



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Cavan County Council**

**for the**

**Year Ended 31 December 2014**



**Comhshaol, Pobal agus Rialtas Áitiúil**  
Environment, Community and Local Government

## CONTENTS

	<b>Paragraph</b>
Introduction	1
Financial Standing	2
Income Collection	3
Procurement	4
Butlersbridge / Belturbet Road Improvement Scheme	5
Fixed Assets	6
Transfer of Water / Waste Water Functions to Irish Water	7
Provision for Bad Debts for Development Contributions	8
Voluntary Housing	9
Part V Register	10
Ethics Register	11
Contingent Liability / Related Company	12
Internal Audit Function	13

## **AUDITOR'S REPORT TO THE MEMBERS OF CAVAN COUNTY COUNCIL**

### **1. Introduction**

- 1.1** I have audited the Annual Financial Statement (AFS) of Cavan County Council for the year ended 31 December 2014, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on and forming part of the Accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for local authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2014 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 5 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on this statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

- 1.2** This report is prepared in accordance with Section 120(1)(c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

### **1.3 Late Receipt of the Draft Annual Financial Statement**

The final draft AFS was not presented for audit until 27 May 2015. While this is an improvement on the previous year it should be prepared by 1 of April in accordance with the Accounting Code of Practice issued by the Department of the Environment, Community and Local Government (the Department).

### **Response of the Acting Chief Executive**

The main reasons for the late presentation of the AFS for 2014 were the additional workloads required to be undertaken by the finance department in 2015. This included the implementation of the Irish Water financial reporting

claims system, the unification of the town councils and the amalgamation of the Local Enterprise Office. The Council will endeavour to have the 2016 draft AFS completed by the 31 March 2016.

## 2. Financial Standing

The Council broke even after transfers to reserves of €3.495m. These transfers were approved by the Council. There was a surplus of €1.743m in the general revenue balance at the end of 2014.

The net capital balance at the end of the year showed a surplus of €10.792m. Included in this sum is an amount of €2.5m classified as unfunded in respect of land purchase and development projects which have remained static for years. Funding proposals should be put in place to eliminate these balances.

Details of over / under expenditures are contained in note 17 to the AFS.

### Response of the Acting Chief Executive

The static balances relate mainly to land acquisitions and will be funded when these assets are disposed of. A review of all other unfunded capital balances will be undertaken in 2015 with a view to drawing up funding proposals.

## 3. Income Collection

### 3.1 Summary of Collection Accounts

Details of collection yields from the main revenue collection accounts for 2014 with comparative percentages for the previous year were as follows:

	2014	2013
Rates	70%	70%
Rents & Annuities	83%	81%
Housing Loans	67%	67%

### 3.2 Rates

At end of 2014 arrears of rates totalled €4.913m (€4.825m in 2013). There were write offs totalling €2.118m in 2014 (€1.741m in 2013). The collection yield in respect of rates is poor.

### 3.3 Rents and Annuities

Rents and annuities arrears amounted to €1.114m in 2014 (€1.169m in 2013). Rents totalling €99k were written off in 2014 compared to €39k in 2013. While the balances on some accounts are decreasing as a result of follow up of arrears, there are also accounts where arrears are on the increase. Balances outstanding range from €8k to €16k in relation to the ten largest accounts in

arrears.

### **3.4 Housing Loans**

Housing loan arrears amounted to €267k in 2014 (€268k in 2013). Similar to rents and annuities, arrears on some accounts continue to increase as payments received are insufficient to cover the monthly loan accrual. The Council is pursuing arrears and engaging with mortgagees to try and reduce the arrears on these accounts.

A provision for bad debts was made in the accounts representing 17% of total housing loan arrears. As a result of audit review it is recommended that this provision be increased.

### **3.5 General**

Account / balance statements do not issue to all mortgagees / tenants of the Council. It is recommended that such statements be issued on at least an annual basis.

It is paramount that sufficient resources be allocated to the follow up of outstanding arrears. It was highlighted at the previous audit, and is again recommended, that a dedicated credit control unit should be established.

#### **Response of the Acting Chief Executive**

Collection yields improved in 2014 in respect of housing rents and annuities and remained the same for both rates and housing loans. The collection yields are directly attributable to the current economic environment and the financial difficulties businesses and individuals are facing at present.

The establishment of a dedicated credit control unit is included in the work force plan for the organisation submitted to the Department.

The bad debts provision for housing loans will be reviewed in conjunction with the preparation of the 2015 AFS.

### **4. Procurement**

The Council engaged the services of a two contractors to carry out works at the landfill. However, public procurement guidelines were not complied with in the awarding of these contracts. One contractor was paid €130k while the other was paid €117k.

#### **Response of the Acting Chief Executive**

The works related to Corranure landfill which is a high risk activity undertaken by the Council. Procurement guidelines were not complied with as the Council was not in a position to engage contractors that were not suitably experienced at the Corranure site. It is proposed that from 2016 onwards that expression of interests' regarding specialist experience will be sought as part of the procurement process to ensure competitive tendering.



## **5. Butlersbridge / Belturbet Road Improvement Scheme**

It was highlighted at the previous audit that the approved tender contract for this scheme was €26m. However included in the final account received from the contractor was an amount due of €25.4m over and above the approved tender price, which is being disputed by the Council.

### **Response of the Acting Chief Executive**

An arbitration hearing is due to commence in September 2015 in relation to one of the claims for €6.8m. It is envisaged that conciliation talks will take place on the other disputed amounts.

## **6. Fixed Assets**

### **6.1 Registration of Title**

In 2014 Cavan Town Council was merged with the County Council. It was highlighted at previous audits that this town council did not hold registration of title in respect of land on which 20 social housing units were constructed. This matter should be addressed. The Council should carry out a review of all its properties to ensure it holds proper title.

### **Response of the Acting Chief Executive**

The Council will carry out a review of all its properties to ensure that it holds proper title. It will liaise with the Property Registration Authority when carrying out this review.

### **6.2 Land Register**

Two years ago, the Council commenced work on the creation of a land register. To date, this has not been completed.

This register should be completed. Information to be noted should include land registry folio numbers, where the title deeds are held etc. All lands included in the register should reconcile to the AFS and to the fixed asset register.

### **Response of the Acting Chief Executive**

Work on completing this register will be prioritised in 2015/2016.

### **6.3 Housing Stock Reconciliation**

A housing stock reconciliation, agreeing the number of houses included in fixed assets to the number of houses included on the Council's rent register was not completed for 2014. This is an important control and should be prepared annually.

### **Response of the Acting Chief Executive**

The housing stock reconciliation will be prepared in conjunction with the AFS 2015, and will continue to be prepared on an annual basis thereafter.

## **7. Transfer of Water and Wastewater Functions to Irish Water**

Irish Water (IW) was established on 1 January 2014. It now has full responsibility for the provision of all water related services. The establishment of this entity has had a significant impact on the accounts of the Council.

### **7.1 Water Property, Plant and Equipment**

The net book value of fixed assets removed from the accounts relating to IW amounted to €144.8m at 31 December 2014. In accordance with Circular Fin 02/2015 issued by the Department on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- section 21 provides IW with power to charge for water services
- a mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (included in a Service Level Agreement) pending the ultimate statutory transfer
- the revised accounting Code of Practice, published in December 2014 stipulates that “Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise as asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in a number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to

taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

Some of the issues that need to be addressed in the Council prior to the completion of the transfer of title of all water infrastructure assets to IW include:

- Folios have to be subdivided in some cases
- The actual site on the ground encroaches on land outside of the relevant folio
- Right of way issues
- Sites not registered

### **Response of the Acting Chief Executive**

IW, through the Water Services Transition Office and the local authorities have discussed all these issues and a schedule of site transfers put in place which would see the clean folios transferred in the first instance. In Cavan County Council's case, the first two ministerial orders have now been signed and the sites transferred. They have started with the larger treatment plants and intend working through the more complicated ones over time. Cavan County Council has raised concerns regarding the necessary resources needed for this task with IW.

## **7.2. Other Related Issues**

During the audit the following was noted:

- (a) Prior to its merger with the County Council, Cavan Town Council was holding a balance of €663k of water / waste water development contributions. It transferred €335k of these to fund projects not associated with water / waste water works. The remaining balance of €328k was transferred to the County Council. This balance was not transferred to IW but retained by the Council. These development contributions were not included in the due diligence exercise which was signed off by the Council and forwarded to IW. It should be noted that IW has yet to agree the figures included in the due diligence with the Council.
- (b) The balance of a loan, €154k, borrowed by the Council in 2011 for a capital water project remained unused at the end of 2013. While this loan was not transferred to IW, it is included in the accounts as an amount due from the Department as part of loans paid over to IW.

### **Response of Acting Chief Executive**

Prior to the introduction of development contribution schemes in 2004, the Council raised a capital charge as part of the planning conditions pertaining to developments. This created a fund which was used to carry out small capital works which also received matching E.U. funding. Prior to 2004 the local authority could switch this funding to other schemes within its remit. For this

reason, Cavan County Council did not transfer these funds to IW. The Council also has an extensive programme of works to be carried out on storm water, sewers and works previously included in the water services programme, but not now included in the remit of IW.

The balance of the loan, €154k has since been redeemed to the relevant lending agency. The accounts will be amended in 2015 by reducing the amount due from the Department by this sum.

#### **8. Provision for Bad Debts for Development Contributions**

The provision for bad debts in respect of development contributions was overstated in the accounts by €1.7m as it included a provision for long as well as short term debtors. The provision should be made in respect of short term debtors only.

In accordance with regulation 16 of the Local Government (Financial and Audit Procedures) Regulations 2014, I have directed that an adjustment should be made in the accounts in 2015 to correct this.

#### **Response of Acting Chief Executive**

The provision for bad debts for development contributions will be amended in 2015, thereby reflecting a provision for short term debtors only.

#### **9. Voluntary Housing**

In December 2013 and December 2014, the Council received €349k and €102k respectively in respect of capital assistance scheme grants from the Department. The purpose of these grants is to provide funding to a voluntary housing body for the purchase of nine housing units. No payment has yet been made to the housing body as the contracts have not yet been completed.

#### **Response of Acting Chief Executive**

These amounts have not been paid over to the relevant voluntary housing association as contracts for the purchase have not been completed. Issues arose between the vendor and the management company regarding common areas in the estate. The solicitor for the housing association has confirmed that negotiations are ongoing and an early resolution is expected.

#### **10. Part V Register**

It was highlighted at the previous audit the fact that there was no register maintained, providing details of Part V agreements. The position was found to be the same at this audit. I have been informed that work is ongoing on this register and that it will be available for review at the next audit.

#### **Response of Acting Chief Executive**

The Part V register for 2014 is now completed and work on previous years is currently being undertaken.

**11. Ethics Register**

A number of declarations were not returned within the required timeframe. In some cases, answers were not provided to some of the questions included on the declaration form returned. In accordance with Part 15, Section 171 of the Local Government Act, 2001 these declarations should be furnished to the ethics registrar within the required timeframe. Returned declaration forms should be fully completed.

**Response of Acting Chief Executive**

The issues raised will be addressed to conform to all legislation in 2015.

**12. Contingent Liability / Related Company**

Glassell Limited, which was previously owned by Cavan Town Council and whose principal activity is the operation of a multi storey car park, incurred an operating loss of €473k in 2014 (€515k in 2013). During 2014 the Council paid €400k to the owners of this car park as part of an agreement drawn up between both parties.

As referred to in my previous audit report, the Council is committed to an agreement to purchase this multi storey car park in 2015 at a cost of €6.682m.

**Response of Acting Chief Executive**

In accordance with the agreement, the Council made payment of €6.682m in July, 2015 to purchase this car park.

**13. Internal Audit Function**

In 2014 the Council's internal audit function consisted of one official. The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the audit committee and the Chief Executive in carrying out the work of the unit. The unit produced three reports during the year in addition to a number of inspection reports with regard to control procedures.

I have taken account of the work of the internal auditor in carrying out my audit.

**14. Acknowledgement**

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



Patrick McCabe



**Patrick McCabe**  
**Local Government Auditor**  
**29 July 2015**