



**Rialtas na hÉireann**  
Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Kilkenny County Council**

**for the**

**Year Ended 31 December 2018**

Department of Housing, Planning and Local Government

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# AUDITOR'S REPORT TO THE MEMBERS OF KILKENNY COUNTY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Kilkenny County Council for the year ended 31 December 2018, 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, Planning, and Local Government.

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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 4 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 Financial Standing

### 2.1 Statement of Comprehensive Income

The Council recorded a surplus of €7,143 for the year ended 31 December 2018 which resulted in a small accumulated surplus of €17,805 at that date.

The members, at the Council meeting held in March 2019, approved, by resolution in accordance with section 104(2) of the Local Government Act, 2001, the expenditure incurred in 2018 that was in excess of the adopted budget for the year.

## 3 Income Collection

### 3.1 Summary of Income Collection

A summary of the collection performances showing the 31 December 2018 arrears position in respect of the main income categories with the comparative figures for 2017 were as follows:

Income Source	Yield %	Yield %	Debtors €m	Debtors €m
	2018	2017	2018	2017
Rates	93	95	1.38	0.84
Rents and Annuities	93	92	0.62	0.71
Housing Loans	88	85	0.39	0.51

While there were improvements in Rents and Annuities and Housing Loans collection yields in 2018, the Rates collection yield fell by 2%. This contributed to overall arrears outlined above increasing to €2.39m at 31 December 2018 (2017; €2.06m).

The Valuation Office carried out a complete revaluation of premises in County Kilkenny in 2017 as part of a rebalancing of the rates throughout the county. Over 6% of businesses, representing €0.4m of the arrears, have appealed their new rates valuation and this has contributed to the reduction in the collection yield for the year.

The arrears collection unit, located within the central finance directorate, continues to contribute to these collection levels across all of the main income categories. It is important that the level of resources currently available to the unit is maintained and strengthened where possible.

The amounts outstanding at year-end remain significant and despite the increase in the arrears on rates, it is commendable that the percentage yields on all three of the above categories of income continues to be significantly higher than the 2017 national average returns for local authorities.

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

The Council continues to focus on the collection of outstanding income. The increase in arrears at December 2018 is a direct result of the full revaluation of all commercial properties carried out by the Valuation Office in 2017. The valuations on 196 properties were appealed to the Valuation Tribunal representing 23% of the annual rate demand. Only 100 of those appeals have been concluded to date. We await the outcome of the remaining appeals. The collection rates on all income streams are still amongst the highest of all Local Authorities.

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

The Council continues to deliver services on behalf of the national utility company, Irish Water (IW) under a service level agreement. The current position with regard to the Council's obligations to the company is as follows:

- As a result of ongoing discussions with IW, a total of 169 properties have now been agreed for transfer. Of these, 127 individual parcels of land and property have been transferred to date. Further work is still required to facilitate the transfer of the remainder of the assets to them.
- IW has advised the Council that it will not now be taking over the ownership of some 12 land assets. Consequently, the Council should review each of these sites to ensure that all are adequately safeguarded and insured. Furthermore, these assets need to be valued and brought back into the fixed assets register.

## **Chief Executive's Response**

The transfer of assets required as a result of the transfers of the water function to Irish Water is well advanced in Kilkenny with in excess of 76% of the eligible assets transferred to date. The Council has appointed a dedicated staffing resource to complete this task which includes rectification of title in some cases. Sites not being transferred have been reviewed and in cases where assets required fencing/subdivision, this is being arranged. Assets will be included in the asset register where appropriate.

## **5 Capital Account**

### **5.1 Capital Account**

Expenditure on the capital account increased by €9.5m in 2018 to €48.3m (2017: €38.8m). In particular, the capital expenditure incurred in the Housing directorate increased from €18.3m in 2017 to €36.1m in 2018.

The capital account recorded a credit balance of €6.1m at 31 December 2018, an increase of €3.4m on the previous year. However, within this are debit balances amounting to €11.1m that will require additional revenue budgetary funding unless alternative sources can be identified. Significant debit balances are outlined below:

- Refurbishment of the Kilkenny City Parade €4.3m
- Kilkenny Central Access Scheme €2.5m
- St Mary's Church and Graveyard Restoration Schemes €0.6m

The revenue account contributed approximately €1.1m in 2018 to the deficits arising on these schemes. This level of funding will have to be maintained or increased in order to address all the deficits.

## **Chief Executive's Response**

The residual deficits on all schemes are being provided for in the Income & Expenditure Account each year.

### **5.2 Approved Housing Bodies**

Payments to Approved Housing Bodies (AHBs) under various approved Department of Housing, Planning and Local Government (the Department) schemes amounted to €17m in 2018, an increase of €13.9m on the amount incurred in 2017. Given the significant increase in the quantum of funds being processed by the Council in respect of the AHBs, it is important that the Council has adequate oversight and assurance over the use of these funds and compliance with the relevant legislation and related circulars, including the requirement to inspect the relevant properties to ensure that they conform to national standards and to review the adequacy of the AHB's compliance statements and audited accounts.

Furthermore at the end of 2018 the Council had disbursed €2.6m in funds for which it was not yet in a position to reclaim reimbursement due to compliance with Department procedures. Given the amounts of the payments being made it is imperative that the Council devotes sufficient resources to ensuring that this cash flow continues to be managed effectively.

## **Chief Executive's Response**

There has been a marked increase in AHB activity in the County, resulting in increased expenditure and resultant recoupments. Procedures are in place to manage this activity and claims are being processed in a timely manner. Local authorities are required to have oversight of governance issues in relation to AHBs in line with the Local Government Audit Service VFM report "The oversight role of the local authorities in the provision of social housing by Approved Housing Bodies" dated December 2015. The Council have put procedures in place to meet the requirements of that report and will continue to improve regulatory measures in line with national systems and guidance when made available. A uniform system for monitoring and managing data required under regulatory practices is required for the sector to provide a consistent approach to this matter and when available this will be implemented fully.

A large volume of financial transactions relating to capital advance and acquisition payments occurred at or close to year end 2018. As a result recoupment of these amounts took place in quarter 1 2019. There is a requirement on the local authority to ensure that the AHBs funded comply with legal and procurement requirements set down by Department guidance and circulars. As soon as all such requirements are met recoupments are made in a timely manner. In many instances legal documentation must be complete prior to submission of a recoupment and in others procurement for works required to properties must follow set procedures to validate recoupment claims. In most cases final recoupments cannot take place for some weeks. The timelines for recoupments do represent compliance with Department procedures as required.

## **6 Kilkenny Central Access Scheme**

This scheme provides for the construction of a new central access street and the construction of a bridge across the river Nore for the purpose of easing traffic congestion in the city. The scheme was completed in 2017 at an estimated cost of €20.5m. The final account from the main contractor on phase 2 of the scheme has been substantially agreed but has not yet been submitted to the Council by the contractor.

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

The Central Access Scheme was completed in 2017 and opened in May 2017 and has proved to be a vital part of our City infrastructure enabling traffic to cross the river Nore over the three city bridges. Progress on the project was delayed significantly by events that occurred during construction. The final account with the main contractor on Phase 2 has been agreed but has not been submitted by the contractor.

## **7 Fixed Assets**

### **7.1 Land and Property Registers**

I welcome the significant progress made to date to address the inadequacies of the property and land registers, which have been highlighted at previous audits.

As previously advised, it is imperative that these registers are complete and up to date so that the Council can be assured that all land and property in the beneficial ownership of the Council are both safeguarded and adequately insured.



It is a requirement of the Accounting Code of Practice for local authorities that these registers be maintained.

#### Chief Executive's Response

Significant progress has been made during 2018 and into 2019 on this matter. The records of all properties registered in the name of the Council have been reviewed and documented. A new software package has been procured and this software is currently being implemented.

## 8 Loans

### 8.1 Loans Payable

An analysis of loans payable at 31 December 2018 is set out as below

Loan Type	Balance at 31/12/2018 €m
Mortgage Loans	34.8
Non Mortgage Loans	12.3
Recoupable Loans	4.6
Shared Ownership - Rented Equity	3.5
<b>Total</b>	<b>55.2</b>

These loans are funded as follows:

- Repayments on mortgage loans are matched by corresponding income. There was a mortgage loan funding surplus of €1.4m at the end of 2018
- The non mortgage loans of €12.3m related to borrowings by the Council in respect of the funding of projects that are currently not recoupable from any external funding source. The cost to the Council of servicing these loans in 2018 was €0.8m.
- The recoupable loans are funded by the Department.

#### Chief Executive's Response

The repayment of the non-mortgage loans of €12.3m is fully provided for in the Income and Expenditure Account for each year.

## 9 Development Contributions

### 9.1 Development Contributions Debtors

Included in trade debtors and prepayments at 31 December 2018 was €7.19m (2017 €7.23m) in respect of development contributions due to the Council (note 5 to the AFS). A provision for bad debts of €6m (representing 83% of the book debt at that date) has been made and is included in the overall 2018 year-end bad debts provision of €10.3m. I consider this provision to be adequate.

#### Chief Executive's Response

The Council continues to maintain a strong focus on the collection of all outstanding monies owed to the Council irrespective of accounting provisions included in the Annual Financial Statements.

## 9.2 Special Development Contributions

Section 48 (12) (b) of the 2000 Planning & 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. It was recommended to management at previous audits that a review was required into the status of special contributions payments that were advanced in prior years to the Council in respect of planning permissions granted.

This area was again examined during the current audit and it is noted that the internal review, as previously recommended is ongoing. The main purpose of the review is to obtain clarity in respect of whether repayments, as provided for under the 2000 Act, are required and also to confirm the Council's legal obligations to organisations that may no longer be in existence.

It is noted that three repayments have been made to date to three different planning applicants totalling €1.1m. Included in the amounts paid to date was interest due to the planning applicants of €0.25m.

Management has advised me that a final determination on the Council's obligations in respect of additional special contributions received in prior years has yet to be made. It is imperative that the review exercise is completed without further delay particularly given the risk to the Council of having to pay further significant interest penalties.

### Chief Executive's Response

The review of special development contributions received in previous years is almost complete. The review will establish if any further refunds are to be paid out. All claims for refunds of special development contributions are only paid out following a full investigation of each claim.

## 10 Procurement

### 10.1 Procurement Compliance

As a public organisation, the Council (including all of its subsidiary companies) is required to comply, in all respects, with both the national and EU procurement regulations and directives.

Issues with procurement compliance have been highlighted at previous audits. While some progress has been made in improving compliance levels in recent years, there remain a number of areas where contracts are still being awarded without recourse to full compliant tendering processes. During the audit it was noted that expenditure was incurred in 2018 on housing refurbishment/maintenance contracts (amounting to approximately €0.7m) without recourse to a compliant tendering process. Whilst further work is need in this area, these represent an improvement on the levels of non-compliance previously reported and is a welcome development.

### Chief Executive's Response

Good progress has been made during 2019 on establishing the procurement frameworks for housing refurbishment and maintenance works. Three of the four frameworks will be in place by the end of 2019 and the remaining framework will be set up in 2020.



## **11 Local Authority Companies**

### **11.1 Local Authority Companies General**

The Council has an interest in a number of companies, the details of which are disclosed at Appendix 8 of the AFS.

### **11.2 Kilkenny Local Authorities Leisure Complex Limited**

This company oversees the day-to-day management of the Watershed Leisure Centre and is wholly owned by the Council.

The company's accounts for the year ended 31 December 2018 recorded an operating loss of €71k (2017 operating profit of €52k) before depreciation and amortisation of government grants. The net loss recorded for 2018 after adjusting for depreciation and government grants was €322k. The Council's interest in the company is disclosed at note 3 to the AFS, at a value of €6.2m.

The company's auditors included a paragraph in their audit opinion in respect of a material uncertainty related to going concern. Their opinion is not modified in respect of this matter. The auditors drew attention to note 4 to the company's AFS which stated that even though the company did report a loss for the financial year that it was appropriate for the accounts to be prepared on a going concern basis. This note outlined that the company has the support of its principal shareholder (i.e. the Council) and that should it experience any operating difficulties it will be assisted by the Council to continue as a going concern.

### **11.3 The Watergate Theatre Company Limited**

This company oversees the day-to-day management of the Watergate Theatre. It is a company limited by guarantee and not having a share capital.

The company's audited accounts for the year ended 31 December 2018 recorded a deficit for the year of €29k thereby increasing the accumulated losses at that date to €138k. The negative value of members' funds at the balance sheet date was €105k.

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

The Council continues to work closely with the Boards and management of both the Watershed Leisure Centre and the Watergate Theatre recognising the significant role that both organisations play in the local community. The Watershed had another very satisfactory year with an increase in the number of people attending this facility. The new Board and management of the Watergate continue to make good progress on the implementation of changes across a number of areas which will help sustain the theatre into the future.

## **12 Governance and Propriety**

### **12.1 Governance Overview**

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, her management team and the elected members all have a role in ensuring that there are sound systems of financial management and internal control in place.

### **12.2 Risk management**

A risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed. An up to date risk register is maintained by the Council. In accordance with best practice, risk management is a standing agenda item at all management team meetings.

### **12.3 Internal Audit**

The internal audit unit in the Council is an integral part of the governance structures of the Council. The internal audit unit has produced a number of reports to date, and the recommendations in these reports should be implemented as soon as practicable.

### **12.4 Audit Committee**

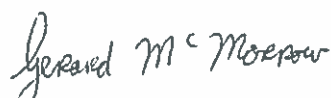
The committee met on four occasions during 2018 and issued its annual report for that year in March 2019. I commend the work undertaken by the committee which continues to contribute to the independent oversight of corporate governance within the Council.

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

The Audit Committee comprises of three external members and two elected councillors. Committee meetings are held four times per annum and the agenda includes for engagement with the four directorships once per annum. A risk register is maintained and the key risks are reviewed on an ongoing basis.

## **Acknowledgement**

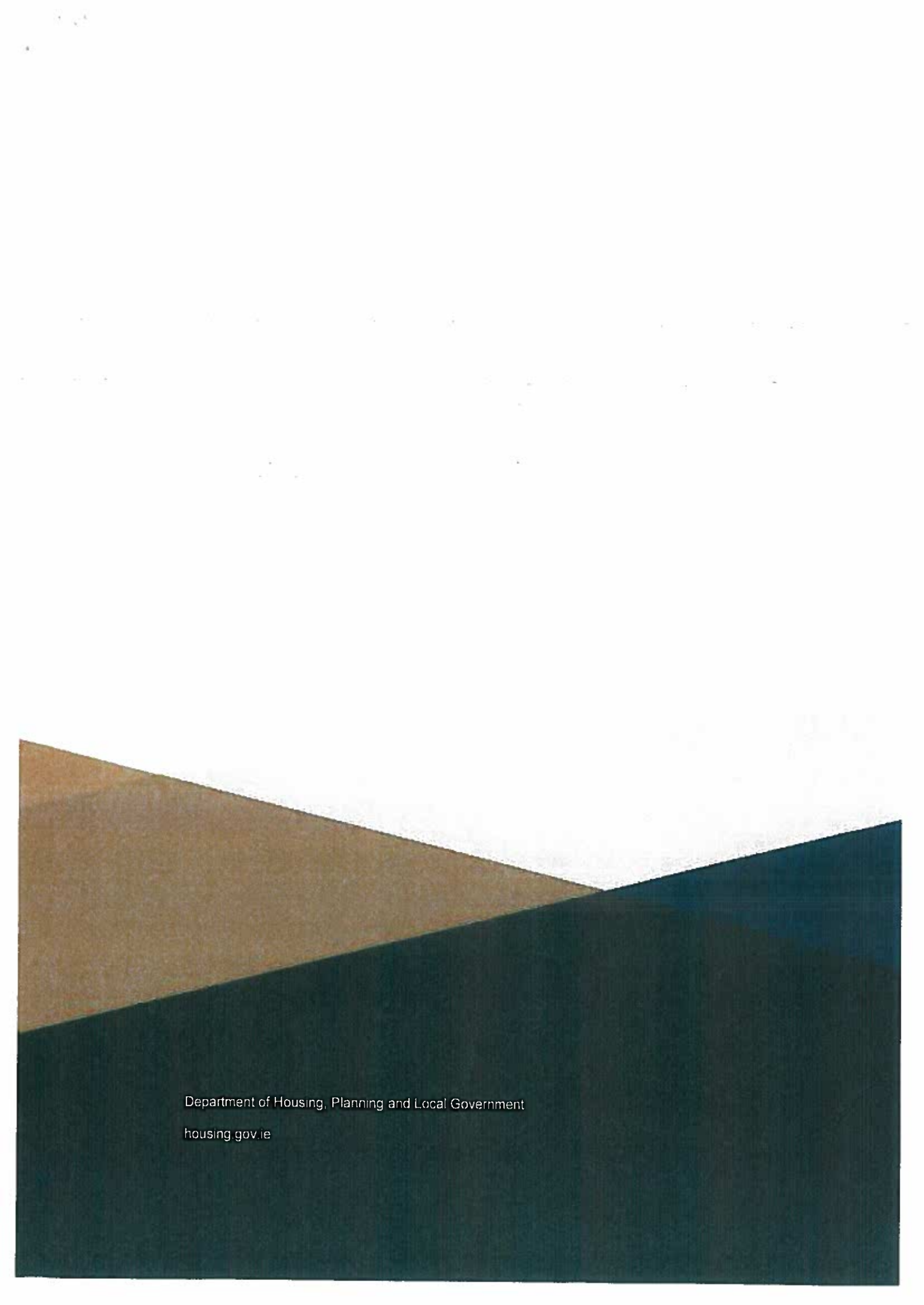
I wish to record my appreciation for the courtesy and co-operation extended to audit by the management and staff of the Council.



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Gerard McMorro  
Local Government Auditor

30 August 2019



Department of Housing, Planning and Local Government

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