



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 2019

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 2019, 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 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page four 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 Non – adjusting post balance sheet event – COVID-19

In accordance with Circular Fin 05/2020, the local authority has included a note in their Annual Financial Statements (see note 23) in relation to COVID-19. This note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities post year-end. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cashflow of the local authority and the ability to deliver services.

The local authority has taken a number of steps to address these both at local and national level including:

- The implementation of a nine month waiver of commercial rates funded from the exchequer
- The monitoring of the impact of COVID-19 on the Council's income from goods and services
- The analysis of emergency costs associated with COVID-19
- The preparation of the 2021 budget taking account of the financial implications of COVID19.

Chief Executive's Response

COVID-19 has had a serious impact on the Council's finances in 2020. The Council took a number of actions early in the pandemic to manage the situation and ensure continuity of service delivery.

- An increase in the bank overdraft facility from €13m to €20m was arranged to ensure adequate banking facilities were available.
- A number of Government departments agreed to a more timely recoupment of grant monies than was previously the case.
- Expenditure in a number of service areas in the adopted budget totalling €2.35m was deferred for a number of months.
- In conjunction with all other Local Authorities a number of submissions were made to the Department of Housing, Local Government and Heritage seeking compensation for the loss of income and the increased costs arising from the pandemic.
- Following the Government decision to grant a nine month waiver on commercial rates for eligible businesses full compensation is being provided to Councils to cover the cost of this waiver.

The Government has also confirmed that further compensation will be provided to compensate for the loss in income from goods and services and the additional costs incurred due to COVID-19.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €10k for the year ended 31 December 2019 which resulted in a small accumulated surplus of €28k at that date.

The members at the Council meeting held in June 2020, approved by resolution in accordance with section 10(2) of the Local Government Act, 2001, the expenditure incurred in 2019 that was in excess of the adopted budget for the year.

Chief Executive's Response

Kilkenny County Council has managed expenditure in 2019 within the limits of the income available.

3.2 Statement of Funds Flow

The Statement of Funds Flow recorded an overall outflow of €6.5m of cash for the year ended 31 December 2019. This represents a 36.3% decrease in cash balances from €17.9m at December 2018 to €11.4m in December 2019. To assist the cash position, the Council obtained both an overdraft facility of €20m combined with an electronic funds transmission facility of €10m.

Chief Executive's Response

The net outflow of €6.5m in 2019 is accounted for by the expenditure on a number of capital projects which were undertaken in 2019:

- Social housing projects incurred a net outflow of €577k which will be recouped through grant funding.
- A number of road projects received advance grant funding in 2018 amounting to €2.4m and these works were completed in 2019.
- The net cash outflow on the Western Environs Infrastructure project in 2019 was €1.8m which will be funded from a combination of grants, loans and development contributions.
- The net cash outflow on the Butler Gallery project in 2019 was €1.5m which will be funded from a combination of grants, loans and development contributions.

4 Income Collection

4.1 Summary of Income Collection

A summary of income collection performances showing the 31 December 2019 arrears position in respect of the main income categories with the comparative figures for 2018 were as follows:

Income Source	Yield %	Yield %	Debtors €m	Debtors €m
	2019	2018	2019	2018
Rates	94	93	1.26	1.38
Rents and Annuities	95	93	0.54	0.62
Housing Loans	90	88	0.32	0.39

The collection yields for all income sources improved with a 2% increase for both rents and annuities and housing loans and a 1% increase for rates. These increases have been reflected in the overall level of debtors decreasing to €2.12m at 31 December 2019 (2018 €2.39m).

The arrears collection unit, located within the central finance directorate, continues to contribute to these collection yields across all of the main income categories. It is important that the level of resources allocated to this unit remain sufficient to deliver an effective collection function. The amounts outstanding at the year-end are significant. It is commendable that the percentage collection yields for all income sources continue to remain at high levels.

Chief Executive's Response

Kilkenny County Council continues to maintain a strong focus on the collection of outstanding income from all sources.

5 Transfer of Water and Sewerage Functions to Irish Water

The Council continues to deliver services on behalf of Irish Water (IW) under a service level agreement. Section 12 of the Water Services (no.2) Act 2013 provided for the transfer to IW of all underground water services previously vested in the Council. The statutory transfers of the above ground water related assets to IW are given legal effect by Ministerial Order that are issued by the Department in consultation with the Council and IW.

The current position with regard to the Council's obligations is that all properties have been transferred to IW. This comprised a total of sixty-nine properties which were transferred to the value of €287m.

The Council had been advised by IW that it would not be taking ownership of twelve land assets. These assets have been brought back into the fixed assets register in the 2019 period.

Chief Executive's Response

Kilkenny County Council continues to manage and maintain water and waste water plants and networks within the County.

6 Capital Account

6.1 Capital Account

Expenditure on the capital account has increased by €15.4m in 2019 to €63.7m (2018: €48.3m). In particular, the capital expenditure incurred in the Roads Transportation & Safety Directorate increased from €5.7m in 2018 to €13.1m in 2019. The Housing Directorate accounts for 61% (€39m) of the total 2019 capital expenditure.

The capital account recorded an overall credit balance of €4.5m as at 31 December 2019, a decrease of €1.5m on the previous year. However, within the overall capital account credit balance of €4.5m there are debit balances of €28.2m. The level of capital projects with debit balances has increased by €0.7m (3%) from €27.5m in the previous year.

The funding of these debit balances will be provided through a combination of continued revenue funding and term loans. The provision of continued revenue funding for these debit balances will have a negative impact upon the liquidity of the Council.

The primary debit balances are specified below:

- Refurbishment of the Kilkenny City Parade €3.8m
- Butler Gallery/Evans Home €2.1m
- St. Francis Bridge €2m
- LIHAF - Western Environs €1.5m

The funding of these schemes will be provided by an annual charge to the revenue account of approximately €1m and the drawdown of €5m in loans.

Chief Executive's Response

The outstanding balances on the Parade and the St. Francis Bridge are being provided for from the Income and Expenditure account each year.

The LIHAF (Western Environs) and Butler Gallery are being funded from a combination of grants, loans and development contributions.

6.2 Approved Housing Bodies

Payments to Approved Housing Bodies (AHB's) from the Department of Housing, Local Government and Heritage amounted to €16.1m in 2019, an increase of €4.8m (42%) on the 2018 period. As such significant funding was awarded to external housing providers, it is essential that sufficient oversight and assurance is exercised by the Council to ensure that the application of this funding is in compliance with all regulatory frameworks.

All mortgages entered into by the Council which have been funded through the capital assistance scheme should be registered with the Property Registration Authority. A register of mortgages should be maintained by the Council to ensure the provision of effective governance and oversight.

The Council should issue requests for the submission of annual statements of occupancy from the AHB's. The Local Government Management Agency (LGMA) 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

The delivery of social housing by Approved Housing Bodies has increased significantly in Kilkenny in recent years with more than 20 AHB's now operating in the county. In 2019 the LGMA in conjunction with the Housing Agency developed a standard template for completion to deal with regulatory requirements around occupancy reporting to local authorities annually. This template was developed for implementation in 2020. Initial meetings with all AHB's were held in January 2020 around new reporting measures. Implementation of these reporting measures did not take place during 2020 due to the redeployment of resources to essential service areas. Procedures to meet all reporting requirements will be implemented during 2021.

7 Fixed Assets

7.1 Land and Property Registers

A land and property register has now been implemented by the Council. 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. It is a requirement of the Accounting Code of Practice that property and land registers are accurately maintained.

The land and property register lists a specific asset identification reference for each asset. The total accumulated cost of all listed assets is €2.78b at 31 December 2019 (Note 1 of the AFS). However, I have requested the Council to review the calculation of the net book valuations, at 31 December 2019, specifically relating to plant and machinery (long and short life) and computers, furniture and equipment. The net book valuations of all categories of assets require accurate disclosure to observe compliance to accounting policies relating to

depreciation.

Chief Executive's Response

The calculation of the net book value valuations at 31 December 2019 has been reviewed. The valuation on 9 assets amounting to €52k was incorrectly stated as at December 2019 due to an error in the software. This will be corrected in the 2020 Annual Financial Statements. The software supplier who supply the accounting software have been contacted to correct the error.

8 Development Contributions

8.1 Development Contribution Debtors

Included in trade debtors and prepayments at 31 December 2019 was €6.98m (2018: €7.19m) in relation to development contributions due to the Council (Note 5 to the AFS). A provision for bad debts of €6m (representing 86% of the booked debt at that date) has been provided and is included in the overall 2019 year-end bad debts provision of €9.75m. I consider that this is an adequate provision.

Chief Executive's Response

All outstanding monies owing to Kilkenny County Council are pursued irrespective of any accounting provisions that are made in the annual accounts.

8.2 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 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.

Previous audits had specified that a review of special contribution payments that have been advanced to the Council arising from previously awarded planning permissions, was required. The purpose of this review is to identify if the Council has existing obligations to provide refunds of advanced contributions and to confirm any legal obligations to organisations that are no longer in existence.

In the course of the audit it was identified that an internal review, as previously recommended, is ongoing as the Council is not currently in a position to quantify the extent of the Council's obligations regarding previous advancements of special development contributions. The identification of the Council's exposure regarding its obligations to refund special development contributions and any associated interest penalties is a priority.

Chief Executive's Response

The review has been completed. There are still a number of issues to be verified as a result of the review. We are satisfied that there will be a very limited number of refunds due to be paid. Any remaining refunds will be processed in the coming months. All claims for refunds of special development contributions are only paid out following a full investigation of each claim.

9 Procurement

9.1 Procurement Compliance

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 identified that significant progress was achieved in regard to compliance with public procurement regulations. Issues with procurement compliance have been identified in previous audits. However, the engagement of three contractors, who supplied services in 2019, was not in compliance with public procurement regulations.

In particular, the appointment of a service provider regarding the operation of a Civic Amenity Centre requires the performance of an updated procurement exercise.

Chief Executive's Response

Kilkenny County Council ensures a high level of compliance with public procurement regulations.

With regard to the supplier of the Civic Amenity Centre a procurement exercise was undertaken in 2012. Two tenders were received at that time with the lowest tender being submitted by the existing supplier. However, the new quote was higher than prices that were in existence, therefore, Kilkenny County Council entered into a negotiated procedure with the service provider. It is intended to re-tender for the service in 2021.

The other two contracts referred to relate to services provided to the Western Environs and the Butler Gallery.

In both contracts the suppliers were originally procured under an open tender process a number of years ago. However, both projects were stalled due to lack of sufficient funding at the time. In both instances the suppliers had built up a detailed knowledge and expertise on the contracts. A fee was negotiated with the suppliers to bring the projects to completion. Kilkenny County Council is satisfied that entering into a negotiated procedure was the correct course of action in both cases as to re-tender for the services would have most likely resulted in increased costs for the Council due to lack of familiarity with the projects.

10 Loans Payable

10.1 Loans Payable

An analysis of loans payable at 31 December 2019 is set out as below:

Loan Type	Balance at 31/12/2019 (€m)
Mortgage Loans	34.8
Non Mortgage Loans	11.7
Recoupable Loans	4.2
Shared Ownership - Rented Equity	3.3
Total	54.0

These loans are funded as follows:

- Repayments on mortgage loans are matched by corresponding income. There was a mortgage loan surplus of €1.85m at the end of 2019.
- The non-mortgage loans of €11.7m related to borrowings by the Council for the funding of projects that are currently not recoupable from any external funding source. The cost to the Council for the servicing of these loans was €0.8m.
- The recoupable loans are funded by the Department of Housing, Local Government and Heritage.

Chief Executive's Response

The annual cost of repaying the non-mortgage loans is fully provided for in the Income & Expenditure account each year.

11 Payroll and Pensions

11.1 Availability Allowances

The Council pays unsanctioned availability allowances to some staff. This matter needs further attention from the relevant divisional management to ensure that the Council complies with national protocols.

Chief Executive's Response

Kilkenny County Council pays availability allowances to identified staff in the Water Services Department who are required to be available to respond outside of their normal hours for essential water and waste water works. This is in accordance with a local agreement. Manager's Orders are in place for some of these staff and will be put in place for others approved for the allowance.

12 Local Authority Companies

12.1 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.

12.2 Kilkenny Local Authority Leisure Complex Limited

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

The company's financial statements for the year ended 31 December 2019 recorded an operating profit of €244k (2018: operating loss of €71k) before depreciation and amortisation of government grants. The net loss recorded for 2019 after adjusting for depreciation and government grants was €10.5k. The Council's interest in the company is disclosed at Note 3 of 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 relating 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 the company reported a net loss for the financial year and that current liabilities exceeded current assets

by €578k as at 31 December 2019.

12.3 The Watergate Theatre Company

This company oversees the day-to-day operation 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 2019 recorded a deficit for the year of €1k resulting in an increase of the accumulated losses at that date to €139k. The negative value of member's funds at the balance sheet date was €106k.

Chief Executive's Response

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

The Watershed had a very satisfactory financial performance achieving an operating profit of €244k compared with an operating loss of €71k in 2018. The Watershed continues to develop the offering for all users of the facility.

The Watergate also had a very satisfactory year. The facility broke even financially. The Board completed the implementation of a number of important strategic changes during the year which will help sustain the theatre into the future.

13 Governance and Propriety

13.1 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.

13.2 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.

13.3 Internal Audit

The internal audit unit in the Council provides a third line of defence for the organisation and is an integral component of an effective governance framework. The internal audit unit has produced a number of reports to date and their recommendations should be implemented as soon as practical.

13.4 Audit Committee

The committee met on three occasions in 2019 and issued its annual report for that year in March 2020. 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

Collective corporate governance within Kilkenny County Council is the responsibility of management and the elected members. Internal controls within the Council include the Risk Register which is updated annually and the internal audit function. The Internal Auditor agrees an annual works programme and reports are approved by the management team, reviewed by the Audit Committee and implemented. The Audit Committee is made up of elected members and non-elected members. The elected members have an important oversight role and adopt the Corporate Plan 2019 - 2024, Annual Budgets, Annual Financial Statement, and Service Delivery Plans along with their overall policy and representation role for the public who elected them. Additional external controls include the Audit Committee, annual service indicators and oversight by NOAC.

Acknowledgement

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



Paul Mullen

Local Government Auditor

30 November 2020

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