



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Cavan County Council**

**for the**

**Year Ended 31 December 2016**



**An Roinn Tithíochta, Pleanála, Pobail agus Rialtais Áitiúil**  
Department of Housing, Planning, Community and Local Government

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## 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 2016, 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, 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 2016 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.

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

The draft AFS was completed on 5 May 2017 and approved by the Council on 9 May 2017. This is despite the fact that the Accounting Code of Practice issued by the Department of Housing, Planning, Community and Local Government (the Department) states that the Council's draft AFS should be prepared by 1 of April of the following year. This impacted adversely on audit deadlines.

#### **Chief Executive's Response**

The main reason for the delay in completion of the draft AFS was the additional workload due to the implementation of the accounting system upgrade and the number of staff changes throughout the organisation at the end of 2016 and in the first quarter of 2017.

### 2. Financial Standing

The Council recorded a surplus of €110 for the year after transfers to reserves of €4.488m. This surplus does not take account of corrections that I have directed be processed in the 2017 accounts of Cavan County Council (see paragraph 4) in accordance with Section 16(b) of the Local Government (Financial and Audit Procedures) Regulations 2014. The effect of these corrections would be to reduce this surplus to a deficit of €34k.

There was a surplus of €1.743m in the general revenue balance at the end of 2016. Both transfers to reserves and over expenditure were approved by the Council at its meeting in May 2017. 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 €4.0m
- Decrease in long term debtors / long term creditors of €4.6m
- Increase in net current assets of €1.12m
- Elimination of the specific revenue reserve of €1.1m.

The increase in fixed assets included additions to housing of €3.35m. The decrease in long term debtors / deferred income is due to a change in accounting for development levies due. This is in accordance with circular Fin 11/2016 issued by the Department on 16 December 2016, whereby the AFS no longer reports long term debtors and deferred income separately. Contributing factors to the increase in net current assets included an increase in trade debtors of €590k and a decrease in creditors and accruals of €751k.

The specific revenue reserve was a mechanism put in place to facilitate the changeover in accounting treatment when local authorities moved from accounting on a cash basis to the accruals basis. In accordance with circular Fin 11/2016, local authorities are permitted to eliminate their specific revenue reserve in one of the following manners:

1. Write down of general revenue reserve deficits
2. Write down of unfunded capital project balances.

In accordance with this circular, the Council used the balance on the specific revenue reserve of €1.1m to fund a number of unfunded projects included in the capital account, including €858k in respect of Cootehill Business Park and €225k in respect of land acquisitions at Ballyconnell.

### **Chief Executive's Response**

The adjustment reducing the surplus to a deficit as outlined above arose as a result of legal cost accruals which the Council was not advised of until 30 June 2017. These will be absorbed in the 2017 accounts. The outturn on both the revenue and capital account at 31 December 2016 represents a satisfactory outcome.

## **3. Income Collection**

### **3.1 Summary of Collection Accounts**

Details of collection yields from the main revenue collection accounts for 2016 with comparative percentages for the previous year were as follows:

	<b>2016</b>	<b>2015</b>
Rates	83%	82%
Housing Rents & Annuities	84%	84%
Housing Loans	77%	73%

### **3.2 Rates**

Rates arrears at the end of 2016 amounted to €3.602m (€3.907m in 2015). Write offs of rates balances reduced to €627k in 2016 (€877k in 2015), a reduction of €249k. Vacant property adjustments also reduced to €1.467m in 2016 (€1.728m in 2015), a decrease of €261k.

#### **Chief Executive's Response**

There was a small increase in the collection performance of rates in 2016, up 1% to 83%. This reflects the challenging environment that still pertains in a number of sectors of the rural economy. Every effort is being made to improve collection performance.

### **3.3 Rents and Annuities**

At the end of 2016, rent arrears totalled €1.127m (€1.104m in 2015). Balances on the ten largest accounts range from €10k to €14k. A review of a sample of accounts revealed that in some cases more follow up of arrears is required. There are also cases where although payments are being received, these are insufficient to clear the weekly rent accrual, resulting in a gradual increase in arrears.

It is important that sufficient resources are dedicated to the follow up of rent arrears. Rent payment plans agreed with tenants should be sufficient to cover both the weekly rent accrual as well as reduce any arrears balance on the account.

#### **Chief Executive's Response**

There was no change in the collection performance in respect of housing rents and annuities for 2016. There were a number of staff changes in this area in 2016 and efforts are ongoing in 2017 to improve collection performance in this area.

### **3.4 Housing Loans**

Arrears totalled €184k at the end of 2016 (€218k in 2015). The collection yield has improved to 77% in 2016 compared to 73% in 2015. This is predominately due to the elimination during 2016 of three balances outstanding from 2015 totalling €32k as a result of the transfer of mortgagees onto the mortgage to rent facility. Similarly to rents above, a review of a sample of accounts indicated that there are cases where mortgage payments received are insufficient to cover the monthly loan instalment. The Council is continuing to engage with mortgagees with a view to reducing the level of arrears.

Loan balance statements are not issued to mortgagees on an annual basis. It is recommended that such statements be issued.

#### **Chief Executive's Response**

The Council continues to monitor all housing loan arrears. Loan statements will be issued on an annual basis commencing period ending 31 December 2017.

## **4. Adjustments to the Accounts**

I identified the following adjustments to the accounts:

- Capital income amounting to €728k pertaining to various projects was not deferred at the end of 2016. This has no impact on the revenue account

- Land is overstated by €377k due to the duplication of an asset. This is a balance sheet item and has no impact on the revenue or capital account
- A long term debtor (with corresponding creditor) for €689k has not been included in the accounts at the end of 2016 in respect of capital asset leasing facilities provided to approved housing bodies. This is a balance sheet item and has no impact on the revenue or capital account
- A sum of €99.6k in respect of development contributions pertaining to Irish Water was not accrued in the accounts as an expense. This has no impact on the revenue account
- An amount of €153.5k relating to an amount due to the Department in respect of the recoupment of water service loans was not accrued as an expense, affecting the balance on the capital account
- Transfers to reserves of €1.769m which were approved by the members, were not apportioned to the relevant reserves in the capital account. This has no impact on the revenue account
- An amount of €241k in respect of legal costs was not accrued in the accounts. The effect of this adjustment would be to reduce the surplus on the revenue account and the capital account (reserves) by €46k and €195k respectively
- An amount of €12k of revenue expenditure proper to 2017 was incorrectly accrued in the 2016 accounts. The effect of this adjustment would be to increase the surplus on the revenue account by this amount
- Capital expenditure of €175k pertaining to the bridge rehabilitation project was not accrued in the accounts.

I have directed that the above corrections be processed in the 2017 Accounts of Cavan County Council in accordance with Section 16(b) of the Local Government (Financial and Audit Procedures) Regulations 2014.

#### **Chief Executive's Response**

The non deferral of income in 2016 resulted in a credit balance on a number of projects included in the capital account. The completeness of deferred income adjustments will be examined at the end of each financial year in future. The accrual of €241k in respect of legal costs was not notified to the Council until 30 June 2017. This issue will be addressed in a timely manner in the future. All adjustments mentioned above will be processed where appropriate in 2017.

#### **5. Transfer of Water and Sewerage Functions to Irish Water (IW)**

There are ongoing issues with regard to the transfer of title of properties transferred to IW, including right of way issues, sites not registered and the subdivision of folios. The Council is continuing to work with IW in order to address these matters.

#### **Chief Executive's Response**

The issues in relation to asset transfer are not impacting on the operational effectiveness of the service. There is ongoing communication with Irish Water. Progress is steady but slow which is normal for this type of work and will take a number of years to complete.

#### **6. Capital Account**

##### **6.1 Unfunded Balances**

Net capital balances at the end of the year showed a surplus of €13.425m. Included in this sum is an amount of €3.4m in respect of land purchases and other smaller projects which have remained static for three or more years.

### Chief Executive's Response

Debit balances on land acquisitions represent the largest element of capital unfunded debit balances at 31 December 2016. These balances will be addressed on disposal of these lands. The remaining debit balances relate predominately to housing and these will be reviewed with regard to funding.

#### 6.2 Credit Balances on Projects Identified as Complete

During a review of capital balances, it was noted that there are credit balances included on projects which are classified as completed assets. These balances should be reviewed.

### Chief Executive's Response

These balances will be investigated and reviewed in 2017.

#### 6.3 Grants Received from Transport Infrastructure Ireland (TII)

A review of capital balances noted that a sum of €184.9k is due to be refunded to TII as a result of the agreed draw-down in advance, of grant monies which remained under-spent after completion of the relevant projects. Details of these projects and the surplus grant monies relating to each one, is outlined below:

Project Description	Surplus Funding €000
Shannow to Ballinagh	24.2
Construction of Salt barn at Moynehall	33.2
Cavan By-Pass	35.0
Road Realignment at Corduff to Ballytrust	92.5
<b>Total</b>	<b>184.9</b>

The Council should engage with TII with a view to refunding this sum or seek agreement to utilise these funds for other roads projects.

### Chief Executive's Response

The Council is currently engaged with Transport Infrastructure Ireland in relation to this matter. This should be resolved by the end of 2017.

#### 6.4 Butlersbridge / Belturbet Road Improvement Scheme

It was highlighted in previous audit reports that the approved tender contract for this scheme was €26.3m. However, included in the final account received from the contractor was an additional amount of €27.5m in excess of the approved tender price, due to a number of additional claims submitted by the contractor which were disputed by the Council.

In November 2016, a conciliation hearing was held to address all claims submitted by the contractor. As a result, in December 2016, the conciliator recommended that a payment be made to the contractor of €2.44m in full and final settlement of all claims. Total legal and other professional costs incurred on this project by the Council, in relation to all claims associated with this contractor, amounted to €2.42m. These costs, as well as the payment made to the contractor are being funded by TII.

#### **Chief Executive's Response**

The position is as outlined by the Local Government Auditor and this scheme is now completed.

### **7. Accounting for the Provision of Housing by Approved Housing Bodies (AHBs)**

A review of controls in place with regard to accounting for the provision of housing by AHBs highlighted significant weaknesses including the following:

- There was no management information system which maintains details of all properties provided by AHBs
- Amounts paid to AHBs in the form of loans were not recorded in the accounts
- Annual statements of occupancy were not obtained from each AHB in respect of properties funded by the Council
- There were no records maintained of details of property inspections to review tenant nominations and vacancies
- There were no periodic inspections of properties carried out
- Audited financial statements of AHBs were not obtained and reviewed to ensure accountability in the management of grants received from the Council.

#### **Chief Executive's Response**

- The preparation of a management information system in respect of properties provided by AHB's is currently being undertaken
- The recording of loans to AHB's is currently being addressed
- Statements of occupancy are obtained when the invoice for payment is submitted by the AHB
- The issue of inspection of properties is being reviewed in light of the increased activity in the AHB sector and available resources.

### **8. Contractual Issues Pertaining to the Management of Gas Generated at Corranure Landfill**

A condition pertaining to the Council's waste licence issued by the Environmental Protection Agency (EPA) is that the Council should manage the gas generated by the landfill at Corranure. In 2012, the Council entered into a 15 year agreement with a third party to convert gas to energy for supply to the national electricity grid. As a result of this condition the contractor is required to pay the Council, monthly in arrears, an amount dependent on the volume of gas generated at the site. However, no payments have been received by the Council from the contractor in respect of electricity generated at the landfill for the period November 2015 to date.

#### **Chief Executive's Response**

The Council is in discussions with the relevant contractor to resolve this issue and to ensure timely submission of payments in the future.



## 9. Transfers to Reserves

Approval was obtained to transfer €4.1m to reserves and to fund various projects specified to the members at the Council's monthly meeting in May of this year in conjunction with the consideration of the draft 2016 AFS. However, it was noted that €1.769m of this amount was transferred to a general miscellaneous capital reserve in the accounts. This amount should be allocated to the various reserves as approved by the members (see paragraph 4).

### Chief Executive's Response

The sum of €1.769 million will be allocated to relevant approved projects in 2017.

## 10. Fixed Assets

A review of controls in place for accounting for fixed assets revealed significant weaknesses including the following:

- The property register was not updated to take account of land additions during the year
- The duplication of a property in land fixed assets resulted in the overstatement of the value of land fixed assets by €377k
- The housing stock reconciliation was not completed
- Procedures regarding the coding of deposits paid for house purchases are not satisfactory
- Amounts being capitalised in the accounts are incorrect in some cases.

### Chief Executive's Response

The properties identified as not being included in the property register were actually included in the 'Administration' section of this register awaiting further information such as location and mapping. When this information is obtained, these properties will then be transferred to the main section of the property register.

The necessary adjustments in relation to the duplication of property in land fixed assets will be processed in 2017, and appropriate procedures will be put in place to prevent a recurrence of such a matter.

The housing stock reconciliation for 2016 will be completed within the next month.

Procedures will be put in place to address the coding of deposits paid for house purchases.

A review of procedures to ensure the capitalisation of correct amounts to fixed assets in the future will be undertaken in 2017.

## 11. Procurement

Weaknesses were noted with regard to procurement practices as follows:

- A contractor was awarded a 5 year contract to provide engineering services at Corranure landfill. However, only three contractors were requested to submit quotations for the provision of this service. This is not consistent with recommended public procurement practice. The total cost of engaging this contractor in 2016 amounted to €27k (ex-vat)
- The Council has been engaging the services of a software provider since 2002 in the provision of financial management services to the Council. Proper tendering procedures have not been complied with in the tendering of this service

- Corporate Services engaged two firms to carry out services without using proper tendering procedures
- In some cases, there was no evidence that proper procedures were adhered to with regard to the opening of tenders received from contractors.

The Council has in place a well-documented procurement procedures manual which is updated on an annual basis. There is also a procurement website set up within the Council to provide staff with all the relevant procurement guidance and documentation to support the Council's procurement procedures. These should be utilised by staff engaged in the procurement of goods and services.

#### **Chief Executive's Response**

- The contract for engineering services at Corranure landfill was awarded in 2015 and is due to run until 2020. The auditor's comments are noted and the new procurement procedures being adopted in Cavan County Council will ensure that this practice will not reoccur.
- The provision of services by the software provider mentioned above relates to an annual software maintenance agreement in place following the introduction of the Council's financial management system. There was only one such provider of this software and the procurement of this service was critical in the provision of key management information in relation to the monitoring of expenditure and income, and the preparation of statutory and non statutory reports.
- Due to the nature of the services required, and the need to carry out these expeditiously, Corporate Services section employed these firms on the basis of their knowledge and previous experience. The Council has since utilised, and will continue to utilise, the Office of Government Procurement's Framework for all such services in the future.
- Procedures in relation to the opening of tenders following procurement under framework agreements with the Local Government Operational Procurement Centre are currently in place. Compliance with these procedures will be monitored on a regular basis.

#### **12. Development Contributions**

A total of €1.9m was collected in 2016 in respect of development contributions. There are insufficient site inspections being carried to ensure that developers are complying with their planning permission condition to pay development contributions as they fall due. It is imperative that regular site inspections be made as part of the follow up of arrears.

#### **Chief Executive's Response**

The Council's planning directorate will examine introducing new procedures to ensure regular site inspections are made regarding compliance to pay development contributions. This directorate will not, due to resourcing issues, be in a position to designate a member of staff to such a task, however, new procedures utilising existing on-site inspections such as planning applications, building control, taking in charge and enforcement inspections will be explored.

#### **13. Part V Register**

Part 2, Section 3 of the Planning and Development (amendment) Act, 2002 requires developers to provide land for public housing. This could be in the form of a financial contribution, land or a combination of these, to the local authority at an agreed cost. The purpose of this requirement is to assist in the provision of social and affordable housing.

The Part V register provided to me indicated that a sum of €1.64m was outstanding at year end in respect of financial contributions. All Part V agreements should be kept under constant review including the carrying out of regular site inspections as highlighted at paragraph 12 above.

#### **Chief Executive's Response**

The Council's planning department completed the Part V register at the request of the Local Government Auditor a couple of years ago. The register is currently maintained based on the level of resources available. Part V receipts relate to housing activities and as such, are coded to the housing rather than the planning directorate. Both directorates will establish procedures for the regular reviewing of the register and specific agreements including site inspections.

#### **14. Ethics Register**

A number of annual declarations were not 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.

It was noted that some declarations returned were incomplete. All declaration forms returned should be fully completed.

These matters have been highlighted at previous audits.

#### **Chief Executive's Response**

All annual declarations for 2016 have since been fully completed and returned.

#### **15. Annual Service Delivery Plans**

The annual service plans prepared by the Council in respect of 2016 were not submitted to the members for approval in accordance with Section 50 of the Local Government Act 2014.

#### **Chief Executive's Response**

The annual service plans in respect of 2016 were not formally approved. The annual service plans in respect of 2017 have been formally approved and this process will be done annually in the future.

#### **16. 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.

##### **16.1 Cavan Regional Health, Sport and Leisure Company Limited**

The principal activity of this company is the provision of sports and leisure facilities to the public. In 2016, the Council made payments totalling €342k to this company as a contribution to loan payments and cash flow assistance. It also includes a contribution to capital refurbishment activities carried out during 2016.

The most recent audited accounts received in respect of this company are for the period 1 July 2014 to 31 December 2015, when it recorded a deficit for the period of €4k (surplus of €16k for year ended 30 June 2014). The accounts disclose that the company relies on the Council to fund the repayments of loans and that Cavan County Council has given assurance that it will continue to support the company for the next 12 months.

## **16.2 Glassell Limited**

The principal activity of this company is the operation of a multi story car park in Cavan town. In 2016, the Council made payments totaling €100k to this company as a contribution to the running costs.

The most recent accounts received in respect of this company are for the year ended 31 December 2015 when it recorded a deficit of €44k (surplus of €34k in 2014). These accounts were not audited as the company availed of audit exemption on the grounds that it meets the conditions specified in Section 358 of the Companies Act 2014.

In 2015 the Council made payments totalling €238k to this company. The directors report which forms part of the accounts states the company continues to need the support and financial undertaking from Cavan County Council, and accordingly they continue to adopt the going concern basis.

### **Chief Executive's Response**

Both these companies will require ongoing financial assistance from the Council. The 2016 payments to Cavan Regional Health, Sports and Leisure Company Limited include an amount of €112k in respect of refurbishment costs and equipment at the leisure centre. There is a significant reduction in financial assistance provided by the Council in the 2017 budget to both of these companies. The amount provided for Cavan Regional Health, Sports and Leisure Limited amounts to €191k while the amount provided for Glassell Limited is €80k. Both companies continue to maximise income and manage their cost base.

## **17. 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.

### **17.1 Internal Audit Function**

The quality of output of the internal audit unit continues to be of a high standard. It is considered however, that insufficient resources are being committed to this function. The Council should give consideration to increasing resources to this unit in line with good corporate governance.

The internal auditor reports directly to the Chief Executive and the audit committee. The unit produced seven 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 agree that work of internal audit is carried out to a high standard and represents a key component of good corporate governance framework of this Council. The Council will examine the level of resources in Internal Audit based on current staff compliment and an analysis of level of resources applied to Internal Audit in similar sized local authorities.

### **17.2 Risk Registers**

The risk register in respect of corporate services / human resources was not prepared in respect of the year 2016. There is no overall corporate risk register combining all of the risk registers of the various directorates of the Council.

### **Chief Executive's Response**

Risk registers have been prepared for all departments in 2017 and a corporate risk register will also be completed in 2017.

### **18. Investigation Regarding Payments Made by the Council to a Contractor**


At the time of concluding this audit there was an ongoing investigation into payments made by the Council to a contractor. This matter will be reviewed at the next audit.

### **Chief Executive's Response**

The Council has appointed an external investigator to carry out this investigation. This investigation is ongoing at present.

### **19. Acknowledgement**

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

A handwritten signature in black ink that reads "Patrick McCabe". The signature is written in a cursive style and is centered within a light yellow rectangular box.

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**Patrick McCabe**  
**Local Government Auditor**  
**12 July 2017**