



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 2018

Department of Housing, Planning and Local Government

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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 2018, 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, Planning, and Local Government.

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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 8 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 Financial Standing

2.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €18k after transfers to reserves of €6.5m and has an accumulated revenue surplus of €385k at 31 December 2018. Note 16 to the AFS outlines the differences between the adopted estimates and the actual out turn. The members, at the Council meeting held in March 2019, approved, by resolution in accordance with section 104(2) of the Local Government Act, 2001, the expenditure incurred in 2018 that was in excess of the adopted budget for the year.

2.2 Financial Position

Significant movements in the finances of the Council during the year included:

- Increase in fixed assets of €11.4m
- Decrease in loans payable of €4.2m
- Increase in trade debtors & prepayments of €2.4m
- Increase in creditors & accruals of €3.5m

- Increase in bank investments of €0.5m
- Increase in other creditors of €0.47m
- Increase in cash of €0.28m

3 Income Collection

3.1 Summary of Income Collection

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

Income Source	Yield	Yield	Debtors	Debtors
	2018	2017	2018	2017
	%	%	€m	€m
Rates	83%	81%	3.4	3.6
Rents & Annuities	97%	97%	0.17	0.2
Housing Loans	97%	89%	0.05	0.2

The Council has a dedicated debt collection unit. The work conducted by the unit through the use of all credit control options available to them has resulted in improvements in revenue collections.

3.2 Rates

As at 31 December 2018 the balance of rates outstanding is €3.4m. The collection yield for the year increased to 83% (2017:81%) with receipts exceeding last year by €925k. The collection yield is in line with the target set out by the CCMA of 82.74%. An analysis of the closing balance by amount is as follows:

Closing debtor range	No. of accounts	Total Closing Balance €
	2018	2018
=> €10,000	79	1,896,227
=<€9,999 and >€5,000	87	597,486
=<4,999 and >€1,000	368	883,911
=<€999 and >€1	194	102,841
=<€1, zero, or >(€1)	2,075	-1
In credit <=(€1)	76	-62,668
Total	2,879	3,417,796

The bad debt provision of €2.8m is based on a review of the debtor balances and appears reasonable.

The revaluation process in Westmeath carried out by the Valuation Office is now complete and effective from January 2018. The revaluation has resulted in a large number of appeals being lodged by ratepayers. To date only 28% of the appeals have been adjudicated on, of which the majority resulted in a decrease in the valuation. The outcome of the remaining appeals could have an impact on the finances of the Council going forward.

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.

We will continue to work, in a challenging environment, to improve the collection yield and continue the reduction in the level of arrears. The number of accounts with arrears of more than €5,000 at year end for the last three years was: 2018, **166**; 2017, **190**; 2016, **206**.

3.3 Housing Rents and Annuities

The collection yield for rents and annuities remained at 97% for 2018. The arrears decreased to €172k. However the gross arrears (net of credit balances) is €375k. An analysis of the arrears by amount is as follows:

Closing debtor range	No. of accounts 2018	Total Closing Balance € 2018
=> €10,000	3	78,483
=<€9,999 and >€5,000	7	44,810
=<4,999 and >€1,000	49	102,489
=<€999 and >€1	938	146,125
=<€1, zero, or >(€1)	324	-8
In credit <=(€1)	1,720	-199,976
Total	3,041	171,923

The bad debt provision of €289k is based on a review of the debtor balances and appears reasonable.

Chief Executive's Response

We will continue to work to improve the collection percentage and to reduce arrears. Arrears, excluding those accounts in credit, for the last three years was: 2018, **€375k**; 2017, **€399k**; 2016, **€480k**.

3.4 Loans

The collection yield for housing loans increased to 97%, with arrears at 31 December 2018 amounting to €58k (being €316k arrears and €258k credit balances). The collection yield has increased for the fifth year in a row as follows:

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

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

At the year end the Council had 361 loan accounts and the split of arrears by amount is as follows:

Closing debtor range	No. of Accounts 2018	Total Closing Balance € 2018
> €10,000	7	€136,883
<= €9,999 and > €5,000	7	€48,409
<=€4,999 and > €1,000	41	€110,707
<=€999 and >€1	57	€19,823
In credit	249	-€257,817
Total	361	€58,005

The bad debt provision of €194k based on a review of the debtor balances and appears reasonable.

Chief Executive's Response

This area continues to receive significant attention from the management and staff of the Council. We are on course to record a further improvement in our collection percentage in 2019. We will continue to restructure all loans on reduced payment plans into long term sustainable arrangements and process through the MTR scheme. Furthermore, we will continue to operate effective credit control procedures on the complete mortgage portfolio.

4 Irish Water

4.1 Irish Water Service Level Agreement

From 1 January 2014, the responsibility for water services functions transferred to Irish Water (IW). The Council continues to deliver services to IW under the terms of a service level agreement.

The service level agreement is in place for 12 years until the end of 2025. The annual income under this agreement was €4,295,074 for 2018.

Chief Executive's Response

The Council continues to deliver day-to-day water services on behalf of Irish Water under the terms of a service level agreement (SLA). There are three main elements comprising the expenditure recouped under the SLA: payroll, machinery hire and central management overheads.

4.2 Transfer of Assets to Irish Water

As noted at previous audits, the process of transferring assets remains ongoing. Twelve assets were submitted for transfer in 2018, these are still awaiting ministerial order. The remaining assets will take some time to transfer due to ongoing title issues. The Council continues to liaise with IW's National Special Projects Office in relation to these transfers.

Chief Executive's Response

We will continue to work to resolve all outstanding issues.

4.3 Payment to IW

In 2019, the Council made a payment to IW of €136k in full and final settlement for the incorrect inclusion of employers and public liability overhead charges being applied on IW funded jobs. The payment was funded from the capital account.

Chief Executive's Response

This matter, which resulted from an internal audit carried out by Irish Water under the SLA, was resolved speedily. We are satisfied with the outcome.

5 Capital Account

5.1 Capital Account

The capital account consists of 608 capital codes. The Council incurred total expenditure of €32m (2017: €23.5m) on capital projects in 2018 with total income amounting to €29m. The majority of expenditure related to housing and roads capital projects which accounted for 77.5% of the expenditure. In particular, the most significant element of the capital account in 2018 related to capital housing projects, with an expenditure increase of €5.9m to €14m. The closing balance on the capital account was a net credit balance of €11.6m at the end of 2018.

Chief Executive's Response

Projects on the capital account aim to enhance existing infrastructure within the county and to create additional infrastructure. The Government's improved fiscal position and the availability of appropriate levels of grant funding has resulted in a significant increase in activity in recent years. Key challenges in managing the capital programme include: the cash flow implications; sourcing funds to meet the Council share of a project; and financing the personnel required to manage and delivery the programme.

5.2 Unfunded Housing Capital Balances

The Council has €8.5m unfunded capital balances in the housing section. These balances mainly relate to the historic purchase and servicing of sites for future housing developments. The balances can be categorised as follows:

Category	€'000's
Land Bank	€6,067
Construction	€2,211
Other	€246
Total	€8,524

The Council will need to identify funding sources for projects where none has been identified, 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 Loans Payable

6.1 Loans Payable

The Council's capital debt has decreased by €4.9m to €70.3m at 31 December 2018 (2017: €75.2m) The majority of the decrease relates to a repayment of the Bank of Ireland loan for the Council building in Athlone. The balance on the loan was €3.7m at the end of 2017 and it was repaid in full in 2018. The year-end balance is comprised as follows:

Loan Type	2018 €m	2017 €m
Council Buildings	30.50	34.40
Land Acquisition	2.60	2.80
Mortgage Lending	21.40	21.60
Affordable Housing	11.50	11.50
Other	4.30	4.90
Total	70.3	75.20

Chief Executive's Response

We note the points made and comment 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 €140,000 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.

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.

6.2 Bridging Finance - Affordable Housing

Loans Payable include bridging loans of €11.5m, which remain outstanding on an interest only basis, in respect of 52 housing units originally acquired for resale under the affordable housing programme. These units are allocated to a voluntary housing body under the Social Leasing Scheme to address current housing needs.

The interest charge for 2018 was €149,155.

7 Development Contributions

Development contribution debtors per note 5 of the AFS were €1.9m at the end of 2018 (2017: €2.3m). The reduction includes write off's of €59k and other adjustments of €405k. The bad debt provision on debtors has been reduced to €1.26m to reflect the current level of monies owing.

Previous audits highlighted weaknesses in the collection of development contribution debtors. The Planning Department has classified each development contribution debtor account with a credit control status and the amounts owed at 31 December 2018 can be summarised as follows:

Debtor - Credit Control Status	2018 €'000
Dormant	508
Disputed	269

Active	399
Under Payment Plan	186
Bad Debt Pending Write Off	269
Enforcement Notice Served	68
Other	202
Total	1,901

A review of development contribution arrears found that a large portion (43%) are outstanding for over 5 years. There still remains a weakness in relation to the credit control activity on the debtors. To this end the Council should ensure the debt management procedures are followed to ensure receipts are maximised and all credit control options are exhausted.

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. We have maintained them in our debtor's ledger as we determined this is the best means of continuously monitoring the up-to-date 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 four years together with the number of accounts making up the total:

Debtor Control Account Amount Due as at:	2018 €'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

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

8 Procurement

The Council has a procurement unit, comprising a Procurement Officer and two staff members. The Procurement Officer reports directly to the Head of Finance.

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

During the audit a number of instances were noted where the Council failed to comply with its own purchasing procedures and national procurement guidelines. Specific issues noted in this year's audit included:

- Absence of signed agreements in two instances for contracts awarded for the supply and placing of surfacing materials in the Athlone Municipal District. The works had been tendered for and the value of the contracts awarded was €975k and €1.9m exc. VAT for 2018. It was also noted that no Chief Executive Order was signed authorising the acceptance of these tenders. This is a serious weakness. Failure of the Council to adhere to proper procurement procedures exposes the Council to financial and reputational risk.

Chief Executive's Response

We agree that the absence of a signed agreement and signed chief executive orders for these two contracts is a serious weakness. Furthermore, the absence of the signed chief executive orders should have been noticed at a later stage in the purchase to pay cycle.

The documentation consisting of a memorandum recommending approval; a price comparison document; and a draft chief executive order, in respect of each of the two contracts was sent at the appropriate time to the director of service in one email. However, due to an oversight the email and attachments were not acted on. It would appear to be an isolated incident.

The chief executive orders have been signed subsequently and our procedures have been amended to so that such recommendations are submitted in hard copy in future. The works were completed in accordance with the tender and there are no claims by the contractor.

9 Local Authority Companies

The Council's interest in three companies is shown in Appendix 8 in the AFS. They are:

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

Council officials are directors of Athlone Regional Sports Centre DAC and Athlone Arts & Tourism DAC. Council members are directors of the Mullingar Arts Centre Company Limited by Guarantee (MACCLG).

At the February 2018 Council meeting, the Members unanimously resolved that the revised constitution of MACCLG be approved as presented. The revised constitution was approved by the members of the company at an EGM held on 6 December 2018.

MACCLG did not have their accounts audited in time to be included in the draft AFS considered by members on 25 March 2019. In accordance with the Accounting Code of Practice, the Council's interest in these companies has not been consolidated into the accounts.

Chief Executive's Response

We placed a particular focus on this area in the preparation of the AFS for 2018. We are disappointed that one of the companies did not have their accounts audited in time to be included in the Council's audited AFS. The audited accounts were received on 29 March 2019.

10 Governance and Propriety

10.1 General

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.

10.2 Audit Committee and Internal Audit

The Audit Committee held the required number of meetings in 2018. In February 2018, the Council Members approved the Audit Committee's 2018 annual work programme. At the Council meeting, the Audit Committee chairperson presented the Audit Committee Report pursuant to Section 121 of the Local Government Act 2001 and the Audit Committee 2017 Annual Report.

The Council's annual Internal Audit work plan was approved by the Audit Committee in January 2018. The internal auditor reports directly to the Chief Executive in respect of his work. The Internal Audit unit produced four audit reports, 6 follow-up reports and carried out quality assurance work on the public spending code in 2018. 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.

10.3 Ethics Declarations

30% of members did not submit their ethics declaration by the deadline date. While this is an improvement on the previous year, it is still not in line with the statutory obligation to submit returns annually by 28 February as outlined under legislation.

Chief Executive's Response

All members are clearly advised of their obligations in respect of the declaration required.

Acknowledgement

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

Kate O'Brien

Kate O'Brien
Local Government Auditor

30 October 2019

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