LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork County 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 COUNTY COUNCIL

1 Introduction

1.1. I have audited the Annual Financial Statement (AFS) of Cork 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 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 9 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 for the year of €562k. This operational surplus for the year continues the recent positive trend whereby surpluses have been achieved on the Council's revenue account.

The revenue buoyancy for the year also facilitated the transfers of an additional €7.2m to reserves in excess of budget. While some Service Division variances were recorded between budgeted and actual out-turn, as detailed in Note 16 to the AFS, there has been an overall improvement in budgetary control across most Service Divisions during the year.

In accordance with Section 104(2) of the Local Government Act 2001 the members approved all expenditure variances at their meeting in June 2017.

2.2. Specific Revenue Reserve

The specific revenue reserve was originally created to facilitate local authorities' changeover from a cash receipts basis to accrual accounting. Circular Fin 11/2016 issued by the Department of Housing, Planning and Local Government permitted local authorities to eliminate their specific revenue reserve either through a write down of general revenue reserve deficits or the write down of unfunded capital project balances.

Cork County Council used its specific revenue reserve of €459k to fund capital project deficit balances.

2.3. Statement of Financial Position (Balance Sheet)

2.3.1 Fixed Assets

Roads and infrastructure assets increased by €79m in 2016 as additional non-national roads were taken in charge by Council. Previous audits have identified shortcomings in the fixed assets management system including the absence of one overall system for the recording of all land, property and plant. While some progress has been made in addressing this matter, fixed assets information continues to be recorded across various legacy systems. Management has advised it will include the needs of a proper fixed asset management system as part of its review of the financial management system in 2017.

During 2016 there were €21.1m of completed schemes re-classified as fixed assets from work in progress including €19.38m of housing assets, predominantly consisting of housing acquisitions.

2.3.2 Legal Provision

During the last audit it was recommended that Council should prepare a corporate report on ongoing legal cases allowing the Council to make an appropriate provision for any probable and quantifiable financial exposure in the annual financial statement. I acknowledge that a legal accrual of €2m has been recorded in AFS 2016 to cover such costs. However, during this audit I have been advised that additional funds may be required. I have requested management to comprehensively review all significant ongoing legal cases to ensure adequate provision is made in AFS 2017.

2.3.3 Long Term Loans

Long term loans reduced during 2016 by €22m to close at €408m. However, Council borrowings remained significantly high with annual loan repayment costs of approximately €34m. The €5m increase in loan repayments during 2016 is primarily due to;

- Special repayment of an unused water metering loan balance of €3.46m and;
- Redemption of an existing €9m loan. A €7m portion of this loan was re-financed with the HFA during the year at improved interest rates with the €2m balance redeemed through Council's own resources.

2.3.4 Assets Loans

Loan borrowings for the creation of assets may be summarised as follows:

Assets Loans	2016 (€m)	2015 (€m)
Land Purchases	50.3	50.9
Waste Management	31.0	33.8
Civic Buildings	27.2	30.7
Other (Roads / Cemetery)	8.9	11.5
Totals:	117.4	126.9

As reported during previous audits, loan repayments for land and waste management continue to weigh on the Council's finances. Waste management loans continue to be funded from general revenue income following the Council's exit from this service.

Over €39.1m of land purchase loans continue to be paid on an interest only basis. The remaining €11.2m land purchase loans have been transferred to the Land Aggregation Scheme (LAGS) with principal and interest repayments being fully recouped from the Department. I have requested management to seek clarification on the appropriate accounting treatment of these loans for the 2017 AFS.

2.3.5 Bridging Loans / Social Leasing Loans

The Council's capital debt includes bridging loans / social leasing loans totalling €151m. These loans consist of eighty five social leasing loans and five bridging finance loans with the HFA on an interest only basis. The social leasing scheme loan interest payments are fully recoupable from the Department and relate to 787 housing units. At audit, an ongoing issue relating to the matching of interest costs recouped from the Department to interest payments made on these loans was identified. The Council is currently engaging with the Department to resolve this matter.

2.3.6 Voluntary Housing Loans

Cork County Council holds 174 voluntary housing loans with the HFA at year end 2016 totalling €63.7m. The principal and interest paid on these loans during 2016 was €3.8m which are self-funded by Local Property Tax.

2.3.7 Mortgage Funding Gap

The funding gap on housing loan mortgages has continued to increase during 2016 to €7.39m at year end. The historic movements in this balance have yet to be fully analysed by Council. However I note some progress has been made since the last audit in order to identify the main drivers of the increase of €1.33m in the mortgage funding gap during 2016. Due to the historic practice of not matching loans drawn down with loans advanced, I am advised that further detailed analysis of the mortgage funding gap is proving to be challenging.

2.3.8 Long Term Debtors

Long term debtors decreased by €52.5m from €194.7m in 2015 to €142.2m in 2016.The main reason for this decrease is the removal of long term development levy debtors from Note 3 of the annual financial statement per Department Circular Fin 11/2016. These debtors had been offset by long term creditors in previous years. Long term development contribution debtors were recorded as €42.3m in AFS 2015.

2.4. Local Property Tax

Local Property Tax (LPT) received by Council in 2016 is recorded as €29.9m representing an increase of €0.6m on the 2015 comparative amount of €29.3m. The Department of Housing, Planning and Local Government (the Department) directed that €20.95m of the tax be classified as self funding to replace state grants in respect of roads and housing. This funding model, based on local retention of LPT, was first introduced in 2015.

Chief Executive's Response

The buoyancy for 2016 was due to stricter budgetary monitoring and management together with surplus NPPR income over budget. The surplus also resulted from a reduction in the rates strike-off and provision due to increased 2016 collection performance building on the progress in 2015. The buoyancy allowed for provision to the Capital Programme of €2m for tourism and public realm as well as a reduction in asset loans. A reduction in the provision for write-offs was made in budget 2017 which will impact the 2017 Revenue Account balance.

Work is ongoing to progress the integrated recording of the council's fixed assets. Two factors have impacted the level of progress, the reduction in resources and the functionality of the existing system. The financial management system is being reviewed in Q4 2017 and the fixed asset requirements will be considered as part of this.

The County Solicitor's Department will prepare and maintain a litigation file report which will include a risk assessment of all Circuit Court and High Court proceedings involving Cork County Council. The file report will be reviewed by the County Solicitor and Head of Finance on an annual basis. The provision for any probable and quantifiable financial exposure in respect of costs, damages and compensation for such cases will be estimated where possible.

The Council's loan book is monitored on an ongoing basis. In order to minimise the impact on annual budgets and secure best value for money the Council refinances and redeems loans where possible, as evidenced in 2016. The Council continues to negotiate in relation to land loans, which is being addressed on a national basis on behalf of local authorities.

Reconciliation of the recoupment of loan costs is being progressed by the Housing and Finance Directorates and with engagement with the Department.

Work has been done to reconcile the annual movement in the Mortgage Funding Gap and further work will be addressed as part of AFS 2017 work programme.

3 Financial Reporting

Previous audit reports have highlighted weaknesses in the Council's overall financial reporting, documentation of systems / procedures, maintenance of audit files, year-end general ledger financial reporting and reliance on a small number of key staff when preparing the AFS.

I am advised by management that the Head of Finance is currently undertaking a review of the structure and capacity of the finance function in order to address these ongoing issues. The review is due for completion in Q4 2017 and the output arising from same will be reviewed at the next audit.

3.1. The Council's final AFS was presented to audit on 31st May, 2017.

Chief Executive's Response

AFS 2016 was prepared and published by the statutory deadlines. A reduction in resources over the years has impacted capacity of the finance function in the organisation. As a consequence, our ability to address the reliance on a small number of staff and thus to improve systems and interfaces has been affected. Despite this, substantial work was undertaken in 2016 and 2017 to improve the overall financial reporting including improved budgetary systems for both revenue and capital budgets. This work will continue in 2018.

The Head of Finance is currently undertaking a review of the structure and capacity of the finance function in order to increase the resource capacity of the function. This will help improve the financial management in the Council and address areas such as the maintenance, development and production of Budget, AFS, audit files and Capital account management.

4 Income Collection

4.1. A summary of the income collections as disclosed in Appendix 7 of the AFS is set out below:

Income Source	Debtors (€m)	Debtors (€m)	Yield (%)	Yield (%)
	2016	**2015**	**2016**	**2015**
Commercial Rates	17.5	21.5	88	86
Housing Rents	1.2	1.2	93	93
Housing Loans	4.1	4.6	55	54

Overall arrears on the main collection accounts reduced by €5m to close at €24m, mainly due to a fall in the level of commercial rates arrears. In addition to the debtors listed above there are also uncollected refuse arrears which are recorded as €1.2m at year end 2016.

4.2. Commercial Rates

Revenue collected during 2016 totalled €118m reflecting improvements in the collection yield and reduction in arrears. Income of over €14m was uncollectable due to vacant properties and related write offs. The Council remains reliant on a small number of customer accounts for the majority of its rate collection and a significant portion of overall income.

4.3. Housing Rents

The rents collection performance for the year was satisfactory with arrears reducing to €1.19m from €1.22m in 2015. It was recommended during the last audit that management should give consideration to consolidating its rent collection records, which currently reside on legacy computer systems, into its main financial system. No significant progress has been noted in this regard during the audit.

4.4. Housing Loans

While the housing loan collection performance again slightly improved in 2016, it continues to remain relatively poor. The performance yield of 55% remains significantly below the 2015 national average for local authorities of 68%. Arrears decreased by €445k during 2016, with approximately half of this reduction associated with repossessed properties. The realised losses on repossessed properties have been claimed under the national Mortgage Arrears Resolution Process (MARP) fund in 2017.

4.5. Provision for Doubtful Debts

The provision for doubtful debts in 2016 amounted to €34.7m and represents a reduction of €2.6m on the 2015 amount. Continued improvements in the commercial rates collection performance have impacted on the level of provision required. Overall the bad debt provision is adequate but some areas are over provided for while other areas are under provided for. An example of this is the development levy arrears which are fully provided for while no provision has been made for the disputed amount with Irish Water (paragraph 5.2). The provision for doubtful debts should therefore be reviewed.

Chief Executive's Response

Commercial Rates are critical to the financial stability of the County Council. Our collection performance improved again in 2016, exceeding the national target set. It is anticipated this performance will be maintained in 2017.

Consideration has been given to transferring the Housing Rent Collection records from the current system (iSeries) to the main financial system (Integra). At this time the main financial system utilised by Cork County Council is under review and a final decision on the continuing use of this system is awaited. This issue will be progressed once that decision is made.

Housing Loan arrears have reduced by €840,000 since 2015 due to continued focus on arrears. The national Mortgage Arrears Resolution Process (MARP), which is being reviewed in Q3 2017 by the Housing Loans section, is being followed to deal with outstanding arrears and provide a solution agreeable to Council and Borrower up to and including repossession. In addition, the Housing Loan system is also being considered for transfer to the main financial system in order to improve functionality and thus aid debt management.

The Council acknowledge the adequacy of the bad debt provision which is reviewed as part of the AFS work programme. The provision for development levy arrears will be reviewed for AFS 2017.

5 Transfer of Water and Sewerage Functions to Irish Water

The Council acts as an agent for Irish Water (IW) under the terms of a service level agreement since IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at local, regional and national levels since 2014.

5.1. Irish Water Balancing Statement

A balance of €1.9m due by the Council to IW was agreed in March 2016. However, this liability continues to remain unpaid at the time of audit pending the outcome of negotiations between the Council and the Department in respect of any potential historical legal liabilities. Furthermore there are €3.6m of water development contributions recorded as part of Council's trade creditors owing to IW which remain unpaid at the time of audit.

5.2. Irish Water Service Level Agreement (SLA)

During the last audit it was noted that the closing balance on the SLA account included an outstanding sum of €3m in respect of charges dating from 2014 which remained unpaid by IW. This matter remains unresolved at time of audit.

5.3. Historical Charges

Despite previous audits recording a lack of progress on reaching an agreement between Cork County Council and Cork City Council regarding issues related to design build operate (DBO) balances and historic reciprocal water treatment charges between the local authorities, I am advised that no significant progress has been made on this longstanding issue since the last audit.

5.4. Transfer of Assets to Irish Water / Retained Water Assets

During previous audits it was reported that all water related assets were removed from the Council's fixed assets in compliance with national arrangements for local authorities. At the time of audit I am advised that legal title of 257 water assets have either been transferred or are awaiting Departmental approval for transfer to Irish Water with a further 771 assets to be addressed going forward. It was also reported that the Council retained some properties adjacent to the water treatment facilities and these were recorded in the AFS at a value of €88m. No significant progress has been made since last year's audit in identifying and registering these assets into council ownership.

5.5. Recoupment of Loan Charges

The long term water loan balance reduced from €7m in 2015 to €2.8m at year end 2016 due to principal repayments of €4.2m. Included in the principal repayments is a special repayment of €3.46m relating to an unspent portion of the original €15m Water Metering Project loan drawn down in 2009 (paragraph 2.3.3). The remaining balance is fully recoupable from the Department.

Chief Executive's Response

Discussions are ongoing between Irish Water and the Council to resolve the debtor balances in terms of monies due and owing to both parties. It is anticipated progress will be made on this by year end.

As part of the ongoing transition arrangements with IW, local authorities were required to transfer water assets from their balance sheet. In order to safeguard the Council's interests that may remain in a portion of these assets an amount of €88m representing 10% has been retained to represent Cork County Council's interest in water assets. Dedicated resources are working on a reconciliation exercise to identify folio references and site maps in respect of these assets and transfer of relevant assets to Irish Water. As part of this the assets remaining in Council ownership are being identified. A review of the position will be taken as part of the 2017 AFS work programme.

Cork County Council's Senior Engineers for Water and Wastewater met separately with Cork City Council to discuss outstanding balances between both parties in 2015. However a close-out meeting to finalise this has not taken place to date. Cork County Council will liaise with the City Council to arrange this close-out meeting and sign off on the final balance.

6 Capital Account

The Capital account consists of 1,120 capital codes and recorded a net favourable position of €102.4m at 31 December 2016, comprising favourable balances of €135.7m and deficit balances of €33.3m.

The favourable balances of €135.7m recorded on capital account include €103m relating to reserves attributable to the control of various sections in the Council. Many of these reserves are ring fenced for specific purposes including funding of future capital projects. The remaining favourable balances relate to asset creation (€6m), Tenant Purchase Annuities, Affordable and Voluntary Housing (€12m) and non-project capital balances (€15m).

At audit it was noted that 361 (32%) capital codes had no financial activity during 2016, consisting of 115 codes with deficit balances totalling €11.6m and 246 codes with favourable balances totalling €44.6m. I have requested management to conduct a full review of the capital account in order to establish the overall funding requirements.

6.1. Housing Capital

There were 759 capital codes making up the overall €8.9m favourable capital balance in Housing. This includes 300 favourable balances totalling €26.2m and 459 deficit balances amounting to €17.3m.

6.1.1 Deficit Balances

In total the Council has €17.3m of deficit Housing balances. In respect of these, management has advised that:

- Applications for funding have yet to be made to the Department for €7.9m but this will be completed in due course;
- The Council will have to fund €4.8m from its own resources;
- Funding applications were made and a decision is still awaited for €1.2m; and
- Funding is guaranteed and in place for €3.4m.

In respect of the €7.9m deficit balances subject to future funding applications to the Department, the following are the main projects to be resolved:

- Historic land acquisitions at Gooldshill, Mallow (€2.3m) & Commogue / Ballincubby, Kinsale (€1.3m);
- Private sites for resale at Courtmacsherry (€0.9m) and Stagpark, Mitchelstown (€0.4m); and
- Social housing scheme at Droum, Castletownbere (€0.5m).

The outcome from these applications will determine the Council's own liability in respect of these projects. It is noted, however, that the vast majority of these capital codes relate to historic balances where no financial activity was recorded in 2016.

In respect of the €4.8m deficit balances to be funded from Council's own resources, these relate mainly to;

- Properties acquired through Part V agreements (€2.6m);
- Private sites purchased for resale (€1.1m); and
- Social leasing schemes (€0.9m).

A clear funding plan remains to be put in place to deal with these balances.

6.1.2 Favourable Balances

In total, the Council has €26.2m of favourable Housing capital balances. Management have advised that €17.3m can be allocated to fund deficit balances elsewhere within the programme group if required. It is recommended that management expedite this process in order to rationalise the number of capital codes in use and resolve longstanding historic deficits.

6.2. Roads Capital

There are roads deficit balances of €4.08m at year end 2016 primarily relating to thirty six road improvement capital projects. Fourteen of these deficit balances totalling €2.14m currently have no source of funding in place. Three of the most significant of these deficits relate to capital projects which had no financial activity recorded during 2016;

- Carrigtwohill Railway Underbridge (€623k),
- Ballincollig Bypass Land Acquisition (€489k) and;
- Clonakilty Watermain & Footpath Replacement (€136k).

It is recommended that management should progress the sourcing of funds to address all unfunded deficit balances.

6.2.1 Buttevant Street Design

This Roads project originally budgeted at €3.65m encountered major delays and significantly increased costs primarily due to unforeseen archaeology excavation works. The expected actual outturn costs of this project are €6.14m and the project was substantially completed in August 2016, representing a delay of 10 months from the scheduled programme.

Funding of €2.75m was originally approved by Transport Infrastructure Ireland (TII) with the €900k remainder to be funded by Council's own resources. Representations have been made to TII to fund the additional costs incurred on this capital project but at time of audit both TII funding and the Council's own contribution remain to be formally secured.

Chief Executive's Response

The capital account is closely monitored throughout the year to monitor spend to budgets and manage balances; favourable balances were transferred and re-allocated to fund deficits. The Council prepared a three year capital programme, (2017-2019), which helps manage our capital investment together with capital financial reporting and will commence the 2018-2020 programme preparation in November 2017. This work will include a review of the capital account in order to establish the overall funding requirements and will also inform the AFS 2017 work programme.

Cork County Council has developed a significant programme to develop social housing which will address deficit balances on its Housing Capital Account through a strategic Capital Delivery Programme. Aspects of the programme will involve development on sites where debit balances exist. As development takes place, in locations where demand for social housing exists, land and development costs will be recouped. In other locations, where demand for social housing is not as well defined or present, a scheme for private involvement in the development of the land will be explored with an objective of recovering costs. This may involve the AHB sector or non housing uses on lands in locations where little or no housing demand exists or has been met through alternative developments.

In addition, a programme to close off inactive credit and debit balances will be undertaken over the coming months. This will significantly rationalise the number of accounts and create a clearer picture of actual activity.

The sourcing of funds to address all unfunded Roads capital deficit balances is considered as part of the Capital Programme and AFS work. It is envisaged that Carrigtwohill Railway Underbridge will be funded by future development contributions.

Unpredictable archaeology excavation works were required on the Buttevant Street Design which increased the costs. The Council is actively engaged with TII in order recoup these additional costs and anticipate progress by end 2017.

7 Dunmanway Swimming Pool

During the last audit concerns were expressed to management at the increased costs incurred on this project. The facility was formally opened on 6th June 2017 and the project is now substantially complete. While the final account has yet to be prepared, at time of audit the outturn costs are recorded as €5.9m (excluding VAT), representing a 13% cost increase on the €5.15m (excluding VAT) budgeted cost of the project inclusive of consultants fees. Internal Audit published a report on this capital project in June 2017 which identified a number of deficiencies including increased consultant and contractor costs, late delivery of the project and procurement compliance issues. Grant funding of €3.8m for this project has been received from the Department of Transport, Tourism and Sport with the Council contributing €1.1m to date from its own resources. At time of audit the funding source of the €1.7m deficit balance on this capital code remains to be secured.

Chief Executive's Response

The winning tender for the above project was €5.15m which was €0.548m less than the next lowest tender and €1.2m less than the highest tender. The project was delivered for €5.1m. This includes an agreement with the contractor whereby they conducted works extra to the tender requirement in order to reduce risk to Cork County Council from conciliation.

This was achieved by strict management of the contractor during the process, and among other actions, by the appointment of an Employers Representative to the project who was able to dedicate the time to managing contractual issues with the project. There were issues with the appointment of consultants due to the nature of the contract changing from refit to a complete new build. The outturn on the project represents good value for money in providing a regional community facility. The funding of the capital deficit will be considered as part of the capital programme and AFS 2017.

8 Provision of housing by approved housing bodies

During the last audit non-compliance issues were identified with regard to the recommendations made in the Local Government Audit Service (LGAS) Value for Money report on the Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies (AHB) (VFM Report no. 29 published December 2015). During this audit it was noted that some progress has been made by Housing in implementing these recommendations, specifically with the larger AHBs who have circa 80% of the AHB stock. However, significant work remains to be done in this area, particularly with regard to the older and smaller bodies. According to VFM Report no. 29 approximately 22% of Cork County Council's housing stock is operated by Approved Housing Bodies. It is recommended that full implementation of the recommendations made in VFM no. 29 should be progressed as a priority issue.

Chief Executive's Response

Following the 2015 audit and in response to VFM Report No. 29, a dedicated resource was assigned to this area. A review of Approved Housing Body (AHB) developments was undertaken during 2017 and a register of all AHB activities was compiled on this basis. Initial work in this regard has been concentrated on the larger AHB's but once this is completed the focus will move to the remaining AHBs. It should be noted however that 24 of the 38 Tier 1 AHBs who operate in Cork County have signed up to the Housing Agency's Voluntary Regulation Code. Correspondence has issued to the remaining AHBs to encourage them to sign up also. Effort will continue to progress the full implementation of the VFM No. 29 recommendations.

9 Procurement

During the last audit it was recommended that the Council's Procurement Unit should be adequately resourced and required a full time staff complement. I welcome the appointment of a full time Procurement Officer and support staff in early 2017. Through our audit testing we identified a number of procurement compliance issues and have liaised with the Procurement Unit during the audit process on our findings.

The newly appointed Procurement Officer has outlined a number of initiatives which are intended to improve compliance with Council's Corporate Procurement Policy and the National and EU Procurement Directives including the establishment of a procurement portal as a means to improve communication of procurement information, contracts and framework agreement updates to staff. Progress made in this area will be reviewed at the next audit.

Chief Executive's Response

The Procurement Office was resourced in early 2017 and is still in its infancy. However, significant progress has been made in agreeing a governance structure including steering group and working group, development of a procurement portal, provision of training and the availability of the office to provide advice on procurement issues. It is proposed to agree the Corporate Procurement Policy and Procurement Plan in Q4 2017. All of this progress will set the foundation for the improvement of compliance and opportunity for service areas to improve value for money.

10 Treasury Management

The Council has cash on deposit totalling €154.5m at year end 2016 excluding refundable deposits of €9.2m. Loans payable are recorded in AFS 2016 as €408m which include thirty five loans with principal outstanding balances of €111m which are currently funded by the Council's revenue account and is not recoupable from the Department. Interest repayments on these borrowings exceeded the interest yield from investments on deposit in 2016.

At audit I recommended that the Finance Department, as part of the development of its Treasury Management Policy, should carry out a formal review of its investments held on deposit and the yield achieved together with the level of Council borrowings and the annual cost of servicing these loans. This should be completed to ensure the optimal level of investments and loans are achieved. A formal investment fund strategy should be developed following this review.

Chief Executive's Response

As mentioned above, the Council's loan book is monitored on an ongoing basis in order to minimise the cost to the Council and secure best value for money. The issue in relation to land loans is being raised on a national basis on behalf of local authorities, in the interim the Council has provided for these costs. Debt of €111m requires funding from our revenue account due to the insufficient sources of funding for the provision of infrastructure required for the development of the County. In 2018, the Finance Department will be carrying out a Treasury Management review including the revision of our Treasury Management Policy.

11 Local Authority Companies

The Council's interest in companies is recorded in Appendix 8 of the AFS where nine such companies are listed.

Previous audit reports recommended the preparation by the Council of an overarching report to ensure consistent and appropriate corporate governance and reporting arrangements for these companies. Some progress has been noted in the form of an internal review of these companies and their governance arrangements together with the publication of a guidance document in July 2017 entitled "Cork County Council Subsidiary Companies – Key Principles and Operational Procedures". Included in this document are a number of key governance principles including common financial year ends and reporting processes together with a timeline for completion of the audits for all Cork County Council companies. Progress made on the implementation of these key principles will be reviewed at the next audit.

Chief Executive's Response

The wholly owned subsidiaries of Cork County Council will be subject to a new compliance reporting process that has been established and is outlined in Cork County Council's Subsidiaries Companies Key Principles and Operational Procedures. The roll out of the policy document "Cork County Council Subsidiary Companies-Key Principles and Operational Procedures" this autumn will prove to be the cornerstone of ensuring enhanced corporate governance arrangements across all Council companies into the future. As of Q1 2018, the companies will be asked to follow the reporting process strictly. The target timelines set out will ensure consistency of approach, annual reporting and annual performance review meetings with senior Council management. The processes which have now been initiated in this document will be reviewed on an ongoing basis to ensure further improvements are made where deemed necessary. Training has been provided to the Directors of Cork County Council's subsidiary companies on their roles and responsibilities.

12 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that appropriate systems of financial management and control are in place. Improvements were noted during this audit in Council's processes for the integration of risk into management decision making and oversight.

12.1. Risk Management

The Risk Oversight Committee is responsible for supporting risk management within the Council and meets with selected directorate representatives on a quarterly basis to review individual Directorate Risk Registers which feed directly into the Corporate Risk Register. The Risk Oversight Committee's work is overseen by the Corporate Development Management Sub-Group (CDG) which evaluates and re-assesses each corporate risk twice yearly. The

CDG then formally submits the Corporate Risk Register to the Senior Management Team (SMT) for further deliberation and eventual sign off.

12.2. Ethics

In accordance with Part 15, Section 171 of the Local Government Act 2001 annual declarations from Council members and senior staff should be submitted to the Ethics Registrar on a timely basis each year. The Ethics Registrar advised of delays in the receipt of annual declarations from a small number of staff as required under the ethical framework for local government. Formal procedures have been established ensuring these delays are now internally reported to the Chief Executive in order to determine an appropriate response.

12.3. Internal Audit

Internal Audit's ability to carry out its annual work plan was negatively impacted during 2016 due to two staff members being transferred out of the unit and not being replaced. The unit also had no permanent head of audit for a period of five months. Internal Audit had a staff complement of eight at the beginning of 2016. The 2016 annual work plan was approved by the Audit Committee and the Chief Executive. The head of internal audit reports directly to the Audit Committee and to the Chief Executive in respect of the unit's work. The unit produced four reports during 2016 which were of a high standard and seven reports from the 2016 Audit Plan had to be carried over into 2017 audit work plan. I have taken account of these reports during this audit.

Chief Executive's Response

The areas of risk management and ethics are areas of strategic importance and significance for the Council. The Council has established a robust attitude to dealing with areas of both strategic and operational risk. The Corporate Risk Register is reviewed and tested on a quarterly basis by Senior Management Team, while the Directorate risk registers are reviewed and tested on an ongoing basis by the Risk Oversight Committee. Quarterly compliance reports relating to those registers issue to Senior Management meetings where actions are taken if deemed necessary.

The staffing issue which developed in 2016 has now been addressed by the appointment of staff to the vacancies in 2017. Management are committed to ensuring that the Internal Audit Unit remains adequately resourced and see the unit as critical to the control environment within the Council.

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.

Colin Nolan
Local Government Auditor
27 October 2017