



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Westmeath County Council

for the

Year Ended 31 December 2019

Department of Housing, Local Government and Heritage

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AUDITOR'S REPORT TO THE MEMBERS OF WESTMEATH COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Westmeath County Council for the year ended 31 December 2019, 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, Local Government and Heritage.

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 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 08 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 Non – adjusting post balance sheet event – COVID-19

In accordance with Circular Fin 05/2020, the local authority has included a note in their Annual Financial Statements (see note 23) in relation to COVID-19. This note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities post year-end. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cashflow of the local authority and the ability to deliver services.

The local authority has taken a number of steps to address these both at local and national level including:

Local Level

- Ongoing communication with Councillors setting out the impact of COVID-19
- Continued communication with Council tenants and loan borrowers
- Implementation of mortgage payment breaks where required
- Applying the nine month waiver of commercial rates to December 2020 for relevant businesses
- Corresponding with ratepayers to advise them of the qualifying criteria for the restart grant
- Analysis of the loss of income to the Council from goods and services which is estimated to be €1.1m to September 2020
- Identification of additional exceptional expenditure incurred by the Council as a result of COVID-19
- Varying the Local Property Tax rate for 2021

National Level

Participation in the submission of the following acute financial matter reports to the Department, including:

- “Analysis of Rated Properties Impacted by COVID-19”
- “Analysis of Local Government Goods & Services Income Impacted by COVID-19”
- “Indicative figures calculating the impact of COVID-19 on 2020 Commercial Rates”

National Level Assistance

- Implementation of 100% waiver for ratepayers from 27 March 2020 to 31 December 2020; the Council will be reimbursed for this waiver.

Chief Executive's Response

We will continue to manage our operations and deliver essential public services while adhering to best public health practice until the pandemic has passed.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €31k after transfers to reserves of €5.5m. The cumulative revenue surplus has increased to €416k at 31 December 2019.

Note 16 to the AFS outlines the differences between the adopted estimates and the actual out turn. The over-expenditure for the year was approved by the members at their meeting on 25 May 2020.

The adverse effect of COVID-19 will present a multitude of challenges for the Council in the future. There is a requirement for a continuation of the strict financial controls that exist already in order to respond to these challenges.

Chief Executive's Response

We will continue to operate strict financial controls and budget holder management procedures in the context of the multitude of challenges faced by the Council.

3.2 Financial Position

The Council had net current assets of €8.5M (2018:€11.1M). Significant movements in the finances of the Council during the year included:

- Fixed assets increased to €2,432m from €2,326m primarily due to housing additions of €13.8m and a further €3m of land acquisitions.
- The increase in work in progress and preliminary expenditure of € €6.3m is as a result of ongoing housing development projects within the Council area.
- The increase in trade debtors and prepayments of €2.86m mainly relates to outstanding government debtor funding for housing acquisitions.
- Long term debtors increased from €22.7m to €24.56m due to new loans issued offset by payments and due to an increase in the capital advance leasing facility
- Bank investments and cash at bank decreased by €6.35m as a result of increased expenditure on capital projects.
- Decrease in creditors & accruals of €866k mainly due to a decrease of €1.3m in trade creditors and an increase in accruals of €409k

Chief Executive's Response

The significant movements in the finances of the Council set out above are mainly accounted for by the increased activity resulting from the delivery of the housing capital programme.

4 Income Collection

4.1 Summary of Income Collection

A summary of the major collection yields and corresponding closing debtors, with comparatives for the previous year, are as follows:

Income Source	Yield %	Yield %	Debtors €m	Debtors €m
	2019	2018	2019	2018
Rates	85%	83%	2.97	3.42
Rents & Annuities	98%	97%	0.16	0.17
Loans	99%	97%	0.01	0.05

There has been an improvement in the debt collection performance of all of the income sources outlined above. The Council has a dedicated debt collection unit which continues to monitor and pursue outstanding amounts. The work conducted by the unit through the use of all credit control options available to them has resulted in the continued improvement in revenue collections.

4.2 Rates

As at 31 December 2019 the balance of rates outstanding is €2.97m, which represents a decrease of €446k. There was an increase in the collection yield for the year to 85% (2018:83%), with receipts exceeding last year by €174.5k. The collection yield is in line with the target set out by the CCMA of 84.93%.

A bad debt provision of €2.5m has been provided for at the year end and this is considered reasonable.

Revaluation

The revaluation process in Westmeath carried out by the Valuation Office is now complete and was effective from 01.01.2018. The revaluation has resulted in a large number of appeals being lodged to the Valuation Tribunal by rate payers. To date only 28% of the appeals have been adjudicated and there are 46 appeals which remain outstanding. These outstanding 46 appeals relate to a rates value of €1.2m. The outcome of the remaining appeals could have an impact on the finances of the Council in the future.

COVID-19

In 2020, the unforeseen COVID pandemic had an adverse effect on the Irish economy and a number of businesses. The Department has introduced a 100% waiver for ratepayers was to cover the period from 27 March 2020 to 31 December 2020 and the Council will be reimbursed for this waiver. The long term impact of this pandemic on the rate book remains unknown.

Chief Executive's Response

Under Article 26 (2) of the Local Government (Financial and Audit Procedures) Regulations 2014, a report on the schedule of uncollected rates at the close of each year, is presented to the members of the Council. The report for 2019 was presented in January 2020.

The adopted budget for 2020 includes a provision of €354,000, for reduction in valuations of the 59 remaining Valuation Tribunal appeals. Similarly, a provision of €229,000 is included in budget 2021 for the 34 currently remaining.

One element of the business supports delivered by the Government in 2020 was the Rates Waiver Scheme. This Council will receive support of €8.2m from the scheme and this has played a crucial part in maintaining of services in 2020. In the absence of a return to a normal functioning economy in early 2021, it is likely that a waiver scheme will be required in 2021, albeit perhaps one more focused on certain business sectors.

4.3 Housing Rents and Annuities

The collection yield for rents and annuities increased to 98% for 2019. The income for the year increased by €755k mainly due to additional tenancies and the implementation of a rent review in 2019. The arrears decreased from €172k to €163k. However the gross arrears (net of credit balances) at 31 December 2019 is €367k. The bad debt provision of €300k is reasonable.

Chief Executive's Response

We will continue to work to improve the collection percentage and to reduce arrears, notwithstanding the significant increase in income. Arrears, excluding those accounts in credit, for the last three years was: 2019, **€367k** 2018, **€375k**; 2017, **€399k**.

4.4 Loans

The collection yield for housing loans increased to 99%, with arrears at 31 December 2019 amounting to €11k. This comprises of €246k arrears and €235k credit balance. The collection yield has increased over the last number of years follows:

Year	2019	2018	2017	2016	2015	2014
Collection Yield	99%	97%	89%	85%	73.3%	61.9%

The continued upward trend in collection of loans can be linked to the Council availing of the Mortgage Arrears Resolution Process (MARP) along with the removal of revenue arrears on loans under voluntary possession and mortgage to rent scheme.

The bad debt provision decreased from €193.7k to €174.5k in 2019 and represents 71% of the gross arrears balance. This is considered reasonable

Chief Executive's Response

We continue to operate effective credit control procedures on our mortgage portfolio. There are a number of borrowers for which we are working to achieve a long-term sustainable arrangement. This area continues to receive significant attention from the management and staff of the Council and we are on course to record a further improvement in our collection percentage and reduction in arrears in 2020.

Arrears, excluding those accounts in credit, for the last three years was: 2019, **€246k** 2018, **€316k**; 2017, **€420k**.

5 Capital Account

5.1 Capital Account

Capital expenditure in 2019 increased significantly to €56.6m including transfers (2018: €35m) with total income amounting to €54.2m (2018: €34.1m). The majority of the expenditure (78%) related to housing and roads capital projects. The expenditure incurred on housing capital projects increased by €9m to €23m in 2019 (2018:14m).

The overall closing balance on the capital account was a net credit balance of €9.2m at the end of 2019.

5.2 Capital Projects

Capital expenditure was €56.6m in 2019. There were 542 capital jobs recorded in the capital account, a number of which had no activity during the year. Below is a list of larger individual projects, whose expenditure was in excess of €1m during the year. These nine projects accounted for 52% of overall expenditure in the capital account during 2019.

€'000's	
N52 Cloghan to Billistown Phase 2	€6,765
NCN Whitegates to Athlone Castle	€4,572
Housing Development at Arcadia	€4,494
Curraghmore NS Construction	€3,197
Housing Acquisition Cloonlara	€2,945
Mullingar Town Enhancement Scheme	€2,873
Blackhall Mullingar URDF	€2,278
Housing Acquisitions Abbeybrook	€1,355
Housing Acquisitions Coill Rua	€1,061

Chief Executive's Response

The main purpose of the capital account is to deliver projects which aim to enhance existing infrastructure within the county and to create additional infrastructure. The capital account also contains reserves created over time and from a variety of sources to assist in delivering these projects. The availability of appropriate levels of grant funding from Government has resulted in a significant increase in activity in recent years, particularly in housing and roads projects. Key challenges in managing the capital programme include: the cash flow implications (particularly Housing projects); sourcing funds to meet the Council share of a project; and financing the personnel required to manage and delivery the programme.

5.3 Unfunded Balances

The majority of the Council's unfunded capital balances relate to the housing section, amounting to €8.27m at 31 December. These balances mainly relate to the historic purchase and servicing of sites for future housing developments. The balances can be categorised as follows:

€'000's	
Land Bank	€6,069
Construction	€1,963
Other	€246
Total	€8,278

The Council will need to identify funding sources for projects in order to eliminate these deficits.

Chief Executive's Response

Our annual budget includes a provision of €50k to fund these balances. While this is not significant in terms of the quantum it was an important precedent when introduced in 2014 and has continued each year since. Furthermore, a large element of these balances represents assets with a potential value. Work is ongoing to realise an element of this value as part of our housing capital projects and the realised value will be used to fund part of the deficit. The equivalent balances for the three categories identified above as at 31 December 2014 amounted to €9,836k.

6 Irish Water

6.1 Irish Water Service Level Agreement

As noted in previous audit reports the responsibility for water services functions transferred to Irish Water (IW) from 1 January 2014. The Council continues to deliver services to IW under the terms of the service level agreement.

The service level agreement is in place until the end of 2025. The annual income for the Council in 2019 under the agreement was €4.23m and the debtor relating to this was €837.5k at 31 December 2019. It is expected that income under the service level agreement will decline annually going forward due to transfer of functions to IW.

6.2 Transfer of Assets to IW

The Council continues to liaise with IW's National Special Projects Office in relation to transfer the remaining assets. To date 59 have been transferred to IW. There are five assets which have been submitted for transfer but the process has not yet been finalised

There are approximately a further 40 assets outstanding to be transferred. These remaining assets will take some time to transfer due to ongoing title issues. The Council continues to work to resolve these issues.

Chief Executive's Response

We will continue to work to resolve all outstanding issues.

7 Loans Payable

The Council's capital debt has decreased from €70.3m to €69.7m at 31 December 2019. The year-end balance is comprised as follows:

	2019	2018
Loan Type	€m	€m
Council Buildings	29.9	30.5
Land Acquisition	2.5	2.6
Mortgage Lending	21.9	21.4
Affordable Housing	11.5	11.5
Other	3.9	4.3
Total	69.7	70.3

The Council building loans are funded through the revenue account and the loan repayments for 2019 were €965k including interest. As these will continue to be funded from the Council's own resources in the future, management must ensure that this is adequately provided for in the budget.

Mortgage related loans are matched by corresponding long-term debtors in Note 3 in the AFS.

Affordable housing loans (bridging loans) of €11.5m remain outstanding in respect of 52 housing units acquired under the affordable housing program. These remain outstanding and are on an interest only basis; the interest charge for 2019 was €148k. The units are currently allocated to a voluntary housing body under the Social Leasing Scheme to address housing needs.

Chief Executive's Response

We note the points made. All loan repayment terms are being adhered to and our comments on each loan category are as follows:

Council buildings - Current annual loan repayments of €965k on our headquarters in Mullingar, which are a significant cost, are being funded through the Revenue Account. It is our intention to dispose of surplus property at the appropriate time, the proceeds of which will be used to pay down this debt. In the meantime, rent of this surplus property is generating income of €130,000 p.a.

Land Acquisition – This is in respect of housing land purchases and is being funded through the Revenue Account.

Mortgage Lending - These loans are backed by loans receivable from borrowers which are in good order.

Affordable Housing - These borrowings are in respect of 52 unsold affordable houses in various locations throughout the county. All these houses are occupied and the interest on the borrowings is being funded through the Government's leasing scheme.

Other – This balance comprises (1) the Council's portion of shared ownership loans which is secured as a charge on the related properties and (2) loans to fund investment in local authority run sports and tourism projects repayments of which are being made in accordance with the respective loan terms.

8 Development Contributions

Development contribution debtors per note 5 of the AFS were €1.4m at the end of 2019 (2018: €1.9m). The reduction is mainly due to write offs during the year. The bad debt provision has been reduced to €718k to reflect the current level of debtors. The year-end balance can be categorised as follows:

Debtor - Credit Control Status	2019 €'000	2018 €'000
Dormant	350	508
Disputed	108	269
Active	322	399
Under Payment Plan	420	186
Bad Debt Pending Write Off	0.1	269
Enforcement Notice Served	4	68
Other	221	202
Total	1,425.1	1,901

25% of the arrears are outstanding for 5 years or more and a further 22% are outstanding for than 3 years. While this represents an improvement compared to the previous year, it is mainly due to the write-off of old balances. The Council's Credit Control function needs to continue to improve in order to ensure that receipts are maximised.

Chief Executive's Response

Each account is classified under a defined credit control category. The bulk of our debtor balances are represented by developments which stalled and either didn't complete or were only partially complete mainly arising from the collapse of the economy in 2008. We have maintained them in our debtor's ledger as we determined this is the best means of continuously monitoring the latest position. This approach has been vindicated with a number of larger debts being collected in full in recent years.

In the table below we have set out the amounts owing at the end of the last five years together with the number of accounts making up the total:

Debtor Control Account Amount Due as at:	€'000	Number of Accounts
31 December 2015	3,537	206
31 December 2016	2,958	193
31 December 2017	2,344	182
31 December 2018	1,901	161
31 December 2019	1,425	132

We will continue our work in this area using all credit control options available.

9 Procurement

The Council has a procurement unit, comprising a Procurement Officer and two staff members. The role of the procurement unit includes carrying out quarterly compliance checks, preparing public spending code reports, providing training and assistance to staff in relation to the preparation of tenders, updating procurement procedures and performing procurement procedures for centralised products.

Weaknesses identified during the audit have been referred to management for review. The Council should ensure that it always follows its own procurement procedures and policies.

Chief Executive's Response

We will continue to monitor our compliance in the area of procurement and implement corrective measures deemed appropriate.

10 Local Authority Companies

The Council recorded its interest in three companies in Appendix 8 of the AFS. Two of these are subsidiaries and one is an associate. In accordance with the Accounting Code of Practice, the Council's interest in these companies has not been consolidated into the accounts.

The three companies included in Appendix 8 are as follows:

- Athlone Arts & Tourism Limited
- Athlone Regional Sports Centre Limited
- Mullingar Arts Centre CLG

The audit of Mullingar Integrated Arts Centre CLG was not completed in time to be included in the draft AFS considered by members on 25th May 2020.

Chief Executive's Response

We place a particular focus on this area in the preparation of the AFS. We write to each company drawing attention to our requirements and the associated timeline. We are disappointed that Mullingar Arts Centre CLG did not have their accounts audited in time to be included in the Council's audited AFS. The audited accounts were received on 3 November 2020.

11 Governance and Propriety

11.1 Governance Overview

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management and the elected members to ensure that sound systems of financial management and control are in place.

11.2 Audit Committee and Internal Audit

On 25th February 2019 the elected members approved the Audit Committee's 2019 work programme. At the Council meeting the Audit Committee's Chairperson also presented the Audit Committee Report to the members pursuant to Section 121 of the Local Government Act 2001 and the Audit Committee's 2018 Annual report. The Audit Committee held the required number of meetings in 2019.

The Council's annual Internal Audit work plan was approved by the Audit Committee in December 2018. The internal auditor reports directly to the Chief Executive in respect of his work. The Internal Audit unit produced three audit reports, three follow-up reports, SICAP review and quality assurance work on the public spending code in 2019. In carrying out my audit, I have taken account of the work undertaken by the internal audit unit.

Chief Executive's Response

We believe that the audit committee and internal audit function is operating effectively. We will continue to commit resources to support the work of the audit committee and the internal audit function.

11.3 Risk Management

The Council operates a risk register as part of its risk management process. The register records the risk identified, assigns a risk rating and sets out the directorate with responsibility for each individual risk.

The risk register is updated and reviewed twice a year at management meetings. It is also presented to and discussed by the Audit Committee.

Chief Executive's Response

The Council will continue to maintain a risk register as part of its risk management process.

11.4 Ethics Declarations

Under section 171 of the Local Government Act 2001, members and certain staff are required to submit an annual declaration to the Ethics Registrar. There is a statutory obligation to have this declaration returned annually by 28 February.

20% of members and 16% of required staff did not submit their ethics declaration by the deadline date in line with the statutory obligation.

Chief Executive's Response

All members and all relevant staff are clearly advised of their obligations in respect of the declaration required and the implications of not abiding by the deadline date.

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.



Kate O'Brien

Local Government Auditor

17 December 2020

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