



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Sligo County Council**

**for the**

**Year Ended 31 December 2014**



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# **AUDITOR'S REPORT TO THE MEMBERS OF SLIGO COUNTY COUNCIL**

## **Introduction**

- 1.1** I have audited the annual financial statement of Sligo County Council for the year ended 31 December 2014, which comprise the Statement of Accounting Policies, Income and Expenditure Account, Balance Sheet, Funds Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is the Accounting Code of Practice for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express an opinion on the annual financial statement (AFS) of the Council as presented for audit, in accordance with the Code of Audit Practice. My audit opinion on the AFS of the Council is unqualified but includes emphases of matter paragraphs and is stated on page 5 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 opinion on the statement and to report my opinion to you. I conducted my audit in accordance with the principles and practice of Local Government Audit. 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 financial statement, 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error.

- 1.2** This report is issued in accordance with Section 120 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 deficit for the year of €575k continues the trend since 2008 of deficits on the Council's revenue account

<b>Year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	€m	€m	€m	€m	€m	€m	€m
Deficit	0.57	6.31	2.45	2.97	2.46	3.23	2.82

The cumulative deficit was €26.602m at 31 December 2014. This is a very serious matter for the Council to address. Since 2008 the Council has incurred continuous deficits. The accounts of all local authorities are meant to be materially in line with the adopted budget for each year. This has not been the case in Sligo County Council.

## **Chief Executive's Response**

2014 was a significant year for Local Government, both from a re-organisation and audit perspective. In this regard, two local authorities comprising Sligo Borough Council and Sligo County Council were merged in June 2014 entailing considerable additional work in transferring all credit, debit and capital balances. There was also extensive checking and reconciliation involved in the process.

The Irish Water (IW) project was also a priority for 2014 entailing transfer to IW of all water capital balances and fixed water related assets together with the re-classification of water related loans and reconciliation and transfer of commercial water debtors as at the end of 2014.

I consider that this considerable body of work was undertaken satisfactorily during 2014.

With regard to the deficit in 2014, one of the major factors was the withdrawal of the Local Government Fund (LGF) allocation of €750,000 and I am to advise that the matter was raised with the auditor at the outset of the audit. The allocation was included in the 2014 budget from the outset and would have resulted in a surplus for the calendar year had it been paid.

The decision is disappointing on a number of fronts. In the first instance, verbal notification of the decision was relayed on 29 January 2015 from the Department of the Environment Community and Local Government (the Department) i.e. one month after the close of business to which the audit refers. Secondly, the decision does not have regard to the fact that the criteria for the submission of a sustainable Financial Plan and subsequent drawing down of the allocation evolved considerably through 2014 and 2015. While the Council was in ongoing and detailed discussions with the Department in the matter, there was no indication in 2014 that the allocation would not be paid.

Sligo County Council has made every effort to comply with the Department's evolving requirements and targets for the Financial Plan. In this context, the decision to withdraw the LGF allocation of €750,000 is deemed to be particularly unfair as it resulted in the Council being pushed from a revenue account surplus to one of a deficit.

## **2.2 Financial Position**

The following matters are of concern in respect of the Council's finances:

- There was a cumulative deficit of €26.602m (€26.027m in 2013) on the income and expenditure account at the end 31 December 2014
- A significant contingent liability is disclosed in accounts pertaining to legal costs owing by Sligo County Council but not quantified at the 31 December 2014 (see paragraph 8). The quantification of these legal costs will create a significant further deterioration in the financial position of the Council
- Long term loans payable by the Council amounted to €121.4m (paragraph 5).

Emphases of matter paragraphs have been included in the audit opinion drawing attention to the critical financial position of the Council and the

significant contingent liability referred to above.

### **Chief Executive's Response**

In addition to my response to 2.1 above, the Council's Financial Plan, as submitted to the Department, has identified a surplus of €12.32m over the period of the Plan. Details regarding the long term loans are dealt with in detail in 5 below while the legal costs are dealt with in 8 below.

## **2.3 Assumptions underlying the budgetary process**

The Council needs to ensure that it prepares its annual budget in a proper and meaningful way that covers all the financial targets of the local authority. It then needs to review its financial management procedures to ensure that it delivers these targets within budgetary guidelines. A number of specific issues were noted in relation to the budgetary process:

- Loan charges pertaining to office accommodation were understated by €155k or 70% in this cost centre in the 2014 annual budget
- Pensions and lump sums for staff and members were understated by €1.2m or 26% in the 2014 annual budget. Whereas accepting that it is difficult to accurately predict retirements, this represents a very significant underestimation
- A four person delegation spent eight days visiting the United States for Saint Patrick's Day Celebrations. The cost to the Council of this event was approximately €15k. The Council should consider if it was appropriate to spend this sum on this event, considering its serious financial position.

### **Chief Executive's Response**

The understatement of loan charges of €155k is 7% of the overall loan charges charged to the revenue account in 2014. The loan has been fully provided for in the 2015 Budget.

The underestimation of pension and lump sum entitlements is accounted for by two primary factors. In the first instance, it was inflated by staff who retired in 2014 in advance of reaching retirement age. Sligo County Council could not have anticipated these additional retirements. Secondly, there was an underestimation of gratuity payments paid to Council Members who were not successful in being returned in the 2014 Local Election. This is an equally difficult amount to estimate. The combination of these two factors accounted for €1m (83%) of the €1.2m pension and lump sum payments in excess of the 2014 Budget figure.

Three elected members accompanied by the County Manager visited cities, in the United States with which a sister city or other diaspora relationship exists, and where the opportunity was taken to promote Sligo from both an economic and tourism perspective.

The delegation was afforded access to the Massachusetts State Senate and the Mayor of Boston. Meetings were also held with the Irish Development Authority (the IDA), Enterprise Ireland and Fáilte Ireland staff in New York where the case

for Sligo was advanced.

The deputation included both the Mayor of Sligo Borough Council and Chairman of Sligo County Council and provision for the visit was included in the respective budget of each local authority at the time.

Having regard to the above and in advance of the hosting of Fleadh Cheoil na hEireann 2014, it was critical that the delegation both advance the economic and tourism case for Sligo and strengthen the links with the Sligo and Irish diaspora. I am of the view that it was appropriate to spend this sum on the event. While it had been custom and practice for representatives of the two authorities to visit over the St. Patrick's holiday period however, the subsequent amalgamation of the two authorities has addressed the issue of the numbers within the delegation, with the Cathaoirleach accompanied by an official travelling in 2015. It should also be noted that the visit was in line with the enhancement of the Council's economic development role under the national policy document 'Putting People First'.

## **2.4 Review of the Council's Financial and Management Procedures**

The Council has produced a draft five year financial plan which identifies a number of high level controls that have been implemented throughout 2014 to improve financial management procedures.

Action on this plan has resulted in the Council's annual deficit for 2014 being significantly less than any of the previous five years. The Council needs to continuously improve these procedures, in addition to reviewing budgetary preparation to eliminate annual deficits and return to financial sustainability.

### **Chief Executive's Response**

Sligo County Council incurred a revenue account deficit of approximately €23m in the period 2008-2013. It occurred in a period where expenditure escalated arising in the main from significant investment in water services infrastructure while income from all sources contracted due to the national financial crisis.

Difficult decisions were taken over the period to reduce expenditure with the result that the staff compliment has been reduced by 213 (33%) to date, leases have not been renewed and expenditure in all areas curtailed.

It is as a result of these corrections that the Council is starting to see stability returning to its finances and it is on this platform that the Financial Plan 2015-2019 has been formulated. The plan has identified a surplus of €12.3m over the period and will realise further reduction of staff. This brings the total reduction since 2008 to 264 (42%) and necessitates the introduction of additional innovations and efficiency measures in order to maintain services.

The Plan includes strategies to maximise income from all sources and these strategies are now bearing fruit as evidenced by the response in 3.2 below. It also makes provision for a rescheduling of the capital loans and this matter is addressed at item 5 below, Capital Debt.

## 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 AFS and not to approve over-expenditure for the year ending 31 December 2014. The members deferred these motions until such time as the Council would be in receipt of the audited accounts for the year ending 31 December 2014. I have reviewed the over-expenditure report, and my conclusion is that the amounts included in it are in accordance with the books and records of the County Council. It is a reserve function of the members to authorise the incurring of additional expenditure as prescribed in section 104(2) of the Local Government Act, 2001.

### Chief Executive's Response

Section 104 (2) of the Local Government Act, 2001 provides that:

“At any time after it has adopted a budget, a local authority MAY, following a proposal under subsection (3) or otherwise, by resolution authorise the incurring of additional expenditure”.

The inclusion of the word MAY is important in the context of this legislative provision, as is the provisions of subsection (7), which relates to the obligations of the Chief Executive where additional expenditure has been incurred. Subsection (7) provides that the Chief Executive SHALL inform the Cathaoirleach and the members of the authority of the incurring of the expenditure, the details of the expenditure and the implications for the local authority Budget. I confirm that the provisions of Section 104 have been complied with.

## 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	2014	2013
Rates	67%	59%
Rents and Annuities	77%	80%
Housing Loans	46%	47%

### 3.2 Collection yields

Collection yields in respect of all the revenue collection accounts remain weak. Arrears overall at the end of the year were €7.33m despite write offs of €5.1m in the year. Every effort should be made to reduce these arrears. A review of procedures indicates that the Council has set up a dedicated task force for income collection in 2014 which appears to be making some progress in this area, but further improvement is needed. It is also noted that the Council is currently in the process of implementing a new debtor's management system to address these issues.

### **Chief Executive's Response**

Scarce Council resource's were initially assigned to the collection of Non Principal Private Residence Income (NPPR) resulting in an exceptional return of €1.4m over budget in 2014.

Having identified, targeted and realised this income, the staff were then assigned to the collection of commercial rates with the collection yields increasing from 59% in 2013 to 67% in 2014. The progress in this area has continued into 2015 with rates being on target to exceed a 70% collection yield in 2015. In addition to the assignment of additional resources, the Council introduced a new debtor's management system and established an Income Task Force to set targets, monitor collection and devise and implement strategies for collection. Work of the Income Task Force continues on an ongoing basis across all income streams.

As with rates, there has been an improvement in the collection of housing rents, which will exceed the current 77% in 2015 and housing loans, which will be in the region of 50% in 2015.

It should also be noted that the collections are based on the total sums available for collection including cumulative arrears, rather than the amount of income solely pertaining to the current year.

### **3.3 Bad debt provision**

In my opinion the bad debt provision for rates is adequate. The Council should conduct a review of the bad debt provision for rents and housing loans to ensure that they are adequate.

### **Chief Executive's Response**

An aged debt analysis of housing loan and rents customer balance has been carried out. As a result of this exercise €400k has been included under the heading bad debt provision in the Council's Financial Plan for 2015. In addition, a further €1.6m is being provided in the Financial Plan from 2016 -2019 under this heading to ensure that the Council's overall level of bad debt is adequate.

### **3.4 Bad debts written off**

The Council wrote off €5.1m in rates in 2014. €3.25m of this sum related to vacant properties. In relation to other write-offs of €1.85m the Council should review its procedures to ensure that adequate details are on files setting out the reason for the write-offs. Where agreements are subsequently entered into with customers setting out a payment schedule, these agreements should be set out in writing, and monitored on an ongoing basis.

### **Chief Executive's Response**

This issue will be addressed through the Council's new debt management system which has a facility to record detailed information regarding customer payment plans and agreements. Furthermore, it produces automated reports that are referred to the revenue collectors for follow up action of customers who



have not adhered to the agreed payment plans.

### 3.5 **Non Principal Private Residence**

Income collected in this area amounted to €1.4m in excess of budget. This was as a result of the following reasons:

- Efforts employed by the County Council's Income Task force in this area
- Introduction of additional late penalties for payments received after 31 August 2014 at a national level, which improved collection rates up to this date

## 4 **Capital Account**

The Council is carrying unfunded balances of approximately €5m. A source of funding should be identified for these sums.

### 4.1 **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 some five years later only €170k of this money has been spent. This issue has been raised previously.

#### **Chief Executive's Response**

Sligo County Council drew down the loan approved in 2010 in anticipation of a program of burial ground additions and enhancement works that has not progressed as quickly as expected. There has been some expenditure in 2015 and a number of schemes are being pursued at present.

## 5 **Capital Debt**

Capital debt amounted to €121m at the 31 December 2014. This is further analysed as follows:

- |                                                       |        |
|-------------------------------------------------------|--------|
| • Mortgage and voluntary housing related borrowings   | €30m   |
| • Loans fully recoupable from Irish Water             | €18m   |
| • Loans funded through the land aggregation scheme    | €8m    |
| • Land development loans                              | €30m   |
| • Loans to fund revenue and unfunded capital balances | €34.5m |

A significant portion of the €34.5m loans referred to above are currently interest only but will become principal and interest loans by 2019. The projected interest and capital annual repayment on these loans in 2019 will be approximately €1.5m.

## **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 €30m are fully serviced with the repayment of principal and interest from housing loan customers.

Of the €18m IW loans, €12.8m due to the Housing Finance Agency (HFA) for water infrastructure loans at the end of 2014 has been repaid in full to the HFA upon receipt of this money from the Department in July 2015. The balance of the water loans due on €5.5m are due to other lending authorities which are not yet transferred to IW. In the interim the cost of servicing these loans is recouped in full from the Department.

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 City and County Management Association (CCMA) on an interest only basis since December 2014.

The additional cash flow available to the Council as a result of the surplus generated over the term of the Financial Plan will be used to service the bank overdraft, revenue bridging and long-term revenue loan.

## **6 Fixed Assets Register**

A review of the Council's registers of lands and buildings indicates that it has not been properly maintained. A land asset management group was established in late 2009, and significant work had been done by this group towards addressing this issue. However work on this area has been limited over the course of the last 30 months due to a lack of staff resources, and it appears that substantial additional work still remains to be carried out to identify all historical assets and all way leaves or permissions in relation to these historical assets.

## **Chief Executive's Response**

The small but dedicated Land Asset Management Team is continuing to work on improving the historical assets register and backlog of historical records along with the corresponding update of the financial statements when completed. However, limited staff resources and the need to prioritise placement of resources and implementation of the Financial Plan reduce output towards a full assets register.

## **7 Transfer of Water and Sewerage Functions to Irish Water**

From the 1 January 2014, IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at national, regional and local level. This has had a significant impact on the 2014 accounts of Sligo County Council.

### **7.1 Fixed Assets- Water Property, Plant and Equipment**

The net book value of fixed assets removed from the accounts relating to IW amounted to €270m at 31 December 2014. In accordance with Circular Fin 02/2015 issued by the Department on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- Section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- Section 21 provides IW with power to charge for water services
- a mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (included in Service Level Agreement) pending the ultimate statutory transfer
- the revised accounting Code of Practice, published in December 2014, stipulates that “Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise an asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

Issues have been raised in this audit report (paragraph 6) and in previous audit reports setting out how fixed asset registers have not been properly

maintained. These issues will need to be addressed in advance of the completion of the formal transfer of all assets to IW.

### **Chief Executive's Response**

Sligo County Council has been proactive in engaging on the statutory transfer process which is at a very early stage for all local authorities. The Council has not encountered any difficulties to date with regard to its fixed asset register facilitating the transfer of assets to IW.

## **7.2 Transfer of other balances to Irish Water**

A due diligence process has been completed between Irish Water and Sligo County Council in relation to the water schemes capital balances transferred to IW at a cost to IW of €427k. Agreement has also been reached as part of the due diligence process between IW and Sligo County Council in relation to the transfer of debtors at a cost to IW of €1.428m and in relation to 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. At the date of the audit report these sums remain unpaid from IW.

## **7.3 Transfer of loans to Irish Water**

IW related loans amounting to €18m are included in the accounts of the Council. All interest and principal repayments in relation to these loans, are been funded by the Department since 1 January 2014.

## **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 2014, amounting to €1.9m have been charged to the revenue account.

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 24 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 takes account of the pending liability.

## **9 Representations regarding salary allocations**

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

## **10 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.

### **10.1 Risk Register**

The County Council has developed a corporate risk register for the organisation. Risk registers should also be prepared for each directorate. The management team should approve these risk registers.

#### **Chief Executive's Response**

Work is in hand in relation to the Risk Register. This will include consideration of the preparation of individual Directorate Registers

### **10.2 Local Authority Companies**

The Council has recorded its interest in seven companies in Appendix 8 of its AFS. The Council needs to improve its oversight of these companies, particularly in relation to ensuring timely audited financial statements are prepared.

#### **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.

### **10.3 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 in four of the preceding six years. A properly resourced internal audit function is essential to ensure that the Audit Committee is supported in its important work. It is disappointing to note that this critical management control function was not operational in Sligo County Council, particularly given the state of the finances of the Council.

### **Chief Executive's Response**

As outlined in the 2013 audit report, Sligo Council sought and was successful in securing approval for the recruitment of an Internal Auditor. The position was filled in January 2015.

#### **10.4 Role of the Audit Committee**

A review of the minutes of the Audit Committee indicated that it met just twice in 2013 and twice in 2014. The Committee felt that it was difficult for it to function properly, in the absence of any internal audit function, and that it had not been functioning effectively for some time because of the above issue. Despite a legal requirement that an Audit Committee be established within three months of polling date, this Audit Committee was not formally established in Sligo until 1 December 2014.

### **Chief Executive's Response**

Further to the filling of the Internal Auditor post, I am to advise that there has been a close working relationship with the Audit Committee and I am satisfied that the issue as outlined has been addressed.

#### **11 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*

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**Raymond Lavin**  
**Local Government Auditor**  
**11 November 2015**