



Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Kilkenny County Council for the Year Ended 31 December 2021

Local Government Audit Service

Prepared by the Department of Housing, Local Government and Heritage
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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 2021, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Local Government and Heritage.

My main statutory responsibility, following completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2021 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 COVID-19 – Impact on Local Authorities

2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have continued to have a significant impact on the finances of local authorities during 2021. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level in 2021, the Government introduced the Small Business Assistance Scheme for COVID (SBASC) and extended the Rates Waiver Scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below.

As agreed by the General Accounts Working Group, the audited Annual Financial Statement for 2021 includes revised Notes 23 and 24 in relation to the rates waiver and SBASC respectively.

2.2 SBASC Scheme

As part of the Government's 2021 COVID support package, the Small Business Assistance Scheme for COVID (SBASC) was introduced as a direct aid to companies, self-employed, sole traders or partnerships with a minimum turnover of €50,000 who were not eligible for the Revenue scheme CRSS, Fáilte Ireland Business Continuity Scheme or the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media's Live Performance Support. The scheme was funded by the Department of Enterprise, Trade and Employment but was administered on its behalf by the Local Authorities.

The SBASC II Scheme was introduced in the second quarter in 2021 and included businesses which were not operating from rateable premises. A €1,000 grant was also introduced for businesses with a pre-COVID turnover between €20,000 and €49,999.

As with the Restart Grant Schemes in 2020, each business had to self-certify by completing the application that it met the relevant criteria. The Local Authority was required to verify the application against rate accounts, where one existed, and to confirm that the applicant had fully completed the application including the declaration.

Accordingly, the audit of expenditure under these schemes, which amounted to €438k in Kilkenny County Council for the year ended 31 December 2021, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

2.3 Rates Waiver Scheme

The Government continued its support for the local government sector, with the provision of an amended commercial rates waiver in 2021. This waiver, funded by Government, at a cost of €542m supported local businesses in payment of their rates bills, and ensured continuity of services at local authority level.

The total amount received by Kilkenny County Council for the year ended 31 December 2021 was €6m. The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

In 2021, as in 2020, the methodology and manner for calculating rates income collection differed from previous years.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €45,907 for the year, increasing the accumulated surplus to €90,540 at 31 December 2021. This was after transfers of €5.9m (2020: €5.9m) to the capital account to fund projects.

The members at the Council meeting held in April 2022, approved by resolution in accordance with section 10(2) of the Local Government Act, 2001, the expenditure incurred in 2021 that was in excess of the adopted budget for the year.

3.2 Statement of Financial Position

The Council's financial position had improved by €43m at 31 December 2021. This was due to an increase in Fixed Assets of €24m, mainly through the acquisition of housing units, and an increase in bank balances of €18m.

Chief Executive's Response

The increase in net assets has resulted from investment in social housing and a continued focus on the reduction of working capital required by the Council.

4 Income Collection

4.1 Summary of Income Collection

A summary of income collection performances showing the 31 December 2021 arrears position in respect of the main income categories with the comparative figures for 2020 were as follows:

Income Source	Yield		Debtors	
	2021	2020	2021	2020
	%	%	€m	€m
Rates	87	83	2.0	2.0
Rents & Annuities	97	96	0.3	0.4
Housing Loans	90	90	0.3	0.3

The collection yield for Rates increased by 4%. The table indicates an 87% collection yield in 2021 (83% in 2020). However, as highlighted in paragraph 2.3, due to the effect of COVID-19, the Department of Housing, Local Government and Heritage (the Department) extended the waiver (credit in lieu) of commercial rates into 2021 and this had an effect on the actual amount collected. For prior year comparison purposes, if this sum had been categorised as 'Collected' rather than as 'Waivers and Credits' the percentage collected would have been 90% (90% in 2020).

The collection yield for Rents and Annuities again improved by 1% and the collection yield for Housing Loans remained unchanged. This contributed to overall arrears in these three income categories decreasing by €0.1 to €2.6m at 31 December 2021.

The amounts outstanding at year-end remain significant but it is commendable that the percentage yields on all three of the above categories of income continues to be higher than the national average returns for local authorities.

Chief Executive's Response

The focus on the collection of all outstanding monies owing to the Council has continued throughout 2021 despite the challenge of Covid-19.

5 Capital Account

5.1 Capital Account Overview

The Council's capital expenditure decreased by €14.8m to €44.6m in 2021. The Housing Directorate accounts for 58% (€26m) of the total 2021 capital expenditure.

The capital account recorded an overall credit balance of €24.6m at 31 December 2021, an increase of €15.2m on the previous year. Within this are deficit balances amounting to €10.7m in respect of historical and more recent schemes that overran their budgets. This is an improvement on the previous year and represents the Council's ongoing commitment to addressing these deficit balances. These will require additional revenue budgetary funding unless funding from the Department or alternative sources can be identified. Furthermore, the Council had borrowings of €15.1m at the end of 2021 to fund current projects, and these loans will have to be funded from revenue. Major debit balances are outlined below:

- Refurbishment of the Kilkenny City Parade €2.9m
- Kilkenny Central Access Scheme €2.4m
- LIHAF Western Environs €1.2m

Management need to ensure that funding for every job in the capital account is identified and secured before the job progresses, as otherwise deficits will continue arise and thus put further pressure on the Council's finances. Funding from the revenue account and other sources will have to be maintained or increased in order to address all the deficits.

Chief Executive's Response

There is a funding plan in place for each job on the capital account with a deficit. The larger balances are being recovered over a period of eight years. All balances on the capital account are reviewed regularly throughout the year.

5.2 Voluntary Housing and Approved Housing Bodies

Payments to Approved Housing Bodies (AHB's) amounted to €8.6m in 2021, a decrease of €7.0m on the 2020 period. As such substantial funding was awarded to external housing providers, it is essential that the sufficient oversight and assurance be exercised by the Council to ensure that the application of this funding, complies with all regulatory frameworks.

The Council should issue requests for the submission of annual statements of occupancy from the AHB's. The Local Government Management Agency has standardised the format of such occupancy statements. The application of these returns should be specifically directed towards the identification of void units, which would contribute to the effective delivery of housing related services.

Chief Executive's Response

All capital funding applications by AHB's under CAS or CALF funding models are subject to a stringent approval process set out by the Department. All funding is made available by the Department through the Council. The Council, as the housing authority, make a recommendation to the Department based on the housing need, that the properties comply with regulatory requirements and that the objectives of creating and maintaining sustainable communities are met. The Department as sanctioning authority assesses each project proposal for suitability as determined by the Council, value for money and compliance with the various requirements of the funding programme. Payments to AHBs are made through the Council and recouped from the Department. Detailed certification and approval arrangements are in place prior to payments being issued. The Council fully accepts that further work is needed in the area of AHB statements of occupancy. AHB statements of occupancy will be requested in Q4 2022 and it is proposed to carry out these assessments bi annually in 2023 and 2024.

5.3 LIHAF Western Environs

The Council undertook this roads project, which commenced construction in 2019, the purpose of which was to enhance the infrastructure in the Western Environs of Kilkenny City in order to facilitate the development of housing and other amenities in the area. The tendered construction price was €7.5m and at the end of 2021 the cost had surpassed the tendered amount by €170k. However, since then costs have continued to rise and by the end of July 2022, following conciliations talks, costs had risen to €9.3m representing a cost overrun of €1.8m. Funding for this scheme was provide in part under the Local Infrastructure Housing Activation Fund (LIHAF) with the balance to be funded from the Council's own resources.

Chief Executive's Response

The Infrastructure works in the Western Environs were completed in 2021 and the road officially opened in September 2021. Regular project board meetings were held with the contractor during the works, which were facilitated by a sitting conciliator under the terms of the contract. Works commenced in 2019 and lengthy delays were encountered as a result of Covid with final account discussions continuing after completion up to May 2022. Additional contractor claims were submitted during the works a number of which were disputed by the Council and agreement could not be reached by both parties. The conciliator adjudicated on the outstanding claims and made his final recommendation in June 2022 of €9.3m. This was accepted by both parties in July 2022. The additional €1.8m overrun will be met from the Council's own resources. The provision of this infrastructure has facilitated a number of planning permissions with housing developments already commenced. A planning application has also been submitted for 2 new post primary schools in the area.

6 Fixed Assets

6.1 Fixed Assets Overview

Total fixed assets at the end of 2021 stood at €2,793m compared to €2,769m in the previous year. There were significant additions of €26m to housing assets in 2021.

6.2 Land and Property Registers

The Council's fixed assets are recorded in the fixed asset register, which is part of the financial management system (Agresso).

The Council is continuing its work on a land and property register but this has not been completed to date. It is a requirement of the Accounting Code of Practice that land and property registers are accurately maintained.

Management should ensure that adequate resources are devoted to this project, as it is essential that all land and property is accurately recorded to ensure that the beneficial ownership of all assets is safeguarded and sufficiently insured.

Chief Executive's Response

The land and property register is in place. Further resources need to be assigned to complete the project.

7 Development Contributions

7.1 Development Contribution Debtors

Included in trade debtors and prepayments at 31 December 2021 was €6.76m (2020: €7.08m) in relation to development contributions due to the Council (Note 5 to the AFS). A provision for bad debts of €6m (representing 89% of the booked debt at that date) has been provided.

Chief Executive's Response

The Council continues to focus on all outstanding money owed to the Council irrespective of provision made in the Annual Accounts.

8 Loans Payable

8.1 Loans Payable

Loans payable by the Council at the end of 2021 amounted to €56.5m, an decrease of €1.4m and can be analysed as follows:

Loan Type	2021 €	2020 €
Mortgage Related	35.2m	35.1m
Non Mortgage Loans	15.1m	16.0m
Recoupable	3.3m	3.7m
Shared Ownership - Rented Equity	2.9m	3.1m
	56.5m	57.9m

Repayments on mortgage related loans are matched by corresponding income. There was a mortgage loan surplus of €2.2m at the end of 2021.

The non-mortgage loans of €15.1m, 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 2021 was €1.1m.

Recoupable loans are matched by corresponding long-term debtors in Note 3 in the AFS.

Chief Executive's Response

A strong focus continues to be maintained on the collection of the mortgage loans from borrowers. The annual repayments on the non-mortgage related loans are fully provided for each year in the Income & Expenditure Account.

9 Procurement

As a public organisation, the Council (including all of its subsidiary companies) is required to observe compliance with all public procurement regulations. In the course of the audit, it was noted that further progress in compliance with these regulations was achieved. Every effort should continue to be made in order to ensure compliance with the Council's procurement policies across all departments.

Chief Executive's Response

The focus on compliance with public procurement regulations has been maintained by management

10 Local Authority Companies

10.1 Local Authority Companies

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

10.2 Kilkenny Abbey Quarter Development Partnership and Kilkenny Abbey Quarter Development Limited

Kilkenny Abbey Quarter Development Partnership (the Partnership), which is registered with the companies registration office as a limited partnership, is a joint venture between the Council and the National Treasury Management Agency (NTMA). The purpose of the Partnership is to develop the Abbey Quarter which is the site of the old Smithwick's brewery in Kilkenny city and to own, develop and lease the properties to facilitate business, enterprise, education and research activities on the site. The Partnership has limited partners and a general partner. The Council and the NTMA are both limited partners in the Partnership with an agreed investment and limited liability of €1.6m each.

Kilkenny Abbey Quarter Development Limited (the Company) is the general partner in the Partnership and is owned in equal shares by the Council and the NTMA. The Company acts for and on behalf of the Partnership as well as managing and administering the business of the Partnership. This includes managing all aspects of the development, ownership and operation of the partnership property known as the Abbey Quarter in Kilkenny City. The majority

of the Council's investment in the project currently consists of 6 plots on the site, which were previously owned by the Council but have now been transferred into the ownership of the Partnership.

Audited financial statements for the Company and the Partnership for the year ended 31 December 2021 were not available during the audit. The Council should ensure that the audit of these financial statements are completed in a more timely manner and in line with the production of the Council's AFS.

The draft financial statements of the partnership for 2021 show a net loss of €494k. The Council's investment in the Partnership, as detailed in note 3 of the AFS, has not been adjusted to reflect the Council's share of this loss. This should be adjusted in the 2022 AFS. Accumulated losses at the year end were €1.4m.

The draft financial statements of the Company for 2021 show the Company's operational costs, which are then recharged to the partnership. Hence, the Company had Nil profit for the year and Nil retained earnings at the year end.

Chief Executive's Response

Kilkenny Abbey Quarter Development Partnership made good progress in 2021. The Brewhouse building was progressed during the year despite Covid-19 and was completed in early 2022. The building will be fully let by the end of 2022. The Partnership is now working on the progression of the next developments on the site. The necessary adjustment will be made in the 2022 AFS of the Council to reflect the updated net assets of the Partnership.

10.3 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 financial statements for the year ended 31 December 2021 recorded a loss of €185k (2020 operating loss of €286k) after depreciation and amortisation of government grants.

The company's auditors included a paragraph in their audit opinion in respect of a material uncertainty relating to going concern. Their opinion is not modified in respect of this matter. The auditors drew attention to Note 4 in the company's financial statements which stated that the company reported a net loss for the financial year and that current liabilities exceeded current assets by €403k as at 31 December 2021

The Council accounts for their interest in this subsidiary under the equity method in the AFS. The Council's interest in the company is disclosed at note 3 to the AFS, at a value of €5.9m. However, this value does not reflect the reduction in the equity of the company due to the loss of €185k incurred in 2021. This should be corrected in the 2022 AFS.

Chief Executive's Response

This adjustment will be made in the Council's AFS for 2022. The Watershed had a very good performance in 2021 despite the challenges of Covid-19 and continues to provide an important service to the people of Kilkenny City and County.

10.4 The Watergate Theatre Company

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 2021 recorded a surplus for the year of €23k thereby reducing the accumulated losses at that date to €22k. Members' funds at the balance sheet date was €11k.

Chief Executive's Response

Council continues to support the Watergate Theatre through the annual subvention and the provision of match funding for capital investment. The Watergate performed very well in 2021 despite the challenges of Covid-19.

11 Governance and Propriety

11.1 Governance Overview

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

11.2 Risk Management

The 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.

11.3 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.

11.4 Audit Committee

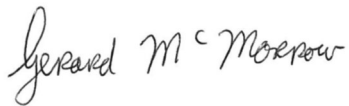
The committee met on four occasions in 2021, one of which I attended to discuss the previous audit, and issued its annual report for that year in March 2022. I commend the work undertaken by the Committee, which continues to contribute to the independent oversight of corporate governance within the Council.

Chief Executive's Response

Comments noted.

Acknowledgement

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

A handwritten signature in black ink that reads "Gerard McMorrow". The signature is written in a cursive style with a large initial 'G'.

Gerard McMorrow

Local Government Auditor

09 September 2022

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Department of Housing, Local Government and Heritage



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