



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Sligo County Council

for the

Year Ended 31December 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 SLIGO COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Sligo 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, on the AFS of the Council is unqualified but does include an emphasis of matter paragraph (see paragraph 8) and 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 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 Income and Expenditure Account

The closing surplus for the year of €660k is the first revenue account surplus since 2007. Contributing factors included the implementation of enhanced budget and monetary controls by the Council.

Year	2015	2014	2013	2012	2011
	€m	€m	€m	€m	€m
Surplus /(Deficit)	0.66	(0.57)	(6.31)	(2.45)	(2.97)

The cumulative deficit totaled €25.9m at 31 December 2015 and remains a very serious matter for the Council to address.

Chief Executive's Response

A five year Financial Plan was agreed with the Department of Housing, Planning, Community and Local Government (the Department) in December 2015 to reduce the Council's cumulative deficit by €12.32m over a five year period from 2015-2019. The Council achieved a surplus of €660K in 2015 which is the first revenue surplus since 2007.

It should be noted the surplus for 2015 was achieved notwithstanding payroll savings of €530K included in the Financial Plan for 2015 being delayed, due to the timing of the approval of the Incentivised Career Break Scheme (ICB) and the timing of vacancies becoming available in other Local Authorities for staff who had expressed an interest in voluntary redeployment. Due to a combination of costs savings and income received in excess of budget for 2015 the Council not only made up for the shortfall in payroll savings but also achieved a surplus at the end of 2015 of €660k. The Council expects to achieve a revenue surplus of €1.6m at the end of 2016.

2.2 Financial Position

The following matters of concern affect the Council's finances:

- A cumulative deficit of €25.9m (€26.602m in 2014) on the income and expenditure account at the 31 December 2015
- A significant contingent liability pertaining to legal costs owing by Sligo County Council but not quantified at the 31 December 2015 (see paragraph 8). The quantification of the legal costs will significantly deteriorate the financial position of the Council
- Long term loans payable by the Council amounted to €106m (see paragraph 6).

An emphasis of matter paragraph is included in the audit opinion drawing attention to the significant contingent liability referred to above.

Chief Executive's Response

- Please see response to 2.1
- Please see response to item 8 re legal costs
- Please see response to item 6 re long term loans

2.3 Review of the Council's Adherence to the Five Year Financial Plan

The Council produced a five year financial plan in conjunction with the Department with identified set targets. They include:

- A surplus of €690k for the year end 31 December 2015. The actual Council surplus totaled €660k
- A projected surplus of €1.6m for the year end 31 December 2016. The Council declared an unaudited surplus of €580k for the first half of 2016. Unaudited results fall short of the projected surplus
- Strict budgetary control improvements (See paragraph 2.4).

Chief Executive's Response

- See response to 2.1
- The Council expects to achieve a revenue surplus of €1.6m at the end of 2016. Factors outside of the Council's control, as listed in the table, have been the subject of discussions and correspondence with the Department. In this regard the Department has approved adjustments to the 2016 Financial Plan surplus target by letter dated the 3rd of October 2016. The

expectation is that the revised target as approved by the Department will be met.

No.	Description	Impact	Amount €	Requested Adjustment
1.	Special Resolution Fund Tax Liability	Impacts 2016 surplus only	256,521	Reduction of Revenue Surplus target for 2016.
2.	Changed funding model for Local Enterprise Office	Annual impact on surplus	85,000	Annual reduction of Revenue Surplus target.
3.	Unanticipated early retirements resulting in additional costs in 2016 but with greater savings to be achieved over the lifetime of the Financial Plan	Timing issue. Impact is on 2016 surplus target only.	200,000	Adjust 2016 revenue surplus target with contra adjustment to be made in 2017.
4.	ICB. A delay in commencing the ICB will be negated by a later completion of the initiative.	Timing issue. A deficit in 2016 will be offset by a credit in 2019.	161,000	Adjust 2016 revenue surplus target with contra adjustment to be made in 2019.
		Total:	702,521	

2.4 Budgetary process

A review of Council procedures revealed improved controls pertaining to the monitoring and preparation of the budget and budgetary expenditure. Specifically improvements are noted in the approvals process for expenditure, monitoring of actual expenditure to budgeted expenditure and preliminary capital procedures. The improved controls resulted in a surplus for the first year since 2007. The Council should continue to review and improve procedures. Testing revealed a small number of weaknesses in the budgetary process including that the machinery yard budget of €1.9m was only allocated at a divisional level, instead of allocated against individual job codes.

Chief Executive's Response

A number of improvements in budgetary control measures have been introduced over the last two years, including:

- All requests for purchase orders are requested through the Approved Purchase Order Requisition System (APORS). All APORS requests are given to the Head of Finance for approval. Prior to the approval of each APORS a check is carried out to ensure that the expenditure year to date does not exceed the budget for the year.
- The Finance section reviews at the end of each quarter expenditure and income for each revenue job code versus budget, where job codes are identified which are in excess of budget, this information is sent to budget holders responsible to explain the reasons for the variances.
- A list of job codes where over expenditure has occurred is also discussed at Management Team Meetings as part of the review of the quarterly figures.
- No capital job codes are set up unless a detailed form is completed, signed by the CE and evidence is provided of funding.

The expenditure budget for the machinery yard of €1.9m is allocated at divisional level as is the income from the machinery yard of €2m. All costs of operating the machinery yard are recouped in full by income received from the hire of plant from the machinery yard.

2.5 Consideration of over-expenditure and Draft Annual Financial Statement

At a special meeting of the Council on 13 July 2015, the Council decided not to consider the draft 2014 AFS and not to approve over-expenditure for the year end 31 December 2014. The members deferred these motions until such time as the Council received the audited accounts for the year end 31 December 2014. Post audit, these accounts were not re-presented to the members.

At a meeting of the Council on the 07 March 2016, the Council considered the draft 2015 AFS and authorised the approval of over-expenditure of €7.34m for the year end 31 December 2015. I recommend that Council members and the Audit Committee receive a more comprehensive report than currently issued, explaining in detail the differences between budgeted and actual expenditure by job cost centers.

Chief Executive's Response

Section 108 (2) of the Local Government Act 2001 states that "Every local authority or joint body shall prepare an AFS in accordance with the accounting code of practice issued by the Minister under *section 107*"

Section 108 (5) of the Local Government Act 2001 states that "the AFS shall be considered at the next practicable meeting of the local authority"

This section of the act refers to the unaudited AFS. The unaudited AFS for 2014 was brought to the July 2015 monthly meeting of the Council for consideration by the Members. The audited AFS for 2014 will be brought to the next monthly meeting of the Council.

3 Income Collection

3.1 Appendix 7 to the AFS shows the movements on the major revenue collections in the year. The collection yields over the last two years were as follows:

Year	2015	2014
Rates	74%	69% (As restated)
Rents and Annuities	78%	77%
Housing Loans	55%	46%

The methodology for calculating rates yields was amended in 2015 after allowing specific doubtful arrears to be excluded from the total for collection figure. The specific doubtful arrears which are excluded are set out in Appendix 7 of the AFS. The 2014 figures are restated for comparison purposes.

3.2 Collection yields

Collection yields in respect of all the revenue collection accounts improved in 2015, although further progress is required. A review of procedures indicates the Council introduced the following measures to assist with this process:

- Establishment of a dedicated task force for income collection in 2014 which meets monthly to review progress
- Implementation of a new debtor's management system in late 2015 to aid the collection

process

Chief Executive's Response

Considerable progress has been made in the collection of arrears for all income sources since 2014. From the end of 2014 to the end of 2015 the commercial rates collection percentage has improved by 5%, rents and annuities by 1% and housing loans by 9%. Arrears of commercial rates reduced by €800,000 in 2015 and arrears of housing loans & housing rents reduced by €200,000 with further gains expected this year. The improvement in income collection percentages can be attributed to a numbers of factors including:

- Monthly meetings of the Income Task Force to monitor collection of arrears
- Setting and monitoring monthly targets for income collection for each revenue collector
- Introduction of a new debt collection system
- Regular meetings with revenue collectors to review customer balances and decide courses of action for individual arrears cases
- Introduction of Mortgage to Rent Scheme for unsustainable loans and associated application under the Mortgage Arrears Resolution Process fund for the capital and arrears outstanding on these loans and recapitalisation of loans arrears

3.3 Sundry Debtor Management

Management should review controls and procedures pertaining to the management of sundry debtors. I identified instances of over-payments not treated appropriately at year end, non completion of off-sets and legacy issues from unresolved disputes. The bad debt provision for sundry debtors appears adequate to cover these anomalies.

Chief Executive's Response

Management will conduct a review of controls and procedures pertaining to sundry debtors, and address any weaknesses that exist. It is anticipated that these weaknesses will relate mostly to legacy issues.

3.4 Bad debt provision

In my opinion the bad debt provision for rates, rents and housing loans is adequate. The bad debt provision pertaining to rates is 74% and may be overstated.

Chief Executive's Response

The Council has a cumulative bad debt provision balance of €4.7m at the end of 2015. In addition to this the Council provides annually in its budget for bad debt write offs. Due to the reduction in arrears of commercial rates, housing rents & housing loans in 2015 and further reductions in arrears expected by the end of 2016, it is not anticipated that an increase to the Council's cumulative bad debt provision will be required in 2016.

4 Transfer of Water and Sewerage Functions to Irish Water (IW)

IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at national, regional and local level. As part of a due diligence process between IW and Sligo County Council, IW agreed to pay Sligo County Council €1.855m for the transfer of debtors and balances on water and waste water capital projects. A sum amounting to €449k was paid in 2015. At the audit report date the balance of €1,406k remains unpaid. Agreement has also been reached on

the transfer of a capital replacement fund from Sligo County Council to IW of €1.541m. Sligo County Council has signed off on this due diligence process.

IW related loans amounting to €18m were included in the accounts of Sligo County Council at 1 January 2015. The Department funded the repayment of €13m of these loans. Interest and principal repayments on the remaining IW related loans at year-end 2015 of €5m are being serviced by the Department.

The Council acts as an agent for IW under the terms of a service level agreement. The Council received €5.07m from IW as a result of this agreement in 2015.

Chief Executive's Response

At the end of 2015 IW owed the Council €1.4m for the transfer of debtors and balances on water and waste water capital projects. The Council in turn owes IW €1.541m for capital replacement funds due to IW under the terms of the service level agreement. The net effect of the above is a payment due to IW of €135K which will be finalised in the near future.

5 Capital Account

The Council identified and included in the accounts unfunded balances totaling approximately €3.5m at 31.12.2015. In my opinion a review of capital balances identified this figure is under-stated by in excess of €1.2m, because of the following:

- Centre Block Development – Balance of €1.1m – This balance is classified as funded on the basis the sum will be recoupable on the resumption of the project. No evidence has been presented to me to support this assertion.
- Various other balances totaling €14k were also identified which should be more appropriately classified as unfunded.
- Capital Account balances that are identified as been funded from own resources amounting to €108k. The Council needs to identify the basis of own resources in order to ensure that it is appropriate to classify these balances as funded balances.

The Council should identify an appropriate funding source for the above unfunded balances.

Chief Executive's Response

- The entire project is currently the subject of a review which will be advanced in 2017. To date, the project was primarily funded from car parking levies, a source that will continue to be used for future funding. Having regard to the current review, it is hoped to pay the balance on resumption of the project.
- €14K charged to the capital account will be written off to the revenue account in 2016.
- It is anticipated that costs of €108K charged to the Eastern Bridge job code will be recouped in full from the Department of Transport, Tourism and Sport when this scheme commences in 2018.

5.1 Loans Drawn Down in advance to fund capital projects

Sligo County Council received loans amounting to €750k in 2010 for the provision of burial grounds. At the date of this audit report six years later only €170k of this money has been spent.

Chief Executive's Response

A loan was drawn down in 2010 in anticipation of a programme of burial ground additions and enhancement works that has not progressed as quickly as expected. A number of schemes are being pursued at present.

Active discussions are taking place in relation to the provision of new burial grounds at Rosses Point and Ahamlish. Projects being pursued at a number of other locations over recent years have run into difficulties including Monasteraden and Court Abbey, due to unsuitable land or access issues. In addition a programme of upgrade works at a number of burial grounds is also being progressed.

6 Capital Debt

Capital debt amounted to €106m at the 31 December 2015. This is further analysed as follows:

- | | |
|---|------|
| • Mortgage and voluntary housing related borrowings | €29m |
| • Loans fully recoupable pertaining to IW | €5m |
| • Loans funded through the land aggregation scheme | €8m |
| • Land Acquisition loans | €30m |
| • Loans to fund revenue and unfunded capital balances | €34m |

The land acquisition loans of €30m are serviced in accordance with negotiations between the Department, the Housing Finance Agency and the County and City Management Association on an interest only basis since December 2014. Of the €34m loans to fund revenue and unfunded capital balances, €27m are currently interest only on a phased basis until 2018. Management estimate projected additional principal and interest costs on these loans in 2018 will be approximately €550k. This will have an impact on the preparation of future budgets.

Chief Executive's Response

A complete long term debt analysis has been included in the Financial Plan and provides for the repayment of principal and interest on loans from 2018.

The Mortgage and Voluntary Housing related borrowings of €29m are fully serviced with the repayment of principal and interest from housing loan customers.

Of the €18m Irish Water loans included in the long term debt analysis in the Financial Plan €12.8m due to the Housing Finance Agency for water infrastructure loans has been repaid in full to the Housing Finance Agency upon receipt of this money from the Department in July 2015. The balance of the water loans of €5m are due to other lending authorities and have not yet being transferred to IW. In the interim the cost of servicing these loans is recouped in full from the Department pending a decision at national level as to how these loans are to be dealt with.

Development Land Loans of €8m are being addressed through the Land Aggregation scheme process.

Land Development Loans of €30m are being serviced in accordance with the outcome of recent negotiations at national level between the Department, HFA and CCMA on an interest only basis since Dec. 2014.

The balance of long term loans of €34m consists of loans to fund revenue and loans to fund capital projects including parks, buildings & burial grounds.

The Council has provided €550K in its Financial Plan for each of the years 2018 and 2019 to fund the cost of principal repayments on loans which are currently interest only until the 1 of January 2018.

7 Fixed Assets Register

A review of the Council's registers of lands and buildings indicates that it has not been properly maintained. This issue was raised in previous audit reports but work on this area has been limited over the course of the last 36 months. Specifically the Council should:

- Review its historic assets, compulsory purchase orders and land dedication agreements to ensure that it has recorded appropriate title to all its assets
- Identify all way leaves or permissions pertaining to these assets
- Complete the process of transferring title to IW for assets removed from the books of the Council totalling €269m.
- Record and register all its assets with the Property Interest register

Chief Executive's Response

The reduction in staff of recent years has limited the Council's ability to put in place a comprehensive asset register. A good deal of work has been undertaken and that work will continue as resources allow.

In relation to the transfer of title to IW of assets, all these assets have been recorded and registered with the Property Interest register.

8 Lissadell House

Sligo County Council was involved in a legal case with the owners of Lissadell House concerning public rights of way over their property. In a judgement delivered on the 11 November 2013, the Supreme Court ruled in favour of the owners of Lissadell. An order as to legal costs was determined on 2 April 2014. The effect of this order is that Sligo County Council is responsible for all of its own legal costs and 75% of the costs of the other party.

Legal costs on this case incurred by the Council up to 31 December 2015, amounting to €2m have been charged to the revenue account. The Council have informed me that further costs incurred by the Council pertaining to this court case remain unpaid at the date of this audit report.

Agreement in relation to costs incurred by the other party has not yet been established. These costs once determined will have a significant adverse effect on the financial position of the Council. This is further explained in note 23 to the AFS.

Chief Executive's Response

The Lissadell case is a matter of public record with the issue of the Council's liability being 75% of the Plaintiff's costs. While the costs have yet to be determined, the Financial Plan as submitted to the Department was structured to take account of the pending liability.

9 Procurement and the Public Spending Code

Sligo County Council is required to publish an annual report, setting out how it complies with the above code. The stated objective of the code is to ensure the State achieves best value for the resources at its disposal. In its report pertaining to 2015, Sligo County Council found no serious areas of non-compliance, however the Authority identified areas where the Council could strengthen and improve. The detailed Internal Audit work that informed these comments also sets out specific recommendations for improvement in the area of procurement. These recommendations should be reviewed and implemented as soon as possible by the Council.

Chief Executive's Response

Sligo County Council is required to publish an annual report, setting out how it complies with the above code. The stated objective of the code is to ensure the State achieves best value for the resources at its disposal. In its report pertaining to 2015, Sligo County Council found no serious areas of non-compliance, however the Authority identified areas where the Council could strengthen and improve. The detailed in depth check performed by Internal Audit sets out recommendations for improvement in the formal documentation of key areas and training requirements pertaining to the management and control of capital projects. These recommendations will be reviewed and implemented in 2017.

10 Representations regarding salary allocations

I relied on representations received from management that all salaries charged against capital jobs are in accordance with Departmental guidelines.

11 Governance

Corporate Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place.

11.1 Risk Register

The County Council has developed a corporate risk register for the organisation. In previous audit reports I recommended that risk registers should also be prepared for each directorate. The Council is currently in the process of revising its risk register, and the revised risk register will assign responsibility for different risks to the different Directorates. The management team should approve this revised risk register when complete.

Chief Executive's Response

The new risk register is under consideration by the management team.

11.2 Local Authority Companies

The Council has recorded its interest in seven companies in Appendix 8 of its AFS. The Council should make all efforts to ensure timely audited financial statements are prepared by these companies.

Chief Executive's Response

I am in agreement with the Auditor in this matter and each Council representative on the Board of such company will be requested to ensure timely preparation of audited financial statements. It is noted however that each company has a responsibility to comply with its corporate governance obligations and each has its own Memorandum and Articles of Association.

11.3 Internal Audit

Internal audit is an independent appraisal function within an organisation, which operates as a service to management by reviewing and evaluating the effectiveness of the internal control system. There was no internal audit function in place in Sligo County Council in 2014 or January 2015. There was an internal auditor appointed from January 2015 till March 2016, but no internal audit function has been in place since March 2016.

A properly resourced internal audit function is essential to ensure the Audit Committee is supported in its important work. It is disappointing to note this critical management control function was not operational in

Sligo County Council for January 2015, and from March 2016, particularly given the state of the Council's finances.

Chief Executive's Response

During the year ended 31st December 2015, the Council operated an Internal Audit Function on a shared service arrangement with Roscommon County Council, as approved by the Department. As a result of changes in Roscommon, the shared service arrangement ended and since the start of 2016, the role has been a full time one in Sligo. In March 2016, the post holder took up finance duties (in a temporary restructuring to provide for senior staff on leave in finance). The Audit Committee has continued to meet and the Council is committed to maintaining the internal audit role.

11.4 Adjustments to Draft 2015 Accounts as presented to Members

As a result of the audit the council made the following amendments to the draft 2015 accounts.

- An amended Appendix 7 to incorporate a revised methodology for rates collection in 2015 as prescribed by the General Accounts Working Group
- A revised Appendix 8 to include up to date information pertaining to associate or subsidiary companies of the Local Authority
- Inclusion of Note 23 in accounts pertaining to Lissadell House
- A revised Chief Executive review, presented to me by Management.

Chief Executive's Response

- An amended Appendix 7 based on the revised methodology for rates collection is included in the audited AFS for 2015, showing an increase in the rates collection percentage from 69% to 74%.
- A revised Appendix 8 is included in the Audited AFS for 2015
- Note 23 pertaining to legal fees is now included in the 2015 audited AFS
- A draft Chief Executive financial review for inclusion in the audited AFS for 2015 was sent to the Department for approval on the 1 September 2016. Final Chief Executive's financial review was approved on the 05 December 2016 .

12 Delay in issue of audit report

The draft audit report was issued to management on the 19 September 2016. Responses were only received on the 29 November 2016, and this delayed the completion of the audit.

13 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.

Raymond Lavin

Raymond Lavin
Principal Local Government Auditor
05 December 2016