



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Waterford City and County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF WATERFORD CITY AND COUNTY COUNCIL

1. Introduction

I have audited the Annual Financial Statement (AFS) of Waterford City and County Council for the year ended 31 December 2018, 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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 3a 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.

1.1. Preparation of Accounts Deadline

The Local Government Act 2001, and the Code of Practice and Accounting Regulation requires each local authority to prepare its Annual Financial Statement (AFS) by March 31st each year. The draft AFS was finalised in May 2019 and presented to the Members at their September meeting, subject to adjustment arising from an issue identified at audit. The AFS was finalised in October 2019. The Council has not meet this statutory deadline since amalgamation. Those charged with governance should ensure the statutory deadline is met in order to support corporate governance and public accountability.

Chief Executive's Response

We plan to have the 2019 AFS prepared by 31st of March 2020.

2. Financial Standing

2.1. Statement of Comprehensive Income

The net surplus for the year amounted to €435k after transfers to reserves of €3.3m, reducing the Council's General Revenue deficit to €6.68m. The outturn continued the trend of small annual reductions aimed at eliminating the deficit over an extended period. The continued reduction of the deficit must remain a key objective of management. Expenditure and income for the year both increased by over €10m, reflecting increased activity.

Chief Executive's Response

The reduction in the deficit is proportionate and continues the steady downward trend towards the elimination of the deficit. Whereas an accelerated reduction of the deficit might be ideal, this needs to be balanced against the backdrop of increased demands for services. The increases in income and expenditure was mainly related to additional grant allocations and related works.

2.2. Variances from Annual Budget

Significant variances between the AFS and the annual budget were again recorded in Note 16 to the AFS amounting to €5.1m and €4.2m for income and expenditure respectively. As previously recommended management should work to minimise the variances through improved adherence to budget and financial oversight processes, including the strengthening of accounting transaction and data entry controls at operational levels.

Included in the variance were additional transfers to reserves of €507k, that were not in the Annual Budget provision. The transfers were approved by the Members, in accordance with Section 104 of the Local Government Act 2001, at their meeting in September 2019.

Chief Executive's Response

The variances were mainly due to additional grant allocations for roads.

2.3. Rates on Irish Water Infrastructure

The Valuation Office undertook a commercial rate revaluation process in 2014. This resulted in Irish Water (IW) related infrastructure been levied with a value of almost €4m. In addition, the Council also harmonised the rate multiplier (general annual rate on valuation) to the lowest then pertaining in the former local authorities.

Thereafter, in 2017 an exemption from commercial rates was granted to IW and the rates income was replaced by an annual equivalent compensation amount. It is now expected that IW infrastructure will shortly be included in the global commercial rate valuations process. This presents a risk to the Council as the impact of any significant reduction in the compensation, which amounted to €4.59m in 2018, will have a corresponding adverse impact on the Council's financial standing.

Chief Executive's Response

The Chief Executive and the Senior Management Team are liaising with the Department of Housing, Planning and Local Government (the Department) on this matter.

2.4. Shared Ownership Loans

An adjustment between the Statement of Comprehensive Income and Note 3 to the AFS was highlighted in previous audit reports. The adjustment reflected historical movements in interest rates and its effect on the rented equity balance of housing loans. At the last audit I recommended that this adjustment be calculated in accordance with loan agreements and that the relevant amounts be assigned to individual customer account balances. This work was not completed at the date of audit and the estimated adjustment was increased to €1.6m in the 2018 AFS. A schedule to support the estimated adjustment was presented at audit. Nonetheless, I acknowledge that progress was made and this work should now be completed.

Chief Executive's Response

The detailed calculation has now been fully completed and will be included in future year's AFS.

2.5. Statement of Financial Position (Balance Sheet)

The Council's net current liability position improved by €2m to close at a deficit of €8.5m reversing the deteriorating trend that was recorded in recent years. The Council's overall financial position remains weak. Notwithstanding the elimination of the bank overdraft, following the receipt of state grants, the Council remains dependent on 'long-term bridging' finance recorded in Note 7 to the AFS.

At audit, I recommended that the Council reviews and improves its accrual identification process to ensure that operational sections properly identify and report to Finance expenditure accruals and also ensure that grant funding conditions are fully complied with before advising that proposed funding is included as income. These particular weaknesses, identified at audit, required a restatement of the AFS, as referred to in paragraph 1.1.

I have also requested management to ensure that €1.69m withheld from the Department of Education and Skills following its development of library and ancillary facilities is commensurate with works certified as outstanding. This issue has been ongoing for a number of years and should be concluded.

Chief Executive's Response

A re-emphasis will be placed on the need for the accruals sign-off within directorates to be fully complete and accurate for year-end AFS. We plan to initiate meetings with senior managers to secure all relevant information for the 2019 AFS.

There have been difficulties in achieving full completion of the library facilities and management's view is that withholding payment is warranted, pending full completion.

3. Income Collection

A summary of the major collection yield and corresponding closing debtors, with comparative for the previous year, are as follows:

Income Source	Yield %		Debtors €m	
	2018	2017	2018	2017
Rates	80	79	7.6	8.3
Housing Loans	66	61	2.0	1.9
Rents and Annuities	78	77	3.7	3.6

The Council's income collection performance remains to be improved. Arrears on the main collection accounts recorded a small reduction to close at €13.2m. However, income collection across the broad range of Council services, including the main collections, was poor. Improving income collection requires central debt management to ensure the completeness of the collections, direct staff actions and the timely raising of bills and effectively managing accounting adjustments and other administrative entries.

Chief Executive's Response

It is acknowledged that collection rates need to be improved. However, historical arrears that have accumulated over time impact the collection performance reported.

3.1. Commercial Rates

A small increase in the collection yield to 80%, was mainly attributable to accounting adjustments in respect of write offs and vacant properties. Improvement in the Council's collection performance and management of rate arrears is required as it remains at the lower end of the performance scale when compared with other local authorities which average 86%. A key focus of management attention should be to consider a more consistent approach to customer account supervision, vacant property responses and the calculation of rate refunds in order ensure a more robust collection process.

Chief Executive's Response

Considerable work has been done to analyse and categorise all overdue accounts. New tools have been developed and a policy / strategy document is being finalised to drive a consistent and focused approach to commercial rates collection.

3.2. Rents and Rental Assistance Scheme (RAS)

There was a slight increase in the rents collection yield for the year to 78%. However, the collection performance remains poor compared with other local authorities which average 88%. Overall rent arrears increased by €145k to close at €3.7m (net). The trend of rent receipts falling short of income continued bringing the cumulative shortfall for the last few years to €890k. The Council's housing rent charges are one of the lowest in the country, with a minimum rent of €16pw. Nonetheless, year-end records reported forty-eight customer accounts with arrears in excess of €10k to a value of €693k. A review of rent account records noted:

- Accounts in arrears excluding credits amounted to over €4.4m.
- The Council operated three separate rent schemes resulting in tenants being

charged different rents for the same income and circumstances depending on location.

- No accounting provision was made for large backdated rental charges taken to income.
- Arrears on customers' accounts, with balances in excess of €1,000 and a household income in excess of €500pw (Net) increased to €1.02m for the 232 customers.
- The above analysis relates only to computerised records. Income and other details were not readily available for approximately 1,300 housing units that remain on paper based records. These paper files do not facilitate analysis of information.
- Payment plans to recover arrears are extended over prolonged periods.
- Accounting adjustments made to customer accounts requires improved management oversight.

Consideration should be given to reviewing the Council's rent arrears policy as the long term trend of increasing arrears continues. There is now an urgent need to either substantially improve the collection performance or increase the bad debts provision from €1.49m.

Chief Executive's Response

Various measures are in place to address rent arrears including several District Court legal actions seeking repossessions for accounts in substantial arrears. Concerted efforts are being made to encourage tenants to enter payment plans (including all new tenancies) and prioritisation of maintenance services for tenants who are rent compliant. It is intended to integrate the three different rent schemes from January 2020. The integration of the rent schemes will facilitate computerised file review.

3.3. Housing Loans

Arrears increased to €2m (net) at year end comprising gross arrears of €3m and specific credit provisions of €982k and individual credit balances of €143k within the loan book. At year end, there were fifty-one customer accounts with arrears in excess of €20k, accounting for total arrears of €1.78m. The underlying trend in arrears remains upwards, highlighting the continued poor collection performance yield of 66% compared with the national average of 74%. It is acknowledged that the Council was working to address individual loan balances through voluntary surrender of houses, the Mortgage Arrears Resolution Process (MARP) and various other options including the Mortgage to Rent Scheme. Some progress was noted with these initiatives towards year end. Nevertheless, a considerable challenge remains as over 17% of the Council's loan book with a capital value of €5.5m remain in the MARP process. In addition, there are a number of customers who have not engaged with any of the Council initiatives to reduce arrears.

Chief Executive's Response

This area continues to be a focus of management attention in order to achieve a reduction in the underlying arrears. Initiatives commenced in 2018 have had a beneficial impact on some of the most difficult cases. This continues with appropriate loans being re-structured, entered into the MARP process and in the case of certain unsustainable loans a move to the Mortgage to Rent Scheme is encouraged.

3.4. Debtors and Provisions for Doubtful Debts

The Council has not adopted a formal doubtful debts provisioning policy. Annual provision is made on the basis of management's assessment and the provision for 2018 was increased

by €700k to close at €9.1m, in respect of debtors recorded in Note 5 to the AFS of €32.6m. In recent years the provision has increased from €7.9m, with a corresponding decrease in debtors from €40.5m.

As highlighted at previous audits the Council continued to use specific provisions, mainly within the main income collections accounts for pending write offs. This effectively nets down the total debtor balance, without assigning the credit to relevant customer accounts. These provisions cumulatively increased to €2.8m at year end. I have previously requested that this practice cease as it impacts on the reported collection performance yields of the main collection accounts.

Chief Executive's Response

We will review the current practices and assess the impact, on reported figures, of netting down debtor balances when preparing the 2019 AFS.

4. Transfer of Water and Sewerage Functions to Irish Water (IW)

The responsibility for water production and treatment was transferred to Irish Water (IW) in 2014 and the Council delivers these functions under a service level agreement (SLA). Income from the SLA remained broadly similar to previous years at €10m and this makes a valuable contribution to the Council's operational overheads and central management charges recovery process.

The Council continues to liaise with IW in relation to the transfer of legacy assets which is given effect by Ministerial Order as issues are resolved. No significant progress was made with the transfer of:

- The balance on a sinking fund related to a Design Building and Operate contract for a specific facility
- Planning contributions recorded as a year-end accrual of €733k, due to IW.

I was advised that the transfer of the planning contributions remains delayed pending a review of planning contributions receipted since the establish of IW. The continued delay in completing the review may contribute to the task becoming more complex with the passage of time.

Chief Executive's Response

The sinking fund remains in place as it is dependent on the settlement of this matter between I.W. and the third party service provider. The identification of planning contributions due to I.W. will be reviewed when preparing the 2019 AFS.

5. Capital Account

The deficit on the capital account improved marginally to close at €5.9m. This was mainly attributable to a significant increase in capital income to €49.4m, with expenditure recording a corresponding but smaller increase. Expenditure increased by almost 50% to €48.6m, mainly due to state funded housing acquisitions which amounted to €37m compared with €9.6m the previous year. The vast majority of the acquisitions were Turn Key contracts, with

direct construction accounting for approximately €3.5m. The closing balance included deficit balances of €31.7m and reserves of €25.8m. The main deficit balances include:

	€
• North Quay Development	5.7m
• Deficit Land Balances	5.6m
• WCURS (Waterford)	3.7m
• Viking Triangle	3.2m

Chief Executive's Response

Various capital reserve balances will be used to fund many of the current deficit balances within the Capital Account. These allocations have now been agreed and will be completed for the 2019 AFS. Thereafter, periodic reviews will take place to ensure capital funding is addressed in a timely manner.

5.1. North Quay Development

Cumulative expenditure of over €8.3m was recorded on this project mainly in respect of demolition, land acquisition and consultant's fees for preliminary design. The Council is actively engaging with various state bodies and private developers to develop this special development zone. Securing funding for this development must remain a key objective of management as further considerable expenditure commitments have been entered into during 2019 for land acquisition, design fees and enabling development works, for drainage and energy supply, some of which may require to be funded from the Council's own resources.

Chief Executive's Response

Every effort is being made to secure funding and a revised capital program will be prepared for the Members once this is determined.

5.2. Deficit Land Balances

Year-end deficit balances of €5.6m were recorded in respect of some of the Council's land bank that requires funding proposals. Funding of these deficits is dependent on the receipt of state grants for the development of the individual sites. These capital account balances are in addition to long term loans recorded in Note 7 to the AFS for other lands that also remain to be developed.

Chief Executive's Response

The historical land bank is being reviewed to determine a use, development or sale decision. Any proceeds will be applied to the deficit balances above. In addition, a number of housing development sites are currently with the department awaiting approval.

5.3. WCURS (Waterford City Urban Renewal Schemes)

Total expenditure on this project amounted to over €9.4m at year-end. The reduction in the closing deficit on the scheme to €3.7m was mainly attributable to inter capital transfers of €1.2m. The works were executed in a number of phases with the main construction contract

agreed in December 2018 at cost of €6.8m, an increase of 29% on the original tender. As previously highlighted, some of the costs incurred on additional works undertaken for third parties remain to be fully recouped. The remaining deficit will be mainly funded from the Council's own resources.

Chief Executive's Response

An invoice will be raised before the end of the year for water infrastructure works and further costs will be recovered when the development of Michael Street commences.

5.4. Viking Triangle

At year end the various capital works comprising this scheme recorded a residual balance of €3.1m. Funding of these works remains to be addressed.

Chief Executive's Response

Funding of this scheme will be address as part of the overall review of capital account balances.

5.5. Capital Transfer Fund

This reserve recorded a balance of €2.97m at year end mainly representing accumulated transfers from miscellaneous capital codes, insurance dividends and from revenue account. I have requested management to review the transfers to ascertain if the Member's formal approval is required in respect of any funds that were originally approved for a specific purpose.

5.6. White Strand Housing Compensation

This development was commenced by Dungarvan Town Council and substantially completed in or about 2010. A schedule of delayed payments was made to the contractor over the following years, as state funding was not obtained for certain additional works agreed by the Council.

Arising from these delayed payments a claim was made by the contractor under the European Communities (Late Payment in Commercial Transactions) Regulation 2002 to recover interest due. The matter was ongoing between 2014 and 2018 when it was eventually settled at arbitration at a total cost of €172k. Previously the additional works, amounting to €874k above those approved for state grants funding, was financed from the Council's own resources in 2016, bringing the Council's own financing of this development to over €1m.

Chief Executive's Response

Funding for this has been identified in 2019.

6. Fixed Assets

The value of assets increased to €2,194m compared with €2,162m at the end of the previous year, mainly due to transfers of housing stock and a newly constructed road, to fixed assets.

Previous audits have highlighted shortcomings in asset records and work remains to be carried out in order to complete a reconciliation of subsidiary records to the AFS. Land and other properties remain in summary record form within the fixed assets records and require de-aggregation and reconciliation to the subsidiary records and Property Registration Authority of Ireland information. A review of the machinery yards' operations including procurement procedures and assurance that the Council plant and vehicle fleet are commensurate with service delivery and value for money remains to be completed.

Chief Executive's Response

A large amount of effort was expended on the review and transfers of records from the subsidiary heritage assets system listings into the general ledger for the 2018 AFS. An assessment of the scale of work and complexity of sub systems for the de-aggregation of the land bank records will be considered for the 2019 AFS. The Senior Management Team have reviewed the operation of the yard and are satisfied that it's continued operation is required in current market conditions. Continued improvements and further efficiencies will be sought in its operation.

6.1. Work in Progress (WIP)

Cumulative expenditure of over €38m was recorded in Note 2 to the AFS. A considerable portion of this expenditure is related to completed works which remain to be transferred to fixed assets including the Greenway (€20m) and historical road works of €1.5m. The remainder of the expenditure mainly comprised ongoing works including; the North Quay (€8m) and housing developments of €6m.

Chief Executive's Response

The CIE Board are scheduled to consider the disposal of the Greenway lands to the Council at their December board meeting. Once the disposal is approved a deed of conveyance will be completed in early 2020 to formally register our title.

6.2. Holy Ghost Property (Disposal)

As highlighted in previous audit reports, there was no effective progress with enforcing a provision in the contract for sale for the purchaser to upgrade the premises bought at a reduced cost.

Chief Executive's Response

A program of works has been agreed and the Council will pursue the matter vigorously through channels if the program is not adhered to.

7. Loans Payable

Overall Council borrowing reduced by €5.5m to close at €129.8m. Additional borrowings in 2018 were mainly to fund new housing mortgage advances amounting to €1.8m. Note 7 of the AFS mainly comprised:

- €25.1m in respect of loans funded by recouplements from other state bodies. These loans were drawn by the Council to fund approved housing bodies and historical water treatment loans funded by IW.
- €39.8m for Council issued housing mortgages. These loans are normally funded from repayments to the Council from individual mortgage holders. However, as detailed above (Income Collection Section) the high level of arrears recorded on housing mortgage loan repayments impacts the Council's repayment funding.
- €64.9m for assets and cash flow funding. These loans are funded from a charge on the revenue account.

Assets loans include €17.2m that remain on an interest only basis for what was initially envisaged as short term funding. This comprises housing loans of €11.1m (Social Leasing Scheme) which is fully recoupable the remainder being bridging finance. The €6.1m of bridging finance remains as core Council funding. This short-term borrowing is now almost ten years old and consideration should be given to its conversion to full annuity repayment from the Council own resources.

Chief Executive's Response

One of the bridging, interest-only loans was repaid in 2019. Where lands or properties are the basis of the original loan any funding obtained from the Department, as part of housing scheme funding, will be used to repay that element of the loan.

8. Refundable Deposits

These funds are held in trust by the Council pending the completion of agreed works by others mainly in respect of housing developments, road openings and other miscellaneous activities. A balance of €2.9m is recorded in Note 8 to the AFS. As highlighted at previous audits, the general ledger balance was not reconciled to the detailed records held within the Council. The reconciliation is required as there is a risk that a portion of the funds may already have been refunded and charged to the revenue account rather than recovered from the deposits balance.

Chief Executive's Response

The appropriate sections within the Council will be requested to improve the reconciliation processes.

9. Planning Contributions

9.1. Financial Matters

Planning contribution income and cash receipting reduced compared with previous years to record income of €2.4m and receipts of €1.9m. Customer accounts deemed uncollectable increased to €524k, reducing the closing debtor to €1.36m. A reconciliation between the planning system (iPlan) and planning module of Agresso was not completed. This reconciliation provides assurance that commenced developments have been billed. The Council amalgamated the individual planning contribution records of the former constituent local authorities. Consideration should now be given to reviewing these records to ensure that all commenced permissions were properly billed. An internal audit report highlighted issues to be addressed including a review of planning permissions where commencement notices were not submitted.

Chief Executive's Response

It is expected that this reconciliation will be available for the 2019 audit.

9.2. Planning Reserves

The Capital account recorded net reserves of €3.9m in respect of planning contributions comprising deficits of €2.4m and reserves €6.3m. Consideration should be given to a review of the various balances to ascertain if offsets are appropriate. In addition, a review of special contributions reserves of €1.03m should be undertaken to establish the priority of works required.

9.3. Planning and Development Act 2000, Part V (as amended)

There was no effective action taken by the Council to establish if the Part V obligations of developers in respect of historical permissions were satisfied. Previous audit reports highlighted shortcomings in the management and settlement of these obligations by developers. It is recommended that management now review these registers, prepare a report setting out the remaining matters to be addressed and seek settlement or make a formal decision not to pursue the individual outstanding accounts.

I have also recommended that the procedures for current developments are reviewed to ensure the proper recording of the basis of decisions and approval when acquiring housing units under Part V agreements. Particular attention was drawn to the requirements to have in place robust business plans setting out the basis of the acquisition as provided for in Circular 17/2016 Policy for Property Acquisition and Disposal which sets out in detail the processes and documentation to be adopted by state agencies. There is also a need to ensure a unique identifier to trace the acquisitions through the various Council records and systems from the initial planning permission to the finalisation of capital works

Chief Executive's Response

A review of historical agreements will be carried out although it should be noted that there may be difficulties in pursuing developers who are no longer operating. Where revised applications are lodged and where Part V requirements have not been met, these are being captured. We are satisfied that procedures are in place for recording decisions and we will put in place a unique identifier to trace acquisitions.

10. Parking Systems

Income increased by €130k to €2.6m for the year and is administered through a subsidiary parking management computer system. At audit, it was noted that this system was not reconciled to the Council's financial records in a timely manner to ensure appropriate custody, control and completeness of income.

Chief Executive's Response

This occurred due to staff deployment and has now been rectified.

11. Procurement

Previous audit reports together with a report by consultants have highlighted shortcomings in aspects of the Council's procurement process including the identification of systemic defects. Nonetheless, the Council's procurement procedures on larger projects, funded from state sources is generally compliant with the procurement directives mainly due to the related oversight and reporting requirements.

The remaining issues with procurement are mainly confined to those activities not subjected to this external oversight. During 2018, the Council's procurement monitoring section regularly produced oversight reports to management highlighting that certain operational sections did not exercise proper procurement. The reports identified issues with expenditure of between €9m and €13m described as, low value quotes and long term legacy contracts. These issues were mainly confined to projects funded by the Council's own resources and can be summarised into three main categories with a limited number of suppliers including:

- Contracts for housing maintenance (craft workers),
- Building facilities supplies and services
- Hire of plant and mid-sized trucks. In 2016, framework tendering for the hire of plant and trucks was undertaken by the Council with the help of consultants, but this did not progress.

Effective resourcing and decision making of purchasing and procurement remains to be led at a senior operational level. This will allow decision making to address competing demands of urgent service delivery requirements versus long term effective procurement in the identified areas.

I acknowledge that some progress has been reported with single quote purchases that were replaced with formal procurement in 2019. However, further work is required in this area. Legacy contracts also have not yet been effectively addressed. In addition, there remains a need to consider reducing the number of staff (200) involved in the procurement process into a more effective specialised purchasing and procurement function. Measurable effective action remains difficult to ascertain from the current reporting structures mainly due to the number of staff allowed to procure goods and services.

Chief Executive's Response

Continuing progress is being made on this area and will be furthered in 2019.

12. Local Authority Companies

These entities are not consolidated into the AFS in accordance with the Accounting Code of Practice (ACOP). Appendix 8 to the AFS provides some details on the Council's relationship with these entities, including loan guarantees of €5.1m. During 2018, funding of €1.1m was advanced to supported entities, which included a number not listed in the AFS. These entities remain heavily dependent on funds, facilities, premises or other assistances provided by the Council who, in turn, may exercise significant influence and control over their activities.

There was no significant progress made with previous audit recommendations to introduce an overarching governance structure for entities. This would ensure consistent corporate oversight and financial reporting arrangements that provides assurance that risks or performance issues are identified and promptly addressed. As highlighted at previous audits there was again a poor response to an audit questionnaire issued to the entities by Council management.

12.1. Waterford City Community Enterprise Centre CLG

The Council has provided this company with funding for a number of years to facilitate mortgage repayments on a building that is due to come into Council ownership. The annual accounts of the company for 2017 noted that a contract was awarded to a related party at the request of the Chairperson. I noted that neither the Council's representatives on the company's board nor the Council's own procedures for oversight and corporate governance had responded to this issue until it was highlighted at audit. The contract has a value in excess of €30k per annum.

Chief Executive's Response

There is a well-qualified board in place with responsibility for the management of the Company. There are no formal nominating rights, for the Council to appoint a Director to the Board. However, in discussions with the Chairperson it was agreed to recommend the Head of the Local Enterprise Office to the Board as a Director. In relation to the related party transaction referred to, this was handled appropriately by the Board with the Director who was conflicted leaving the meeting for the consideration of the contract.

12.2. Other Community Entities

The Council, under the remit of the Local Community Development Committee (LCDC), provides facilities and supports to various community entities including the Waterford Sports Partnership and Waterford Public Participation Network. There was no significant progress with a recommendation made at the last audit to ensure that monies are recovered on a timely basis, in order to eliminate related deficits recorded in the Council's AFS.

Chief Executive's Response

We will endeavour to recover monies on a timelier basis. In any case, arrangements are now in place for both WSP and the PPN to move to their own payroll systems by the end of this year.

12.3. Mount Congreve

In 1975, the Government approved, in principle, an offer to gift the Mount Congreve house and gardens to the State. A trust was established in 1979 and under its terms, the gardens are due to revert to the State in 2032 and the house will revert in 2059.

However, differences arose between the Congreve interest and the State in respect of the costs of operating the trust. In 2013, High Court proceedings were initiated by the State through the Attorney General. This action asserted that the representatives of the Congreve interest should provide funding for the continued maintenance of the house and garden, being part of the Mount Congreve Estate, for the duration of the trust. Between 2011 and 2018 the Congreve interest took responsibility for the operational costs of the Trust.

In February 2018, the legal proceedings were settled and an agreement was reached whereby the Council assumed responsibility for the trust, the appointment of trustees and a fixed sum financial support was included for the Council's upkeep of the properties along with the transfer of staff, plant stock and other matters. This arrangement was approved by the Members. In addition, the Council Members recently approved a development plan on foot of which an application was made by the Council for state funding which will require some matched Council funding for the development of visitor facilities at the farmyard and gardens.

The trust's draft accounts to the end of 2018, reported an operating deficit of €731k, before a subvention of €250k provided for in the agreement, and contain an underlying assumption of funding being available to the Trust to meet its liabilities as they fall due. Should operational losses continue at the current rate it appears that the financial supports provided for in the settlement may be exhausted in the near future.

This highlights the immediate need to develop a business plan identifying sustainable revenue streams that will fund the Council's continued operation of the gardens while also maintaining the appropriate horticultural standard, for which the gardens are internationally noted. It will also ensure that the operation will not place an additional burden on the Council's finances, in view of its already significant revenue deficit.

Chief Executive's Response

Significant professional assessment has taken place in the context of Mount Congreve and business plans have now been developed to progress a sustainable future for the gardens.

13. Music Event

In 2018, an invoice for €40k was raised by the Council in respect of funds advanced to a music event. The funds advanced, described as a loan to facilitate initial performer bookings and set-up costs, were outside of the normal procedures whereby a scheme or other arrangement is approved by the Members. Neither the loan agreement or security documentation for the loan was presented at audit. The Council should review this loan arrangement to ensure recovery of the outstanding amount.

Chief Executive's Response

The arrangement will be reviewed, and recovery sought.

14. Governance and Propriety

14.1. Governance

Corporate governance comprises the systems and procedures by which an entity is directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal process, as set out in statute and in various government directives, are in place. According to the audit committee charter, the committee has an independent role to advise the Council on financial reporting processes, internal control, risk management and audit matters.

14.2. Internal Audit and Audit Committee

The Local Government (Financial and Audit Procedures) Regulations 2014 requires a local authority 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 assurance on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements. The Council's Internal Audit function currently consists of three members. Their annual work plan was approved by the Audit Committee and the Chief Executive. The Internal Auditor reports directly to the Head of Finance and the audit committee. The work of the unit and the five reports produced in 2018 were considered during the course of the audit. The Audit Committee met on five occasions during 2018 and I attended their December 2018 meeting. Their annual report for 2018 was submitted to the Council in early 2019.

14.3. Ethics Returns / Code of Conduct

Section 171 of the Local Government Act, 2001 (as amended) requires members and certain employees to submit annual declarations to the appointed Ethics Registrar. The Council's Ethics Registrar advised that the required annual returns were all received and that the required report was made to the Chief Executive. I have previously made recommendations that the Council improves its procedures for reviewing information on the annual returns in the context of the requirements of the Code of Conduct for Local Authority Employees and related party transactions.

Chief Executive's Response

The Chief Executive and Senior Management Team are satisfied that it is meeting its statutory obligations and will further seek to improve the review procedures.

14.4. Risk Management

The Council's Risk Management Policy describes the Risk Register as the primary tool for risk tracking, containing the overall system of risks and the status of any risk mitigation actions. It also describes the risks, locations, categorisation, likelihood of occurrence and contains an impact rating risk together with preventions controls and actions required to manage risk. The relevant owners of each risk and frequency of review are also detailed.

During 2018, the individual directorate risk registers were standardised which facilitates

analysis and review. The register was also presented to the Audit Committee. I have recommended that consideration be given to making a presentation to Members on corporate risks and the actions being taken to mitigate their impact.

Chief Executive's Response

The Risk Management Register will be presented to council.

15. Acknowledgement

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



James Moran
Local Government Auditor

29th October 2019

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