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Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Cork City Council**

**for the**

**Year Ended 31 December 2017**

Department of Housing, Planning and Local Government

[housing.gov.ie](http://housing.gov.ie)

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# AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Cork City Council for the year ended 31 December 2017, 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 2017 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.

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 / Financial Position

The Council recorded a surplus of €17k for the year after making net transfers of €5.4m to reserves. The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS. The approval of the members, as required by S.104 of the Local Government Act, 2001 was obtained on 23 April 2018.

### 2.2 Fixed Assets

Fixed assets increased by €18m (net) in the year, primarily due to the inclusion of:

- An increase in housing stock of 65 units (€18.3m)
- Site purchased at the Kinsale Road (€1m)
- Land purchased at Kifts Lane (€650k)

Previous audit reports expressed concern in relation to updating of the Property Interest Register (PIR) which records the Council's interest in land and buildings. I also indicated the

requirement to reconcile the PIR records with the Council's Fixed Asset Register (FAR). The Council has made progress in advancing this work; however a target date needs to be set for the completion of this exercise.

The prior year audit report also expressed concern in relation to the Council's management and control of fixed assets which is referred to further in paragraph 9 of this report.

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

The Property Department have been unable to progress the Property Interest Register digitisation project as quickly as the Council would have liked due to significant problems with the governing software (i.e. PIR version 3). These problems have inhibited the Council's ability to input critical title data in an accurate, effective and efficient way. The resolution of these difficulties does not represent a priority for the other members of the PIR User Group (representing 8 Local Authorities across the country), some of which have yet to implement PIR version 3. The City Council's efforts have not proved successful to date in having focus brought by the software developers to attend to the necessary software repairs in a robust and timely fashion.

It is not possible to give an exact timeframe for the delivery of this project until the necessary commitment is in place with the User Group and significant software problems are addressed fully.

In recognition of the above difficulties and to address concerns raised by the Local Government Auditor (LGA) the Property Department have sought to take an alternative risk-based approach to the cataloguing and mapping of City Council owned assets. Land and building assets (350 no.) have been identified from the Fixed Asset Register, and referenced to the responsible Directorate. Of the 350 properties, the Property Department has mapped 250 to date and supplied the key information (including a PIR reference) to the IS department to allow these to be mapped on the Council's GIS portal enabling review by all interested internal parties. 70% of FAR assets are now mapped and referenced and key attribute information catalogued. In terms of timeframe it is intended that the remaining 30% of Fixed Assets will be reviewed, identified and mapped by end Q2, 2019. A key objective will be to marry the FAR with a full and mapped list of land and buildings.

## **2.3 Work in Progress and Preliminary Expenses**

Expenditure on work in progress and preliminary expenses amounted to €28.5m at the end of 2017. This expenditure relates mainly to housing projects (€24.9m), which accounted for 27 of the 31 capital projects.

## **2.4 Net Current Assets**

The Council's current assets exceeded its current liabilities by €31m at the end of 2017, which represented a relatively healthy liquidity position. These figures however do not take account of a credit balance of €11m in the capital account relating to grant monies received in advance and not paid out on Atkins Hall.

## Chief Executive's Response

The City Council is focused on managing its cash flow position. It will continue to monitor the net asset position to ensure liabilities can be met as they fall due.

### 2.5 Loans Payable

Capital debt decreased by €6.9m during 2017 to €132.5m. The Council drew down €200k from the Housing Finance Agency to finance annuity loans. It also redeemed €609k relating to a land loan.

Loan balances at the end of 2017 included bridging finance of €28.2m in respect of loans for 95 houses originally built for resale under the affordable housing scheme that are currently being repaid on an interest only basis. 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, for which the Council recouped €322k of its costs during 2017 from the Department. Also included in these loan balances is €6.7m 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 €33.8m of borrowings at the year-end relating to 67 acres of land across two separate locations that are presently being repaid on an interest only basis.

## 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 Action Plan. Funding under the LIHAF Scheme has been approved in the amount of €9.87m to advance the necessary infrastructural works at Old Whitechurch Road and the Part 8 under the Planning & Development Act has been advertised.

## 3 Income Collection

A summary of the revenue collections are as follows:

Income Source	Yield		Debtors	
	2017	2016	2017	2016
Rates	79%	79%	€19.27m	€19.15m
Rents & Annuities	85%	81%	€3.94m	€4.96m
Housing Loans	78%	70%	€0.98m	€1.22m

### 3.1 Rates

The Council achieved a collection yield for rates of 79% in 2017, the same as for 2016. The rates debtor increased by €120k to €19.27m at the end of 2017. Debtors representing 21%

of the closing arrears (€4m) were reviewed to establish the progress being made in the collection of these sums. The following was noted:

- 30% were in receivership/liquidation
- 39% were being pursued for the arrears
- 23% had payment plans in place
- 6% were the subject of valuation disputes, which were awaiting resolution
- 2% had been paid in full.

At the end of August 2018, 74% of the closing year end debtor remained outstanding. The bad debt provision at the year-end amounted to €12.8m, which represented 66.4% of the closing debtor.

### 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 2018.

## 3.2 Rents

The collection yield from housing rents and annuities increased to 85% in 2017. This improvement in collection performance is reflected in the following:

	2017	2016
Collection Yield	85%	81%
Net Arrears	€3.94m	€4.96m
Total Number of Accounts	9,197	9,044
Number of Accounts in Arrears	5,210 (57%)	5,155 (57%)
Number of Accounts in Arrears from 4 weeks to 1 Year	2,186 (24%)	2,602 (29%)
Number of Accounts in Arrears of more than 1 Year	427 (5%)	567 (6%)

The Council made a bad debt provision of €2.5m against the arrears, which is reasonable given the aged debt profile of these arrears.

### Rental Accommodation Scheme (RAS)

Net arrears relating to RAS have reduced from €282k in 2016 to €266k at the end of 2017. The Council has made a bad debt provision of €190k, which is reasonable given the aged debt profile of these arrears. The RAS collection performance still does not form part of the collection accounts in Appendix 7.

### Chief Executive's Response

Cork City Council has applied additional resources to the collection of rent arrears in 2017 and has resulted in a reduction of arrears of over €1m. The City Council will continue to work on the reduction of arrears in respect of both rents and RAS in 2018.

### 3.3 Housing Loans

The collection yield for housing loans increased in 2017 to 78% with arrears at 31 December 2017 amounting to €983k. At the year-end the Council had 672 accounts, of which 299 were in arrears. The following is a summary of these;

- 123 (41%) had arrears of less than one month
- 43 (14%) had arrears between one and three months
- 133 (45%) had arrears over three months.

The Council has made a bad debt provision of €823k against the arrears, which is reasonable given the aged debt profile of the loan book.

#### Chief Executive's Response

The 2017 collection yield increased by 8% over the 2016 level to 78%. This was the result of sustained effort to address loans identified as being unsustainable while at the same time implementing sustainable payment plans through the MARP process for those in arrears. The 4 unsustainable loans addressed in 2017 were recouped in full.

## 4 Transfer of Water and Sewerage Functions to Irish Water

As highlighted in previous audit reports 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 maintains a register to track the progress in transferring title of these assets to Irish Water (IW). The Council has transferred all the underground assets. The only over-ground asset was the Carrigrennan Water Treatment Plant, which was transferred during 2017.

Following a review at national level in 2018, it was determined that assets that had a chamber with no associated land and did not have a structure that a person could walk into were deemed to have transferred under SI 13 of 2015. Sixteen pumping stations fell into this category and were consequently transferred.

The remaining 19 assets that require transfer are either not registered or have title issues that require further work to facilitate their transfer.

The Council had €9.74m in water related loans at the end of 2017. The cost of repaying capital and interest on these loans is being funded by the Department.

At December 2017 the Council recorded a service level agreement debtor of €1.1m as being due from IW and a creditor of €6k in respect of IW's share of development charge receipts collected but not yet paid. In addition to the above the Council also recorded a creditor of €187k relating to IW's share of the short term development charges debtor at the year-end.



## **Chief Executive's Response**

There are 19 over-ground assets remaining which are at different stages of assessment. The high turnover of staff in Water Services is impacting on the progression of asset transfers to Irish Water as staff are getting familiar with their new roles in Cork City Council / Water Services. Maintaining the ongoing operation of the service is the initial priority before investigation of boundary / land transfer.

The asset transfer sites are recorded on a register to ensure all the sites are progressed to Irish Water.

## **5 Capital Account**

### **5.1 Overview**

The Council incurred total expenditure of €56.7m on capital projects in 2017, with total income amounting to €60.2m. This resulted in a surplus of €3.5m for the year, bringing the closing balance to a favourable balance of €30m.

The most significant element of the capital account balances consisted of housing capital projects, which had net unfavourable balances totalling €16.4m. The housing capital balances are made up of a combination of 247 different job codes, combining 55 favourable balances totalling €23.9m and 192 unfavourable balances totalling €40.3m.

### **5.2 Housing Capital**

At the previous audit, I highlighted my concern in relation to the level of inactive codes in the capital account and the absence of clearly defined funding proposals for those projects recording unfavourable balances. A review of housing capital projects identified 79 inactive codes where there was no movement in 2017, the total of which was a net unfavourable balance of €14.4m. This consisted of 64 unfavourable balances totalling €25.8m and 15 favourable balances totalling €11.4m. Included in the favourable balance is €11m relating to a grant received for the purchase of apartments in Atkins Hall that did not proceed, as outlined in paragraph 2.4.

I reviewed the proposed funding of all capital project balances at 31 December 2017 with the Director of Housing. This review identified 41 capital projects recording unfavourable balances totalling €20.8m where Departmental funding was not available, and therefore requires funding by the Council. The Council needs to agree a mechanism to do so.

## **Chief Executive's Response**

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 and the Council will if necessary agree a funding plan for the remaining outstanding balances.

### 5.3 Non-Housing Projects – Unfunded Balances

In addition to the unfunded capital projects referred to in the previous paragraph, there are a number of non-housing capital projects with unfunded balances in excess of €500k, where funding proposals need to be documented. These include:

<b>Job</b>	<b>Balance</b>
Docklands Bridge	€5,184k
Purchase of Showgrounds / O'Keeffe lands	€3,963k
Purchase of property at Kiff's Lane	€2,503k
Site at Kinsale Road	€965k

#### Chief Executive's Response

The funding of Docklands Bridge will be addressed as part of the overall docklands development.

The balance of €3.96m in relation to the purchase of the Showground's will be recovered from a combination of revenue contribution to Capital plus future development charges.

The funding of the property at Kiff's Lane will come from an onward sale/redevelopment of the overall site.

In relation to the site at Kinsale Road, this will be funded partly by a roads scheme and other future uses.

## 6 Development Charges

The accounting treatment for development charges debtors changed in 2016 per Circular Fin 04/2017. The closing short-term debtor at the end of 2017 amounted to €3.1m against which the Council made a bad debt provision of €2m (65%), 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. I would recommend a review of the management and controls in operation within 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 & Economic Development Directorate will continue to review all the accounts throughout the year. It will carry out a review of the current management controls in operation at present and make the necessary changes where appropriate.

## 7 Part V Agreements

In the previous audit weaknesses were highlighted in the Council's recording and follow up of Part V agreements. It is acknowledged that some progress has been made however the Council needs to apply the required resources to properly address this issue.

## **Chief Executive's Response**

A review of the Part V internal controls system was undertaken in 2018 by the Housing Capital Section, with new procedures documents now compiled on updated Part V legislation and regulations. A further extension of this manual will be finalised in conjunction with the Planning Directorate, to document internal communication structures, and the monitoring of Part V compliance.

A review of the current Part V register has been completed, to filter all unresolved cases for review. This initial desktop review has commenced and the LGA has been advised on same. Additional resources will be applied to this work area by year-end in order to complete the legacy file review.

A database has been designed to record and track all current files as an interim control measure. However, a review is to take place with the Planning Directorate on best use of existing systems to track and monitor all Part V relevant files. A regular meeting structure is also proposed between the Housing and Planning Directorates on the Part V Register, now that resources have been applied. Progress will continue to be made in the coming months with a view to substantial completion of this project by end of 2018.

## **8 Procurement**

During the course of the audit a number of incidents were noted where Council staff failed to comply with the Council's own purchasing procedures and national procurement guidelines. These breaches also included a number of legacy issues highlighted at previous audits. Internal Audit (IA) carried out a review of Public Procurement (audit report 17/09), which highlighted non-compliance in a number of areas. In this report IA could only provide limited assurance as to the adequacy and effectiveness of key controls. I recommend that serious consideration be given to appointing a full time Procurement Officer to improve compliance.

The failure of the Council to adhere to proper procurement procedures exposes the Council to financial and reputational risk. It was noted that the Council paid a substantial sum in compensation in early 2017 to a contractor in relation to a procurement issue.

## **Chief Executive's Response**

While the legacy issues identified continued to exist at the end of 2017 they have been addressed or commitments have been given that they will be carried out before the end of 2018. The Council is in the process of recruiting a full time Procurement Officer.

## **9 Property Management**

Previous audit reports expressed concern in relation to the management and ongoing review of the occupancy of Council owned land and buildings. In the current audit I note that a number of Council properties were occupied by third parties without formal lease agreements being in place. This exposes the Council to unnecessary risk. The Council needs to ensure that formal lease agreements are in place covering the occupation by third parties of all Council properties. The Council also needs to ensure that where leases are in place, the terms of these leases are being complied with.

## **Chief Executive's Response**

In response to the LGA's concerns, a database of all known leases has been created for properties across the city. This Lease Register is comprised of over 700 leases/licences, and the properties have been mapped in the GIS portal, and each has been designated to the responsible Directorate. The Property Department will now engage with all Directorates individually to identify the land and buildings that are occupied without formal arrangements in place (i.e. licences, leases etc.) This will be completed by Q1 2019.

A regime will be put in place by end of Q2, 2019 to manage the Lease Register in terms of rent reviews, expiry times etc and also to commence the process of regularisation with the responsible Directorates.

## **10 Tax Settlement**

The Council made an unprompted disclosure and payment of €259k in 2016 to Revenue in relation to an under payment of PRSI for Job Bridge Scheme participants who subsequently became full time employees of the Council covering the period 2007 to 2014. During a subsequent Revenue audit further liabilities were identified resulting in a payment in 2018 covering outstanding taxes of €850k, interest on overdue tax of €198k and penalties of €51k relating to tax years up to 2017. The main items making up the outstanding tax were as follows:

- Benefit in Kind relating to Council vehicles €654k
- Value Added Tax €37k
- Professional Services Withholding Tax €2k
- Taxation on the Eating on Site Allowance €25k
- Taxation of Coroner's Fees €99k
- Relevant Contracts Tax €9k
- Payment to Employees €7k
- PRSI €17k

The Council have taken corrective action and has reviewed its procedures to ensure full compliance going forward.

## **Chief Executive's Response**

The City Council provides a comprehensive range of public services and in so doing continuously strives to adopt operational solutions which deliver the optimum level of service in an efficient, cost effective and flexible manner, often on a 24/7 basis.

In delivering services, a high degree of mobility and flexibility is required, for the transportation of both workers and equipment/supplies to various live sites and for this purpose the City Council operates and manages a fleet of over 140 vehicles which can carry employees, ranging from light commercial vehicles to small vans.

Previously included in the City Councils fleet were estate cars. These were chosen as the most operationally efficient and effective mode of transportation.

Drivers and foremen are allowed to take vehicles home for a number of operational reasons.

1. Personnel are required to be on call to respond to emergencies outside normal working hours. It should be noted that on average, there are approximately 2,200 emergency out-of-hours call-outs each year. The need to maintain out-of-hours response capacity is not likely to diminish. Accordingly, the optimum way from both a cost perspective and an operational efficiency point of view is for response personnel to take their vehicles home. Thus, if a crew / or crews is/are required for a call-out, mobilisation can occur in a more timely manner.
2. It should be noted that the City Council does not have the compounds / parking capacity to securely park over 140 vehicles overnight (and over weekends, and holiday periods). Many of these vehicles can often contain expensive equipment and plant.
3. The cost to upgrade an existing facility/depot or locate a new facility/depot for the overnight parking of fleet vehicles would be considerable. Security of the vehicles and contents would also be an issue if vehicles were centrally parked.
4. If drivers did not bring home the vehicles they would be required to bring their own vehicle to work where there is no facility to park their own vehicle.

As a result of the ruling of the Revenue Commissioners in the audit of Cork City Council, the City Council has had to review and revise practices in relation to the management of its fleet. Vehicles with capacity to carry more than 2 people are now required to be parked up centrally at night. To retain an appropriate out-of-hours response capacity, it has become necessary for the City Council to replace the majority of larger vehicles with 2 seater vehicles which can be taken home and personal use continues to comply with City Council policy. This change is likely to pose significant operational challenges to the City Council in the carryout of its services whereby flexibility is lost by virtue of larger, multi-functional vehicles not always being available.

The “employment status” of the Coroner is to be determined by the Scope section of the Department of Social Protection and in the event of a finding that such an office is a “Contract of Service” then the liability of circa 99k will materialise. Other areas relate to items which Revenue examined during the review and concluded that tax legislation was not applied correctly based on their interpretation of the facts, which differed to that of the Council.

## **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 funding from central government. To date the project has not progressed to contract stage as 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 €826k 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 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)

The IA unit has a staff complement of four; however during 2017 it was staffed by less than three full time equivalents. The IA unit needs to be properly resourced. The IA's work plan was to complete 9 reports during 2017. The unit issued 7 reports during the year and the remaining two were outsourced to a private accounting practice and were subsequently completed and issued in 2018.

#### Chief Executive's Response

The staff reduction referred to above was due to an unexpected vacancy that arose and this vacancy will be filled in 2018.

### 12.2 Audit Committee

The Audit Committee held six meetings during 2017. I attended their meeting on 12 December 2017 to discuss the 2016 audit. The Committee's annual report for the year 2017 was noted at the Council's meeting on the 23 April 2018.

## 13 Interest of Local Authority in Companies

Appendix 8 to the AFS records the Council's interest in 4 entities. Two of these companies are classified as subsidiaries, one is classified as an associate and the remaining one is classified as an investment. The Council has not consolidated any of these into its AFS, as it relies on an exemption provided in the Code of Practice and Accounting Regulations. Included as "other" in note 3 to the AFS are repayable loans provided to: (i) Cork Opera House (€898k), (ii) Leisureworld (€350k) and (iii) Film Festival (€176k).

The Council has completed two draft documents on "Corporate Governance Requirements and Annual Compliance Statement" and "Governance Oversight of Third Party Service Providers", which it plans to formally approve and implement during 2019. This should help to improve the oversight and governance of such companies.

#### Chief Executive's Response

Although significant oversight is already exercised, the Council proposes to standardise and enhance these governance arrangements in 2019 through the adoption of the above mentioned policy and reporting requirements.

## 14 Objections Received at Audit

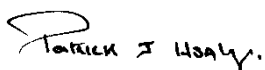
Following the official opening of the audit I received 3 letters detailing objections under article 17 of the Local Government (Financial and Audit Procedures) Regulations, 2014 as provided for in the Local Government Act, 2001.

Prior to formulating my opinion on each objection I offered the objectors the opportunity to meet with me to discuss and provide documentation relating to their objection. I met with representatives one of the objectors. I also sought details and copies of all relevant material from Council staff and discussed the issues raised by the objectors with staff.

Based on the information available to me in respect of these 3 objections there was no evidence of material inaccuracies in the AFS, or serious issue with regard to corporate governance or value for money arrangements.

## 15 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.

**Patrick Healy**  
**Principal Local Government Auditor**

**26 October 2018**

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Department of Housing, Planning and Local Government



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