



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork City Council

for the

Year Ended 31 December 2016



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

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AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Cork City 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 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 3 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

2.1 Statement of Comprehensive Income

The Council recorded a surplus of €52k for the year after making net transfers of €3.7m to reserves. The Members approved the over-expenditure at their April 2017 meeting. A summary of the budget compared with the outturn per service division is disclosed in Note 16 of the AFS.

2.2 Fixed Assets

Fixed assets increased by €87m in the year, primarily due to the inclusion of:

- 159 housing units, which cost €41.7m
- The Bandon /Sarsfield Road Flyover which cost €42m and
- Parks / playgrounds which cost €2.8m.

In previous audit reports I expressed my concern in relation to the need to properly update the Property Interest Register (PIR) which records the Council's interest in land and buildings. I also indicated the requirement to reconcile these records with the Council's Fixed Asset Register (FAR). The Council has made good progress in advancing these two exercises however I would recommend that a target date be set for the completion of this work. As highlighted in paragraph 10, it is essential that the Council maintains adequate records to facilitate the management and control of these valuable assets in its custody.

Chief Executive's Response

The Property Interest Register project is ongoing using new and complex software developed in conjunction with 8 other Local Authorities nationwide. Cork City Council was the first to install and use this new software, and as an urban authority experienced issues of the title complexity uncommon to rural authorities. The City Council continues to assist the overall group in identifying problems and limitations that require attention to ensure the software platform is fit for purpose. To date the Council has entered approximately half of the referenced 29,000 records in alphanumeric form and approximately 1/3 of the same records in spatial form, i.e. map format. Progress has slowed due to software deficiencies and problems within the PIR system but the Council has identified the necessary problems and is awaiting a report with costings from the software developers to fix the issues identified. It is difficult to define a precise timeframe for the completion of the PIR project. However, assuming that the current software problems are fixed the Council expects completion of the overall project within 2 years.

The Council is committed to maintaining adequate records to facilitate the management and control of its assets. The exercise of reconciling the property records as provided in PIR with the Fixed Assets Register has commenced ensuring that all fixed assets entered into the system are given a unique PIR ID to ensure cross referencing in the system. A register of available current interests, i.e. lands and buildings will also be created, on a value and priority basis, to ensure that underutilised assets are identified and plans, where appropriate, for their development and/or sale are progressed.

2.3 Work in Progress and Preliminary Expenses

The expenditure on work in progress and preliminary expenses at the year-end amounted to €17.6m. Housing projects, valued at €14.9m accounted for 17 of these 20 capital projects.

2.4 Specific Revenue Reserve

The specific revenue reserve was created in 2003, when local authorities changed over to accrual accounting and produced a balance sheet for the first time. The Department of Housing, Planning and Local Government (the Department) permitted local authorities to use their specific revenue reserve in the preparation of the 2016 AFS. The Council applied its reserve of €278k in funding old capital balances in accordance with the Departmental Circulars Fin 11/2016 and Fin 4/2017.

2.5 Loans Payable

Capital debt decreased by €1.6m during 2016 to €139.3m. It should however be noted that the Council drew down a loan of €8.6m in March 2016, to fund long standing deficits on a number of housing capital projects. Repayments on these loans from the Council's own resources amounted to €255k in 2016 and will increase to approximately €400k in 2017.

Loan balances at the end of 2016 included bridging finance of €28.4m in respect of loans currently being repaid on an interest only basis, for 95 houses originally built for resale under the affordable housing scheme. Eleven of these units were taken into the Council's housing stock. The remaining 84 were let to approved housing bodies under the Social Leasing Scheme and during 2016 the Council recouped €360k of its costs from the Department in relation to these properties. Included in these loan balances is €6.9m relating to:

- Capitalised interest
- Houses that have previously been sold and
- Houses taken into the Council's own housing stock.

These elements of the bridging finance will have to be funded from the Council's own

resources.

In addition to the above, the Council had €34.6m of borrowings at year-end relating to 115 acres of land across three separate locations that are presently being repaid on an interest-only basis. I have requested management to identify a funding source for these loans.

Chief Executive's Response

The loans for the Affordable Housing Schemes (AHS) are under constant review internally and with the Department.

The City Council is advancing plans under the Rebuilding Ireland Action Plan for Housing & Homelessness. Funding under the LIHAF Scheme has been approved in the amount of €9.87m to advance the necessary infrastructural works at Old Whitechurch Road. Plans are also being advanced for housing at Nashes Boreen with a planning application to be prepared in early 2018.

2.6 Net Current Assets

The Council's net current assets exceed its current liabilities by €25.6m, which represents an improvement of €8.7m on the previous year's position.

Chief Executive's Response

During 2016 the Council focused on managing its cash flow position and will continue to focus on monitoring the net assets position to ensure liabilities can be met as they fall due.

3 Income Collection

3.1 Summary of the Major Revenue Collections

A summary of the main collection account performances with the comparative figures for the previous year is as follows:

	Arrears		Collection Percentage	
	2016	2015	2016	2015
Rates	€19.2m	€19.8m	79%	78%
Housing Rents and Annuities	€5.0m	€4.7m	81%	81%
Housing Loans	€1.2m	€1.1m	70%	71%

3.2 Rates

The rates collection levels improved in 2016 with the arrears reducing by €689k by the year-end. The Council achieved a collection yield of 79%, representing an improvement of 1% on the 2015 outturn.

Debtors representing 21% of the closing arrears (€3.9m) were reviewed to establish the progress being made in collecting these sums. The following was noted:

- 38% were in receivership/liquidation
- 40% were being pursued for the arrears
- 2% had the balance paid
- 14% had payment plans in place
- 6% were subject to valuation disputes and were waiting resolution.

The bad debt provision at the year-end amounted to €12.8m, which represented 67% of the closing debtor. At the end of June 2017 79% of the debtor remained outstanding and as a result, I would recommend that management review the adequacy of its provision for doubtful debts at the year-end.

Chief Executive's Response

A review is undertaken each year regarding the adequacy of the provision for doubtful debts. A similar review will be carried out for 2017.

3.3 Rents

At 81% the collection level for 2016 is the same as the previous year. Rent arrears at the year-end amounted to €5m (net of credit balances of €0.6m), against which the Council made a bad debt provision of €2.9m. At the end of 2016 the Council had 9,009 active rent accounts of which 5,155 (57%) were in arrears. Of these:

- 2,602 (28.9%) were in arrears from between 4 weeks and 1 year
- 567 (6.3%) were in arrears of more than one year

Chief Executive's Response

Additional resources have been allocated to rent arrears in 2017 resulting in a reduction of over €700,000 in arrears to date.

3.4 Housing Loans

The collection performance continued to decline in 2016, falling from 71% in 2015 to 70% in 2016 with arrears rising by €89k (9%). The debtor at the year-end amounted to €1.2m against which the Council made a bad debt provision €1m, which is reasonable given the aged debt profile of the loan book. At the year-end the Council had 667 accounts, of which 287 were in arrears. The following is a summary of these;

- 104 (36%) had arrears of less than one month;
- 32 (11%) had arrears between one and three months; and
- 151 (53%) had arrears over three months

Chief Executive's Response

Continuing on since the latter half of 2016, post year end has seen a sustained effort to address in particular the 53% of arrears that are over three months in arrears. Sustainable loans within this group are being managed within the Mortgage Arrears Resolution Process now have a track record of compliance with agreed payment plans to clear their arrears. All unsustainable loans have now exited MARP and are being brought to the Local Authority Mortgage to rent scheme or else repossession proceedings are being progressed through the courts.

3.5 Rental Accommodation Scheme (RAS)

The RAS collection does not form part of the collection accounts in Appendix 7. Arrears from RAS tenants have increased by 26% from €183k at the end of 2015 to €231k at the end of 2016. An aged debt report generated in April 2017, shows that arrears had again risen to €253k, with €114k being more than 6 months due. Despite the poor collection performance, no

bad debt provision was made in the 2016 AFS. Management should ensure that a provision is made in the 2017 AFS and that the collection performance is addressed.

Chief Executive's Response

An adequate bad debt provision will be made in the 2017 AFS.

The RAS section is undertaking a monthly analysis on arrears with appropriate action in relation to agreements and monitoring payment plans. The arrears have decreased to €193,500 as per the 30 September 2017.

4. Transfer of Water and Sewerage Functions to Irish Water (IW)

The Council removed fixed assets with a net book value of €326m from its 2014 AFS in accordance with Circular Fin 02/2015. The Council is maintaining a register to record and track the progress in transferring title for these assets. To date the Council has transferred all the underground assets however none of the over-ground assets have yet transferred. The Carrigrennan Water Treatment Plant has been signed off for transfer in the next Ministerial Order which is expected to be executed in the near future. There are issues in relation to registration of title, boundaries etc. that will need to be addressed prior to advancing a number of the remaining asset transfers.

The Council held water related loans with a value of €10.95m at the end of 2016. The cost of repaying both interest and capital on these loans is being funded by the Department.

At 31 December 2016 the Council recorded a service level agreement debtor amounting to €1.1m due, and also recorded a creditor of €0.4m in respect of development charges and other monies collected by the Council on behalf of IW.

Chief Executive's Response

The process of transferring over-ground Water Service assets is continuing to be progressed with Irish Water with a view to having this completed as soon as is practicable given the complex nature of the sites involved. In 2017 the process was completed from the City Council's perspective with respect to the Waste Water Treatment Plant. It is expected that the process in relation to further assets will be completed in 2018.

5. Capital Account

5.1 Overview

The Council incurred total expenditure of €80.9m on capital projects in 2016, with total income amounting to €89.3m. This resulted in a surplus of €8.4m for the year, bringing the closing balance to a favourable balance of €26.5m.

The most significant element of the capital account balance consisted of housing capital projects, which had net unfavourable balances totalling €15.4m. The housing capital balances are made up of a combination of 283 different job codes, combining favourable balances of €24.8m and unfavourable balances totalling €40.2m.

5.2 Housing Capital – Inactive Balances

At the previous audit, I have highlighted the extent of inactive codes in the capital account. Progress in resolving this matter remains slow. An examination of these balances identified 68 inactive codes where there was no movement during 2016, with the total of these codes

amounting to a net unfavourable balance of €12.2m at the year-end. Included in these inactive codes is an €11m favourable balance relating to grants received for the purchase of apartments in Atkins Hall that did not proceed. I have requested management to conduct a detailed review of the capital account and put in place a plan to deal with all remaining inactive balances.

Chief Executive's Response

Progress is being made on eliminating inactive balances with a total of 135 inactive balances cleared in 2016. Progress will continue to eliminate the remaining balances.

5.3 Housing Capital – Unfunded Balances

Management have advised that an application will be made to the Department in the last quarter of 2017 to fund €16.2m, relating mainly to projects that have been completed for a number of years.

In addition, the Council have advised that definite funding plans are in place for balances totalling €15.8m, which consists of the following projects:

Project	€m
Housing Voids Programmes	4.2
House Purchases	3.0
Old Whitechurch Road	2.5
Regeneration	1.5
Blackpool Village - Green Lane	1.3
Boherboy Road Housing Scheme	1.0
Others	2.3
Total	15.8

Management have confirmed that the remaining €8.1m of the €40.2m unfunded balances will have to be funded from the Council's own resources. The Council needs to agree a funding plan to address these balances.

Chief Executive's Response

There is a funding plan in place in relation to the Housing Voids Programme. Progress will continue to be made with the Department of Housing, Planning & Local Government to fund projects that have been completed for a number of years. Projects will be developed under the Rebuilding Ireland Action Plan for Housing & Homelessness as listed above and the Council will if necessary agree a funding plan for the remaining outstanding balances.

5.4 Non-Housing Projects - Unfunded Balances

In addition to the projects within the Housing Directorate referred to in previous paragraphs, there were a number of non-housing unfunded capital project balances in excess of €0.5m. These included:

Project	€m
Docklands Bridge	5.2
Purchase of Showgrounds and Lands	4.0
New Hollyhill Library	2.5
St Catherine's Extension	1.8
8 & 9 Parnell Place	1.6
Stapleton House	1.3
Total	16.4

The Docklands Bridge, Showgrounds and Lands and the New Hollyhill Library have no external funding source currently available. Consequently the Council needs to identify a funding source for all of these balances. To date the Council has made a provision of €130k in its annual budget towards the funding of the New Hollyhill Library.

The St Catherine's Extension, 8 & 9 Parnell Place and Stapleton House are projects where the proposed future sales are expected to clear the unfunded balances.

Chief Executive's Response

The funding of Docklands Bridge will be addressed as part of the overall docklands development. The balance of €4m in relation to the purchase of the Showgrounds will be recovered from future development contributions.

6. Development Charges

The accounting treatment for the development charges debtor changed in 2016 as per Circular Fin 04/2017. The closing short-term debtor at the end of 2016 amounted to €3.8m against which the Council made a bad debt provision of €2.3m (60%), which is considered adequate.

During the review of the billing and follow up of development charges debtors, difficulties were encountered in obtaining explanations as to the charges levied in particular instances and also in relation to debtor balances that were recorded as outstanding at the year-end. I would recommend a review of the management and controls operating in this section. The Council also needs to ensure that appropriate resources are applied to the levying and collection of these charges.

Chief Executive's Response

The Strategic Planning and Economic Development Directorate will:

1. Review all accounts four times per year
2. Prepare a comprehensive settlement account for all major development which generate planning contributions
3. Work within its power to apply adequate resources to the collection of development contributions.

7. Part V Agreements

During previous audits, weaknesses were highlighted to Council management in the recording, control and management of Part V agreements. I am not satisfied that this area has been properly addressed by management and as a result I recommend that a review be undertaken of the controls in this area.

Chief Executive's Response

A review of the Part V internal controls system has already commenced within Housing Capital Section with a view to completion and implementation before year-end.

This review is encompassing:

- Review of the current Part V for files to date.
- Design of an improved database system to record all Part V relevant files. Regular crosschecks and reconciliations with planning systems to encourage accuracy of records.
- Review of controls between Planning Directorate and Housing Directorate, and establishment of regular reporting and meeting structure.
- Updating of procedures manual to reflect new legislative requirements.

8. Procurement

During the audit a number of breaches both of the Council's own purchasing procedures and of national procurement guidelines were noted. These breaches included;

1. Purchase orders being issued after the receipt of the goods and services;
2. Purchase orders being issued after the invoice was received;
3. Failure to comply with the Council's requirement to obtain three quotes; and
4. Failure to advertise on the e-Tenders website.

Failure to adhere to proper procurement procedures exposes the Council to financial and reputational risk. I would recommend that consideration be given to the appointment of a full time Procurement Officer. The Council needs to ensure that compliance checking is embedded into the purchase to pay cycle and that appropriate action is taken where there is non-compliance.

Chief Executive's Response

In relation to compliance levels with Purchase to Pay procedures the Council has introduced changes designed to ensure compliance prior to payments being made. Work is continuing at all levels to ensure compliance with procurement regulations and guidelines and to use the Office of Government Procurement frameworks where appropriate. Existing procurement structures will be reviewed.

9. Refundable Deposits

At previous audits it was noted that there was an absence of proper reconciliations and back up schedules to explain the balances recorded under the various categories of refundable deposits. Management has made good progress in addressing this issue however further progress is necessary to bring this issue to a satisfactory conclusion.

Chief Executive's Response

Issues raised previously with regard to legacy codes have been resolved and reconciliations are being maintained within the year for refundable deposits. A revised format is being introduced as requested for the reconciliation of new refundable codes. The process was completed for six codes before the close of audit and the remaining two will be completed before year end.

10. Property Management

At the previous audit, the absence of proper financial records covering land and buildings and the resulting impact on the management of Council fixed assets were noted. During the current audit a number of instances where Council properties were occupied by third parties without formal lease

agreement in place were identified. This oversight exposes the Council to potential loss. This was highlighted in the previous audit however the issue has not been properly addressed and this needs to be rectified.

Chief Executive's Response

The concerns of the Local Government Auditor are noted in this regard and since the matter was reported last year the relevant buildings occupied in the absence of adequate lease arrangements have been identified and efforts to implement the appropriate lease arrangements and structures are being progressed as a matter of priority.

11. The Events Centre

During 2014 the Council ran a procurement competition for the awarding of funding for the development and operation of an Events Centre within the city. A preferred bidder was selected and the elected members approved €8m in funding from the Council along with €12m which was approved by central government. To date the project has not progressed to contract stage as I understand that the preferred bidder has requested additional public funding.

The Council has formally requested additional government funding for the project but to date no decision has been made. The Council has expended €754k to date on this project.

Chief Executive's Response

The development of an Event Centre has been a key strategic corporate objective of the Council for over 20 years. In running this current process the Council has at all stages been cognisant of its responsibilities in providing public funding to the project and will continue to do so in addressing the current issues.

12. Corporate Governance

Corporate governance comprises the system and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place.

12.1 Internal Audit Function (IA)

There was a reduction in the staff numbers employed in IA from four to three during 2016. Eight reports were issued during the year including three relating to the Public Spending Code. For administrative purposes the internal auditor reports to the Head of Finance, however audit reports are submitted directly to the Chief Executive and the Council's Audit Committee. I have taken account of these reports in the course of this audit.

Chief Executive's Response

The reduction referred to above was due to a vacancy that arose and has been filled in 2017.

12.2 Audit Committee

The Audit Committee held six meetings during 2016. The Chairperson of the committee briefed the Council on the Audit Committee's work and its 2016 Annual Report at the Council's meeting held on 24 April 2017.

12.3 Interest of Local Authorities in Companies

Appendix 8 to the AFS recorded the Council's interest in four companies. The Council has not consolidated any of these results into its AFS, as it relies on an exemption provided in the Code of Practice and Accounting Regulations. Note 3 to the AFS includes under other are repayable loans provided to Cork Opera House (€1.06m), Leisureworld (€0.35m) and Film Festival (€0.196m).

The Council needs to improve its oversight and management of all companies in which it has an interest to ensure that proper corporate governance arrangements are in place and that the Council's financial interests are properly safeguarded.

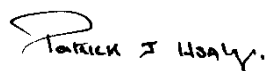
Chief Executive's Response

The City Council has an equity interest in two subsidiary undertakings, an associate undertaking and one other company. In addition, the Council has extended loans to the two subsidiary undertakings and a further additional company.

Operational oversight of these bodies rests with the individual directorate carrying responsibility for the particular functional area within the Council; namely arts, recreation and economic development. Although significant oversight is already exercised, the Council proposes to standardise and enhance these governance arrangements in 2018.

13. Acknowledgement

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



Patrick J. Healy
Principal Local Government Auditor
31st October 2017