



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Limerick City Council

for the

Year Ended 31 December 2013



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

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AUDITOR'S REPORT TO THE MEMBERS OF LIMERICK CITY COUNCIL

1 Introduction

- 1.1** I have audited the annual financial statement of Limerick City Council (the Council) for the year ended 31 December 2013, which comprises the Statement of Accounting Policies, Income and Expenditure Account, Balance Sheet, Funds Flow Statement and related notes. The financial reporting framework that has been applied in their 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 an opinion on the annual financial statement (AFS) of the Council as presented for audit, in accordance with the Code of Audit Practice. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, 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 opinion on the statement and to report my opinion to you. I conducted my audit in accordance with the principles and practice of Local Government Audit. 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error.

- 1.2** This report is issued in accordance with Section 120 of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.
- 1.3** The draft annual financial statement was not presented to the Members until 22 September 2014. This is despite the fact that the Code of Practice and Accounting Regulations issued by the Department of the Environment, Community and Local Government (the Department) which requires that the annual financial statement should be prepared by 1 April of the following year.

Chief Executive's Response

The Council endeavours to comply at all times with national regulations. However due to the merger of Limerick City and County Councils in 2014, unfortunately a delay did occur in the finalisation of the annual financial statement. It is anticipated that this will not be an issue going forward.

2 Financial Standing

2.1 Revenue Account

The Council recorded an accumulated surplus of €544k at the end of 2013. The draft AFS and approval for the over-expenditure as set out in Note 17 to the AFS was approved by the members in September 2014.

2.2 Capital Account

The closing surplus on the capital account increased by approximately €6.6m to €32.8m at 31 December 2013, mainly due to the settlement of final accounts for housing and roads with the Department and the National Roads Authority (NRA).

3 Summary of Major Revenue Collections

3.1 The percentage yields from the main revenue collection accounts were as follows;

	2013	2012	2011
Rates	53%	55%	59%
Housing Rents and Annuities	92%	92%	93%
Commercial Water	56%	68%	67%
Housing Loans	78%	79%	80%

3.2 Commercial Rates

Commercial rates arrears increased by €963k to €20m at 31 December 2013. The Council wrote off €5.4m in respect of rates in 2013 and has included a bad debts provision of €15.3m (76% of arrears) for these debtors. This collection level is unsatisfactory. The Council needs to urgently review its debt collection procedures.

Chief Executive's Response

The collection yield in respect of rates is disappointing. However, the Council is continually striving to improve its collection percentage and procedures are under constant review to establish best practice within this area. An external debt recovery agency has been appointed since September 2014 to assist in the collection of arrears prior to legal action being taken.

3.3 Commercial Water

The increase in arrears to €4.4m is primarily due to the accrual of water consumed in the final quarter of 2013 which was not accrued in previous years. An examination of post year-end activity showed that €3.4m had been received from these debtors by the end of June 2014. The Council has made a doubtful debt provision of €1.6m in relation to water charges. These debtor balances are to transfer to Irish Water in 2014.

Chief Executive's Response

The auditor's comments in relation to commercial water are noted.

3.4 Housing Loans

The housing loan collection yields decreased slightly in 2013 with accumulated arrears of €206k at the year end. It should be noted that 75% of the overall housing loan arrears related to just 20 accounts.

4 Limerick National City of Culture 2014 Limited

This is a company which was set up by the Council in September 2013, to co-ordinate and deliver a programme of cultural events and programmes in Limerick City in 2014. The accounts of this company have not been examined by me during the course of the 2013 audit.

5 City of Culture Events

In addition to the activities of the company mentioned in paragraph 4, the Council incurred costs of €1.025m in 2013 in relation to the 2014 City of Culture events. I have expressed concerns in relation to governance issues in relation to a number of these payments by the Council including the following matters:

5.1 Recruitment of Advisor to the Limerick National City of Culture

In January 2013, the Council recruited a consultant for the role of advisor to the board of the Limerick National City of Culture 2014 Limited without recourse to an open competition. Issues arising on audit include;

- Payments made in respect of this consultancy by the Council from January to November 2013 of €84k, without any formal contract in place
- The consultant was set up on Limerick County Council's payroll in November 2013. Payments were made in 2014 on foot of these new arrangements by both Councils. These payments will be further examined on the 2014 audit

Chief Executive's Response

Due to timeline pressures and expectations to deliver the City of Culture project, it was not possible to go to open competition for the role of advisor to the Board. Any payment in 2013 for Limerick National City of Culture was made due to the fact that funding from the Department of Arts Heritage and the Gaeltacht was not made available until 2014, and the project had a cash-flow requirement in advance of the official start date. Funds were subsequently recouped as part of the service level agreement between Limerick City Council and the Department of Arts, Heritage and Gaeltacht. In relation to payroll, the Council provided an agency service on behalf of Limerick National City of Culture for the processing of payments.

5.2 Payments for Events and Marketing

Evidence of compliance with relevant national and EU procurement regulations and guidelines was not available at audit for the following payments;

- €350k to an events management company for New Year's Eve events
- €80k to a company for the marketing and publicity for the 2014 Limerick City of Culture
- €20k to an arts production company.

Chief Executive's Response

The Council is aware of its obligations with relevant national and EU procurement regulations and guidelines. However, in relation to above payments and in particular the event on New Year's Eve which did receive quotations, the tight time frame in relation to preparing for this event did not provide the Council an adequate opportunity to procure under the relevant EU guidelines. It should be noted that the Council did fully recoup its cost in relation to the event and this funding was received in 2014.

6 Fixed Assets

6.1 Property Interest Register

In previous audit reports, I have expressed concerns over the incompleteness of the Council's Property Interest Register (PIR). At the date of audit, the Council has yet to reconcile its land bank to the PIR to ensure the completeness of these records. The Council should prioritise the completion of this work in the new merged Council.

Chief Executive's Response

Limerick City and County Council is currently finalising the purchase of a PIR. The Council has also begun work in preparing a full asset management review.

7 Grove Island Leisure Centre Limited

The Council became the sole owner of Grove Island Leisure Centre in 2012, although the assets and liabilities of the company are not reflected in the Council's 2013 AFS. The share capital of the company (50 shares valued at €1 each) has been incorporated under the "associated companies" heading in Note 3 of the AFS. No audited accounts for 2012 and 2013 were available at the date of this audit report, which is in breach of the Companies Acts. The Council should ensure that audited accounts are prepared and filed in accordance with this legislation.

The 2011 accounts show liabilities in excess of assets of €8m at 31 December 2011. An emphasis of matter paragraph was included by the company's auditors in the 2011 report, in relation to the ability of the company to continue as a going concern without the financial support of the Council.

At the 31 December 2013, the company owed €4.3m to the Council on an unsecured, interest free loan. The total expenditure on the leisure centre by the Council in 2013 was €470k, including loan charges of €176k in respect of this loan. The Council has agreed to pay the loan charges in respect of this loan again in 2014 and has provided for €364k in the 2014 budget in respect of these charges.

Chief Executive's Response

The accounts for 2012 and 2013 have subsequently been prepared. The Council will endeavour to ensure that accounts are prepared in the appropriate time. The liabilities arose mainly due to a write down of property valuations and not as a consequence of normal trading activity.

8 Arthurs Quay Car Park Lease Agreement

As noted in previous audit reports, the lease agreement with the operator of Arthurs Quay Car Park expired in April 2012. At the date of audit, while the terms of a new lease agreement has been agreed between both parties, it has yet to be formally executed. It is imperative that an agreement covering the operation of the car park is regularised by the Council without further delay. I note also that annual rent of €200k due under the old agreement was not invoiced or accrued in the 2013 AFS.

Chief Executive's Response

We are advancing plans for Arthurs Quay area and any proposal will have to be done in the context of its future development. €200,000 was received from the operator of the car park in June 2014 relating to the period May 2012 - April 2013.

9 Voluntary Housing

Voluntary Housing Bodies in receipt of grants from the Council are required to enter into a legal mortgage deed agreement with the Council, creating a charge on any dwellings or property which the grants were used to fund. This agreement is designed to give the housing authority the right to exercise the usual powers of a mortgagee in the event of a breach of the conditions on which the loan is paid. At the date of audit, I note that no register was available providing details of all mortgage deed agreements in place reconciling to the grants and loans drawn down by the Council and paid to these bodies.

Chief Executive's Response

Work is due to commence on the preparation of a register in 2015.

10 Limerick Regeneration Programme

The cumulative project costs of the Limerick Regeneration Programme incurred by the Council to 31 December 2013 were €209m. The Council continued to progress the regeneration programme in 2013 with a number of initiatives including the following;

- completion of 34 units at Cliona Park, Moyross.
- progress on the development of two schemes which will result in the construction of 64 units.
- acquisition of key strategic sites in the city.
- commencement of the thermal upgrade of 49 properties.
- funding of social and economic intervention measures.

Chief Executive's Response

A new 10-year Regeneration Framework Implementation Plan was launched in September 2013 and was approved (including amendments following a public consultation process) by the members of the Council in February, 2014. The plan sets out how the shared vision for stronger communities is to be delivered and will generate significant positive spin offs in terms of economic activity and construction employment. The plan will also dovetail with the Limerick 2030 Economic Plan which is designed to revitalise the city and county wide economy.

11 Insurance Fund

In 2013, the Council's insurers agreed to provide full cover for employer and public liability insurance. Prior to 2013, the Council operated an insurance excess of €127k, with claims under this excess paid directly by the Council. Estimated claims still outstanding prior to 2013 were €5.3m at 31 December 2013. These claims will have to be funded from the Council's own resources. The insurance fund set up to meet future employer and public insurance claims amounted to €2.46m at 31 December 2013.

Chief Executive's Response

The comments of the auditor in relation to insurance are noted.

12 Development Contributions

The total amount of development contributions collected during 2013 was €645k. The short-term debtors at the year-end were €1.4m, against which there was a provision for doubtful debtors of €870k.

13 Interest in Companies

The Council has recorded its interest in 18 companies in Appendix 8 of its AFS, two of which are 100% owned by the Council. Audited financial statements for the year ended 31 December 2013 were available for just one of these companies at the date of audit. The Council needs to ensure that these financial statements are prepared in a timely manner and available for inspection at audit.

Chief Executive's Response

The comments of the auditor are noted. The Council will always endeavour to make available the most up to date accounts prepared by the various associated companies.

14 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Council to ensure that sound systems of financial management and internal control are in place. It is imperative that sound systems of internal control are in place in the new merged Limerick City and County Council.

14.1 Internal Audit

In previous audit reports I expressed my concern at the allocation of just one staff member to the internal audit function. In 2014, however I note that only one staff member was allocated to the work of the internal audit unit for both Limerick City and County Councils. Since October 2014, the position of internal auditor has remained vacant despite the merger of the two councils and the increased risks associated with the merger and the significant organisational changes involved. The Council's statutory audit committee cannot discharge its remit without the support of a professional and effective internal audit function.

No internal audit reports were issued in 2014 however, three draft audit reports, prepared between January and June 2014 were made available to me for review. At the date of audit no formal response to these reports from management was available. It is imperative that timely responses are provided by management to issues raised in the internal audit reports.

Chief Executive's Response

The Council has tendered for the performance of internal audit services in 2015. The comments by the Auditor in relation to the follow up of internal audit reports are noted.

14.2 Risk Register

The maintenance of an up to date risk register is an integral part of risk management. The corporate risk register has not been updated since September 2012.

Chief Executive's Response

The Council's Risk Register was updated for 2012 but the comments of the auditor are noted and Limerick City and County Council will ensure that the Risk Register is reviewed and updated on a continuous basis

14.3 Removal Expenses

I have requested management seek clarification from the Department in respect of claims made under a 1978 removal expenses scheme (Departmental Circular EL 11/78 - Removal Expenses). This matter will be reviewed at the next audit.

Chief Executive's Response

The Auditors comments are noted and the matter is being followed up.

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.



Anne Halion
Local Government Auditor
26 January 2015

