Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Limerick City & County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

housing.gov.ie

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AUDITOR’S REPORT TO THE MEMBERS OF LIMERICK CITY & COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Limerick City & County Council for the year ended 31 December 2017, 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 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 2017 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 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.

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 / Financial Position

The surplus for the year amounted to €2k after net transfers to reserves of €12.2m, thereby increasing the general revenue balance to €812k at the year end. The €4.2m reduction in the bad debt provision for rates contributed to the funds available for transfers. The draft AFS, the transfers to and from reserves and the over expenditure by division were considered and approved by the Council at their meeting held in May 2018.
The Council continues to show a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2017, however strict budgetary control and proactive financial management is required to maintain this position.

Significant movements in the finances for the year include:

- Increase in fixed assets €16.0m (paragraph 6)
- Increase in work in progress €27.9m (paragraph 7)
- Increase in government debtors €12.8m (paragraph 5.3)
- Increase in loans payable €2.0m (paragraph 8)
- Increase in long term debtors €21.3m
- Increase in creditors & accruals €27.2m

The increase in long term debtors and creditors & accruals is mainly due to revised accounting treatment for loans drawn down and subsequently advanced for the purposes of the Limerick 2030 Economic and Spatial Plan (paragraph 2.2).

2.2 Prescribed Accounting Treatment for Loans Advanced to Limerick Twenty Thirty Strategic Development DAC

The Limerick 2030 Economic and Spatial Plan was launched in 2013 and set out a framework for the development of Limerick city and its environs up to 2030. In order to deliver this Plan, the Council has embarked on a significant financing and investment programme, with Limerick Twenty Thirty Strategic Development D.A.C. (LTT), a company 100% owned by the Council, being the primary mechanism for delivery.

The accounting treatment prescribed for the 2016 AFS for loans drawn down by the Council for the purposes of the Plan and subsequently released to LTT involved accounting for the transactions primarily through the capital account, thereby resulting in a favourable capital balance of €24.3m at year-end. In addition, the associated loans drawn down were categorised as loans payable for asset/grants, with a corresponding debit entry posted to "reserves created for specific purposes" within Note 10 to the AFS.

At the September 2017 meeting of the national General Accounts Working Group a revised accounting treatment was agreed. Under the revised treatment, the balance on loans drawn down from the Housing Finance Agency (HFA) for the purposes of the Plan (2017 - €31.1m) are included within long term loans but are now classified as "recoupable" as opposed to "assets/grants" as was the case for the 2016 AFS. Accordingly the debit balance previously posted to "reserves created for specific purposes" has been removed in the 2017 AFS.

The 2017 AFS long term debtors figure now includes €31.3m within the recoupable loan advances figure in respect of the following:

Balance on loans advanced to LTT	€13.9m
Loans drawn down by LCCC but not issued to LTT by year-end (held in the Council bank account at year-end)	€17.4m

In addition, the 2017 short term liabilities figure includes an accrual for €17.4m to cater for the timing difference that would otherwise exist between funds drawdown from the HFA and the subsequent issue of funds to LTT.

3 Income Collection

3.1. General

	Arrears				Collection Yield		
	2017	2016	2015		2017	2016	2015
Commercial Rates	€14.5m	€18.8m	€21.5m		82%	77%	75%
Rents and Annuities	€ 2.9m	€ 2.2m	€ 2.3m		96%	94%	89%
Housing Loans	€ 0.5m	€ 0.5m	€ 0.4m		78%	74%	78%

Collection yields in all major revenue areas improved in 2017. All efforts should be made to further improve these collection yields.

3.2. Commercial Rates

This continued improvement in rates collection is acknowledged, particularly given that rates accounted for 35% of the Council's revenue income, excluding HAP in 2017.

Notwithstanding that there were over 5,000 rates customers in 2017; the Council is dependant on a small number. In particular, the top twenty customers account for €17.5m (32%) of the total rates income for the year.

The bad debt provision has been reduced from €15.9m to €11.7m in the 2017 AFS. This provision was reviewed at audit and appears reasonable.

3.3. Rents and Annuities

The rents and annuities figure in appendix 7 of the AFS is made up primarily of:

- rent payable by all tenants in the participating local authorities under the Housing Assistance Payment Scheme (HAP)
- rents due from tenants of the Council's own housing stock (Rents)
- rents due from tenants under the Rental Accommodation Scheme (RAS)

	Accrued			Arrears			Collection Yield	
	2017	2016		2017	2016		2017	2016
HAP	€51.2m	€21.7m		€0.02m	€0.06m		100%	99%
Rents	€13.7m	€12.7m		€2.51m	€1.87m		84%	87%
RAS	€ 2.0m	€ 1.9m		€0.34m	€0.24m		85%	89%
Total	**€66.9m**	**€36.3m**		**€2.87m**	**€2.17m**		**94%**	**94%**

Based on a review of debtors at the end of 2017, I deemed the bad debt provision of €1.5m to be adequate (2016 - €1.3m).

3.3.1. Housing Assistance Payment (HAP)

Under the Government's Housing Assistance Payment scheme (HAP), the Council is providing a national financial transactional Shared Services Centre (SSC) to all local authorities in the state, whereby the Council on their behalf collects differential rent from the HAP tenants across the country and in turn make payments to the landlords within the limits set for each local authority.

It is the responsibility of each participating local authority to determine the appropriateness of the rent to be paid to the landlord for each property and that the property is inspected in accordance with the statutory regulations. In addition, each local authority is required to regularly review the income of the tenants under their jurisdiction to ensure that the correct rent is applied to their account for collection by the SSC.

At the end of 2017, there were 33,416 accounts with net arrears of €22k. However, this was made up of 8,718 tenants with arrears totalling €635k and 9,068 tenants who had paid €613k in advance, with the remaining 15,630 tenants having nil balances at year-end. Given that €51.2m of rent was collectable, the overall collection performance is commendable.

The Council has not made a bad debt provision for these debts on the basis that any bad debts may be recouped from the Department.

3.3.2. Rents

During 2017, the Council commenced a global rent review process, with the last such general review being undertaken in 2011. This review was ongoing at the end of 2017 and resulted in back rent totalling €690k being applied to tenants accounts during the year. These adjustments have contributed to the increase in arrears at year-end.

Notwithstanding that there is an obligation on the tenant to notify the Council of any change to their household income or composition, it is important that the Council conducts global rent reviews on a more regular basis to ensure that the correct rent is established and collected on a timely basis.

3.3.3. Rental Accommodation Scheme (RAS)

The poor collection yield for RAS tenants has continued again in 2017. Significant improvements are required in the monitoring and reporting processes employed by the Council.

A rent review process commenced for RAS tenancies at the end of 2017 and was ongoing at the time of this audit. Management have advised that this review may result in a further increase in arrears.

3.4. Housing Loans

The collection yield for housing loans rose in 2017 to 78% with arrears at 31 December 2017 amounting to €461k (net of credit balances of €202k), bringing the gross arrears to €663k (2016 - €716k). Arrears outstanding in excess of three months amounted to €634k, of which €285k relates to shared ownership loans. The Council has made a bad debt provision of €611k based on an assessment of each individual accounts in arrears. Given the aged profile of these arrears, this provision is reasonable.

Chief Executive's Response
I welcome the auditor's comments on the continued improvement in the rates performance in 2017.

We will continue to maintain and build on the 2017 collection performance across all income categories and to address the outstanding arrears. The bad debt provision across all of the above income categories will be kept under review for the 2018 AFS.

In relation to the Rent Review process, there will be regular reviews of Differential Rent for our social housing tenants, RAS tenants and HAP tenants.

4 Transfer of Water and Sewerage Functions to Irish Water

Irish Water (IW) was allocated full responsibility, by statute, for all aspects of water services planning and delivery at local, regional and national level. The Council acts as an agent for IW under the terms of a service level agreement. The Council received €11.1m from IW under this agreement in 2017.

Irish Water related infrastructure was revalued as part of the Limerick City & County rates revaluation for 2014. Subsequently, an exemption from rates was granted to Irish Water for water related infrastructure. To offset this loss of income, the Department has compensated the Council each year, with €2.1m being received in the year under audit. In 2017, this exemption from rates was lifted and these assets will be subject to the global revaluation process to be conducted by the Valuation Office. The financial impact of this revaluation needs to be monitored for future years.

Interest and principal repayments on the remaining IW loans at year-end 2017 of €6.8m are serviced by the Department.

Chief Executive's Response

The transition to Irish Water is an ongoing process to which dedicated resources continue to be deployed to ensure the smooth operation of the SLA. The impact of the Global revaluation of Irish Water assets on our income base will continue to be monitored.

5 Capital

The net favourable position in the capital account decreased from €92.5m in 2016 to €59.4m at the end of 2017. The decrease of €33.1m is primarily due to the prescribed change in the accounting treatment of the strategic development loans and finance provided to Limerick 2030 Strategic Development DAC (€24.3m), together with the reduction of the HAP Shared Services Centre working capital (€4.2m).

5.1. Favourable Capital Balances

At the end of 2017, there were 385 codes with favourable balances totalling €74m (2016 – 409 codes totalling €102m). Within the overall favourable total of €74m, there are a number of balances that are ring fenced for specific projects. The following is a listing of ring-fenced items, with balances of over €1m:

Project / Category	2017 €m
Insurance & Misc Claims	8.0
Landfill Aftercare & Local Development Fund	6.2
Arthurs Quay Car Park	6.2
Insurance Mitigation Works	2.6
Pensions & Gratuities	2.6
Roads Long Term Damage Fund	2.3
Council Contribution to LEADER Programme	2.3
O'Connell Street Realm Fund	1.9
RAS	1.6
Corporate Buildings	1.4
Development Fund Allocations	1.2
Housing ICR	1.2
Mungret Master Plan	1.1
Others <€1m & unallocated amounts	35.4
Total	**74.0**

5.2. Unfavourable Capital Balances

At the end of 2017, there were 302 codes with unfavourable balances totalling €14.6m (2016 - 243 codes totalling €10m), with the following projects having balances of over €1m at year-end.

Project / Category	€m
Regeneration	3.8
Opera Site Masterplan	2.5
Social Housing Investment Programme (SHIP)	1.9
Approved Housing Bodies	1.0
Others <€1m	5.4
Total	**14.6**

5.3. Government Debtors

The government debtors balance of €27.3m reflects grant claims that have not been recouped by the Council at year-end and are mainly connected with works and expenditure on capital projects. Of this total, €25.2m is shown as due from the Department of Housing, Planning and Local Government, €6.9m of which was still outstanding at 30 June 2018 and relates mainly to the following:

	Outstanding at 31/12/17 €m	Still Outstanding at 30/6/18 €m
Regeneration	11.1	2.4
SHIP	4.4	1.0
Maldron Family Hub	3.1	0.1
HAP SSC	1.3	1.3
Homeless	1.1	0.6
Watergate Flats Thermal Upgrade	0.7	0.0
CAS	0.7	0.0
Group Water Supplies & Private Wells	0.6	0.0
Great Southern Greenway	0.5	0.5
Others	1.7	1.0
Total	**25.2**	**6.9**

Within the €2.4m that was still due by June 2018 in connection with Regeneration, €1.2m relates to the Lord Edward Street development and a further €0.8m relates to a selection of codes where the invoices are over 12 months old.

In addition to ensuring that any matters affecting the release of funding from the Department are dealt with, I have requested management to conduct a detailed review of long standing outstanding invoices across all government debtors.

Chief Executive's Response
A review of the capital codes is ongoing and further progress will be made in 2018. The auditor's comments in relation to long standing outstanding invoices across government departments is noted and I will ensure that they are followed up with the relevant Department. The Council continues to engage with the DHPLG to ensure timely drawdown of funds.

5.4. Regeneration

During 2017, over €45m was spent on various projects associated with the overall regeneration scheme. I have already highlighted €3.8m of unfavourable capital balances (paragraph 5.2) and €2.4m of government grants that are outstanding at the time of this audit (paragraph 5.3). Given the cash flow implications of these balances and the annual spend, significant improvements are required in the financial management of this project, together with greater integrated financial oversight of spend incurred by the housing maintenance section.

At this audit I experienced significant delays in obtaining responses from the regeneration section to queries issued.

Chief Executive's Response
The Council is working closely with the DHPLG to ensure the efficient processing of claims and all queries are addressed in a timely manner. I will also ensure that delays experienced by audit will not be repeated.

5.5. Arthurs Quay Car Park

Previous audit reports set out the background to the Council's involvement as the primary leaseholder and underwriter of a bank loan of €4.97m on the property, together with the Council's option to purchase this multi-storey car park, all of which dated back to the agreements originally entered into in the 1980s. I also set out the sub-letting agreement for the operation of the car park, whereby the rent received from the car park operator is firstly used by the Council to pay interest on the loan facility, with the remaining rental income used to build up a sinking fund that is ultimately to be used by the Council to acquire the car park.

Although the loan is not included on the Council's balance sheet, as it is in the name of the car park owners, the Council continues to make the loan repayments on an interest-only basis. At year-end the balance on the loan remained at €4.97m and the sinking fund recorded on the Council's balance sheet amounted to €6.2m.

Previous audit reports highlighted that although the sub-lease expired in 2012 a new lease had not yet been formally executed. At the time of audit, this matter remains unresolved.

Chief Executive's Response
The Council are endeavouring to resolve the lease of Authors Quay Car Park.

5.6. Limerick 2030 Economic and Spatial Plan

The Limerick 2030 Economic and Spatial Plan was launched in 2013 and set out a framework for the development of Limerick city and its environs. In order to deliver this plan, the Council has embarked on a significant financing and investment programme, with LTT being the primary mechanism for delivery.

Presently, LTT's finance is provided by the Council, whereby the Council borrows funds and subsequently releases the necessary finance to the company as required. In turn, the Council recognises all funds advanced to LTT as a debtor on its balance sheet, with the company recognising a similar amount as a liability.

By the end of 2017, the Council had advanced €14.1m to LTT to develop Troy Studios (€7.8m) and the Gardens International office complex (€6.3m). Signed loan agreements are in place setting out the repayment schedules for LTT to clear down these loans.

At year end €1.3m was due from LTT and is made up of scheduled loan repayments totalling €0.8m and support services provided to the company of €0.5m. By the end of June 2018, €0.3m had been repaid in respect of the support charges but loan repayments had not been made. It is important to the Council's cash flow that LTT honours the terms of the repayment agreements.

During 2017, the Council formally disposed of the Gardens International site to LTT for €1.323m (exclusive of VAT) and funded the related stamp duty in exchange for an additional shareholding of €1.35m in the company. This increase in the Council's shareholding in the company is reflected in the "Interest in associated companies" item in Note 3 to the AFS.

Chief Executive's Response
The Council will continue to monitor and review its ongoing activity with Limerick Twenty Thirty Strategic Development DAC.

5.7. Mungret Road Improvement Works

This project had an original budget of €3.5m. Works commenced in 2016 and were completed by August 2017, with cumulative expenditure of €4.1m recorded in the 2017 AFS. In May 2018, certification for further costs amounting to approximately €0.8m for variations to the original contract were received, resulting in the project exceeding the original budget by €1.4m (40%). As senior management were unaware of the €0.8m of additional costs by March 2018, these costs were omitted from the AFS.

I have requested management to make the relevant adjustments to the 2018 AFS along with the necessary budgetary provisions to fund this overspend. I have also requested management to examine existing project management reporting processes to ensure future contract variations are fully assessed and reported in a timely manner.

Chief Executive's Response
The Auditors comments are noted and the Council has implemented additional expenditure controls within the Capital Account. A project management system is due to be implemented in late 2018. This will facilitate a formal process for change requests.

6 Fixed Assets

6.1. Summary of Fixed Asset Movements

There was a year-on-year increase of €16.0m in the net book value of fixed assets, made up of €20.1m of additions, €2.9m of disposals and €1.2m of depreciation charged in the year. The following are the main additions and items transferred from work in progress during the year:

Asset	€m
Housing Units	8.7
Mungret Road Improvement Works	4.5
Maldron Suites and Twinoaks Singland Family Hubs	3.8
Salesian Convent & Secondary School Site	1.1
Council Plant and Fleet	0.8
Mobile Homes	0.4
Land for Newcastlewest Athletics Hub	0.2
Other Items	0.6
Total	**20.1**

The disposals figure of €2.9m comprise mainly:

Asset	€m
Transfer of 16-19 Henry Street to LTT for the purposes of development of the Gardens International office complex	1.2
Properties Demolished in the Regeneration Area	1.2
Other Items	0.5
Total	**2.9**

In the last number of audits, errors and omissions in the fixed asset register have been highlighted. In the course of this audit, further errors and incomplete reconciliations were again identified. It was also noted that further work is required by management to ensure the accuracy of its housing stock records.

Chief Executive's Response
The Local Government Auditor's comments are noted and every attempt is made to ensure the completeness of the fixed asset register for movements within the accounting year.

6.2. Housing Stock

In May 2017, the National Oversight and Audit Committee (NOAC) issued a report titled "A Review of the Management and Maintenance of Local Authority Housing". It stated that in order for a local authority to be in a position to make decisions around maintenance, a local authority needs to be aware of the condition of its housing stock.

At audit an aged profile of the Council's housing stock was presented, which showed that 40% (2,121 units) of its properties were built or acquired prior to 1980. Despite the age profile of its stock, the Council has not conducted a condition survey to establish the state of its properties and develop a strategic planned maintenance programme. Notwithstanding the strategic benefits from conducting a condition survey, the Council have not formally inspected its own properties during the year to ensure compliance with the Housing (Standards for Rented Houses) Regulations 2017.

Despite the absence of a strategic planned maintenance programme, €6.2m was spent directly on housing maintenance in the year. I have recommended to management that more robust financial oversight is required to ensure that the cumulative spend on each property is closely monitored.

Chief Executive's Response
Further work will be carried out to analyse and monitor this information by property.

6.3. Commercial Tenants operating from Council Properties

Previous audit reports noted that although the purchase of the Galvone Arms for the purposes of the Limerick Regeneration project had been ongoing for a number of years, the Council does not yet have vacant possession of the entire property. At the time of audit, this matter has not yet been resolved.

In another case, a commercial tenant is operating from a premises owned by the Council and has significant outstanding rents and rates dating back a number of years.

Chief Executive's Response
The Council has instigated legal proceedings in relation to the above cases.

6.4. Property Interest Register (PIR)

I welcome the fact that the first phase of the implementation of a Property Interest Register (PIR) system was complete at the end of 2017. This phase involved the transfer and validation of land and buildings data maintained on the existing Agresso fixed asset register onto the new PIR system.

Arising from the validation process, seventeen sites owned by the Council were identified and included on the Council's register. These sites have been included in the balance sheet at a nominal value of €1 each. I have requested management to obtain valuations for these sites and correct the balance sheet values accordingly. It is important that continued resources are in place and that the PIR is regularly reviewed to ensure accuracy and completeness of the Council's records.

Chief Executive's Response
The Auditors comments are noted and the Council will ensure the PIR is updated on a regular basis.

7 Work in Progress (WIP)

7.1. Work in progress on existing and new schemes during 2017 amounted to €31.0m. Those projects with expenditure in excess of €1m are listed below:

Project	€m
Regeneration Project	19.6
Kings Island Flood Relief	2.4
Munster Regional Control Centre	1.8
Parnell Street Remodelling Works	1.3
O'Connell Street Urban Renewal	1.2

7.2. The AFS includes €75m of expenditure on projects that are categorised as work in progress or at a preliminary development stage. This includes €17m related to projects that were identified at audit as being either completed or are no longer progressing. I have requested management to make the appropriate corrections for the 2018 AFS to both the matching income and expenditure amounts.

Chief Executive's Response
The Council will review the classification of projects included in work in progress as part of AFS 2018.

8 Loans Payable

8.1. Total loans payable as disclosed in Note 7 to the AFS amounted to €90.7m made up as follows:

		2017 Transactions €m				
	2017 Balance €m	**New Loans**	**Interest Repaid**	**Principal Repaid**	**Total Repaid**	**2016 Balance €m**
Limerick 2030 Projects	31.1	8.0	0.4	0.4	**0.8**	23.5
Council Projects	8.7		0.1	0.3	**0.4**	9.0
Council Offices & Buildings	13.6		0.3	2.0	**2.3**	15.6
Land Loans	1.2					1.2
AHB Loans	15.0	0.2	0.2	1.0	**1.2**	15.8
Mortgages & Equity	14.3		0.2	1.3	**1.5**	15.6
Water Loans	6.8		0.2	1.2	**1.4**	8.0
Total Debt	**90.7**	**8.2**	**1.4**	**6.2**	**7.6**	**88.7**

- Limerick 2030 Projects - The balance on loans drawn down for the purposes of the Limerick 2030 Economic & Spatial Plan amounted to €31.1m at year-end and are released to LTT for works and development.

  Of the €31.1m, €16m is being repaid on an interest only basis (€131k paid in 2017), while both principal and interest totalling €667k was repaid during 2017 on the remaining €15.1m. These repayments have been funded from the Council's revenue account

- Council Own Projects – In late 2014 the Council drew down €10m. This has been used to clear historic debit balances that existed at that time and fund various projects including the acquisition of Mungret College and lands, together with upgrade works to the Franciscan Friary. Repayments on this loan totalling €0.4m in 2017 were funded from the Council's revenue account.

- Council Offices & Buildings - The Council's borrowings include €13.6m in respect of the County Hall, Lissanalta House, Killmallock Area Office, and the Newcastle West Machinery Yard. Repayments totalling €2.3m were funded from the Council's revenue account.

- Land Loans – Four different loans make up the overall balance of €1.2m, with one loan accounting for €1.05m of the total. Interest and principal repayments totalling €21k and €54k respectively are funded through the Council's revenue account

- AHB Loans - These loans were advanced to the various Approved Housing Bodies (AHBs) for the purposes of acquisition and development of housing schemes. The principal and interest repayments on these loans amounted to €1.2m in 2017 and are recouped from the Department. This report highlights issues in relation to the Council's oversight of these AHBs (paragraph 10).

- Mortgages & Rented Equity - The favourable mortgage funding gap, which comprises the differences between Council's borrowings (€14.3m) and the lending to customers for house purchases (€16.4m) reduced from €2.3m to €2.0m at the end of 2017 (Note 12 to the AFS).

- Water Related Loans - Interest and principal repayments totalling €1.4m in 2017 on the remaining IW loans are serviced by the Department.

- I also note that loan contracts were signed with the European Investment Bank in November 2017 and the Council of Europe Development Bank in January 2018 to facilitate borrowing of up to €85m from each bank to develop the city centre Opera Site. To date, these funds have not been drawn down.

Chief Executive's Response

The Council continues to actively monitor and review capital debt. In respect of the Limerick 2030 loans, the Council has made a provision to service this debt through its revenue budget.

9 Development Contributions & Part Vs

9.1. Included in trade debtors and prepayments at 31 December 2017 was €4.5m (2016 - €4.4m) in respect of development contributions due to the Council (Note 5 of the AFS). A provision for bad debts of €3.1m has been made and is included in the overall 2017 year-end bad debts provision of €21.2m.

9.2. Part V arrears have reduced from €3.5m at the end of 2016 to €1.4m in 2017, with the associated bad debt reducing to €1.3m. Following recommendations made at the last audit, management reviewed the accounts concerned and €2.3m was deemed not due as either the developments had not commenced or the liability had already been settled. It was noted at audit, that although these adjustments were processed at administrative level, senior management did not formally sign them off. Senior management should always formally approve such high value transactions.

At the time of this audit, a business improvement project is underway in respect of historic Part V financial contributions. Significant work is still required to ensure that all Part V obligations, including historic agreements for the transfer of land, housing or financial contributions are recorded and categorised as either collected, no longer valid or still outstanding.

Chief Executive's Response

In 2017, the Council commenced a review to ensure all Part V obligations are recorded and actively pursued. This review is ongoing and due for completion by the end of 2018.

10 Provision of Housing by Approved Housing Bodies (AHBs)

10.1. At the end of 2017, there were over 1,100 properties financed through the Council that were either owned or managed by 46 different AHBs in Limerick, with tenancies to these properties being allocated from the Council's social housing waiting lists. At year end, the Council has recorded recoupable loan balances of €15m, which are repayable by the Department upon occupation of the properties.

10.2. A national Value For Money report 'The Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies' completed in December 2015, made a number of recommendations with regard to the implementation of controls in the management of social housing provided by AHBs. A review of these controls in Limerick City & County Council highlighted weaknesses including the following:

- During 2017, the Council inspected only 3 of the1,100 properties to ensure the property was meeting the minimum standards for rental accommodation and that it was occupied by the nominated tenant.

- 6 of the 46 AHBs had not signed up to the Voluntary Regulation Code ("VRC"). These six AHBs owned or managed 68 units that were funded through the Council. In addition, it was also confirmed that the Council does not have oversight arrangements in place in respect of these six AHBs.

- A review of legacy AHB project files had not been undertaken to ensure that final project accounts and post project reviews had been completed.

- I was previously advised by management that a purpose built CRM system would be in place by the end of 2017 to replace the multiple spreadsheets used to record information related to the AHBs and properties concerned. It was envisaged that this system would record various details of each property and the AHB concerned including occupancy details, rent charged, inspections details, details of post project review carried out and associated loan information. At the time of this audit, this system is not yet in place.

10.3. Given the significant funds that have been advanced to the AHBs over a number of years, it is important that the Council has adequate oversight and assurance over the use of these funds and compliance with the relevant circulars and regulations.

Chief Executive's Response
The Auditors comments are noted. Implementation of the CRM system is planned for 2019.

11. North Circular Road Sites

In early 2015, the Council acquired the former Cleeves factory site on Limerick's North Circular Road at a cost of €3m, which was fully funded by the Department. Since this site was acquired, the Council has incurred on-going security and energy costs totaling €460k.

In late 2017 the Council acquired the former Salesian convent, adjacent to the former Cleeves factory site at a cost of €1m which was funded by way of a loan. The repayments on this loan together with on-going security and maintenance costs for this site are presently being funded from the Council's own resources.

Although management have advised that both were strategic acquisitions for the purposes of the Limerick 2030 Economic and Spatial Plan, a definite timeline and development plan is not yet in place for these sites.

Chief Executive's Response
The Council have engaged the services of Limerick Twenty Thirty Strategic Development DAC to develop a masterplan for this site in conjunction with relevant stakeholders.

12 Local Authority Companies

The Council's interest in 12 companies is set out in Appendix 8 to the AFS. The table shows the extent of control exercised by the Council, whether or not the transactions are included in the Council's AFS and brief details of each of the companies listed. The Council has valued its interest in 9 of these companies in notes 3 and 10 to the AFS at €2.2m (2016 - €1.07m) based on the net asset value and the Council's proportionate shareholding in each company. In cases where there is a deficit in the net assets, the amount included is limited to the Council's share capital or guarantee amount in the company.

Previous audit reports recommended improvements in the Council's oversight and review of these companies to ensure that proper corporate governance arrangements are in place. It is noted that an internal guidance document was published in August 2017 entitled "Guidance on Governance Requirements for Limerick City & County Council Associated Companies". This document sets out a number of key governance principles including accountability and operational oversight, compliance oversight, protocols for dealing with conflicts of interest and items of concern. The document also addresses the appointment and training of company directors and secretaries. Further progress is required to ensure implementation of these key principles.

Chief Executive's Response
This is an area which is under on-going review to ensure that best practice is followed in relation to the manner in which the Council manages its interaction with such companies.

12.1. Askeaton Pool and Leisure Centre Limited

The Council owns 51% of the shares of this company, with Askeaton Swimming Club owning the balance. The audited accounts for the year ended 31 December 2017 recorded a deficit for the year, increasing the accumulated losses to €181k (2016 - €178k). The company's directors reported that the company relies on grant aid from the Council to support it during the year. It is noted that €110k was advanced in 2017.

12.2. Grove Island Leisure Centre Limited

The Council became the sole owner of Grove Island Leisure Centre in 2012. The share capital of the company (100 shares valued at €1 each) has been incorporated under the "associated companies" heading in Note 3 of the AFS. The total expenditure on the leisure centre in 2017 was €406k (2016 - €381k), including repayments of €300k on the company's loan. At the end of 2017, the balance on this loan had reduced to €1.5m. At the close of this audit, the 2017 audited accounts were not yet available.

The audited accounts for the year ended 31 December 2016 recorded a cumulative deficit on shareholders' funds of €1.8m. Emphasis of matter paragraphs were included by the company's auditors in the 2016 report, in relation to the ability of the company to continue as a going concern without the financial support of the Council and the inherent uncertainty of the €3.6m valuation of the leisure centre.

Chief Executive's Response
The Council understands the financial commitment required to support to above Companies and this is considered as part of the Annual Budget process.

13 Governance

13.1. Internal Audit

The Internal Audit Unit produced seven reports in 2017 including quality assurance in relation to the completion of the Public Spending Code Report (PSC) in respect of the year 2016. These were reviewed by the Audit Committee and have been considered in the planning of this audit.

During 2017, one staff member was dedicated to checking cash receipting across the organisation. It is also acknowledged that 160 days of internal audit services were provided by an external audit firm during the year (2016 - 80 days). Notwithstanding the additional resources applied during 2017, this level of resourcing remains inadequate given the size and scope of the organisation.

Internal Audit conducted a review of the HAP Shared Services Centre and issued a report to the Audit Committee in May 2018. I welcome the allocation of internal audit resources to carry out this review, particularly given the volume, value and national importance of the HAP scheme and recommend that similar dedicated reviews of the HAP SSC are conducted annually.

Chief Executive's Response
The Auditors comments are noted. The Council will increase the level of internal resources assigned to the Internal Audit function.

13.2. Limerick Public Participation Network (PPN)

The Limerick Public Participation Network (PPN) is made up of organisations from the community, voluntary, social inclusion and environment sectors.

Management have advised that a number of issues have been raised in relation to the processes and governance of the network and an internal audit review is underway. Management have also advised that €80k of funding to the PPN (€30k from the Council and €50k from the Department) is withheld pending the outcome of this review.

Chief Executive's Response
I will ensure that all recommendations arising from the internal audit review will be implemented.

13.3. Audit Committee

The Audit Committee met on four occasions in 2017 and I attended their December 2017 meeting to discuss my 2016 audit report. The Activity Report of the Audit Committee for the year ended 31 December 2017 was presented to the Council at their meeting of 26 March 2018.

13.4. Corporate Risk Register

The Limerick City and County Council Corporate Risk Register was reviewed and updated in 2018. As part of the Council's strategy to ensure the adequacy, efficiency and effectiveness of the risk management processes the registers are submitted to the Council's Audit Committee for its consideration and review.

14 Labour Court Decision Regarding Overtime Eligibility for Pensions

I note that a number of retired staff previously engaged in the Council's cleansing section were successful in their appeals to the Labour Court to have regular, recurring, rostered overtime deemed eligible for pension purposes. At the time of this audit, management had not quantified the full cost of retrospective payments due to these retirees. I have requested management to expedite this process and ensure these costs are fully reflected in the 2018 AFS.

I have also requested management to assess if there are other sections across the Council operations where employees are required to work overtime patterns similar to those cases successfully appealed. Arising from this evaluation, the Council should quantify the financial implications for the purposes of future annual budgets.

Chief Executive's Response
The Council is carrying out a full review of the impact of the Labour Court decision and will make the necessary provisions in the 2018 AFS.

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.

John Collins
Local Government Auditor

31st July 2018

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