



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Limerick County 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 COUNTY COUNCIL

1. Introduction

- 1.1** I have audited the annual financial statement of Limerick County 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 AFS of the Council, which is unqualified, is stated on page 3 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 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) states that the annual financial statement should be prepared by 1 April.

Chief Executive's Response

There was an unfortunate delay in presenting the accounts to the Members due to having to prioritise issues around the merger of Limerick City and Limerick County Councils during 2014. The work involved in preparing for the Merger meant that certain tasks had to be deferred until later in the year. It is anticipated that this should not be an issue going forward for the new Council.

2. Financial Standing

2.1. Income and Expenditure Account

The Council recorded a surplus of €0.6m for the year after transfers to reserves of €7.1m resulting in a closing favourable balance of €29k.

2.2. Irish Water

The Water Services (No.2) Act 2013 provides for the transfer of water services functions from local authorities to Irish Water. On 1 January 2014, Irish Water assumed responsibility for the delivery of water services, including waste water services. All relevant assets, contracts and liabilities will be transferred from local authority ownership to Irish Water. A financial due diligence exercise is currently being conducted; the results of this may impact on the net assets valuation on the balance sheet.

2.3. Fixed Assets

The Council has yet to reconcile its land bank to the Property Interest Register (PIR) to ensure the completeness of these records. A number of other control weaknesses surrounding the accuracy and completeness of the fixed asset register were also identified and were brought to the attention of management.

The water and sanitary net fixed assets of €278m will be transferred to Irish Water. It is essential that any outstanding issues relating to final accounts and land title registrations be finalised.

Chief Executive's Response

The acquisition of a GIS based Property and Assets Register is a key corporate objective of this Council. This work is being progressed by the property unit within the Economic Development and Planning Department. To this end, we are proceeding to prepare an analysis and map of the business process requirements to identify one integrated property management system for the entire organisation.

2.4. Loans Payable

The Council's long term borrowings reduced to €61m at year end (2012 - €65m). Of these loans, €15m relates to water and sanitary projects and for which the Council repaid €1.9m in 2013. Circular L 3/14 sets out that from 2014, the Department will recoup the principle and interest charges of these loans, pending a final decision on their future and the results of the Irish Water due diligence process.

3. Capital Balances

Total debit balances on water projects have reduced to €4.5m by the end of 2013. However, funding arrangements have not been agreed with Irish Water and the Department for these balances.

There were 36 other projects totalling €7.5m that have been classified as unfunded in the AFS. These projects include:

	€m
Gortadroma Landfill extension & development	4.7
Mungret Civic Amenity Site	1.8
Foynes Harbour access road	0.3

The Council also has credit balances in the capital account totalling €2.4m in respect of water and sewerage development contributions. The Council has yet to reach agreement on the amount of the unspent development contributions to be paid over to Irish Water.

Chief Executive's Response

The Water Services (No.2) Act 2013 provides for the transfer of water services functions from local authorities to Irish Water. On 1 January 2014, Irish Water assumed responsibility for the delivery of water services, including waste water services. The identification and quantification of the relevant financial liabilities is one of the key tasks that has been undertaken by local authorities and Irish Water as part of a financial due diligence exercise which is nearing completion.

4. Income Collection

4.1. Summary of the Major Revenue Collections

A summary of the collection performances with the comparative figures for the previous years are as follows;

	Yield %			Debtors €m		
	2013	2012	2011	2013	2012	2011
Rates	82%	82%	87%	5.4	5.2	3.5
Commercial Water	54%	78%	77%	5.0	1.9	2.0
Housing Loans	73%	75%	78%	0.4	0.4	0.3
Housing Rents & Annuities	86%	88%	90%	0.9	0.8	0.6

4.2. Rates

The collection yield was consistent year-on-year at 82%, with arrears amounting to €5.4m at year end. By the end of June 2014, €1.3m had been received from these debtors. The bad debt provision was increased to €3.4m (2012 - €2.8m). This should be reviewed again for the 2014 AFS.

Chief Executive's Response

As regards the percentage collection of rates in 2013 (82%) the Council is pleased that there was no further deterioration in its performance from 2012 (82%). The Council is continually working with its customers including, where feasible, the setting up of payment plans. Where necessary, the Council is continuing to pursue customers through the legal process in the event of non payment of amounts owing.

4.3. Commercial Water

The increase in arrears to €5m is primarily due to water consumed in the final quarter of 2013 which was not accrued previously. An examination of post year-end activity showed that €2.7m had been received from these debtors by the end of June 2014.

The Council has prepared and submitted a schedule of debtors to Irish Water and this is subject to the due diligence exercise currently being conducted. Currently, the Council continues to act as an agent for Irish Water for the collection and billing of water charges.

A bad debt provision of €0.8m (2012 - €0.6m) was made based on a template issued by the national non-domestic water working group. I have requested management to further review this provision for the 2014 AFS, taking into consideration the outcome of the due diligence exercise.

Chief Executive's Response

The Council will review the provision as part of the 2014 AFS.

4.4. Housing Loans

The Council has 645 housing loans, with a combined capital, equity and arrears balance of €13.7m. At year-end, 134 loans were more than six months in arrears, amounting to €441k and have a capital exposure of €2.5m.

Shared ownership loans are of particular concern. Of the 90 shared ownership accounts, 27 are more than six months in arrears, amounting to €154k and have a capital exposure of €2.1m.

The bad debt provision of €100k for loan arrears should be increased further in the 2014 AFS given the profile of its loan book.

Chief Executive's Response

The Council will continue to review its bad debt provision as part of the 2014 AFS. The Council has adhered to the recent Code of Conduct for Local Authorities for dealing with loan arrears which incorporates a Mortgage Arrears Resolution Process. Under MARP, the Council is managing loan arrears and arrangements are being negotiated with borrowers as far as possible to arrange payment of arrears.

4.5. Housing Rents and Annuities

At year-end, the Council had 140 vacant housing units, 98 of these were vacant for more than 6 months.

Chief Executive's Response

There will always be vacant units at any point in time. The reasons for the vacancy vary from awaiting repairs, awaiting repairs no budget, allocations being considered or house difficult to let. During 2014, the Department provided monies to deal with long term voids. This work is now complete. Allocations are ongoing. It is the Council's intention, subject to resources, to repair and allocate vacant houses as quickly as possible.

4.6. Landfill

Landfill debtors doubled to €3m at year-end, for which a bad debt provision of €396k was made. Although the landfill closed in mid-2014, €458k was still due from these customers at the end of August 2014.

Chief Executive's Response

The Council is continuing to pursue outstanding monies due and is confident of a successful collection in many cases.

4.7. Development Contributions

Total development contribution debtors were €28.8m, including €0.1m classified as long term. A bad debt provision of €27.5m has been provided for the current debtors.

An examination of a sample of accounts amounting to €1.19m of the net short term debtor showed that only €51k had been collected by the end of July 2014. I have requested management to examine the categorisation of these debtors between long term and short term, together with the bad debt provision for the 2014 AFS.

Chief Executive's Response

The request by the Local Government Auditor will be undertaken as part of the 2014 AFS.

5. Voluntary Housing Project Abbeyfeale

Previous audit reports have referred to this twelve house project where the Council received approval for a €2.4m loan in 2008, drew down €1.7m and then advanced €1.3m to Clúid Housing Association (Clúid) in December 2009 on foot of the recommendation from Clúid's quantity surveyor for work completed.

The original contractor and the successor went out of business. To-date, the Council has made loan repayments of €444k on foot of the original €1.7m loan.

Work has not re-commenced on this project. As this project has not recommenced, the Council should seek a refund from the voluntary body for the amounts paid.

Chief Executive's Response

The Council received approval in 2008 from the Department to advance a loan of €2.4m to Clúid Housing Association (Clúid) for the provision of twelve houses. The Council drew down €1.7m and advanced €1.3m to Clúid for work completed to December 2009. This money was advanced on the recommendation received from the Quantity Surveyors employed by Clúid.

As previously stated the original contractor and his successor have gone out of business. There have been on-going discussions with the Council and Clúid to explore how Clúid will achieve completion of the scheme. Issues arose in relation to the ownership of the site.

Clúid confirmed that it needed to conclude a licence agreement with the owners of the property to allow a contractor to go on site and complete works. The licence agreement has finally been signed dated 8 January 2014 for a period of 3 years.

At a meeting on 10 January 2014 Clúid gave a commitment to address remaining issues in relation to the storm water route. They were entering negotiations with adjoining land owners and were advised to seek the assistance of a professional valuer.

Clúid are in the process of preparing tender documents for the works - Clúid advise that it will be six months before they are in a position to appoint a contractor and a further six months for completion of works. Its quantity surveyor will submit estimated all in cost of the scheme as soon as the tender has been approved. The estimated occupation date should be March 2015.

6. Askeaton Pool and Leisure Centre Ltd.

This company oversees the management of the Askeaton Pool and Leisure Centre. The Council owns 51% of the shares in the company, with Askeaton Swimming Club owning the balance.

The centre opened in August 2007 and is being managed by a private operator on behalf of the company. It was noted at audit that this operator has been hired since that date without a formal contract being signed and without recourse to proper procurement practices.

The audited accounts for the year ended 31 December 2013 recorded a deficit of €22k for the year, increasing the accumulated losses to €96k. The company's auditors included an emphasis of matter paragraph in their 2013 audit report, in which it was noted that the future of the company is dependant on grants from the Council. These grants amounted to €148k in 2013.

Chief Executive's Response

Limerick County Council initially invested €715k of a Capital Grant and has undertaken to guarantee the Department the amount of the Department Grant of €4.2m over a 10 year period. The Council has provided as part of the statutory budgetary process an annual operational subsidy towards the day to day running of the Pool. It is disappointing that the company for 2013 recorded a deficit however a further review of the costs in 2014 identified a number of cost saving initiatives particularly in the area of energy.

7. 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 newly merged Limerick City and County Council.

7.1. Internal Audit

Since October 2014 there was no internal audit function in operation despite the increased risks associated with the merger. It was also noted that a number of reports produced by the previous Internal Auditor were still not finalised. The Council's statutory audit committee cannot discharge its functions without the support of a professional and efficient internal audit function.

Chief Executive's Response

The Council acknowledges certain risks of the merger and in this regard is putting together a tender for interested parties to provide an internal audit service for Limerick City and County Council. The successful tenderer will work alongside the internal audit function and provide key assistance and support to the organisation, particularly the recently established audit committee.

7.2. 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 November 2010.

Chief Executive's Response

The Council is anxious to put a risk management framework in place for the organisation and in this regard is currently putting together a framework that will include an agreed Risk Management Policy. This policy will also involve a means of recording and monitoring progress and putting control improvements in place. The final outcome will therefore be a risk assessment of each relevant service from the service catalogue leading to a risk register for each Directorate and finally into a Corporate Risk Register.

7.3 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.

8. Acknowledgement

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



Local Government Auditor
23 December 2014