



**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 2017**

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 2017, which comprise 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 the 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 2017 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 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.

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 / Financial position

The Council recorded a surplus of €5,432 for the year ended 31 December 2017 which resulted in a small accumulated surplus of €10,661 at that date.

The members, at the Council meeting held in March 2018, approved (by resolution in accordance with section 104(2) of the Local Government Act, 2001) the expenditure incurred in 2017 that was in excess of the adopted budget for the year.

## Chief Executive's Response

Strict budgetary controls were maintained during 2017 despite continued pressure on the cost base. It is critical that expenditure matches the income available each year.

## 3 Income Collection

### 3.1 A summary of the revenue collections are as follows:

A summary of the collection performances showing the 31 December arrears position in respect of the main income categories with the comparative figures for the previous year are as follows:

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	95	94	0.84	1.10
Rents & Annuities	92	93	0.71	0.59
Housing Loans	85	80	0.51	0.62

There were further improvements in some categories of income in 2017 that resulted in arrears, as outlined above, reducing to €2.06m at 31 December 2017 (2016; €2.31m).

The dedicated 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.

While the amounts outstanding at year-end remain significant and despite the increase in the arrears on housing rents and subsidies, it is commendable that the percentage yields on all three of the above categories of income continues to be significantly higher than the 2016 national average returns for local authorities.

## Chief Executive's Response

A strong focus on the collection of all income categories has been maintained during 2017. The total arrears balance on rates, rents and loans has been reduced by €3.2m (60%) in the last five years. Further improvements are targeted in 2018 especially for rents & annuities and loans.

## 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 158 properties have now been agreed for transfer. Of these, 120 individual parcels of land and property have been transferred to date with a further 7 assets ready to transfer in the next Ministerial Order. 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 twelve 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 onto the fixed assets register.

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

The assets not being taken by Irish Water will be reviewed and will be reinstated to the fixed asset register. Approximately 70% of the water services assets have now been addressed by Kilkenny County Council.

## **5 Capital Account**

The capital account recorded a credit balance of €2.7m at 31 December 2017, a decrease of €4.5m on the previous year.

There remained some residual deficits at 31 December 2017, as outlined below, that will require additional revenue budgetary funding unless alternative sources can be identified.

- Refurbishment of the Kilkenny City Parade €4.8m
- Kilkenny Central Access Scheme €3.0m
- St Mary's church and graveyard restoration schemes €1.9m

It is expected that the Council will receive external funding in respect of the St Mary's schemes but there will still be a residual shortfall. The revenue account contributed approximately €1.1m in 2017 to the deficits arising on these schemes.

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

The residual deficits on these schemes are being provided for through the revenue account over a maximum period of eight years. Grant funding of €1.056m has been received on the Medieval Mile museum project (St. Mary's church) since the end of 2017 leaving a net residual balance of €0.8m to be funded.

## **6 Fixed Assets**

The inadequacies of the property and land registers have been highlighted at previous audits. Following a further examination during the current audit, it is noted that while an additional resource has been applied to this area, these registers remain incomplete.

As previously advised, it is imperative that the internal review currently underway is completed without further delay so that all land and property in the beneficial ownership of the Council are both safeguarded and adequately insured. The Council should also ensure that all income derived from the renting and leasing of property is properly recorded in the Council's financial management system.

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

The fixed asset register includes the property at 75/76 John Street, Kilkenny that was purchased in 2007 for €7m for the purpose of re-locating the county library. Although this is now not going ahead, no formal decision has yet been made in respect of its long term use. Consequently, it is now overdue for the Council to develop a long term strategy on how it can finally obtain a return on the significant investment made in this property.

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

An additional staff member has been allocated to this project in 2018. All lands/buildings registered in the Council's name will be catalogued and cross checked with the Council's fixed asset register. There are approximately 4000 entries to be verified. A new IT system will also be acquired to record the information on each asset.

The site at 75/76 John Street is being considered for additional office space to consolidate the delivery of Council services from County Hall. Development is dependent on funding being available.

## **7 Kilkenny Central Access Scheme**

The 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. Phase two of the scheme was substantially completed in 2017 and costs to date in respect of the road construction amounted to €2.8m. However, the Council is still awaiting a final account from the contractors. This matter will be reviewed further upon conclusion.

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

The scheme is fully complete and open for use since May 2017. The scheme has proven to be very successful in the distribution of traffic throughout the city. Similar to other major schemes the process of agreeing all of the final costs takes time. We expect to have all the final costs agreed before the end of 2018.

## **8 Loans Payable**

The Council owed €54.9m at 31 December 2017 (2016: €55.6m) in the form of medium to long term loans. Included in the loans payable amount at 31 December 2017, were amounts totalling €12.9m that related to borrowings by the Council in respect of the funding of projects that are not recoupable. The cost of servicing these loans is estimated at €0.8m per annum.

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

The annual cost (€0.8m) of servicing the term loan balance outstanding at December 2017 of €12.9m is provided for in the Income & Expenditure account each year.

## 9 Development Contributions

Included in trade debtors and prepayments at 31 December 2017 was €7.2m (2016 €8.0m) 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 debt) has been made and is included in the overall 2017 year-end bad debts provision of €10.1m.

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 review is ongoing and the 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. An examination of files during the course of the audit shows 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

Additional resources were allocated by the Council in 2017 to the collection of outstanding development contributions and this has continued in 2018. A review of the status of special development contributions has been carried out and is almost complete. This review will determine what further action is needed, if any, by the Council. Any claims for refunds of special development contributions have only been paid following a full investigation of each claim.

## 10 Purchasing and invoice payments

Weaknesses have been highlighted to management at previous audits with regard to the manner in which invoices and related payments are processed by the Council.

I acknowledge the improvements recorded in respect of the approval of purchase orders (87% of purchase orders raised in the first quarter of 2018 were considered compliant with the organisation's purchasing procedures as compared to 65% in the first quarter of 2017).

The delays in raising and approving purchase orders can have an impact on the relevance and accuracy of the Council's budgetary and financial reports that are issued regularly to both senior management and to the Council members. I have reiterated to management that the designated budget holders need to comply in full with the organisation's purchasing and payments procedures. This is a critical area where improvements are still required to



ensure that adequate budgetary compliance is being implemented across all of the Council's administrative divisions.

It is recommended that consideration be given to establishing an adequately resourced purchase order processing section.

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

Significant improvements have been made on purchasing administration compliance during 2017 and this had continued in 2018. The need for a centralised purchase order processing unit will be reviewed again in early 2019.

## **11 Procurement**

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 2017 on housing refurbishment/maintenance contracts (amounting to approximately €1m) without recourse to a compliant tendering process. These are similar to the levels of non-compliance previously reported.

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.

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

Housing refurbishment works carried out in 2017 were procured under a compliant local authority framework. Services for reactive maintenance are now being procured under national frameworks which have been established in 2018.

## **12 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.

### **12.1 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 2017 recorded an operating profit of €52k (2016 operating profit of €11k) before depreciation and amortisation of Government grants. The net loss recorded for 2017 after adjusting for depreciation and Government grants was €216k. The Council's interest in the company is disclosed at note 3 to the AFS, at a value of €6.5m.



The company's auditors included a paragraph 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.

## **12.2 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 2017 recorded a deficit for the year of €15k thereby increasing the accumulated losses at that date to €109k. The negative value of members' funds at the balance sheet date was €75k.

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

The Council continues to work closely with the boards of both the Watershed Leisure Centre and the Watergate Theatre recognising the significant role that both organisations play in the local community.

## **13 Governance**

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.

### **13.1 Risk management**

An effective 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 should be a standing agenda item at all management team meetings.

### **13.2 Internal Audit**

Following a competitive competition, a new head of internal audit was appointed in 2017 and more recently a second member of staff was added to the unit. These new appointments are welcome and will help to further strengthen 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.

### 13.3 Audit committee

The committee met on four occasions during 2017 and issued its annual report for that year in March 2018. 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

A risk register is in place and the key risks are kept under review. Recommendations from the Internal Audit reports are implemented as soon as practicable.

## 14. Other Matters

### 14.1 Payroll – payments of acting up allowances

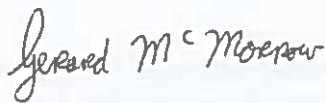
There continue to be members of staff that are performing duties at a level higher than their substantive grades for an extended period. The Council is currently in the process of seeking to eliminate these payments through the implementation of the agreed work force plan. This matter will be kept under review.

#### Chief Executive's Response

Work is ongoing to eliminate acting up allowances through the implementation of the agreed work force plan.

## 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.



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**Gerard McMorro**  
**Local Government Auditor**

**07 September 2018**

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