



Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Cavan County Council for the Year Ended 31 December 2021

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 Cavan County Council

1 Introduction

I have audited the Annual Financial Statement (AFS) of Cavan County Council for the year ended 31 December 2021, 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 2021 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 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 COVID-19 – Impact on Local Authorities

2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have continued to have a significant impact on the finances of local authorities during 2021. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level in 2021, the Government introduced the Small Business Assistance Scheme for COVID (SBASC) and extended the Rates Waiver

Scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below.

As agreed by the General Accounts Working Group, the audited Annual Financial Statement for 2021 includes revised Notes 23 and 24 in relation to the rates waiver and SBASC respectively.

2.2 SBASC Scheme

As part of the Government's 2021 COVID support package, the Small Business Assistance Scheme for COVID (SBASC) was introduced as a direct aid to companies, self-employed, sole traders or partnerships with a minimum turnover of €50,000 who were not eligible for the Revenue scheme CRSS, Fáilte Ireland Business Continuity Scheme or the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media's Live Performance Support. The scheme was funded by the Department of Enterprise, Trade and Employment but was administered on its behalf by the Local Authorities.

The SBASC II Scheme was introduced in the second quarter in 2021 and included businesses which were not operating from rateable premises. A €1,000 grant was also introduced for businesses with a pre-COVID turnover between €20,000 and €49,999.

As with the Restart Grant Schemes in 2020, each business had to self-certify by completing the application that it met the relevant criteria. The Local Authority was required to verify the application against rate accounts, where one existed, and to confirm that the applicant had fully completed the application including the declaration.

Accordingly the audit of expenditure under these schemes, which amounted to €185k in Cavan County Council for the year ended 31 December 2021, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

2.3 Rates Waiver Scheme

The Government continued its support for the local government sector, with the provision of an amended commercial rates waiver in 2021. This waiver, funded by Government, at a cost of €542m supported local businesses in payment of their rates bills, and ensured continuity of services at local authority level.

The total amount received by Cavan County Council for the year ended 31 December 2021 was €4.0m. The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

In 2021, as in 2020, the methodology and manner for calculating rates income collection differed from previous years.

2.4 Reimbursement for Loss of Goods and Services Income and COVID-19 Related Expenditure

The Department reimbursed the Council for the loss of goods and services income and additional expenditure incurred by them as a result of COVID-19. The total amount received by Cavan County Council for the year ended 31 December 2021 was €580k, split between €446k for the loss of goods and services income and €134k for additional COVID-19 related expenditure.

3 Financial Standing

3.1 Statement of Comprehensive Income

A surplus of €217 was recorded for the year after net transfers to reserves of €6.0m. Details of over / under expenditure are included in note 16 to the AFS. The transfers to reserves and the over expenditure were approved by the members in conjunction with their consideration of the draft AFS at the April 2022 meeting.

3.2 Statement of Financial Position

Principal movements in the finances of the Council during 2021 included:

- Increase in fixed assets of €3.2m due to the acquisition of housing units
- Increase in long term debtors / long term creditors 'Other' of €2.1m and €2.4m respectively due to the provision of capital asset leasing facilities to Approved Housing Bodies (AHBs)
- Increase in bank investments of €4.0m due to timing differences.

4 Income Collection

4.1 Summary of Income Collection

| Income Source | Yield % | | Net Debtors €m | |
|-------------------|---------|------|-------------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| Rates | 76 | 76 | 3.7 | 3.3 |
| Rents & Annuities | 81 | 82 | 1.6 | 1.4 |
| Housing Loans | 91 | 84 | 0.06 | 0.1 |

4.2 Rates

The collection yield in respect of rates remained static at 76%. However, as highlighted in paragraph 2.3 above, due to the ongoing effects on the economy of COVID-19, a further rates waiver (credit in lieu) was introduced by the Department in 2021. This had the effect on the actual amount collected. As outlined in appendix 7 to the AFS for prior year comparison purposes, if this sum had been categorised as 'Collected' rather than as 'Waivers and Credits' the percentage collected would have been 81% (83% in 2020).

Rates invoices in respect of 2021 did not issue to customers until after mid-April 2021. This in my opinion can affect the amount of rates collected in the year.

Chief Executive's Response

The Council will continue to prioritise the collection of rates. We will endeavour going forward to ensure the timely issuing of rates invoices.

4.3 Rents and Annuities

The collection yield in respect of rents and annuities decreased to 81% from 82% in 2020. Gross arrears of rents increased to €2.0m (€1.7m in 2020). A sample of accounts noted there was insufficient follow up of arrears. As highlighted in the previous audit report, robust procedures should be implemented and communicated to all staff involved in the process of arrears collection.

Chief Executive's Response

The Council will continue to prioritise the collection of rents and annuities and following up on the arrears. A review of procedures with regard to the collection of these will be undertaken and any weaknesses addressed.

4.4 Housing Loans

The collection yield increased to 91% compared to 84% in 2020 in respect of housing loans. Gross arrears of housing loans decreased to €111k in 2021 (€123k in 2020). A sample of accounts selected for review noted that while in a number of cases, more timely follow up is recommended, the Council continues to monitor accounts in arrears.

During 2021, a Mortgage Arrears Resolution Process (MARP) procedures manual was completed. In addition, some training in the implementation of the MARP process was provided to relevant staff by the Housing Agency. It is paramount that, in order to ensure that this process operates effectively, adequate training and appropriate resources are put in place.

Chief Executive's Response

The Council will continue to prioritise the collection of housing loans. Adequate training will be provided, and appropriate resources will be allocated to the MARP process.

4.5 General

The current provisions for bad debts should be kept under review given the ongoing factors affecting the economic climate. It has been highlighted in previous audit reports that the local authority should consider establishing a centralised credit control unit for the collection of all arrears including collection accounts, planning and development contributions, miscellaneous invoicing, fire charges (see paragraph 6 below) and other income areas where the Council would deem it appropriate.

Chief Executive's Response

Provisions for bad debts will be reviewed on a regular basis and as part of the Budget 2023 process. Provisions will be reviewed in detail as part of the budgetary process, given the uncertainty and the challenging economic environment. The establishment of a Credit Control unit was considered but was not proceeded with and the matter will be reviewed in the coming months.

5 Audit Adjustments

The following audit adjustments were made in the 2021 AFS:

- a) An adjustment was made to Work in Progress reducing expenditure and income by €5.6m and €5.9m respectively (see paragraph 9.1 below).
- b) An adjustment of €2.7m was made in order to create a provision (expenditure accrual) for the purpose of addressing future rates revaluation appeals from customers. This had the effect of increasing the balance in respect of Creditors and Accruals and reducing the closing balance in the Capital Account by this amount. This was in order to comply with circular Fin 03/2022 issued by the Department which outlines the accounting treatment to be applied in accounting for these appeals.

6 Debtors

6.1 Fire Charges Debtors

Debtors totalling €593k were outstanding in relation to fire charges at the end of 2021. €446k of this amount is greater than one year old. There was no follow up of arrears of these charges in 2021. No reminders issued to customers in 2021 to date.

Chief Executive's Response

This matter is currently being dealt with and systems are being put in place to deal with the management of fire charges debtors.

6.2 Government Debtor - Recoupment of Group Water Scheme (GWS) Subsidies

A review of this account highlighted weaknesses in the calculation of payments of GWS subsidies and their subsequent recoupment from the Department. In addition, there is no 'matching' of invoices issued against amounts received from the Department in respect of the recoupment of these subsidies. These matters should be addressed.

Chief Executive's Response

Water Services Section acknowledges the auditors' recommendations and has since put in place new / additional procedures to address the items raised. The subsidy B advance payment calculations were historically problematic, but the new process recently introduced has to date resolved the issues previously encountered. Regarding invoicing, the section now submits separate claim sheets to the Department for the various types of subsidies in order that expenditure / income can be reconciled more effectively.

7 Long Term Debtors

7.1 Shared Ownership Equity Loans - Rented Equity

The housing finance section continued to work with mortgagees of shared ownership loans in order to address the issue of arrears on their accounts and the repayment of the rented equity associated with these which stood at €1.4m at the end of 2021. This relates to 22 accounts and is included in long term debtors.

Chief Executive's Response

The finance section is continuing to work on this area in 2022 and is dealing with the mortgagees on their shared ownership housing loans.

7.2 Long Term Investments - Companies Not Limited by Guarantee

The Council owns 100% of the share capital of two subsidiary companies. The net assets of these companies totalled €537k according to the most recent accounts available at the time of preparation of the AFS. However, this was not reflected in long term debtors in the AFS. This is not in compliance with Departmental guidance issued under circular Fin 02/2009. This matter was highlighted at the previous audit.

Chief Executive's Response

This matter will be reviewed as part of the preparation of the AFS 2022, in accordance with the guidance as issued under circular Fin 02/2009.

8 Creditors

8.1 Expenditure Accruals

I identified capital expenditure amounting to €1.6m incorrectly accrued categorised as follows:

| Description of Payment | €m |
|--|------------|
| Contractors Charges | 0.4 |
| Consultant Engineers | 0.1 |
| Purchase of Plant | 0.7 |
| Capital Payment to Approved Housing Body | 0.4 |
| Total | 1.6 |

In addition to the above, there were also small sums incorrectly accrued in the income and expenditure account.

These errors were not corrected in the AFS. These have no impact on the income and expenditure account.

Correct processing of accruals as part of the preparation of year end accounts is critical in ensuring that the amounts included in the AFS are complete and accurate. Robust written procedures need to be put in place and communicated to all staff involved in this process. This is a significant weakness that needs to be addressed.

Chief Executive's Response

Policies and procedures regarding year end accruals will be put in place and communicated to all staff.

9 Fixed Assets

9.1 Accounting for Fixed Assets and Work in Progress (WIP)

It was highlighted in the previous audit report, significant weaknesses in accounting for fixed assets and work in progress. This continues to be the case.

The following was identified at the current audit:

- Miscoding of expenditure and income in WIP resulting in an audit adjustment of €5.6m and €5.9m respectively being made in the AFS (see paragraph 5 (a) above)
- The absence of a completed WIP reconciliation in accordance circular Fin 02/2009
- Costs of €2.9m relating to land and buildings is included in both fixed assets and WIP
- Expenditure in excess of €678k incurred in 2021 was added to the capitalisation cost of a number of housing units transferred to fixed assets in 2019 and 2020. This is not in compliance with circular Fin 01/2005.
- A site used for the construction of a turnkey housing development some years ago remains included in land fixed assets
- Land costs pertaining to two separate housing schemes and a fire station remain excluded from the cost of these fixed assets
- The disposal of land and the acquisition of an item of plant in 2021 was not reflected in fixed assets.

With the exception of the first point above, these matters were not corrected in the AFS. These have no impact on the income and expenditure account.

The weaknesses in accounting for fixed assets are a cause for concern and needs to be addressed. I am once again requesting that a review of all projects included in WIP be undertaken to ensure that they are correctly accounted for.

It is paramount that processes are put in place and communicated to all relevant staff involved in accounting for fixed assets.

These matters will be reviewed at the next audit.

Chief Executive's Response

The Council will transfer the land costs associated with the fire station and the two housing developments to the relevant job code to reflect the actual cost of these projects in the AFS 2022. A review of fixed assets and WIP will be undertaken in 2022 to address the issues above, and policies and procedures implemented for dealing with all aspects of fixed asset accounting.

9.2 Land / Property Register

The local authority is continuing work to complete the land / property register. While this system is now functional, the process of updating this register has not yet been completed. As recommended in the previous year's audit report, a reconciliation should be completed between this register, the local authority's financial management system (FMS) and the insurance schedule after all data has been uploaded to the new system.

Chief Executive's Response

As outlined, the Council is continuing to work on the implementation of the property register. The Council will prioritise the verification and transfer of the data, and a reconciliation between the Land / Property Register and the FMS will be completed for AFS 2022.

9.3 Housing Stock Reconciliation

A housing stock reconciliation reconciling all housing units as recorded on the housing rents system to the FMS / AFS was not completed. This is an important internal control which remains uncompleted each year. This matter has been highlighted at previous audits.

Chief Executive's Response

Work is ongoing on the completion of this reconciliation in conjunction with the implementation of a new system. Priority is being given to this task in 2022, and a completed housing stock reconciliation will be available for the AFS 2022.

10 Capital Account

10.1 Capital Balances

At the end of 2021 there was a net credit balance of €22.1m (€21.4m in 2020) in the capital account. Debit balances include €2.97m in respect of static balances of which €2.64m relates to land purchases.

A review of capital balances noted the following:

- In some cases, the accounting code (capev flag) associated with the relevant project (job code) is inaccurate
- A number of adjustments are required to be completed to reflect more accurately the closing balances on some job codes, in particular those within the water services directorate. These adjustments have no impact on the revenue account.

Chief Executive's Response

A review of capital balances is currently ongoing and all necessary adjustments will be made as part of this process.

10.2 Matters Highlighted at Previous Audits

The following two matters have been highlighted in previous audit reports:

(a) Unspent Grant Monies Received from Transport Infrastructure Ireland (TII)

The Council received a total of €196k surplus to requirements from TII in respect of four roads projects. It was recommended that approval be sought from TII to use these monies on other ongoing projects and if this was not obtainable it should be refunded by the local authority.

(b) Cavan Eastern Access Route

A credit balance of €506k is being carried forward on this project since 2016. There is also a balance in trade debtors of €175k, €143k of which relates to the year 2014, pertaining to the contractor who was involved in the construction of this by-pass. I have been informed at previous audits that an adjustment may be required to correct these balances.

I am again requesting that the above matters be concluded.

Chief Executive's Response

We are in discussions with TII relation to the surplus and are hopeful of reaching agreement in relation to using these monies on alternative projects.

With regard to the Cavan Eastern Access Route, this is currently being reviewed by the roads section and will be dealt with accordingly.

11 Operation of Part V Register and Controls

The Part V register presented at audit indicated a sum of €1.43m outstanding in relation to financial contributions due to local authority with a sum of just €38k received in 2021. A review of these outstanding contributions should be undertaken to determine their collectability and actively pursued where considered to be collectable.

Chief Executive's Response

Significant progress is ongoing in the management of outstanding debt, with the expectation that there should be a significant reduction in Part V balances in 2022.

12 Payment of Acting Allowances

It was noted that during 2021, acting allowances were paid to a number of staff for a continuous period exceeding four months. However, sanction for this was not sought from the Department. This is not in compliance with circular LG (P) 08/12.

Chief Executive's Response

Cavan County Council are undertaking a review of all acting arrangements and will apply for Department sanction as required.

13 Local Authority Companies

The Council's interest in companies is set out in appendix 8 in the AFS and includes brief financial details of these as at the date of the latest financial statements received. None of these companies are consolidated in the Council's AFS.

The accounts of Glassell Limited were not independently audited as it availed of the audit exemption on the grounds that it meets the conditions specified in Section 359 of the Companies Act 2014.

14 Governance and Propriety

14.1 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.

14.2 Corporate Risk Register

The Council completed a Corporate Risk Register in June 2021 which incorporates the overarching risks of the local authority with corresponding mitigating measures to address these. This register was updated in January 2022.

14.3 Internal Audit

Internal audit continues to provide a high standard of service within the Council completing ten internal audit reports in addition to the Public Spending Code Quality Assurance Report 2020.

14.4 Fraud and Contingency Plan

There is a Fraud and Contingency Plan in place in the Council, last updated in 2019.

14.5 Procurement

The Council has in place a dedicated procurement section which includes a central tendering administration unit. This unit, in conjunction with the Council's Climate Action Team are currently in the process of developing a Green Public Procurement Strategy for the local authority.

Acknowledgement

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



Patrick McCabe

Local Government Auditor

7 July 2022

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