



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Westmeath County Council

for the

Year Ended 31 December 2014



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AUDITOR'S REPORT TO THE MEMBERS OF WESTMEATH COUNTY COUNCIL

1. Introduction

- 1.1** I have audited the Annual Financial Statement (AFS) of Westmeath County Council for the year ended 31 December 2014, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on 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 the Environment, Community and Local Government.

My main statutory responsibility is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2014 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 8 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 this 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 Council recorded a surplus for the year of €979k after transfers to reserves of €5.1m and has an accumulated revenue surplus of €28k at 31 December 2014. Note 17 to the AFS outlines the differences between the adopted estimates and the actual outturn. The over expenditure for the year was approved by the members at their meeting on 27 April 2015.

Chief Executive's Response

We are pleased to have eliminated the accumulated revenue deficit after many years of prudent financial management and we recognise the importance of maintaining this position.

2.2 Loans Payable

The Council has loans payable of €109.6m at 31 December 2014 relating to the following:

Council Buildings	€40.3m
Land Acquisition	€5.2m
Mortgage Lending	€26.6m
Water Services	€22.2m
Affordable Housing	€12.6m
Other	€2.7m

The annual financial cost of servicing this borrowing in 2014 was €6.9m, which included revenue funded payments of €2.3m on buildings and land holdings.

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 yearly income of €150,000.
- Land Acquisition – 60% of this balance is in respect of housing land purchases which is 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 of the Environment, Community and Local Government (the Department). The balance is in respect of land which was the subject of a housing regeneration scheme.
- Mortgage Lending - These loans are backed by loans receivable from borrowers. The value of the portfolio has been reduced by 27% since 1 January 2010, notwithstanding the advancement of new loans to the value of €2.2m in the same period. These new loans are performing satisfactorily. We are continuing to make significant progress in the reduction of this portfolio in 2015.
- Water Services - These borrowings have transferred from the Council's balance sheet consequential on the establishment of Irish Water.
- Abridged Housing - 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.

- Other – This balance comprises (1) the Council's portion of shared ownership loans which is secured as a charge on the related properties and (2) loans to fund investment in local authority run sports and tourism projects.

3 Income Collection

3.1 General

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

	2014 Yield %	2014 Arrears €000	2013 Yield %	2013 Arrears €000
Rates	73	4,406	76	3,729
Housing Rents and Annuities	94	384	94	380
Housing Loans	62	1,069	54	1,595

3.2 Rates

Rate arrears increased during the year by €677k to €4.4m resulting in a 3% decrease in the yield. The bad debt provision of €2.2m is reasonable.

Chief Executive's Response

The unification of the Town Council and County Council was a significant task from a financial management perspective and unfortunately had a negative impact on our rates collection performance for the year. While this area of our work continues to present us with challenges we are confident that we will improve our performance in 2015.

3.3 Housing Loans

The housing loans collection yield has increased by 8% to 62% with arrears decreasing by €525k. This is the second year in succession that the yield has significantly improved. The main reason for the improved result is the operation of the mortgage to rent scheme within the county, where 34 homeowners have now switched to become council tenants with the benefit of both revenue and capital arrears being funded by the scheme. However 99 accounts represent the bulk of the arrears at 31 December 2014 and need active monitoring.

Chief Executive's Response

We are 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 2015 customer balances with revenue arrears over twelve months old totalled €0.9m (2014: €1.3m) with capital balances totalling €4.6m (2014: €7.6m). We are comfortable that solid progress is being made in one of the biggest challenges faced by the Council. We believe 2015 will prove to be an important year as we work to move the bulk of borrowers in arrears that are on short-term alleviation measures to a long-term sustainable solution.

4 Bridging Finance - Affordable Housing

Included in long term borrowings were bridging loans of €12.6m, on an interest only basis, in respect of 58 housing units originally acquired for resale under the affordable housing program.

These units have now been allocated to voluntary housing bodies under the Social Leasing Scheme to address current housing needs. The leases are for an initial five year period with interest costs fully recoupable from the Department provided the houses are occupied by qualifying tenants. These leases have now expired and arrangements for renewing the leases are yet to be put in place. Total interest recouped from the Department on these loans amounted to €256k in 2014.

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.

5 Transfer of Water and Sewerage Functions to Irish Water

From 1 January 2014, Irish Water (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 Westmeath County Council.

5.1 Fixed Assets

The net book value of fixed assets removed from the accounts relating to Irish Water (IW) amounted to €249m 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 as 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 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 Irish Water. 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.

The following are a number of specific issues that were noted during the audit.

- The legal transfer of 22 of the properties to IW has taken place while a further five are in the process of transfer. The legal transfer of ownership of the remaining assets will take some time due to on-going title issues and will be reviewed during next year's audit.
- Both over-ground and underground water assets including surface water assets, have been removed from the AFS as they are not separately identifiable in the records of the Council.

5.2 Water Related Loans

The Council had water related loans with the Housing Finance Agency (HFA) amounting to €22.2m, which were accounted for in creditors and accruals in note 6 of the AFS. These loans have been repaid to the HFA in July 2015 with funding received from the Department.

5.3 Balancing Statement with Irish Water

As part of the due diligence carried out by IW, an amount of €436k was included as a liability of the Council due to IW at 31 December 2014. There has been no formal acceptance by IW of this amount.

Chief Executive's Response

We have made contact with Irish Water requesting their formal acceptance of the Balancing Statement. We await their response.

6 Corporate Governance

6.1 General

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

6.2 Internal Audit Function

Regulation 9 of the Local Government (Financial and Audit Procedures) Regulations 2014 requires local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit has an important role in providing the Chief Executive with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements. Local authorities are also obliged to establish audit committees in accordance with section 59 of the Local Government Reform Act, 2014. A key function of the audit committee is to "foster the development of best practice in the performance by the local authority of its internal audit function." This requires the audit committee to ensure that an internal audit function is in place that operates to professional internal audit standards. This encompasses the approval and monitoring of the annual work plan of the internal audit function and ensuring that management properly engages with internal audit, including the implementation of its recommendations. The audit committee cannot discharge its statutory functions without the support of a properly resourced internal audit function.

There was no internal audit reports completed in the Council during 2014. It is essential to have an effective internal audit function in place.

Chief Executive's Response

There were a number of unusual developments in 2014 including changes in personnel within the internal audit function; local elections resulting in the expiration of the term of the audit committee; the introduction of the Local Government (Financial and Audit Procedures) Regulations 2014; and the formation of a new audit committee under these new regulations.

I can confirm that the internal audit function has been fully operational in 2015.

6.3 Local Authority Companies

The purpose of Appendix 8 in the AFS is to outline the interest the Council has in its subsidiary companies'. The results reported are from the 2012 annual financial statements and omit Athlone Arts & Tourism Limited, set up in October 2013. The information in Appendix 8 should disclose the up-to date position of these companies.

Chief Executive's Response

We accept the points made and we will work to address this deficiency in the 2015 Annual Financial Statement by disclosing the up-to date position of these companies.

Acknowledgement

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



Daragh Mc Mahon
Local Government Auditor
19 October 2015