



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Galway City 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 GALWAY CITY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway City 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 6 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.

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

Local:

- A specific report was presented to Council Members at the June meeting setting out impact of COVID-19

- An additional update was issued by memorandum to Council Members at the August meeting

National Level

- Participation in the submission of acute financial management reports to the Department of Housing, Local Government and Heritage (the Department), namely:
 1. Indicative figures calculating the impact of COVID-19 on 2020 commercial rates
 2. Analysis of rated properties impacted by COVID-19
 3. Analysis of Local Government goods & services income impacted by COVID-19
 4. Analysis of Local Government emergency costs associated with the public health emergency COVID-19.

National Level- Departmental assistance

The following assistance has been made available to the Local Authority:

- There is a 100% waiver of commercial rates for the period from 27 March to 27th December 2020 for certain ratepayers. There are several business categories excluded from this. The Council will be reimbursed from the Department for the waiver applied.

Advance payments have been received from the Department in relation to Local Property Tax (LPT) payments in 2020. This has assisted the Council's short-term cash-flow position.

Chief Executive's Response

The Council has taken proactive steps to deal with the impacts of COVID-19 during 2020. A crisis COVID-19 response team and a COVID-19 senior response team was established and met regularly throughout 2020. Regular briefings were conducted with and issued to the elected members and to staff.

3 Financial Standing

3.1 Statement of Comprehensive Income

The closing surplus for the year amounted to €223k. The Council has achieved a surplus in each of the last four years.

YEAR	2019	2018	2017	2016
Surplus/ Deficit	€223k	€467k	€721k	€371k

The surplus is due to the Council maintaining strong budget and financial controls. The cumulative surplus totalled €2.4m at 31 December 2019. The 2019 draft AFS and the transfers to and from capital during the year were approved by Council at the July 2020 meeting.

Chief Executive's Response

The Council continues to maintain strong financial and budget controls. Robust fiscal management has led to provision of reserves. Galway City will continue to adhere to the requirements of circular Fin 05/2014.

4 Income Collection

4.1 Summary of Major Income Collections

Appendix 7 to the AFS shows the movements of the major revenue collections in the year. Collection yields in all major revenue areas improved in 2019 because of the Council continuously enhancing their collection procedures. The Council are to be commended for this, but all efforts should be made to further increase these. It is acknowledged that COVID-19 may present challenges in this regard. The collection yields over the last two years were as follows:

Income Source	Yield %		Debtors €m	
	2019	2018	2019	2018
Rates	83%	81%	8.847	9.530
Rents & Annuities	80%	79%	2.067	2.086
Housing Loans	86%	84%	0.232	0.236

The 2018 Audit Report set out that the Council should implement a new rental assessment scheme. This was implemented by the Council in 2019 and a copy was received of it during the course of the audit.

Chief Executive's Response

The positive trend of increased revenue across all revenue streams was continued in 2019.

4.2 Bad Debt Provision

The bad and doubtful bad debt provision was reviewed for the above income collection areas. It is my opinion that it is adequate.

Chief Executive's Response

The Council continues to maintain strong debt management oversight and processes through active and ongoing engagement with debtors.

4.3 Government Debtors

A review was conducted of Government debtors and they appear to be well managed and controlled. Invoices amounting to €718k with regard to housing Government debtors of €5.8m were reviewed. They were found to be correct and paid in full post year-end. A separate review was conducted of housing capital Government debtors. In general they were well managed and controlled as well, but old invoices pre 2018 amounting to €295k were identified. The Council should follow up on all outstanding issues relating to these invoices. There are also a small number of invoices still outstanding pertaining to the period ending December 2019. The Council should again follow up on these outstanding invoices.

Chief Executive's Response

Management and control of Government debtors is a priority. Outstanding invoices will be followed up as a priority on an ongoing basis.

5 Development Contributions

5.1 Overview

A review of the Council's development contributions identified a number of weaknesses:

- The Council should review the manner in which it allocates development contributions between short term and long-term contributions. Some long term development contributions were classified as short term contributions, instead of long term contributions.
- Section 48(12)b of the 2000 Planning and Development Act requires the repayment of special contributions to the planning applicant, together with any interest arising, where the specific infrastructure works were either not commenced within five years or not completed within seven years of the date that the payment was made to the Local Authority. There was no formal evidence at audit of a review of the status of these special contributions in order to ensure compliance with above legislation.
- It was recommended at the 2018 audit that the Council complete a full review of the Development Contribution Scheme that dates from 2008 and was amended in 2014. I note that work in relation to this process is proceeding.

Chief Executive's Response

Some developments, where the planning permissions are active and which may involve the phasing of delivery are discharging obligations through agreed payment plans.

Internal audit will be asked to conduct a review of special contributions.

6 Refundable Deposits

Refundable deposits are included in the AFS at €3.1m. Approximately €600k of these deposits relate to transport and infrastructure. These deposits are not fully reconciled at year-end.

Chief Executive's Response

A review of refundable deposits will be conducted as a matter of priority.

7 Irish Water (IW)

7.1 Transfer of Water and Sewerage Functions to IW

All functions relating to the provision of water and sewerage, other than rural water schemes, transferred to IW from 2 January 2014, with a twelve year service level agreement signed between the parties on this date. During 2019, costs of €3.4m incurred by the Council relating to the provision of services under the terms of this agreement continued to be recouped, as recorded in appendix 4 to the AFS.

Chief Executive's Response

Galway City Council continues to discharge functions related to the provision of water and waste water services on behalf of IW in accordance with the service level agreement (SLA) with IW.

7.2 Transfer of Assets to IW

16 out of 24 assets have been transferred to IW to date. Issues exist pertaining to the transfer of the remaining eight assets including registration of title. It is important these issues are resolved and these assets are transferred to IW as soon as possible.

Chief Executive's Response

Delays in the transfer of assets are due to conveyancing issues, which the water services section of the Council are systematically addressing.

7.3 Loans Payable

IW related loans amounting to €800k are included in the AFS of Galway City Council at 31 December 2019. Interest and principal repayments on these loans at year-end 2019 are being serviced by the Department.

Chief Executive's Response

Galway City Council will continue to make loan repayments, and to recoup the funding for same from the Department.

7.4 Development Levies Due to IW

The Council paid IW €129k during 2019 for their share of development contributions collected. An accrual for a further €76k was included in the AFS at year-end.

Chief Executive's Response

Levies are apportioned in accordance with an agreement with IW and become payable as relevant planning permissions commence.

7.5 Obsolete assets

The Council has one obsolete IW related asset not transferred to IW. It is located at the old

Terryland Water Treatment Plant.

Chief Executive's Response

Galway City Council is in discussions with Failte Ireland to examine the potential of converting this into a water sports amenity tourism asset at the embarkation point of the proposed new Corrib Blueway. The obsolete asset will not be transferred to IW.

8 Fixed Assets

8.1 Recording of Fixed Assets

A review of fixed assets identified the following:

- The property management team has identified 550 land records pertaining to Galway City Council
- 329 assets or 60% are in the ownership of Galway City Council
- 112 assets or 20% are registered to third parties
- 109 assets or 20% are unregistered. Most of these unregistered lands appear to relate to small portions of land remaining from road improvements.

It is acknowledged that significant work has been conducted by the Council in recent years to address this issue, but significant additional work remains to be completed. The property project management team has informed me that they will be migrating to a new asset management system in 2021 which should better address outstanding issues here.

Chief Executive's Response

This work will continue to be a priority within the annual work plan of the corporate section of Galway City Council. The migration to a new asset management system in 2021 will assist in addressing outstanding issues here. Assets registered to third parties mostly include historical acquisitions under compulsory purchase order and transfers from Galway County Council.

9 Loans Payable

9.1 Overview

Capital debt amounted to €48.27m at the 31 December 2019. This is further analysed as follows:

Source of borrowings	2019 €m
Mortgage and voluntary housing related borrowings	15.94
Loans fully recoupable pertaining to IW	0.8
Land acquisition loans (including assets)	21.44
Bridging Finance, recoupable loans and shared ownership/rented equity loans	10.09
Total	48.27

The following funding arrangements exist in relation to the above loans:

- Repayments of mortgage and voluntary housing related borrowings are matched by corresponding income. A mortgage loan funding position exists, in that loans receivable pertaining to mortgage and voluntary housing are €1.2m greater than loans payable at the 31 December 2019
- Interest and principal repayments on the remaining IW related loans at year-end 2019 of €800k are being serviced by the Department
- All loans to fund land acquisitions (including assets/grants) are fully serviced on an interest only basis. However an agreement is in place with the HFA to fund these loans on an annuity basis by December 2022, with the exception of affordable housing loans with a total balance at 31 December 2019 of €5m
- The affordable housing loans relate to borrowings on houses acquired for resale under the affordable housing scheme. 72 units were allocated to Approved Housing Bodies (AHB's) under leases for a five-year period. The current lease period for all these leases have currently expired. The houses remain leased to the AHB'S in accordance with government guidelines. Interest costs on these loans amounting to €63k in 2019 are fully recoupable from the Department subject to qualifying criteria being met.

Chief Executive's Response

See response under 10.4.

10 Capital Account

10.1 Capital Account Overview

The capital account recorded a net credit balance of €38.9m at the end of €2019, as reflected in the AFS at note 11. This €38.9m can be further analysed as follows:

Capital account balances	€M
Development levy balances	15.2cr
Capital account balances	2.7dr
Affordable housing balances	8.0dr
Reserves for specific purposes	34.4cr
Total	38.9cr

The above balances are reviewed in more detail below:

Chief Executive's Response

These reserves have been built up to fund and co-fund capital projects and important infrastructure development.

10.2 Development Levy Balances

Development levy balances total €15.2m at 31 December 2019. Of this sum, €5.4m remains uncollected at the end of 2019. These funds are only applied to capital projects once the amounts due have been collected and can only be allocated in accordance with the terms and conditions of the development contribution scheme.

Chief Executive's Response

Outstanding levies are subject to extensive and ongoing review. In all cases where levies are deemed to be payable they are actively pursued.

10.3 Capital Account Balances

Capital account balances total €2.7m. This includes balances at preliminary stage and work in progress stage and projects at varying stages of completion. Included in this balance is an amount of €958k pertaining to 5.2 acres of land at Merlin.

Chief Executive's Response

The lands at Merlin have been purchased for future housing provision and their purchase price will be recouped as housing schemes are approved and developed.

10.4 Affordable Housing Balances

Included in the capital account balance is an €8m debit balance relating to unsold affordable housing units. In addition to this debit balance, the Council continue to have loans amounting to €5m due in relation to unsold affordable housing units. Paragraph 8 on loans sets out interest costs on these loans. It also sets the manner in which unsold affordable houses are currently leased to AHB's Resolution of this matter, including funding of this debit balance and repayment of this loan is an important matter for the Council.

Chief Executive's Response

Engagement continues with the Department to agree a mechanism for local authorities to recoup outstanding legacy loans and clear debit balances relating to unsold affordable housing units. The Department conducted a survey of each local authority to establish the extent of liability and the current status of each property. All properties categorised as unsold affordable units are leased to AHB's. The Department initially agreed to this process for a 5 year period which was subsequently extended for a further 5 year period to the end of 2019. Galway City Council await the agreed process and mechanism whereby these properties can be sold and loans and balances reduced accordingly.

10.5 Reserves

Reserves at the end of 2019 including reserves/credits for non-project balances and agent works recoupable amount to €34.4m credit. As set out below these are general reserves against projects or specific events.

A review of the capital account indicates that it has been managed in a prudent and responsible manner. A historic review of this account indicates that the Council has largely eliminated the majority of unfunded balances. The greatest remaining risk on the capital

account is the area of affordable housing balances as referred to in the previous paragraph. The Council has identified potential future projects and has set aside reserves for their element of the costs of these projects. It has also established reserves for non-project expenditure that will occur in the future. Some of the most significant reserves include:

Reserve	Amount
Housing internal capital receipts future development	€3.9m
Dyke road reserve - Urban regeneration funding	€1m
Future pension and gratuity funding	€1.9m
Sliabh Ban remediation works	€1.4m
City centre public realm/Pedestrianisation	€3m
Public lighting LED replacement reserve	€2m
Capital buildings replacement reserve	€1.5m
Cemetery development reserve	€3m
Sports capital match funding reserve	€1.2m

Chief Executive's Response

Work on the above projects is at varying stages of delivery, each item is identified as priorities within the proposed 3 year capital programme 2021-2024, including provision for future pension lump sum liabilities.

11 Irish Public Bodies Mutual Insurance - IPB

IPB have informed Galway City Council in writing that they will receive a distribution of €3.8m. €1.8m was received in 2018 and an additional €500k was received in 2019. The sum outstanding at 31 December 2019 is €1.5m and IPB have informed the Council that it will be received in three instalments from 2020 to 2022. The Council have informed me that it is expected that these instalments will be utilised for refurbishment of city centre streets and public realm improvements.

Chief Executive's Response

These funds will be utilised for refurbishment of city centre streets and public realm improvements.

12 Procurement

12.1 Procurement Monitoring

A procurement steering group has been in place since April 2016 to review and to make recommendations to the Senior Management Team (SMT) on strategic procurement policy decisions and initiatives. The group held three meetings in 2019. The procurement team identified a number of areas for which procurement processes are required. There are still areas outstanding for which procurement processes are required and the Council are currently reviewing these with some planned to be implemented in the first half of 2021.

Chief Executive's Response

COVID-19 affected the work of the steering group and these actions will be prioritised.

12.2 Public Spending Code

Every local authority is required to publish an annual report, for the National Oversight and Audit Commission (NOAC), setting out how it complies with the Public Spending Code (PSC). The stated objective of the PSC is to ensure the State achieves best value for the resources at its disposal. In the PSC report for 2019, Galway City Council stated that there remained an ongoing need for robust enforcement of regulatory compliance, and improvements were required for the completion of formal post project reviews.

Chief Executive's Response

A key issue raised in the review is the subject of post project reviews. This will be included as a priority in the SMT work programme for 2021.

13 Governance and Propriety

13.1 Overview

Corporate Governance comprises the systems and procedures by which an entity is directed or controlled. It is the responsibility of the Chief Executive and management team to ensure a sound system of financial management and internal processes are in place. Galway City Council have informed us that they will be conducting a review of Corporate Governance in conjunction with an external body. This is a welcome development and will be reviewed in next year's audit.

Chief Executive's Response

Galway City Council is engaging with Institute of Public Administration to provide corporate governance training to staff to ensure systems and processes are in place and fully complied with.

13.2 Internal Audit

Throughout 2019 the internal audit unit (IAU) continued to consist of a single member of staff, supported by an externally procured service. The unit issued five reports in the year. One audit had been commenced but not finalised before year-end. Account was taken of the work of internal audit during the course of my audit. Management need to continuously review the adequacy of resources for the internal audit function, to ensure it continues to provide the necessary assurances to both management and the Audit Committee.

Chief Executive's Response

The structure of the internal audit function will be reviewed by the SMT in quarter one 2021 as part of an overall organisational structure review.

13.3 Audit Committee

The Audit Committee held four meetings during 2019, as required by Section 10 of the Local Government (Audit Committee) Regulations 2014. The Local Government Audit Service attended the meeting on 15 July 2019 to discuss the 2018 audit report. The Committee prepared a report outlining the work it completed in the year as required under Section 60 of the Local Government Reform Act, 2014.

Chief Executive's Response

The Audit Committee remains an integral and key assurance within the governance structure of Galway City Council. The SMT contributed to its deliberations throughout 2019.

13.4 Data Protection

The EU General Data Protection Regulation (GDPR) provides a single, harmonised data privacy law for the European Union and was directly applicable from 25 May 2018. Public bodies are subject to fines and potential court cases seeking damages in the event of an infringement. As such, Councils are subject to these. The Council appointed a full time Data Protection Officer from August 2018. Galway City Council has put in place a Data Protection Policy and Privacy Statement designed to ensure compliance with the provisions of the Data Protection Acts and the General Data Protection Regulation (GDPR).

The Data Protection Officer acknowledges that there is significant work required in order to maintain and tighten controls across all departments.

Chief Executive's Response

The Data Protection Officer is continually working to highlight with staff the importance of complying with the Data Protection Policy of Galway City Council and ensure that the policy is complied with across the organisation. The matter will be reviewed by the SMT.

13.5 Galway Salthill Failte (Leisureland)

During 2019, Leisureland remained a wholly owned subsidiary of Galway City Council and its transactions were reflected in the Council's 2019 AFS. The Council adopted a subvention of €300k in its 2019 budget to assist the company in managing and promoting the Leisureland complex on its behalf. The company did not require the entire subvention, as a result of which the €277k balance remaining was ring-fenced in a capital reserve to be spent on future developments within the complex.

The company's audited figures for the year ended 31 December 2019 were included in Appendix 8. As in previous years, the audit report for Leisureland included an emphasis of matter paragraph, drawing attention to the company's reliance on the City Council in order to be classified as a going concern. The Council has undertaken to provide this support for a further twelve months i.e. until 13 March 2021.

Chief Executive's Response

A memorandum of agreement is in place between Galway City Council and Galway Salthill Failte Ltd which defines the ongoing relationship between the two parties in regard to the operation of the Leisureland site.

13.6 Ethics Returns

The 2018 audit reported a number of staff did not submit their ethics returns by the statutory deadline. It is acknowledged there have been significant improvements this year, but small areas of non-compliance still exist.

Chief Executive's Response

The ethics returns have been a priority and will continue to be a priority of the SMT. All current staff members submitted their ethics returns in 2019 by the review date.

14 Inter Authority Balances

During 2019 inter authority charges between Galway City Council and Galway County Council totalled €7.7m. Of this, €1.1m related to a statutory demand. The remaining €6.6m covered the City Council's portion of providing fire/library/coroners and civil defence services on a shared service basis. There continues to be no signed service level agreement between the parties for these services and the disputed legacy cost of the shared services for the years 2012 to 2017 remains unresolved. This matter need to be addressed as a matter of urgency.

Chief Executive's Response

The resolution of outstanding issues is a priority which will be pursued further with Galway County Council over the coming months.

Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended during the audit by the management and staff of the Council. I wish to especially thank the Chief Executive, the financial management accountant, the finance staff, IT and the audit liaison officer for all their assistance during the course of the audit.

Raymond Lavin

Ray Lavin

Principal Auditor

15 December 2020

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