



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cavan County Council

for the

Year Ended 31 December 2015



CONTENTS

	Paragraph
Introduction	1
Financial Standing	2
Income Collection	3
Capital Account	4
Transfer of Water and Sewerage Functions to Irish Water	5
Procurement	6
Ethics Register	7
Capital Assistance Scheme Grants	8
Part V Register	9
Development Contributions	10
Housing Stock Reconciliation	11
Registration of Title / Land Register	12
Local Authority Companies	13
Corporate Governance	14
Acknowledgement	15

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 2015, 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 the Environment, Community 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 2015 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 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.

- 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.

2. Financial Standing

The Council recorded a small surplus for the year after transfers to reserves of €3.769m. There was a surplus of €1.743m in the general revenue balance at the end of 2015. Both transfers to reserves and over expenditure were approved by the Council at its meeting in April 2016. Details of over/under expenditure are contained in note 16 to the AFS.

Significant movements in the finances of the Council during the year included:

- Increase in fixed assets of €11.9m
- Decrease in net trade debtors and prepayments of €10.4m
- Decrease in net creditors and accruals of €5.2m
- Increase in bank investments of €4m

The increase in fixed assets included the purchase of a multi story car park for €6.7m and additions to housing stock at a cost of €2.7m. The decrease in net trade debtors and creditors and the increase in bank investments are due to the recoupment/redemption of loans associated with the transfer of functions to Irish Water (IW) in 2014.

Chief Executive's Response

The position outlined above is as reflected in the annual financial statement for 2015 and shows that the Council is in a sound financial state.

3. Income Collection

3.1 Summary of Collection Accounts

Details of collection yields from the main revenue collection accounts for 2015 with comparative percentages for the previous year were as follows:

	2015	2014	
Rates	82%	76%	(as restated)
Housing Rents & Annuities	84%	83%	
Housing Loans	73%	67%	

The methodology for calculating rates yields was amended in 2015 after allowing specific doubtful arrears to be excluded from the total for collection figure. The specific doubtful arrears which are excluded are set out in Appendix 7 to the AFS. The 2014 collection yield is restated for comparison purposes.

3.2 Rents and Annuities

Rents and annuities arrears amounted to €1.1m in 2015 (€1.1m in 2014). Weaknesses continue to be identified with regard to the pursuing of these arrears. Balances on the ten largest accounts range from €9k to €13k. The level of bad debts provision has been revised during 2015.

Chief Executive's Response

Whilst collection performance improved by 1% in 2015 compared to 2014, there is still a considerable amount of work required to reduce the arrears figure. This work is ongoing and a new debt management system is to be put in place by end of July 2016 which is expected to facilitate improvement in collection performance. The Council is committed to improving collection performance and has applied considerable resources to achieving this objective.

3.3 Housing Loans

Housing loan arrears amounted to €218k in 2015 (€267k in 2014). While there has been an increase in the collection yield, it was noted that arrears continue to increase on a number of accounts as mortgage payments received are insufficient to cover the monthly loan accrual.

The level of bad debts provision has been revised during 2015. The Council continues to engage with mortgagees in order to reduce the arrears on these accounts. Two properties were repossessed in 2015 through the mortgage to rent scheme.

Chief Executive's Response

There was a significant improvement of 6% in housing loans collection performance in 2015 compared to 2014. There are a small number of accounts with significant arrears and work is ongoing in respect of these cases. It is expected that collection performance for 2016 will again show an improvement on 2015 collection performance.

3.4 General

It has been highlighted at previous audits that account / balance statements do not issue to all mortgagees / tenants of the Council. I have recommended that such statements be issued annually. Sufficient resources should be allocated to the follow up of arrears. It has been recommended in previous audit reports that a dedicated credit control unit be established.

Chief Executive's Response

The new debt management system will facilitate issue of statements of account to all mortgagees/tenants of the Council and this will be done from 2016 onwards. There was a new debt management policy signed off in July 2015 which placed the responsibility for debt collection with relevant department. The Council has allocated resources based on the current staff complement, to debt collection. The Council will examine the position of new debt collection centre in 2017 following review of 2016 collection performance.

4. Capital Account

4.1 Unfunded Balances

The net capital balance at the end of the year showed a surplus of €11.330m. Included in this sum are unfunded balances totalling €4.6m which include an amount of €2.5m in respect of land purchases and development projects which have remained static for years.

Plans should be drawn up to fund these balances.

Chief Executive's Response

It is proposed to fund debit balances in respect of land on the disposal of land. The remaining debit balances will be funded principally from reserves.

4.2 Butlersbridge / Belturbet Road Improvement Scheme

The approved tender contract for this scheme was €26m. However included in the final account received from the contractor was an amount of €25.4m over and above the approved tender price, which was disputed by the Council. €7.6m of this amount relates to a claim which went to conciliation in 2013. However as the conciliation process failed to bring the matter to a conclusion, an arbitration hearing took place in September 2015. In April 2016, the arbitrator gave his findings and directed that the contractor's case be dismissed with the application of the award of costs to be reserved to a further hearing. Total costs incurred by the Council in respect of legal, consultancy and other services to the end of 2015 in relation to this claim are in excess of €2m.

Chief Executive's Response

In response to the arbitration findings, the contractor commenced proceedings in the High Court to set aside the partial award of the arbitrator. The case was admitted to the commercial list of the High Court and is set for a hearing in October 2016.

5. Transfer of Water and Sewerage Functions to Irish Water

Issues with regard to the transfer of title of properties transferred to IW including the subdivision of folios, right of way issues and sites not registered were highlighted at the previous audit. The Council is continuing to work with IW in order to address these matters.

A balance of €5.93m due to the Council from IW in respect of the balancing statement agreed between both parties was cleared in 2015.

Chief Executive's Response

Work is ongoing with IW in the process of the transfer of assets to IW and the Council has allocated the necessary resources to complete the process as soon as practicable.

6. Procurement

6.1 Procurement of Contractors for the Remediation of Kingscourt and Cootehill Landfill Sites

The following was noted with regard to the engaging of contractors to carry out works associated with the remediation of Kingscourt / Cootehill landfill sites:

- The Council engaged the services of a contractor to carry out capping works. Public procurement guidelines were not complied with in the awarding of this contract. The e-tenders process should have been engaged, seeking expressions of interest from contractors who held the necessary expertise in the provision of these works. Instead, quotations were sought from three individual contractors. The contractor selected was paid a total of €208k to carry out these works.
- The Council employed the services of a contractor who was paid €86k for the provision of gravel/transportation of materials. Quotations were sought from only three individual contractors for the provision of this service in lieu of advertising through the e-tenders process.

Chief Executive's Response

As there were a limited number of contractors with necessary expertise available to carry out capping works three quotations were sought and a contractor selected from quotations received. In future for works above the appropriate threshold the e-tender process will be used.

With reference to the supply of gravel/transportation of materials, the quantities of materials were under estimated at the time of placing the contract and it was felt that the thresholds for e-tenders would not be reached and accordingly three quotations were sought. In future, for works above the appropriate threshold the e-tender process will be used.

6.2 General

Chief executive's orders were not prepared in some cases for the acceptance of tenders. In accordance with section 151 of the Local Government Act 2001, a chief executive's order should be prepared when a tender is accepted.

Chief Executive's Response

A chief executive's order will be prepared for acceptance of tenders in future.

7. Ethics Register

A number of annual declarations were not returned within the required timeframe. Furthermore some declarations returned were incomplete. 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.

Chief Executive's Response

The comments of the Local Government Auditor are acknowledged. Staff and elected members have received briefings on the importance of full compliance with these regulations. The Ethics Registrar has since received fully completed declarations from all individuals required to submit same. In future all declarations will be checked to ensure that they are fully completed.

8. Capital Assistance Scheme Grants

It was highlighted at the previous audit that 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.

Chief Executive's Response

Contracts have been forwarded to the solicitors acting for the relevant voluntary housing association. It is expected that signed contracts will be returned within the near future.

9. Part V Register

Part 2, Section 3 of the Planning and Development (amendment) Act, 2002 requires developers to provide land for public housing, or a certain number of houses, a financial contribution or a combination of these, to the local authority at an agreed cost in order to assist in the provision of social and affordable housing. This condition is also referred to as Part V.

It was highlighted at previous audits that there was no Part V register and that such a register should be prepared and maintained. A Part V register recently compiled indicated that a sum of €1.6m is outstanding in respect of Part V financial contributions. These contributions should be pursued for payment.

Chief Executive's Response

The Council will pursue the outstanding contributions under Part V as identified in the Part V Register.

10. Development Contributions

A total of €995k was collected in 2015 in respect of development contributions. The Council carried out 19 site inspections in 2015 (26 site inspections in 2014). As payment of outstanding contributions by developers is based on the sale / renting / lease of properties in some cases, it is recommended that regular site inspections be made as part of the follow up of arrears.

Chief Executive's Response

The Council continues to monitor resumption of development/sales where there are outstanding development contributions through its network of people on the ground. While the Council carried out 19 official inspections some of these were instigated following information from Council employees not attached to the planning section. Site inspections will be prioritised and increased where necessary to maximise the collection of outstanding development contributions.

11. 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 2015. This is an important control and should be prepared annually.

Chief Executive's Response

Details of housing stock at 31 December 2015 has been prepared by housing section and forwarded to finance section for review and reconciliation to records in the fixed asset register in the financial management system. This exercise is almost fully complete. The work carried out on the reconciliation process will facilitate completion of this exercise in a timelier manner in the future.

12. Registration of Title / Land Register

It was highlighted at the previous audit that the Council does not hold legal title to some of its properties, nor is the land register complete. I have been informed at this audit that work is ongoing to address these issues.

Chief Executive's Response

Some Council lands have not been registered with the Property Registration Authority. These properties have been identified and a programme of registration will be considered as finances permit.

13. Local Authority Companies

The Council's interest in companies is set out in appendix 8 in the AFS. This table includes information with regard to the extent of control exercised by the Council, brief financial details and the date of the latest financial statements received to which this information relates. None of these companies are consolidated in the Council's AFS.

13.1 Cavan Regional Sports and Leisure Company Limited

The principal activity of this company is the provision of sports and leisure facilities to the public. In 2015, the Council made payments totalling €204k to this company, including €103k as a contribution to loan repayments and €32k in cash flow assistance.

The most recent audited accounts received in respect of this company are for the year ended 30 June 2014, when it recorded a surplus for the year of €16k (€56k in 2013). The accounts disclose that the company relies on the Council to fund the repayments of loans which at 30 June 2014 stood at €1.03m. A letter of comfort has been provided by the Council in this regard. The accounts also disclose that the Council has given assurance that it will continue to support the company for the next 12 months.

Chief Executive's Response

The Council has provided a letter of comfort to the bank in relation to borrowings of Cavan Regional Health Sports and Leisure Co Ltd and is committed to funding of €102,745 on an annual basis towards loan repayments. The company experienced cash flow challenges in 2015 which necessitated further financial assistance from the Council in 2015.

14. Corporate Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

14.1 Internal Audit Function

The quality of output of the internal audit unit is of a high standard. However, given the size, scope and nature of business of the local authority, an internal audit unit consisting of one staff member is inadequate. It is recommended that the Council considers increasing resources to this unit. This is imperative to maintaining good corporate governance.

The internal auditor reports directly to the audit committee and the Chief Executive. The unit produced six reports during the year in addition to a number of inspection reports with regard to internal control procedures.

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

Chief Executive's Response

I fully endorse the viewpoint that work of internal audit is of a very high standard and represents an important part of good corporate governance framework of the Council. The Council considers it provides an appropriate level of resources in internal audit having regard to its size, budget and staff compliment and is of a similar level to comparable local authorities.

15. 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
Local Government Auditor
8 July 2016