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Government of Ireland

Statutory Audit Report to the Members of Kilkenny County Council for the Year Ended 31 December 2022

Local Government Audit Service

Prepared by the 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 (the Council) for the year ended 31 December 2022, 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 2022 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 6 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 Financial Standing

2.1 Statement of Comprehensive Income

The Council recorded a surplus of €18,230 for the year, increasing the accumulated surplus to €108,770 at 31 December 2022. This was after transfers of €6.98m (2021: €6.3m) to reserves to fund projects.

The members at their meeting held in March 2023, approved by resolution in accordance with section 104(2) of the Local Government Act, 2001, the additional expenditure incurred in 2022 that was in excess of the adopted budget for the year.

2.2 Statement of Financial Position

The Council's financial position had improved by €34m at 31 December 2022. This was mainly due to:

- An increase in fixed assets of €22m primarily due to housing acquisitions.
- An increase in expenditure on work in progress and preliminary expenses of €7m, mainly on housing projects and on the new library
- A decrease in long term loans payable of €3m to €54m.

Chief Executive's Response

The increase in net assets has resulted from investment in social housing and development of new capital infrastructure.

3 Income Collection

3.1 Summary of Income Collection

Revenue income of €104m was recorded in 2022, representing a decrease of €3m on the previous year. Locally generated income such as commercial rates, rents, loans, local property tax and other services contributed 58% (€60m) to the Council's total revenue income. The remainder mainly consists of grant income (€44m).

A summary of income collection performances showing the 31 December 2022 arrears position in respect of the main income categories with the comparative figures for 2021 were as follows:

Income Source	Yield		Debtors	
	2022	2021	2022	2021
	%	%	€m	€m
Rates	95	87	1.5	2.0
Rents & Annuities	96	97	0.4	0.3
Housing Loans	90	90	0.3	0.3

The collection yield for rates increased by 8% in the year while the collection yield for rents and annuities reduced by 1% and the collection yield for housing loans remained unchanged. Overall arrears in these three income categories decreased by €0.4m to €2.2m at year end.

The amounts outstanding at year-end remained significant but it is commendable that the percentage yields on all three of the above categories of income continues to be higher than the 2022 national average returns for local authorities.

Chief Executive's Response

The focus on the collection of all outstanding monies has continued throughout 2022 to reverse the increase in arrears that arose due to Covid-19.

3.2 Debtors and Debt Collection

Gross debtors, including those from the main income collections, are recorded in Note 5 to the AFS and amounted €16.3m at the end of 2022 (2021 €19.4m). An overall provision for doubtful debts is also shown and amounts to €10.8m in 2022, a reduction of €0.45m on the previous year.

Chief Executive's Response

The Council adopts a consistent approach on debt provisioning. All outstanding monies are pursued irrespective of accounting provision made in the AFS.

4 Capital Account

4.1 Capital Account Overview

The Council's capital expenditure (incl transfers to revenue account) increased by €19m to €64m in the year with the Housing Directorate accounting for 55% (€35m) of the total capital expenditure. Total capital income including net transfers from revenue, amounted to €68m.

Chief Executive's Response

Comment noted.

4.2 Capital Account Unfunded Balances

The balance on the capital account recorded an improvement of €3.8m to close with a net favourable balance of €28.4m. However, within this are deficit balances amounting to €11.7m in respect of historical and more recent schemes that overran their initial funding allocations. To date, the Council also has capital funding borrowings of €14.2m, which will require future funding from revenue. Major debit balances are outlined below:

- Refurbishment of the Kilkenny City Parade €2.4m
- LIHAF Western Environs €2.3m
- Kilkenny Central Access Scheme €2.0m

Management should ensure that funding for all jobs in the capital account is identified and secured before they proceed. Otherwise deficits will continue arise and thus put further pressure on the Council's finances. Funding from the revenue account may have to be maintained or increased in order to address all the deficits, unless alternative funding sources can be identified.

Chief Executive's Response

There is a funding plan in place for each capital job with a deficit. The larger balances are being recovered over a period of eight years.

4.3 Voluntary Housing and Approved Housing Bodies

Payments to Approved Housing Bodies (AHB's) amounted to €5.2m in 2022, a decrease of €3.4m on the previous year. As these substantial funds were awarded to external bodies, it is essential that management exercise sufficient oversight and obtains adequate assurance to demonstrate that the application of this funding, by these bodies, complies with all regulatory frameworks.

The Council should continue to obtain appropriate annual statements of occupancy from the AHB's. To that end the Local Government Management Agency 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

All capital funding applications by AHB's under Capital Assistance Scheme (CAS) or Capital Advance Leasing Facility (CALF) funding models are subject to stringent approval process set out by the Department of Housing, Local Government and Heritage (the Department). The Council, as the housing authority, makes a recommendation to the Department based on the housing need, that the properties comply with regulatory requirements and that the objectives of creating and maintaining sustainable communities are met. The Department, as sanctioning authority, assesses each project proposal for suitability as determined by the Council, value for money and compliance with the various requirements of the funding programme.

The Council received annual statements of occupancy from AHB's in 2022 to assist in identifying void units. We also sought additional information in relation to the reason for the void and the date the unit was vacated. We will continue to request this information in 2023 and annually going forward. Housing staff are in regular contact with our colleagues in AHBs to efficiently manage the re-letting of void units.

5 Fixed Assets

5.1 Fixed Assets Overview

Total fixed assets at the end of 2022 stood at €2,815m compared to €2,793m in the previous year. There were significant additions of €23m to housing assets in 2022.

5.2 Land and Property Registers

The Council's fixed assets are recorded in the fixed asset register, which is part of the financial management system (Agresso).

The Council is continuing its work on a land and property register but this has not been completed to date. It is a requirement of the Accounting Code of Practice that land and property registers are accurately maintained.

Management should ensure that adequate resources are devoted to this project. It is essential that management ensure that all land and property is accurately recorded to ensure that the beneficial public ownership of all assets is safeguarded and sufficiently insured.

Chief Executive's Response

The land and property register is in place. Additional resources have now been allocated to develop the register.

6 Loans Payable

6.1 Loans Payable

Loans payable by the Council at the end of 2022 amounted to €53.7m, a decrease of €2.8m on the previous year and are be analysed as follows:

Loan Type	2022 €	2021 €
Mortgage Related	33.9m	35.2m
Non Mortgage Loans	14.2m	15.1m
Recoupable	2.9m	3.3m
Shared Ownership - Rented Equity	2.7m	2.9m
	53.7m	56.5m

Repayments on mortgage related loans are matched by corresponding income. Note 12 of the AFS detailed a mortgage loan surplus of €2.7m at the end of 2022.

The non-mortgage loans of €14.2m, related to borrowings by the Council in respect of the funding of projects that are currently not recoupable from any external funding source. The cost to the Council of servicing these loans in 2022 was €1.1m.

Recoupable loans are matched by corresponding long-term debtors in Note 3 in the AFS.

Chief Executive's Response

The annual repayments on the non-mortgage related loans are fully provided for each year in the Income & Expenditure Account. A strong focus is maintained on the collection of mortgage debt from borrowers.

7 Development Contributions

7.1 Development Contributions

Development contributions income for the year amounted to €3.9m. Furthermore, year end development contribution debtors increased by over €0.4m to €7.19m. This debtor balance was offset by a management estimate and a doubtful debt provision of €6m (representing 83% of the value at that date).

Chief Executive's Response

All outstanding balances owing on development contributions are pursued irrespective of the accounting provision made in the annual AFS.

8 Local Authority Companies

8.1 Local Authority Companies

The Council has an interest in a number of entities, the details of which are disclosed at Appendix 8 of the AFS. I was not satisfied that management's accounting treatment of its investments in these entities was consistent (see para 8.2 and 8.3) and this should be reviewed.

8.2 Kilkenny Abbey Quarter Development Partnership and Kilkenny Abbey Quarter Development Limited

Kilkenny Abbey Quarter Development Partnership (the Partnership) is a joint venture between the Council and the National Treasury Management Agency (NTMA). The purpose of the Partnership is to develop the Abbey Quarter which mainly comprises the site of the old brewery in Kilkenny City and to own, develop and lease the properties to facilitate business, enterprise, education and research activities on the site. The Partnership has limited

partners and a general partner. The Council and the NTMA are both limited partners in the Partnership with an agreed investment and limited liability of €2.5m each.

Kilkenny Abbey Quarter Development Limited (the Company) is the general partner in the Partnership and is owned in equal shares by the Council and the NTMA. The Company acts for and on behalf of the Partnership as well as managing and administering the business of the Partnership. This includes managing all aspects of the development, ownership and operation of the partnership property known as the Abbey Quarter in Kilkenny City.

The audited financial statements for the Company and the Partnership for the year ended 31 December 2022 were not presented to me until late in the audit. The Council has a responsibility to ensure good governance and should ensure that the audit of these financial statements are completed in a more timely manner to allow proper disclosures within the Council's AFS.

Financial statements of the partnership for 2022 show a net loss of €269k, and accumulated losses of €1.7m at year end. The Council's investment in the Partnership, as detailed in note 3 of the AFS, has not been adjusted to reflect the Council's share of this loss.

Chief Executive's Response

The final audited accounts for the Company and the Partnership were filed with the company's office in June 2023 well ahead of the statutory filing date. There were some delays in completing the audit. The plan for the 2023 accounts is that the final audited accounts will be completed by the end of April 2024. The Council's accounting treatment and balance sheet investment amount will be reviewed in the 2023 AFS.

8.3 Kilkenny Local Authorities Leisure Complex Limited

This company operates the Watershed Leisure Centre and is wholly owned by the Council.

The company's financial statements for the year ended 31 December 2022 recorded a loss of €455k, a significant increase on the previous year (2021 loss of €185k).

The company's independent 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. However, the auditors drew attention to Note 4 in the company's financial statements which stated that the company reported a net loss for the financial year and that current liabilities exceeded current assets by €911k as at 31 December 2022.

The Council's interest in the company is disclosed in Note 3 to the AFS, at a value of €5.9m. However, this value has not been updated to reflect the reduction in the equity of the company due to the losses of €185k incurred in 2021 and €455k incurred in 2022.

Chief Executive's Response

The balance sheet investment amount will be reviewed in the 2023 AFS.

8.4 The Watergate Theatre Company

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 2022 recorded a surplus for the year of €14k thereby reducing the accumulated losses at that date to €8k. Members' funds at the balance sheet date was €25k.

Chief Executive's Response

The Council continues to support the Watergate Theatre through the annual subvention and the provision of match funding for capital investment.

9 Governance and Propriety

9.1 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.

9.2 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.

9.3 Procurement

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 noted that further progress in compliance with

these regulations was achieved. Every effort should continue to be made by management to ensure compliance with the public procurement policies in all aspects of Council activities.

Chief Executive's Response

Comments are noted.

9.4 Internal Audit

The internal audit unit in the Council is an integral part of 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.

9.5 Audit Committee

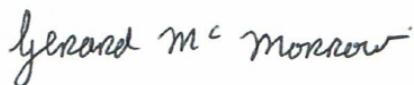
The committee met on four occasions in 2022, one of which I attended to discuss the previous year's audit report. The Committee also issued its annual report for that year in March 2023. I commend the work undertaken by the Committee, which continues to contribute to the independent oversight of corporate governance within the Council.

Chief Executive's Response

Comments are noted.

Acknowledgement

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



Gerard Mc Morrow

Local Government Auditor

06 September 2023

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