor and capital balances, which were removed from the Councils balance sheet in 2014.

5 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.

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 internal audit function of the Council was provided by an external professional firm of auditors in 2014 who completed four reports in the year. I have placed reliance on this work when performing the audit.

6 Fixed Assets

6.1 Property Interest Register

As previously reported, the work of reconciling the land property register with the Property Registration Authority is incomplete. I note that in 2014, the Council introduced a new mapping system which should facilitate this reconciliation. The Council needs to ensure that this work continues and that the register is properly maintained and reconciled with the fixed assets, when it is implemented.

6.2 Housing Stock Reconciliation

A housing stock reconciliation agreeing the number of assets as reported on the AFS to the number of houses on the Council’s housing database was not completed for 2014. This is an important control and should be prepared annually.

Chief Executive’s Response

This housing stock reconciliation will be prepared annually from 2015 onwards.

7 Acknowledgement

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



Anne Halion
Local Government Auditor
10 November 2015