



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Louth 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 LOUTH COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Louth 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 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 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 cash flow 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

- Estimating the reduction in rates income
- Tracking of all expenditure associated with COVID-19
- Presentation to the members of the impact of COVID-19 on the local authority's financial position
- Acute management of discretionary expenditure
- Constant monitoring and improvement of collection procedures
- Daily monitoring of cash flow
- Identifying the principal income streams from goods and services and the potential estimated financial impact on these
- Inclusion of a financial report as part of the Chief Executive's monthly report to the members

In addition to the above, the Council also has approval of both the members and the Department of Housing, Local Government and Heritage (the Department) to access overdraft facilities of €5m.

National Level

- 'Acute Financial Matters' (AFM) reports are prepared by the Acute Financial Matters subgroup of the City and County Manager's Association (CCMA) for the Department. These reports provide details of the estimated potential loss of commercial rates income and receipts from goods and services to each of the local authorities nationally. In addition, an AFM report was completed in July 2020, 'Analysis of Local Government Emergency Costs associated with the Public Health Emergency COVID-19'.
- In accordance with circular Fin 11/2020 the Department will provide funding to the local authority to cover the nine month's rates waiver. In addition, grant aid has been made available through the local authorities for businesses that meet certain criteria in order to help support businesses and the local economy.

Chief Executive's Response

While COVID-19 has had a major impact in 2020 we monitored the effect it had on both our income and increased costs throughout 2020. On behalf of all local authorities, the CCMA and the AFM subgroup made business cases that were presented to the Department with regard to financial losses being suffered. We have been successful in getting funding from the Department but the amount of funding will not be clear until quarter 1 2021.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €405k for the year after net transfers to reserves of €1.8m. Details of over/under expenditure are contained in note 16 to the AFS and were approved at the July 2020 Council meeting.

3.2 Statement of Financial Position

Significant movements in the finances of the Council included:

- Increase in fixed assets of €5.6m
- Increase in work in progress and preliminary expenditure of €3m

- Increase in long term debtors / creditors - amounts falling due after more than one year of €19.1m and €15.7m respectively
- Decrease in bank investments of €6.7m
- Decrease in loans payable of €9.3m

The increase in fixed assets is due mainly to the addition of 25 houses in 2019. The increase in work in progress includes €1.3m on housing acquisitions and €653k on the Ardee By Pass. The increased movement in long term debtors / creditors includes the provision of capital asset leasing facilities of €16.7m coupled with a reduction of €1m in other long term liabilities.

The decrease in bank investments is due to additional cash flow requirements for the Clanbrassil Street rejuvenation project of approximately €5m and the redemption of a loan of €1.5m pertaining to the purchase of land at Lisdoon. The decrease in loans payable is due to the redemption of loans (which was recouped from the Department) borrowed for the purchase of lands at Dunleer some years ago.

4 Income Collection

4.1 Summary of Income Collection

Income Source	Yield %		Debtors €m	
	2019	2018	2019	2018
Rates	83	80	8.9	9.5
Rents & Annuities	80	76	3.1	3.8
Housing Loans	82	76	0.3	0.4

4.2 Rates

The collection yield in respect of rates increased in 2019 to 83% compared to 80% in 2018. However, a review of specific doubtful arrears (SDA) indicated that, in addition to arrears on accounts categorised as being (a) in examinership / receivership / liquidation, and (b) vacancy applications pending at year end, there were also arrears relating to other categories included here. This is not in accordance with circular Fin 03/2016. As the SDA total is deducted from the net closing arrears amount when calculating the collection yield percentage, this has had the effect of increasing the year end collection yield.

A provision for bad debts representing 93% of gross arrears outstanding at the end of the year was included in the accounts (see also paragraph 4.5 below).

Chief Executive's Response

Our collection procedures continue to prove successful. The accounts included in the specific doubtful arrears will be reviewed for the 2020 AFS and only accounts that are in line with the circular will be included.

4.3 Rents and Annuities

The collection yield in respect of rents and annuities was 80% (76% in 2018). A provision for bad debts of €3.1m was made to the accounts representing 90% of total gross arrears outstanding at year end. This may be an over provision and should be kept under review.

Chief Executive's Response

Collection procedures introduced in 2017 and tailored to address individual account challenges continue to be effective in improving the collection rate. Louth County Council continues to pursue with vigour the collection of rents with emphasis on reducing arrears which in some cases will take a number of years. A focus on household budget management and payment plans continues to be a key focus of the collection teams.

4.4 Housing Loans

There was an increase in respect of the collection yield in 2019 to 82% (76% in 2018). Although for a number of accounts, arrears are continuing to increase. The local authority is pursuing these arrears of housing loans.

A provision for bad debts representing 87% of total gross arrears was made to the accounts.

Chief Executive's Response

The increase in the collection of housing loans can again be attributed to the improved collection procedures and the one to one relationship with account managers. The pursuit of outstanding accounts continues to be a priority of the team.

4.5 Provisions for Bad Debts

The COVID-19 pandemic is currently, and will in the future, have a negative impact on the economy which cannot be quantified at this time. It is paramount that provisions for bad debts in respect of all debtor accounts be kept under constant review in conjunction with robust credit control processes.

Chief Executive's Response

The effect of COVID-19 on all our debtors will be taken into account when reviewing our bad debt provision as part of the preparation of the 2020 AFS.

5 Debtors

5.1 Government Debtors

At the end of 2019, there was an amount of €7.2m outstanding from the Department in relation to invoices issued with regard to housing activities. Currently €1.04m of this amount remains outstanding. €983k of this amount relates to invoices issued in 2019 with the remaining €58k pertaining to 2017 and 2018.

Chief Executive's Response

Staff in the housing finance section continue to engage with the Department to bring the outstanding matters to a satisfactory conclusion and to ensure future recoupments are managed in a timely manner.

5.2 Capital Grant Claims

During a review of grant claims accrued in the accounts at the end of 2019, the following was noted:

Louth County Council is acting as an agent for the Department of Education and Skills in the construction of a number of schools in the county. Expenditure totalling €1.33m in 2019 had not been recouped at the year end. Details of this and the current status of these recoupments are as follows:

Project	Amount to be Claimed at 31/12/2019 €m	Status of Income Claim
Post Primary School Ballymakenny New Build	0.19	Claim submitted in October 2020
Post Primary School Dundalk New Build	0.95	Claim not yet submitted in respect of €916k of year end balance
St. Ita's & St. Mary's Special Schools Drogheda New Build	0.19	Claim not yet submitted
Total	1.33	

Chief Executive's Response

The claims for both the Ballymakenny and the Post Primary School Dundalk have since been submitted and the Department of Education and Skills will endeavour to pay these before the end of 2020. With regard to St. Mary's and St. Ita's schools, the lands are currently registered to Louth County Council. When the planning application for the new school is submitted and approved, the Department of Education and Skills will recoup the land acquisition costs to the Council.

6 Capital Account

6.1 Capital Balances

At the end of 2019 there was a net credit balance of €26.5m in the capital account.

A review of project / job code balances noted the following:

- Static balances of €29.1m in respect of debit (adverse) balances on job codes where the balance has either increased or remained static over the last four years
- Debit balances of €14.7m in respect of land acquisitions. These balances range from €4k to €5.6m

- Housing net debit balances of €1.9m, including a credit (favourable) balance of €871k in respect of the project 'Acquisition of Houses Drogheda Borough Council' that require examination for miscoding / funding of balances
- Housing debit balances totalling €3.4m which have to be resolved with the Department.

Chief Executive's Response

Work continues on reviewing all outstanding capital balances and identifying funding sources for each capital scheme. New structures in the housing finance section has ensured an improved level of engagement with the Department to bring a resolution to outstanding capital balances.

6.2 Funding of Debit Balances

Revenue Account

In excess of €14.7m of capital balances are either in the process of, or will in the future be funded from the revenue account. These balances range from €4k to €6.7m with the larger balances relating to the Whiteriver Landfill site of €6.7m and the new County Offices of €2.3m.

Development Contributions Yet to be Collected

There are €3.7m of debit balances which are earmarked to be funded from development contributions yet to be collected. This amount includes a balance of €3.3m with regard to the 'Port Access Northern Cross Route' (PANCR). I have been informed that some of this balance may be funded under an Urban Regeneration Development Fund (URDF) application if successful.

In addition to these balances the following debit balances were noted:

(a) Rejuvenation of Clanbrassil Street

At the year end there was a debit balance of €5.6m on the 'Rejuvenation of Clanbrassil Street' project. I have been informed that €2m of this is to be funded by a grant from the European Regional Development Fund (ERDF) with the remaining balance to be funded by the development contributions yet to be collected.

(b) Rejuvenation of Market Square Dundalk

A debit balance of €1.3m relating to the 'Rejuvenation of the Market Square Dundalk' is due to be funded from both the revenue account and development contributions yet to be collected.

Chief Executive's Response

It is usual for some capital projects to be funded from development levies and/or from the revenue account over a number of years. We budget for these projects as part of the annual budget within the limitation of our resources and we monitor the funding from development levies for capital projects as they progress. The application for funding under the URDF in respect of the PANCR has not yet been decided by the Department. We continue to look for funding opportunities for all our capital projects.

6.3 Expenditure Charged to the Capital Account

Fleadh Cheoil

It was highlighted at the previous audit that Louth County Council agreed to cash flow the Fleadh Cheoil festival for the two years that it was held in Drogheda in 2018 and 2019. The Head of Finance had confirmed to me in writing that it was anticipated that the Fleadh committee would raise sufficient funding over the cumulative two year period to clear this expenditure. Total expenditure charged to this project in 2019 amounted to €528k (€803k in 2018). At the end of 2019 there was a debit balance of €1.05m included in the capital account in respect of this festival.

Chief Executive's Response

Preliminary discussions with the Council has commenced and will be completed by mid-2021, with the funding of the debit balance being funded over a number of years from the revenue account being the most likely outcome.

6.4 Capital Housing Projects - Deferred Income

In excess of €3m of income continues to be deferred in the accounts, a significant amount of which was transferred from the former town councils in 2014 as part of the amalgamation with the County Council. All of this income is associated with capital housing projects. This matter should be addressed as part of the review of debit balances as outlined above in paragraph 6.1.

Capital income of €425k relating to the purchase of houses where the purchase was not completed by the end of 2019 was not treated as deferred income in the accounts. This had the effect of increasing the credit balance on the capital account by this amount. This had no impact on the revenue account. This has not been adjusted in the 2019 AFS. This should be adjusted as part of the preparation of the 2020 AFS.

Chief Executive's Response

The historical nature of some of these accounts necessitates significant research by the staff currently managing these files. Engagement on all outstanding accounts is ongoing. The matter of the deferred income will be considered in conjunction with the preparation of the 2020 AFS.

7 Fixed Assets

7.1 Accounting for Fixed Asset Additions / Disposals

The following was noted during a review of fixed assets:

- An amount of €400k in respect of the disposal of land at Marches Upper was receipted to the accounts in 2019. However there was no disposal of this land in the AFS.
- An item of machinery at a cost of €45k, traded in as part of the purchase of a new tractor continues to be included in the AFS
- An item of plant authorised to be scrapped in 2018 was not disposed of, and continues to be included in fixed assets

- There was no Chief Executive / Director's order prepared in respect of the purchase of land at Dundalk Port at a cost of €1.3m
- A building is duplicated in fixed assets at a cost of €3.6m.

These matters do not affect either the revenue or capital account. Procedures with regard to accounting for fixed asset additions and disposals should be reviewed.

A review should be undertaken to ensure that all fixed assets in the accounts are correctly recorded to ensure the accuracy of the amounts included therein.

Chief Executive's Response

Any necessary corrections required to be made with regard to the above will be completed for the 2020 AFS. Procedures will be reviewed and amended to include the preparation of a Chief Executive's Order for the acquisition of any lands, to be applied with immediate effect. A review will be undertaken to ensure that all fixed assets in the accounts are correctly recorded to ensure the accuracy of the amounts included therein.

7.2 Land / Property Register

It was highlighted at the previous audit that consideration was being given to developing a new computerised system to accurately record all acquisitions and disposals of property of the Council. Work commenced on this in 2019 and the developers are currently modifying the system to meet the Council's requirements. When this is complete, all current data will be migrated onto the new system. It is important that the Council identifies and registers all properties in its ownership and include these on this system.

The acquisition of a property in 2019 although included in the AFS, was not communicated to the relevant section resulting in its non-inclusion in the property register. This weakness in procedures should be addressed to ensure the completeness of information contained therein.

Chief Executive's Response

Matters were delayed in this area due to the changeover to a new software provider which involved the moving of the existing data to a new platform. This move has now been completed and procedures will be amended to ensure that any land transaction is routinely notified to the corporate services section and amended on the new system.

8 Loans Payable

8.1 Loans Payable Summary

A summary of loans payable is analysed as follows:

Loan Type	Balance outstanding at 31/12/2019 €m
Mortgage Loans	21.18
Non Mortgage Loans	64.64
Bridging Finance	5.74
Voluntary Housing Loans	51.26
Share Ownership - Rented Equity	0.03
Total	142.85

The Council had a mortgage loan funding surplus at the end of 2019 of €1.2m (€1.1m in 2018). Further details of this are included in note 12 to the AFS. Voluntary housing loans are fully recoupable from the Department.

8.2 Loans Borrowed to Fund the Purchase of Land

During 2019, the Council redeemed loans totalling €10.9m which had been borrowed for the purpose of purchasing land for housing some years ago. The overall balance at the end of 2019 in respect of loans borrowed for land purchases was €58.1m compared to €69.1m on the previous year.

Included in the figure of €58.1m is €3.5m in respect of a loan which forms part of the land aggregation scheme and as such, both the capital (principal) and interest charges pertaining to this loan are fully recoupable from the Department. With regard to the remaining balance of €54.6m, no capital repayments were made as these loans are currently on an interest only basis. Interest totalling €567k was paid by the Council, being funded from its internal capital receipts while €78k was added to the principal sum.

The position at the end of 2019 regarding the commencement of capital repayment of these loans was as follows:

Loan No.	Amount Outstanding at 31/12/2019 €m	Date of Commencement of Repayment of Principal
1	19.8	Jul-20
2	16.9	Jul-20
3	4.2	Jan-21
4	7.4	Jan-21
5	6.3	Jan-22
Total	54.6	

Chief Executive's Response

Louth County Council continues to explore options with the Department and the Housing Finance Agency for opportunities to utilise the lands for the provision of social housing units.

8.3 Variable Housing Affordable Loans

The former Dundalk Town Council borrowed two variable affordable housing loans in 2009 and 2012 in error, in lieu of bridging finance, to construct a number of affordable houses. These loans were transferred over to Louth County Council in 2014 as part of the amalgamation of the town councils with the County Council. While bridging loans incur interest only, which is recoupable from the Department, variable affordable loans incur both capital and interest, with the interest element only, being recoupable from the Department. Capital repayments on these loans, being funded by Louth County Council, amounted to €152k in 2019 and €870k in total since 2013.

Chief Executive's Response

We will continue to liaise with the Department to find a resolution to this matter.

9 Irish Water (IW)

9.1 Transfer of Title of Properties to Irish Water (IW)

Since the conclusion of the previous audit there have not been any further transfers of properties to IW. However, the Council is continuing to engage with the Irish Water National Special Projects Office (NSPO) on the transfer of assets including first registration, sub division of omnibus folios and sub division of sites where IW share the site with the local authority.

It was highlighted at the previous audit, that five sites were identified in fixed assets with a total cost of €1.7m that are subject to sub division of folio, whereby a portion of this land will transfer to IW while the remainder will be retained by Louth County Council. However, the percentage of land to be transferred to IW has not yet been agreed by both parties. This is still the current position.

Chief Executive's Response

The transfer of assets to IW continue to be a slow process due to the registering of properties, transfer of title, ministerial approvals and updating of the Property Registration Authority records. This work is ongoing and we will continue until all relevant assets are transferred.

10 Procurement

The new financial management system, which became operational in the Council in 2017, includes a procurement module. This module provides improved transparency in the purchase to pay cycle, analysing actual expenditure against national and local frameworks. This module has not been implemented. As one of the key controls is to ensure compliance with recommended public procurement practice and value for money in the tendering for goods and services it is recommended that this module be implemented.

Chief Executive's Response

The roll out was commenced in late 2019 but due to COVID-19 in 2020 this work was put on hold. The roll out of the procurement module will recommence in 2021.

11 Ethics Register

A review of the ethics register indicated the following:

- A number of declarations were not received by the deadline of end of February 2020.
- There are declarations still outstanding for return
- Some declarations returned were not completed / fully completed.

These matters are in breach of Part 15 Section 171 of the Local Government Act, 2001 which states declarations should be furnished to the ethics registrar within the required timeframe. This is a continuing trend and should be addressed.

Chief Executive's Response

A small number of outstanding submissions relate to staff who have retired. Any other outstanding ethics declarations are now being referred to the relevant Director of Services for addressing under our Discipline Code.

12 Annual Service Delivery Plan

The Annual Service Delivery Plan was not completed in respect of 2019. This is not in accordance with Section 50 of the Local Government Reform Act 2014 which states that such a plan should be completed annually by the local authority.

Chief Executive's Response

It is acknowledged that a Service Delivery Plan was not put in place for 2019 and this is regretted. This process has been corrected and plans have been put in place since for 2020 and 2021.

13 Local Authority Companies

13.1 Local Authority Companies

The Council's interest in companies is set out in appendix 8 in the AFS. None of these companies are consolidated in the Council's AFS.

14 Governance and Propriety

14.1 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

14.2 Risk Management

An internal audit report completed in May 2019 in respect of risk management indicated a number of weaknesses with regard to the managing of the risk registers of the Council. It is recommended that these be addressed.

Chief Executive's Response

In 2020 extensive work has been completed in this area. A new Risk Management Policy has been agreed and implemented combined with the development of a new Strategic Corporate Risk Register. Work now continues to embed this with the development of similar Directorate Risk Registers.

14.3 Internal Audit

There was no internal audit plan in place for 2019. While two review reports were commenced and completed during 2019, no internal audit field work was completed in the year.

Chief Executive's Response

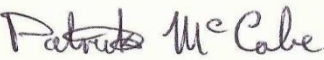
Internal audit services were delayed whilst a new provider was procured following the expiry of the previous contract. Whilst no additional field work was completed, most of 2019 was spent agreeing management responses on up to ten outstanding reports arising from fieldwork in 2018. A new service provider has since been procured and they commenced work in late 2019 starting with a review of all previous audits completed.

14.4 Protected Disclosures Procedures

A policy and procedures document with regard to dealing with protected disclosures was adopted by the Council in February 2019.

Acknowledgement

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



Patrick McCabe
Local Government Auditor
16 December 2020

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