



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Roscommon County Council

for the

Year Ended 31 December 2015



An Roinn Tithíochta, Pleanála, Pobail agus Rialtais Áitiúil
Department of Housing, Planning, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF ROSCOMMON COUNTY COUNCIL

1 Introduction

- 1.1** I have audited the Annual Financial Statement (AFS) of Roscommon County Council for the year ended 31 December 2015, which comprise 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, Community and Local Government.

My main statutory responsibility, following the 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 2015 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 judgements 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.

- 1.2** 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** The Council incurred a deficit of €17k in 2015 after net transfers to reserves of €1.1m, having achieved a surplus of €18k the previous year.

The accumulated surplus has reduced to €150k at the end of 2015. Over expenditure in specific divisions can be viewed in note 16 of the AFS. While there were some notable areas of over expenditure, these were offset by both under expenditure and increased income in other divisions. The draft AFS, the transfers to and from reserves, and the over expenditure by division, were considered and approved by the Council at their meeting on 23 May 2016.

- 2.2** The Council's net current assets decreased from €10.4m to €5.2m in the year. The 2014 current debtors included €12.7m due in relation to the transfer of water functions to Irish Water (IW) - see paragraph 5 for further comment. €8m of these debtor receipts was applied to the redemption of long term water loans.
- 2.3** Fixed assets increased by €11m in 2015, due to the transfer from work in progress of 23 houses and 3 buildings. These transfers do not include the new corporate headquarters and this matter is discussed in paragraph 6.
- 2.4** The work in progress and preliminary expenses figures decreased substantially in 2015. This was primarily due to the completion of works on the N5 Ballaghaderreen By-Pass at a cost of €49.4m.

This was an existing road asset and as such was already reflected in note 1 prior to these works being carried out. Consequently the expenditure did not result in the creation of a new asset and this treatment is in accordance with existing accounting policies.

Chief Executive's Response

The comments above in relation to the financial standing and performance for the year 2015 are welcomed and noted.

3 Income Collection

- 3.1 The arrears and the collection percentages for the Council's main revenue collection accounts as disclosed in Appendix 7 of the AFS were as follows:

	Arrears			Collection Percentage		
	2015	2014	2013	2015	2014	2013
Rates	€1.9m	€2.2m	€2.6m	93%*	80%	77%
Rents and Annuities	€0.5m	€0.3m	€0.4m	89%	93%	91%
Housing Loans	€0.1m	€0.2m	€0.3m	75%	53%	42%

3.2 Rates

The collection percentage for rates increased to 93% in 2015, using the new calculation methodology issued by the Department of Housing, Planning, Community and Local Government (the Department). The 2015 collection percentage under the old calculation method was 82%*, compared to 80% for the previous year.

The Council had €1.9m of rate debtors at the end of 2015, against which it made a specific provision of €1.2m. A review of nearly half of this balance found that 18% were performing debtors, with the remaining 82% being either:

- (i) Subject to ongoing negotiations or legal action (77%)
- (ii) Relating to firms in receivership or liquidation (5%).

My review suggests that despite the significant provision made at the end of 2015 for specific doubtful debts, it may not be adequate and needs to be kept under review for future years - see paragraph 3.5.

Chief Executive's Response

Comment noted. Following changes to the treatment of the bad debt provision for commercial rates, a specific bad debt provision of €1.2m has been identified (as noted in Appendix 7). However, the total bad debt provision for commercial rates as at the end of 2015 is €1.4m which gives an additional amount of €200k which is not yet assigned as a specific provision, but notwithstanding this, the provision will be kept under continuous review.

3.3 Rents and Annuities

The rent and annuity collection percentage decreased by 4% in 2015. There was a €43k decrease in the cash collected by the Council in 2015 for this income stream, along with a substantial increase in debtors at the end of 2015 to €471k.

The Council had not conducted a complete rent review since 2012. To address this matter, a new differential rent scheme was adopted, effective from 1 July 2015 and customers were requested to

make up-to-date returns regarding their personal circumstances to facilitate a rent review. The Council charged arrears to customer accounts based on the changed circumstances notified in the returns submitted. This resulted in a significant increase in the arrears at the end of 2015. Since the AFS was prepared, management has decided to cap the backdated arrears to a maximum of €500 per account, as a result of which these arrears have reduced by €132k, which will be reflected in the 2016 AFS.

Based on a review of 28% of these debtors, I assessed the bad debt provision for rents to be inadequate. I recommend that it be reviewed for the 2016 AFS - see paragraph 3.5.

Chief Executive's Response

Agreed – the adjustment to rent accounts in 2016 should substantially reduce the arrears figure compared to the end of 2015 and the current bad debt provision of €153k will be reviewed with consideration to be given to the possibility of transferring an amount from the housing loans bad debt provision.

3.4 Housing Loans

The collection percentage for housing loans increased in 2015 to 75%, which brings the Council into line with the national average. This improvement was due to the implementation of the Mortgage Arrears Resolution Process (MARP) and legal action where cases fell outside of MARP.

Based on a review of the debtors at the end of 2015, I deemed the bad debt provision to be excessive - see paragraph 3.5.

Chief Executive's Response

Comment noted – the bad debt provision will be reviewed and adjusted for 2016 with consideration to be given to the possibility of transferring an amount to housing rents.

3.5 Bad Debt Provision

At the end of 2015 the bad debt provision accounted for 74% of the gross debtors as identified in note 5 of the AFS. In my opinion the overall bad debt provision is adequate. However as highlighted in previous paragraphs, the split of this provision between debtor categories needs to be reviewed for future years.

Chief Executive's Response

Agreed - as indicated above.

4 Development Contributions

- 4.1** Development contributions due to the Council are disclosed in notes 3 and 5 of the AFS. In total, these amounted to €12.8m at the end of 2015, of which €0.5m was classified as long-term. Previous audit reports recommended that a complete review was needed of these debtors to determine the accuracy of both the debtor figure and the bad debt provision. This review is currently ongoing. Write offs of €600k were reflected in the 2015 AFS as a result of this review and significant further adjustments are anticipated in the 2016 AFS. A sample of the adjustments reflected in the 2015 AFS were reviewed in the course of this audit and found to be appropriate.

Chief Executive's Response

Agreed and noted.

5 Irish Water

5.1 The impact of the transfer of water and sewerage functions to IW was outlined in the 2014 audit report. There were ongoing impacts reflected in the 2015 AFS and these are as follows:

- **Balancing Statement** - A debtor worth €4.8m was included in the Council's 2014 AFS, which represented the balancing statement figure due from IW. This amount was received by the Council in September 2015.
- **Service Level Agreement** - A twelve year service level agreement effective from January 2014 was entered into by the Council and IW. This permits the Council to recover costs incurred by it in the provision of water services on IW's behalf. These costs were recouped throughout 2015.
- **Water Related Loans** - At the end of 2014, there were seven water related loans with a value of €11.1m remaining in the Council's AFS. During 2015 six of these loans were redeemed, leaving one loan valued at €2.8m outstanding. The Department continued to fund the repayment of both interest and principal on this loan during 2015.
- **Fixed Asset Transfers** - In 2014 all of the water and sewerage assets reflected in note 1, which were worth €204m net of depreciation, were removed from the Council's AFS. The Council has agreed that a total of 202 assets will transfer to IW. To date regulations have been enacted to transfer 48 of these assets, with further regulations imminent for 12 more. This leaves 142 assets (70%) remaining to be transferred. I understand that while work is ongoing to complete this project, there is no agreed timeframe for its completion.

Chief Executive's Response

Agreed and noted.

6 Fixed Assets

6.1 Fixed Asset Records

Previous audit reports highlighted shortcomings in relation to the recording of assets and the registration of asset titles by the Council. In April 2016 an Asset and Energy Management Unit was established and one of the functions of this Unit was to address issues previously highlighted. It is clear from discussions with the staff in the Unit that work is ongoing on the matters raised, however, no timelines have been agreed to allow progress to be measured. I recommend that targets need to be set to facilitate the management of this project and to ensure its completion within a realistic time frame.

Chief Executive's Response

Agreed and noted. Targets will be set for this Unit as it becomes more embedded in the organisation.

6.2 Policies and Procedures

A significant factor in the shortcomings identified in previous audit reports, was the absence of adopted policies and procedures outlining the steps to be followed in the case of asset acquisitions

and disposals. There was inconsistency of treatment as well as lapses in the registration process due to individual sections within the Council being permitted to purchase and dispose of assets. Such policies and procedures need to be adopted and consideration should be given to centralising this role.

Chief Executive's Response

Agreed – this will be progressed as the new Asset and Energy Management Unit becomes more established.

6.3 New Corporate Headquarters

Despite the new corporate headquarters being open for business by the end of 2015, the building was not included in the 2015 AFS as a fixed asset addition. This was due to the works contract including the provision of car parks as well as remediation works on the old Court House. These additional works were not completed by the end of 2015. These new assets should be reflected in future AFS's once the final account for these works has been agreed.

Chief Executive's Response

Agreed – It is expected that the corporate headquarters will be fully capitalised as part of the 2016 AFS.

7 Loans Payable

- 7.1 Loan balances of €23.7m remained payable by the Council at the end of 2015. Of this, €5.4m related to loans that are currently being funded by the Department and a further €1.2m related to loans funded by customer repayments. Both the interest and the principal arising from the remaining €17.1m of loans are being funded through the Council's revenue account. These loans consist of:

- Loans for the new corporate headquarters €13.5m
- Loan to fund capital balances €3.6m

Chief Executive's Response

Agreed – amounts will continue to be budgeted in the revenue account to fund the above loans.

8 Capital Account

8.1 Unfunded Capital Jobs

Roscommon County Council undertook an exercise to review and clear historic balances from the capital account in the 2012 AFS. These balances were funded by means of an €8m loan, which was drawn down with both Council and Departmental approval. The balance remaining on this loan is the €3.6m balance referred to in paragraph 7.1. All of the other material capital job balances reviewed in the course of the 2015 audit had an identified funding source.

Chief Executive's Response

Agreed and noted.

9 Interest in Companies

9.1 The Council had two companies in which it had an interest during 2015 as reflected in Appendix 8 of the AFS. These are:

- Moylurg Rockingham Ltd (trading as Lough Key Forest and Activity Park) in which the Council has a 50% interest; and
- Roscommon Leisure Centre Ltd, which is a 100% owned subsidiary.

Audited accounts for the year ended 31 December 2015 for both companies were reviewed in the course of the audit.

9.2 Moylurg Rockingham Ltd

The audited accounts showed:

- A profit of €200k for the year (€149k profit for 2014), thereby reducing the accumulated losses to €0.9m by the end of 2015. No subvention was supplied in 2015 (or in 2014) to this entity by the Council.
- A contingent liability of €4.6m in relation to government grants – this contingency will cease in May 2017.
- An emphasis of matter paragraph in the audit report outlining the dependence of the company on the support of its funders to maintain its status as a going concern. As in previous years, an undertaking was given by the Council to support the company, for a further twelve months to May 2017.

Chief Executive's Response

Comment noted – Moylurg Rockingham is a successful company and an excellent example of partnership working, with the facility being one of the premier tourism attractions in the country. The earlier accumulated losses are now being reduced consistently as the business model continues to operate efficiently.

9.3 Roscommon Leisure Centre Ltd

The audited accounts showed:

- A loss of €100k for the year (€31k loss for 2014), thereby increasing the accumulated losses to €0.13m by the end of 2015. This loss was incurred despite the Council paying a subvention of €74k in 2015 (€70k in 2014).
- The audit report included an emphasis of matter paragraph outlining uncertainty regarding the company's ability to continue as a going concern.

Chief Executive's Response

Comment noted – The Leisure Centre will continue to be supported financially to ensure that it delivers benefit to the local community and particularly to local schoolchildren who avail of lessons and skills in swimming and water safety. A review of its operation is currently underway with recommendations currently being considered.

10 Procurement

10.1 Overview

Roscommon County Council established a Procurement Unit in June 2014. This Unit facilitated the introduction of the Milestone 4 (MS4) upgrade of the Agresso financial system during 2015, as well as providing an ongoing review of procurement practices within the Council.

10.2 Procurement Review

I reviewed a sample of contracts in place during 2015 to determine if proper procurement procedures had been applied. This review found:

- Contracts worth €1m were awarded for housing renovation and remediation works based on a small works panel. In its January 2016 report to management, the Procurement Unit had identified these costs as not being compliant with corporate procurement guidelines. However, the Unit advised against further action pending the rollout of the national framework by the Local Government Operational Procurement Centre.
- Legal fees worth €440k were not tendered. The Office for Government Procurement tendered these costs in late 2015 and it is proposed to have a framework in place by late 2016.
- Three fixed asset additions worth €134k were acquired in 2015 based on quotes only, where tendering procedures should have applied. These breaches were noted by the Procurement Unit who took control of all such acquisitions for 2016 to ensure no further breaches apply.
- Waste costs of €137k were noted for 2015. The Procurement Section will tender these in future years.

Based on the findings outlined above, I can confirm that the controls put in place by the Council appear to be effective in identifying and addressing material procurement breaches. The periodic reports to management are a crucial factor in ensuring the compliance of sections throughout the Council and I recommend that this practice continues.

Chief Executive's Response

Agreed and noted.

11 Unfinished Housing Estates

11.1 Currently Roscommon County Council has 177 private housing developments consisting of 3,921 housing units which it classifies as unfinished. 40 of these (808 housing units) also appear on the Department's list of unfinished estates. The following actions are underway in relation to the developments on the Council's list:

- Bonds to the value of €2m have been paid over to the Council in relation to 16 developments. A framework for consultant engineering services has recently been established to plan remediation works, initially in relation to 4 of these developments (183 housing units), which will utilise €780k of these bonds.
- Departmental funding of €224k under the National Taking-in-Charge Initiative has been secured for 2016, which in addition to the bonds held, will remediate a further 8 developments (157 housing units).
- There are a further 3 estates (116 housing units) that the bond providers are currently remediating at no cost to the Council.

The 177 developments listed above include 121 estates (2,539 housing units) for which the Council has received no taking-in-charge application to date. The remaining 56 developments (1,382 housing units) have some level of discourse on the subject however not all have a valid taking-in-charge application.

The 177 developments exclude 26 developments relating to apartment blocks / holiday homes / retirement villages, which are developments that will never be the subject of a taken-in-charge application but for which the Council may incur costs to bring to a satisfactory level of completion.

Chief Executive's Response

Comment noted – Section 180 of the Planning and Development Act 2000 (as amended), which refers to the taking in charge of estates, pertains to “the construction of 2 or more houses and the provision of new roads, open spaces, car parks, sewers or service connections.” In practical terms, a number of the 177 developments referred to, accord with the definition in Section 180, but are essentially small groups of individual houses served by common infrastructure, where taking in charge applications have not been received to date, despite such developments being substantially complete. The 26 developments which have been excluded are not candidates for taking in charge and will remain the responsibility of the developer / other responsible parties. Roscommon County Council will only engage in activity to bring such developments to a satisfactory level of completion in instances where a bond is paid over, with the bond monies being utilised to achieve this.

12. Grant Claims

- 12.1** Included in the trade creditor figure at the end of 2015 were invoices totalling €644k, which had been receipted on the financial system despite the fact that the goods or services had only been partially provided by the year end. These invoices formed the basis of a claim made to and paid by the Department of Transport, Tourism and Sport (DTTAS) in December 2015. These creditor balances were paid by the Council in March 2016 (€153k), May 2016 (€255k), August 2016 (€196k), with €40k remaining unpaid to date. This is a breach of the DTTAS Memorandum on Grants for Regional and Local Roads dated April 2012, which in paragraph 4.2.1 specifically forbids the claiming of unpaid bills.

Chief Executive's Response

Comment noted. These amounts all relate to contracts signed in 2015 but works were not completed until 2016. Roscommon County Council had a contractual obligation to discharge the amounts as they fell due. The grant allocations were therefore drawn down to cover these costs. The €40K payment indicated above was not released as the work carried out was not up to a proper standard and therefore payment was not issued until satisfactory rectification works were completed. There can also be difficulties associated with the fact that Departmental Accounting is done on a receipts and payments basis whereas Local Authority Accounting is based on an accruals basis.

13. Governance

13.1 Internal Audit

The Internal Audit Unit remained under resourced throughout 2015. For ten months (mid-February until mid-December 2015), the Council had a shared service arrangement with Sligo County Council, which provided one member of staff for 40% of the time to Roscommon County Council. During this period the Unit produced four reports, which were reviewed by the Audit Committee

and have been considered in the planning of this audit. Since this shared service arrangement terminated in December 2015, there has effectively been no internal audit function in place.

Chief Executive's Response

Comment noted. As part of structural changes to the organisation during 2016 a new internal auditor has been appointed with a programme of work to be agreed and progressed.

13.2 Audit Committee

The audit committee met on four occasions during 2015 and I attended their February 2015 meeting to discuss my 2013 audit report. I was not in attendance at the committee meeting in December 2015 at which my 2014 audit report was discussed as I was not advised that this meeting was taking place. This is a breach of Section 60 of the Local Government Reform Act 2014, which states that a local government auditor "shall attend a meeting of the audit committee to present his or her report".

Chief Executive's Response

Comment noted. This breach is regrettable and arrangements will be made as soon as possible for attendance at the next Audit Committee (membership of which is currently being updated) meeting to present the 2014 audit report.

13.3 Ethics Returns

In accordance with the Local Government Act, 2001 an annual declaration must be submitted by applicable persons to the nominated ethics registrar by the last day of February in the following year. A review of the 2015 returns found that two Council members' returns were both dated and submitted after the cut-off date. Another form was dated prior to the cut-off date but was date stamped as received after the applicable date. Six forms submitted by Council members were partially incomplete. There was no evidence of actions being taken by the Council for non-compliance under S174 of the Local Government Act, 2001.

Chief Executive's Response

Comment noted. This is regrettable and actions will be put in place to rectify non compliance in that members will be advised of any non compliance with regard to the late submission of forms and where there is a failure to complete all sections of the form, members will be asked to rectify and resubmit.

13.4 Risk Register

Management adopted the first Corporate Risk Register in September 2016, which is a welcome development. It is vital that this register is regularly reviewed in keeping with best practice.

Chief Executive's Response

Comment noted. It is an integral part of the process that the register will be reviewed as the Risk Management Policy dictates that the register will be refreshed and reviewed and at a minimum updated on a six monthly basis. Progress vis-a-vis the risk management programme will be a standing item on the management team agenda.

14 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.



Mary Kearney
Local Government Auditor
14 November 2016