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Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Longford County Council

for the

Year Ended 31 December 2019

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF LONGFORD COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Longford County Council for the year ended 31 December 2019, 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 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 2019 and its income and expenditure. My audit opinion, which is unqualified but includes an emphasis of matter paragraph (see paragraph 2) is stated on page 6 of the annual financial statements.

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.

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 Post Balance Sheet (non adjusting) Event

2.1 COVID-19

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities after year ended 31 December 2019. 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 local authorities and the ability to deliver services.

2.2 Disclosures in Annual Financial Statements

In accordance with Circular Fin 05/2020, the Council 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 Council as a result.

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

2.3 Actions taken to address the financial uncertainty of COVID-19

The Council has taken steps to address the financial uncertainty both at local and national level including

Local level

- The Council has prepared a report on the "Continuing financial impact of COVID-19 pandemic" which estimated a budget short fall of €9.1m (estimated income decline in rates of €5.5m and services of €2.9m and an increase in spend of €0.7m, largely COVID-19 driven).
- The Council has approved an increase in overdraft level for €20m on 20 May 2020.

National level

- The Council has participated in the submission of acute financial management reports to Department of Housing, Planning and Local Government (DHPLG), namely:
    - Indicative figures calculating the impact of COVID-19 on 2020 Commercial Rates
    - Analysis of Rated Properties Impacted by COVID-19
    - Analysis of Local Government Goods & Services Income Impacted by COVID-19

2.4 Financial impact

As noted above, the Council estimate that COVID-19 will have a significant impact on its finances in 2020.

Chief Executive's Response

There is no doubt that COVID-19 will have a significant impact on the finances of all local authorities, including Longford County Council, in 2020 and in subsequent years. Local authorities are best placed to lead in the recovery of local economies. Local authorities must be placed in a strong financial position to ensure that services and recovery plans can be effectively resourced and implemented. The current level of financial shock being experienced by local authorities cannot be remedied without intervention from national funding sources.

The Council looks forward to strong and clear remedies and funding mechanisms from national funding sources, to assist local authorities and ratepayers to combat the longer term impact for local economic recovery and local government services, once the country starts to emerge from the current crisis.

3 Financial standing (at 31 Dec 2019)

3.1 Statement of Comprehensive Income

In 2019, the Council recorded a surplus of €13K after making net transfers to reserves of €1.7m. The cumulative surplus in the Revenue Account increased by €13K to €246K. The income from local property tax increased by €212K to €9.2m. This was mainly due to the Council decision to vary the baseline by 15% in September 2018 for the calendar year 2019.

Variances between the adopted budget and the actual financial performance are detailed in Note 16 of the AFS. Members' approval, as required by Section 104 of the Local Government Audit 2001, for the expenditure in excess of the annual budget was obtained at the Council meeting of 20 May 2020.

Overall, there is a need to continue to maintain strong financial management controls.

3.2 Financial position

The significant movements in the Council finances were:

- An increase in accumulated cost of fixed assets of €20.4m was mainly due to housing completions (€11.8m), purchases of social housing (€9.1m), purchase of sites (€0.8m), land purchases (€0.2m), disposals of houses to tenants (-€1.9m) and various other additions (€0.4m).
- An increase in capital spend of €11.7m, was mainly due to increases in voluntary houses (€9.2m) and rural and community development (€2m). The increase in capital spend was matched by an increase in grant income (€11.5m) and other sources of income (€0.7m).
- Recognition of a loan repayable on demand from Longford Pool Construction Limited for €3m in other debtors in Note 3, Long term debtors.
- Gap in year between pension payments (€2.8m) and pension income (€0.7m) of €2.1m.
- Reduction in loans payable of €1.4m mainly due to standard repayments (€2.3m) and rebuilding Ireland home loan borrowings (€0.9m).

3.3 Capital Account analysis

The cumulative credit balance on the Capital Account increased by €0.8m to €9.8m.

Chief Executive's Response

Significant progress has been made on reviewing, monitoring, funding and clearing capital balances during 2019 with historical balances being addressed and funding mechanisms put in place. Certain balances relate to the purchase and development of industrial lands to support economic development in the county. These balances will be funded through the future sales of sites. If necessary, remaining balances will be funded from the Revenue Account over an agreed financing period.

4 Major revenue collections

4.1 Summary of the major revenue collections

A summary of the major revenue collections is:

Income Source	Yield %		Debtors €	
	2019	2018	2019	2018
Rates	88%	89%	€1,033,827	€1,410,968
Rents & Annuities	90%	93%	€736,999	€415,696
Housing Loans	59%	55%	€624,595	€672,732

4.2 Rates

The closing arrears for rates reduced by €377k to €1m. The amount collected of €7.37m was similar to 2018.

<u>Provision for Bad Debt</u>
The provision for bad debt was €510k. The provision is approximately 49% of arrears. In light of the adverse impact of COVID-19 on ratepayers, the provision for bad debt in the annual financial statements 2020 will need to be cognisant of the new economic environment.

<u>Revaluation Project</u>
In 2017, the Valuation Office completed a rates valuation review. The new valuations came into effect for ratepayers on 1 January 2018. The valuation review amended the rates payable for businesses. Some businesses have appealed the new rate payable. These appeals are ongoing.

4.3 Rents

A global rent review was completed in 2019. Rent accounts were adjusted where applicable.

As at 31 December 2019, the Council had 2,396 rents accounts of which 343 (14%) were in arrears greater than 3 months. The number of accounts in arrears greater than 3 months represents an increase of 74 since year ended 31 December 2018. The closing arrears for rents increased by €321K to €737K. The number of rent accounts increased by 59. Notably, rent collected increased by €1m.

<u>Provision for Bad Debt</u>
The bad debt provision increased by €109K to €383K. The provision is approximately 52% of arrears. In light of the adverse impact of COVID-19 on tenants, the provision for bad debt in the annual financial statements 2020 will need to be cognisant of the new economic environment.

4.4 Housing loans

As at 31 December 2019, the Council had 252 loan accounts of which 72 (29%) were in arrears greater than 3 months. This represents a decrease of 25 accounts in arrears since year ended 31 December 2018. The collection rate increased by 4% to 59%.

4.5 Conclusion

Improving collection yields during the COVID-19 outbreak will be a significant challenge. All efforts to improve the collection yields should continue.

Chief Executive's Response

The Council is pleased to note that due to the continuing efforts of our Income Generation Unit, our collection rates across all major revenue collections have remained high.

In cash flow terms, we have collected over €1m more across commercial rates, rents & housing loans in 2019 than in 2018.

The challenge to maintain these collection rates through the coming years will become more acute as we deal with the fallout of the current COVID-19 crisis and the effect on our customer base over the medium to longer term.

Bad debt provisions are at or near 50% of outstanding debtors at the end of 2019, and while the provisions are deemed adequate at this time, this will be constantly monitored to take account of the severity and duration of the current COVID-19 crisis.

5 Transfer of Water and Sewerage Functions to Irish Water

The Water Services Act (No 2) 2013 was enacted in December 2013 and provides for the transfer of water services from the Local Authorities (LA's) to Irish Water (IW) from January 2014. In addition, the Act provided for the transfer of assets and certain liabilities related to water services from LA's to IW.

5.1 Service Level Agreement

There is a service level agreement in place between the Council and IW. At year-end, €376K was outstanding which was paid in January 2020.

5.2 Water related rates

The Council recouped rates income of €78K for IW businesses from the DHPLG in accordance with Department Circular L3/2017.

5.3 Water related assets

An asset transfer working group is established between the local authority sector and IW to resolve title issues and similar matters in the short term.

At July 2020, the ownership of water assets were:

• Registered to Longford County Council	12
• Registered to 3rd party	43
• Mixed registration	1
• Unregistered	10
• Transferred to IW	51
Total	117

Assets registered to a third party, mixed registered or unregistered represents 46% (54) of water assets.

The Council should continue to work with IW and other bodies to resolve the title issues in the short term.

Chief Executive's Response

The Council continues to work with Irish Water to deliver water services on an agency basis under the terms of the Service Level Agreement. We agree that the legal transfer of ownership of the remaining assets will take further time.

6 Capital Account

6.1 Capital balances – unfunded

A review of a sample of capital balances at 30 December 2019 identified unfunded balances totaling €1.52m. The unfunded balances by division are

Development Management	€1.47m
Roads Transportation & Safety	€0.05m

The unfunded balance may be categorised as follows:

Regeneration projects	€912K
Land or sites to be sold or developed	€556K
Historical cost on road projects	€ 52K

The Council should address the unfunded balances in the short term

Chief Executive's Response

A detailed review of unfunded development management balances, which relate to the purchase and/or development of industrial lands, was carried out as part of the 2019 AFS process. Several account balances were cleared as part of this review.

The remaining balances will be funded through

- Income from the future sale of sites/lands
- Site cost relating to the provision of fire stations in Granard and Lanesboro will be separately identified and transferred to the relevant capital account job code
- If necessary, remaining balances will be funded from the Revenue Account over an agreed financing period.

Also, a regeneration capital project loan of €1.5m was drawn down in 2020 and a portion of which will also go towards the funding of the unfunded regeneration project balances.

7 Fixed Assets

7.1 Assets management

At present, the responsibility for managing property assets resides across a number of business areas. The business areas use different systems for managing assets.

It was noted during the audit that

- The property interest register was a work in progress.
- A register of leases was under development.
- A reconciliation between the insurance register and the fixed assets register was a work in progress.
- A reconciliation of burial grounds on the asset register to State Property Asset Register should be completed.
- A reconciliation of the register of land to the asset register was a work in progress.

The appropriate reconciliations should be completed in the short term.

Chief Executive's Response

Work has been carried out in 2018 and 2019 on the structure, format and content of a property interest register designed to incorporate and reconcile with:

- The fixed asset register
- iHouse
- Insurance register
- Register of leases
- Property Registration Authority records
- Section 183 register

A dedicated resource at the appropriate level will be identified in 2020 to progress this work and best practice within the sector will be identified and replicated.

8 MyPay shared services

8.1 Payroll shared services

MyPay is the service provider for payroll shared services in local authorities. An ISAE audit (International Standard of Assurance Engagements (ISAE 3402)) type 2 report is required annually from the payroll shared services. The Council received an audit report titled "My Pay Shared Services Centre Report on controls placed in operation for the period 1 April 2018 to 31 December 2018". However, the audit report does not cover the financial year notably 1 Jan 2019 to 31 December 2019.

It is my view that audit reports should be completed on or before 31 March annually and provide full coverage of the previous financial year i.e. 1 January 2019 to 31 December 2019.

8.2 Pensions shared services

MyPay is the service provider for pensions shared services in local government. An ISAE audit report is required annually from the pensions shared services. No type 2 audit report covering pensions shared services was received for the period 1 January 2019 to 31 December 2019.

Chief Executive's Response

This finding is noted and such a report will be requested from MyPay for the financial year 1st January 2020 to 31st December 2020.

9 Local Authority Companies

9.1 Longford Pool Construction Ltd

The company operates a swimming pool, sports hall and gymnasium.

The latest set of audited financial accounts were for year ended 31 December 2018. The accounts reported a loss of €220K and a cumulative deficit of €2.3m.

Dependency on financial support from the Council
The external auditors drew attention to disclosures made by the directors and in notes to the accounts regarding the company's ability to continue as a going concern because of a loss for the year, cumulative deficit and loan repayments. The accounts were prepared on a going concern basis on the assumption that the Council will continue to financially support the company.

Repayable on demand loan
The 2018 accounts disclosed a repayable on demand loan for €2.875m to the company from the Council. The Council has indicated to the company that it will not seek repayment on or before December 2020.

In 2019, the loan on demand increased by €175K. The cumulative value of loans of €3.05m is disclosed in the Note 3, Long Term Debtors in the Councils financial statements.

Timely production of audited accounts
The audits of the subsidiaries accounts were not completed prior to inclusion in the unaudited AFS 2019. Where possible the audit of accounts of subsidiaries' financial statements should be completed prior to completion of unaudited annual financial statements.

9.2 Local Enterprise Development CLG

The company provides facilities to promote enterprise development in County Longford. The latest set of audited financial statements to 31 December 2018 reported a cumulative deficit of €482K. The deficit for the year of €52.5K was largely attributed to a decline in income of €59K and an impairment charge of €37.5K.

Post balance sheet event – adjusting event.
In 2019, the company sold a building for €620K. As a result, the directors agreed an impairment charge of €37.5K to agree the value of the building to the proceeds of sale.

Loan guarantee
The Council guarantees the Irish Public Body loan payable of €717K included in long terms creditors at year ended 31 December 2018.

Timely production of audited accounts
The audits of the subsidiaries accounts were not completed prior to inclusion in the unaudited AFS 2019. Where possible the audit of accounts of subsidiaries' financial statements should be completed prior to completion of unaudited accounts.

Chief Executive's Response

The Council will engage with the auditors of both subsidiary companies on the production of more timely audited accounts for the financial year ended 31 December 2020.

10 Development Contributions

10.1 Overview

Development contribution income decreased by €464K to €284K. Development contribution debtors increased by €74k to €2.79m.

10.2 Bad debt provision

The bad debt provision was reduced by €98K to €1.87m. The bad debt represents 67% of development contributions. In light of the adverse impact of COVID-19 on economic activity, the provision for bad debt in the annual financial statements 2020 will need to be cognisant of the new economic environment.

10.3 Arrears

Development contributions arrears is €2.79m. Approximately €2.65m (95%) of the arrears is greater than 5 years old.

A new debt management system (DMS) is at its implementing stage. Notable key aspects of the new system are linking iPlan to Agresso, issuing standardise statements, reminders and other correspondence. Arrears follow up commenced in 2020 using the new DMS.

In conclusion, arrears management needs to continue to improve, particularly for historical arrears. Overall, the effective use of the DMS should improve the management of arrears.

Chief Executive's Response

While the development contribution income decreased by €464k in 2019, it had increased by €775k in 2018, which was primarily due to 2 major projects in the county in that year, which accounted for over 70% of the total income received. In context, development contributions have steadily increased over the last 4 years indicating a sustained uplift in the local economy to the end of 2019.

While the Bad Debt Provision was reduced in 2019, it still stands at 67% of outstanding debtors, which is deemed adequate at this time, this will be constantly monitored to take account the severity and duration of the current COVID-19 crisis.

Resources dedicated to the implementation of the new Development Contributions Debtor Management System will work on this throughout 2020 to address the outstanding issues outlined above.

11 Governance

11.1 Overview

Corporate governance comprises the systems and procedures by which an entity is directed or controlled. It is the responsibility of the Chief Executive to ensure sound systems of financial management and internal processes are in place.

11.2 Internal audit

The Internal Audit Unit completed a programme of audits during 2019. I took account of the internal audit reports as part of my audit planning.

11.3 Risk management

Risks are discussed at senior management and safety management meetings.

There is a corporate risk register and an operational risk register. In both, risks are assigned owners and risk are rated either low, medium or high. Existing controls and additional controls are considered for each risk. Each risk has a weighted score that has regard to impact and likelihood.

At the time of my review in February 2020, the Council's corporate risk register was not updated for over six months. It would be beneficial to have quarterly or more frequent reviews of the risk registers.

An updated Risk Management Policy was adopted on 26 February 2020.

11.4 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 whose activities have a commercial comparative in the private sector are subject to fines in the event of an infringement. As such, County Councils are subject to fines.

The Data Protection Officer (DPO) has a leadership role in the implementation, administration and compliance with GDPR.

There is a large body of work on going in this area in the Council. The DPO requires sufficient time and resources to monitor compliance with GDPR, preparation of an annual report, work planning, learning and development, contributing to the risk register and overseeing an up to date record of processing activities, etc. Accordingly, the Council should ensure that adequate resources are allocated to ensure compliance with GDPR.

11.5 Ethics

Section 171 of the Local Government Act 2001 requires those to whom Section 167 (1) of the Act applies, typically council members and senior staff, to submit an annual declaration to the nominated Ethics Registrar. Statutory Instrument No 582/2002 sets the last day of February as the return date for these forms.

The responsibility for completion of the ethics return rests with the Councillor or staff member for whom the Council deemed the legislation applicable.

Members
Three Councillors returns were received after the 29 February 2020 deadline.
A further one Councillor had not submitted an ethics form by the opening of the audit on 5 June 2020.

Staff
Five returns were received after the 29 February 2020 deadline.
A further four staff had not submitted an ethics form by the opening of the audit on 5 June 2020.

All members and staff should ensure the statutory deadlines are met going forward.

11.6 Procurement

A control and compliance unit has been established since 2017. A full time procurement officer is in place to oversee operations. Monthly reports are prepared, reviewed and distributed to approvers and the senior management team. These reports monitor budgets versus actuals and overruns. Quarterly meetings are held with sections.

The Corporate Procurement plan is currently drafted and under review.

11.7 Fraud policy

An anti-fraud, corruption policy and contingency plan sets out responsibility, roles and tasks for the prevention and detection of fraud. Additionally it sets out the corporate tone and actions when dealing with fraud.

The senior management team reviewed an updated “Anti-Fraud, Corruption Policy and Contingency Plan”. The policy is currently proceeding through some final administrative steps.

Chief Executive's Response

The Council is committed to ensuring that the proper governance structures are put in place, properly resourced, supported by appropriate policies and procedures and monitored by the management team on an ongoing basis.

12 Acknowledgements

My appreciation for the courtesy and co-operation extended to the audit team by Paddy Mahon (Chief Executive), John McKeon (Head of Finance), Maeve Killian (Accountant), Michael Hand (Administrative Officer), Danny Lynch (Head of IT), Amanda Cullen (Health and Safety Officer), and all management and staff of the Council.

Donal Cahill   31 July 2020

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Local Government Auditor

31 July 2020

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