



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Westmeath County Council

for the

Year Ended 31 December 2013



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AUDITOR'S REPORT TO THE MEMBERS OF WESTMEATH COUNTY COUNCIL

Introduction

- 1.1** I have audited the annual financial statement of Westmeath County Council for the year ended 31 December 2013, 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 Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 9 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 annual financial statement. 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 Council recorded a surplus for the year of €26k after transfers to reserves of €2.5m. The Council has an accumulated revenue deficit of €1.8m at 31 December 2013.

Note 17 to the AFS outlines the differences between the adopted estimates and the actual outturn. The draft AFS and the over expenditure for the year were approved by the Council at its meeting on 12 May 2014.

Chief Executive's Response

The pace of the reduction in the original accumulated deficit of €6.3m has slowed considerably in the years 2011 – 2013. Nevertheless the deficit has been reduced by 12.5% in that period notwithstanding the very difficult environment within which we operate. The unification process will result in a further reduction in the order of 45%. In the meantime strict financial controls will continue to be maintained with the objective of eliminating the deficit as quickly as possible.

2.2 Net Current Assets (Liabilities)

The Council's current liabilities exceed its current assets by €1.1m at 31 December 2013.

2.3 Loans Payable

The Council's long term borrowing of €107.7m is summarised as follows:

| | |
|--|--------|
| Council buildings | €38.7m |
| Mortgage loans | €29.3m |
| Water and waste water capital projects | €23.5m |
| Affordable housing loans | €12.6m |
| Miscellaneous | €3.6m |

The annual financial cost of the loans in 2013 was €6.2m. The main demand on the revenue account is the financial cost of the loan on council buildings of €1.1m.

Chief Executive's Response

We note the points made and comment as follows:

- Council buildings - Current annual loan repayments of €1.1m on loans to fund our headquarters are substantially offset by the savings in personnel, rent, communications, and other costs through the rationalisation afforded by this development. It is our intention to dispose of surplus property at the appropriate time, the proceeds of which will be used to pay down this debt. In the meantime rent of this surplus property is generating income of €150,000 per annum.
- Mortgage loans - These loans are backed by loans receivable from borrowers. The value of the portfolio has been reduced by 20% since 1 January 2010 notwithstanding the advancement of new loans to the value of €2m in the same period. These new loans are performing satisfactorily. We are continuing to make significant progress in the reduction of this portfolio in 2014.
- Water and waste water capital projects - Our understanding is that these borrowings will transfer from the Council and that the repayments in respect of these borrowings will be funded by the Department of the Environment, Community and Local Government (the Department) in the meantime.

- Abridged housing loans - These borrowings are in respect of 58 unsold affordable houses in various locations throughout the county. All of these houses are occupied and the interest on the borrowings is being funded through the Government's leasing scheme.
- Miscellaneous – Almost half of this balance is in respect of housing land purchases which are being funded through the revenue account as a result of the withdrawal of funding through the Land Aggregation Scheme which was operated by the Department. The bulk of the balance is in respect of the Council's portion of shared ownership loans which is secured as a charge on the related properties.

3 Capital Account

3.1 Affordable Housing

The Council has 58 affordable housing units leased to the voluntary housing sector over a five year period up to September 2015. The related loan borrowings of €12.6m will have to be financed by the Council.

Chief Executive's Response

All of these houses are occupied and the interest on the borrowings is being funded through the Government's leasing scheme which by its nature is an interim measure introduced to address a sector-wide problem. A long term solution which facilitates the repayment of these borrowings will require an appropriate initiative from central Government.

3.2 Unfunded capital balances

The Council has €10m in unfunded capital balances in the housing section. These balances mainly relate to the purchase and servicing of sites for future housing developments.

Chief Executive's Response

Budget 2014 includes a provision of €50,000 to fund these balances. While this is not significant in terms of the quantum it is an important precedent and one that we intend to build on in future budgets. Furthermore a large element of these balances represents assets with a potential value. The release of this value will be used to fund in whole or part the respective deficit.

3.3 Water Capital Balances

The Water Services Act, 2013 and the Water Services (No.2) Act, 2013 provide for the establishment of Irish Water as a new utility company. Irish Water assumed responsibility for water services from 1 January 2014 including the transfer of all water assets and liabilities from the Council. In preparation for this the Council cleared all water and waste water capital project balances through funding from development levies of €2.4m and from grant funding of €3.7m.

Chief Executive's Response

The approach taken was based on the need for simplicity and clarity and has proven so based on our experience of the due diligence process carried out by Irish Water. We understand that this process will be finalised in the coming days.

4 Income Collection

4.1 General

The collection yields and arrears on the main income sources were as follows:

| | 2013 Collection % | 2013 Arrears €000 | 2012 Collection % | 2012 Arrears €000 |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Rates | 79% | 2,176 | 79% | 2,165 |
| Rents & Annuities | 95% | 201 | 92% | 362 |
| Commercial Water | 47% | 1,927 | 48% | 2,309 |
| Housing Loans | 54% | 1,551 | 47% | 2,086 |

4.2 Rates

Rates arrears amounted to €2.2m after write-off's of €2.1m in 2013, mainly due to vacant properties. The Council has a general bad debt provision of €1.1m.

Chief Executive's Response

We continue to operate robust credit control procedures with the objective of maximising payments from customers notwithstanding the difficulties involved. We believe that the general bad debt provision of €1.1m is reasonable under the circumstances.

4.3 Water

The commercial water arrears decreased from €2.3m to €1.9m during the year. The bad debt provision on these debtors amounted to €1m. Responsibility for the billing and collection of non domestic water charges transferred to Irish Water from 1 January 2014.

Chief Executive's Response

We believe that we will realise the net value of these debtors based on the due diligence process carried out by Irish Water. We understand that this process will reach a conclusion in the coming days.

4.4 Housing Loans

The housing loans collection yield has increased by 7% to 54% with net arrears decreasing by €500k to €1.5m. The reason for the improved result is the removal of revenue arrears due to the mortgage to rent scheme and customers paying additional amounts on their payment plans. While national initiatives have helped to alleviate the financial risk to the Council, loan arrears still present the Council with financial challenges. Of the 443 active accounts at the year end, 115 had revenue arrears over twelve months old with revenue and capital balances of €1.6m and €9.4m respectively.

Chief Executive's Response

We are well aware that housing loan arrears present a very significant challenge to this organisation and indeed present an ongoing serious financial risk. This area has received and continues to receive significant attention from the management and staff of the Council. As at 31 October 2014 customer balances with revenue arrears over twelve months old totalled €1.3m with capital balances totalling €7.6m. We are satisfied that solid progress is being made in one of the biggest challenges faced by the Council.

5 Internal Audit Function and the Audit Committee

There was no internal audit work carried out from July 2013 to the date of this audit report. A new audit committee was approved by the Council on 22 September 2014 and its first meeting was held on the 30 October 2014. The audit committee cannot carry out its important statutory remit without the support of an effective internal audit function.

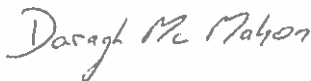
Chief Executive's Response

In the absence of the Internal Auditor the arrangement was for the position to be covered by the Financial Accountant on a part-time basis. However it was not possible to carry out any significant internal audit work as the work programme of the Finance section was significantly impacted by the extent and pace of local government reform during this period. The internal audit function is currently staffed with one staff member at administrative officer grade on a full-time basis.

The audit committee held its first meeting on 30 October 2014 at which, *inter alia*, it approved the Annual Work Programme and the Audit Charter.

Acknowledgement

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



Daragh Mc Mahon
Local Government Auditor
18 November 2014