Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

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AUDITOR’S REPORT TO THE MEMBERS OF CORK COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Cork County Council for the year ended 31 December 2018, 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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 10 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.

1.1 Preparation of Accounts Deadline

Under the Code of Practice and Accounting Regulations, as enshrined in legislation by the Local Government Act 2001, the local authority is required to prepare their accounts by 31st March each year. While it is acknowledged that there has been some improvement on the previous year, the draft AFS 2018 for Cork County Council was not finalised until 3rd May 2019 with an amended AFS subsequently presented on 1st August. Delays in preparing the draft AFS by the statutory deadline negatively impacts on the audit process.

Chief Executive’s Response

While the draft 2018 AFS was prepared a month earlier than the previous year, the impact of the additional requirements to progress the boundary implementation impacted on the ability of the Council to prepare and present the accounts earlier than 3 May 2019. The Council will endeavour to present draft AFS 2019 by 31st March 2020.

2. Financial Standing

2.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €45k, maintaining its general reserve balance at €7.4m at year end. In accordance with Section 104(2) of the Local Government Act 2001, the members approved all expenditure variances at their meeting on 13th May 2019 including transfers to reserves of €16m in excess of budget. Revenue income and expenditure variances were again recorded between budgeted and actual out-turn across Service Divisions, as detailed in Note 16 to the AFS.

2.2 Statement of Financial Position (Balance Sheet)

The Council continues to show a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2018. Strict budgetary control and financial management is required to maintain this position. As previously reported, the Council's long term borrowings remain significant and specifically those loans which require to be funded by Council's revenue account (paragraph 7).

2.2.1 Legal Provision

Following recommendations made during previous audits, the Council now prepares and maintains a Litigation Risk Register, a corporate report on the probable and quantifiable costs and compensations relating to ongoing legal cases. This register is prepared and maintained by the County Solicitor's office and facilitates Council management in determining an appropriate legal provision in the AFS.

The legal provision in AFS 2018, in accordance with the Local Authority Code of Practice and Accounting Regulations (ACOP), excludes those ongoing cases where the Council has deemed the potential liability to be either not quantifiable or low risk.

2.3 Local Property Tax

Local Property Tax (LPT) received by Council in 2018 was €32.7m, representing a slight increase of €0.2m on the 2017 comparative amount of €32.5m. LPT is recorded in the Statement of Comprehensive Income at €16.6m which represents the discretionary portion of LPT. The remaining €16.1m was designated as self-funding and distributed across the Council's services in accordance with the Department's direction. This funding model, based on local retention of LPT, was first introduced in 2015.

Chief Executive's Response

Through active financial management and budgetary control, the Council has achieved a positive financial position at 31 December 2018. The buoyancy for 2018 was due to ongoing prudent budgetary management, together with surplus from NPPR income and a reduction in the rates strike-off due to improved 2018 collection performance, building on the progress since 2015. This buoyancy allowed for additional provision to the Capital Programme as well as a reduction in asset loans. It should be noted that €11.2m of the additional transfers to reserves over those budgeted were made following a detailed review of capital codes and balances during which favourable capital balances originally sourced from the revenue account were identified. These were then re-distributed via the revenue account back to the capital account with Members approval in order to fund deficit balances and the Council's capital programme.

The County Council, through the County Solicitor's Department, will continue to prepare and maintain a litigation file report that 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.

3. Income Collection

3.1 Income Summary

Revenue income of €336.4m was recorded in 2018, representing an increase of €22.3m on the previous year. Locally generated income such as commercial rates, rents, loans, Local Property Tax and other services contributed 72% (€241.3m) of the Council's total revenue income. The remainder consists of grant income (€93.9m) and income from other local authorities (€1.2m).

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

Income Source	Debtors (€m)	Debtors (€m)	Yield (%)	Yield (%)
	2018	**2017**	**2018**	**2017**
Commercial Rates	11.4	14.9	92	90
Housing Rents	1.3	0.9	94	95
Housing Loans	3.8	3.9	55	55

3.2 Commercial Rates

Commercial rates revenue collected during the year totalled €123m with a collection rate of 92%. This represents an increase of €3m in amounts collected with a 2% improvement in the collection yield when compared with 2017. The continued improvement in debt collection for this income source is welcomed and it is noteworthy that it has exceeded the national average over the past number of years. This is of particular importance given that rates accounted for 39% of the Council's revenue income in 2018. Debtor balances decreased by €3.5m to €11.4m which included write offs of €12.65m in respect of vacant properties and uncollected accounts.

There are 14,562 rateable customers making up the valuation base for Cork County Council. However, the top 1% (145 customer accounts representing 115 companies) accounts for 49% (€65m) of the accrued rates income in 2018, highlighting the potential risk of this income stream. The collection percentage for these customers in 2018 is 98%.

3.2.1 Rateable Valuations

It is the responsibility of the Valuation Office to assess both new and existing commercial properties for rateable valuations and revised valuations respectively. At the time of audit, management has advised this revision programme has been in significant arrears for a number of years. Delays in rateable or revised valuations represent a potential loss of income for the Council. Management has further advised that the Valuation Office has undertaken to address the backlog of assessments in order to bring its revision programme up to date. At time of audit, 1,134 cases are in the process of being assessed in Cork County while a further 319 cases are awaiting assignment. It is recommended that management continues to engage with the Valuation Office to ensure this ongoing process is expedited.

3.3 Housing Rents

Rental income for the year is €22.9m, representing an increase of €3.2m (16%) on the 2017 comparative amount. This increase is largely as a result of a county wide rent review which incorporated the former town councils into a single differential rent scheme. Rent arrears, net of credit balances totalling €0.7m, amounted to €1.3m at year end 2018, representing an increase of €368k on 2017. This increase was partly as a result of the aforementioned rent review.

As recommended during the last audit, there is a need for improvements in procedures relating to the consolidation of all rent collection records, financial management reporting and analysis of debt. No significant progress in this area has been noted since the last audit.

3.4 Housing Loans

Over the last number of audits, the impact of Cork County Council's relatively poor housing loan collection performance has been highlighted. While a small reduction in housing loan arrears of €49k to €3.82m was recorded at year end 2018, the collection yield remains flat at 55%. National statistics collated by the Local Government Audit Service for 2017 show the national average collection rate for local authority housing loans was 72%.

It was noted at audit that 14% of housing loan accounts are in arrears of greater than 12 months. These accounts in arrears represent 96.5% of the total arrears figure. The combined outstanding principal, equity and arrears on accounts categorised as being outstanding more than 12 months at the year end is €17.98m of which €13.56m (75%) relate to Shared Ownership accounts.

During previous audits we have highlighted weaknesses in the housing loan system and how it does not facilitate effective debt management. Despite management advising during last year's audit that the housing loan system was in the process of being transferred to the main financial system, this has not been completed at the time of audit. Management has now advised that the current target for completion of the transfer of the housing loan system is Q4 2019. Progress in this area will be reviewed at the next audit.

3.5 Provision for Doubtful Debts

The provision for doubtful debts in 2018 amounted to €31.8m and represents an overall increase of €4.7m on the 2017 amount. The main increase in the provision relates to development contributions where the debtors increased by €5.9m during 2018 with the provision increasing largely on a pro rata basis. From the review carried out at audit, the provision for doubtful debts is deemed to be materially adequate overall.

However, as has been recommended in previous audit reports, a number of collection areas would benefit from a more systematic process in determining an appropriate provision for doubtful debts each year. It is recommended that management prioritise the implementation of such a process as part of the AFS 2019 work programme.

Chief Executive's Response

Management is very conscious of the importance of the rating function to the organisation together with the critical associated role that the Valuation Office performs in this regard. The Council continues to work with the Valuation Office to expedite the progress in addressing the revisions backlog and maximise the income resources for the Council.

The need for improvements in rent collection procedures is acknowledged. An important element of this will be the transfer of the Housing Rent Collection records from the current legacy system to the main financial system. At this time the main financial system utilised by Cork County Council is under review and this issue will be promptly progressed once a decision is made on the corporate financial system.

Although 2018 did not see the Housing Loan collection rate climb from 55%, substantial groundwork was completed during the year in areas of Restructuring, Mortgage to Rents and accounts exiting MARP. These schemes are complex and require significant time to complete. Shared Ownership Restructuring was first introduced in 2018, by year end 29 Shared Ownership Loans were at an advanced stage in the process. Significant success has been achieved by the Collections Unit in reducing the number of accounts in MARP; this number, which had already dropped from 188 to 143 in 2017 (24%), dropped dramatically to 24 accounts in 2018 (83%).

The rollout of the Central Credit Register (CCR) obligations, requiring the Council to make a return of individual loan positions within 5 working days of each month at the end of 2018 necessitated an additional layer of development on the new Housing Loans system. While this has delayed the implementation of the new system, it has resulted in Cork County Council becoming the first local authority in Ireland to be fully compliant with CCR. The target for the completion of the transfer of the Housing Loans System remains Q4, 2019.

The Council acknowledges the adequacy of the bad debt provision which is reviewed regularly to adapt to changes in income activity. The provision will be further reviewed as part of the AFS 2019 work programme and will include a systematic review of major debtor streams to determine an appropriate doubtful debt provision on an annual basis.

4. 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.

4.1 Irish Water Service Level Agreement

Management has advised that, following a meeting of the parties in December 2018, Irish Water wrote to the Council confirming their agreement in principle to release a €3m (excl. VAT) debtor amount due since 2014, subject to a planned audit of the allocation of central management charges to Irish Water. It has previously been recommended that this amount should be fully provided for in the AFS. Management has advised it will address this issue in the interim by fully offsetting the debtor amount against IW creditor amounts in accordance with Section 7 of Local Government (Financial Provisions) (No. 2) Act 1983. This offset has been recorded in AFS 2018, resulting in a reduction in both current debtors and current liabilities by the offset amount.

4.2 Transfer of Assets to Irish Water / Retained Water Assets

In 2014, water related assets were removed from the Council's fixed assets in compliance with national arrangements for local authorities. Cork County Council retained 10% of the value of its Water and Sewerage Network assets within fixed assets while determining the legal title of properties adjacent to water treatment facilities. As this process is ongoing, the €88m nominal value for these assets, which was originally recorded in Note 1 of AFS 2014, remains unchanged in the 2018 AFS. It is recommended that this process be expedited in order to provide greater clarity on the value of water related assets being retained by Council.

Chief Executive's Response

Irish Water and Cork County Council agreed a resolution in 2019 regarding the debtor balances between both parties. It is anticipated the planned audit of the allocation of central management charges will be complete by end 2019.

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 regarding assets that may remain in Council ownership, an amount of €88m representing 10% has been retained to represent Cork County Council's interest in water assets. There are a total of 1,049 identified assets and a specific reconciliation exercise is ongoing to identify folio references and maps in respect of these assets in order to affect the transfer of relevant assets to Irish Water. As at August 2019, 472 assets were transferred or awaiting approval for transfer. The focus for 2019 is on a further 168 assets to be progressed. This position is reviewed on a quarterly basis with our partners, Irish Water.

5. Capital Account

The Capital account consists of 1,382 capital codes and recorded a net favourable position of €133.9m at 31 December 2018, comprising favourable balances of €155.8m and deficit balances of €21.9m. Capital expenditure in 2018 totalled €156m, representing an increase of €29m (23%) on the 2017 expenditure of €127m. The most significant capital expenditure areas are housing (€77.7m) and roads (€28.4m) together with County Engineer projects such as River Ilen (Skibbereen) Flood Relief Project (€11.5m) and Environmental Services Haulbowline Remediation Project (€9.5m).

5.1 Capital Balances

There are 485 favourable capital balances totalling €155.8m recorded on the capital account. Most of these relate to reserves which are ring fenced for specific purposes including funding of future capital projects. There are 364 deficit capital balances totalling €21.9m. In addition, it was noted that 533 capital codes had a nil balance at year end 2018.

At the last audit I highlighted the large number of codes in the capital account with no financial activity during the year. Although the process of reviewing these codes has commenced, there remained 321 (23%) inactive codes as at year end 2018. It is recommended that the Council continues the appraisal of capital codes and balances in order to ensure management clearly establishes the Council's capital funding requirements and improvements to financial reporting in this area.

5.2 Housing Capital

In 2018, the Council spent €77.7m on housing capital which is summarised as follows:

Housing Capital Expenditure	2018 (€m)	2017 (€m)
Social Housing Acquisitions / Builds	57.8	40.7
Approved Housing Bodies Funding	13.3	9.3
Capital Works to Housing Stock & Other expenditure	4.9	7.0
Land	1.7	1.0
Total	**77.7**	**58.0**

The €57.8m expended on acquiring social housing was primarily on Turnkey Social Housing Schemes (€30m), single house acquisitions (€12m), own build social housing (€9.3m) and properties acquired through Part V Agreements (€5.7m).

5.2.1 Deficit Housing Balances

There is an overall €12m favourable capital balance in housing at year end 2018. This includes 165 favourable balances totalling €23.5m and 268 deficit balances amounting to €11.5m. Management has reviewed these favourable balances and advised the most significant balances are either committed to ongoing projects (€5.7m) or have been earmarked to fund planned future housing projects (€16.2m). Regarding the €11.5m of deficit housing balances at year end 2018, management has categorised these balances as follows:

Funding Status of Housing Deficit Balances	Amount (€)
Projects where applications for funding have yet to be made to the Department but will be completed in due course	€9.1m
Projects where funding is guaranteed and in place	€1.5m
Projects where funding applications were made and a decision is still awaited	€0.5m
Projects the Council will have to fund from its own resources	€0.4m

In respect of the €9.1m deficit balances subject to future funding applications to the Department, €2.6m of these relate to projects where the funding status has remained unchanged and there has been no activity on the relevant capital codes for over 12 months.

As recommended during last year's audit, management should conduct a review of all deficit balances and take appropriate action to address any matters delaying the funding of same. In cases where it has been determined that grant funding is not available, a funding plan should be put in place to clear these deficits.

5.3 Roads Capital

In 2018, the Council incurred expenditure totalling €28.4m on roads capital. The following are the primary expenditure areas;

- Grant funded National Roads schemes (€22.6m)
- Plant and Machinery Asset Replacement (€2.6m)
- Footpaths & Public Lighting works (€1.6m)

Roads capital has a net favourable balance of €21.3m at year end 2018. This consists of 207 capital codes, 87 of which have favourable balances totalling €29m, 45 capital codes with deficit balances totalling €7.7m and 75 capital codes have a nil balance. Included in the favourable balances are 53 capital codes totalling €28.4m which are committed to ongoing capital projects or have been earmarked to fund planned future roads capital projects or plant and machinery asset replacements.

The deficit balances totalling €7.7m include €6.67m which are categorised as currently having no source of funding secured. The most significant unfunded deficit balance relates to the Cork Science and Innovation Park (CSAIP) (€5.56m). The CSAIP lies within an area of the County of Cork which transferred to Cork City Council in June 2019 following the boundary alteration. Management has advised that the principle of funding the financial commitments of Cork County Council for this is provided for in the Local Government Act 2019.

Longstanding unfunded deficit balances relating to Carrigtwohill Railway Underbridge and Ballincollig Bypass Land Acquisition, of €623k and €489k respectively, have been identified in previous audit reports. It is again recommended that management should progress the sourcing of funds to address all unfunded deficit balances and, where appropriate, continue to reduce the number of capital codes by identifying and addressing codes which are no longer active.

Chief Executive's Response

The capital account is closely monitored throughout the year to oversee the budgetary control and review project balances. The ongoing review facilitates the transfer of favourable balances and re-allocation to fund deficits. It also enables the Council to identify our capital funding requirements and the preparation of the 2020 - 2022 Capital Programme which will be presented in Q1 2020. As part of preparations for the AFS 2019 work programme, a comprehensive review of debit and credit balances will be undertaken across all programme groups in order to rationalise the number of accounts and ensure a clear picture of actual funding requirements for capital investment and activity.

Cork County Council is undertaking a significant Capital Delivery Programme to provide social housing across all available delivery options. All housing deficit balances will be reviewed in 2019 and the funding of these will be addressed. Where it is established that funding will not be available, a plan to clear the deficits will be prepared.

The expenditure on national roads is funded by and large from TII, while expenditure on regional & local roads is generally from DTTAS, planning development levies, National Transport Authority as well as revenue provisions. All credit and debit balances are reviewed on an ongoing basis and will be a critical part of AFS 2019 preparation.

The debit balance relating to Cork Science & Innovation Park of €5.56m relates to an accrual for land costs. As these lands and this development are now within the area transferred to Cork City Council, the debt will form part of financial arrangements outlined in the Local Government Act 2019. In addition, the Ballincollig Bypass, which has been the subject of ongoing correspondence with TII, the lands and infrastructure provided to which the deficit relates, is also in the City Council administrative area and, as such, consideration will need to be given to including the debt in the financial arrangements associated with the Local Government Act 2019.

The debit balance resulting from the construction of Carrigtwohill Railway Underbridge will have to be met through the levying of future planning contributions as part of a Section 48(2c) special planning contribution scheme levied on the development lands and developments that will benefit from the provision of the construction of the under-bridge.

6. Fixed Assets

Fixed assets value had a net increase of €2.2m to €8,183m at year end 2018. Housing additions totalling €25.7m represented the most significant increase to fixed assets during 2018. Land disposals totalling €20.4m were also recorded during 2018, primarily relating to Land Aggregation Scheme (LAGS) lands valued at €15.2m. Land was also disposed of at Ballynacubby, Kinsale (€3.8m) to an approved housing body for the provision of social housing (see 6.1 below). Land acquisitions in 2018 totalled €1.6m including site and access to Loreto Convent, Fermoy of €1m which was acquired for social housing development.

Shortcomings in the fixed assets management system were reported in previous audits including the absence of one overall system for the recording of all land, property and plant.

Management has previously accepted the need for a proper fixed asset management system and committed to progressing this as part of its review of the financial management system. No significant progress has been made since the last audit.

6.1 Land Disposal at Ballynacubby, Kinsale

It was noted at audit that 4.78 acres of Council land in Ballynacubby, Kinsale, valued at €3.8m on the fixed asset register, was sold to an approved housing body for the provision of social housing in 2018 for €440k under Section 183 of the Local Government Act 2001. A professional, independent valuation of this land was not carried out prior to its sale. Instead, the residual loan balance attaching to this land was used as a basis for determining the sale price. Prior to the disposal of land, Council should ensure compliance with Department of Public Expenditure and Reform Circular 17/2016: "Policy for Property Acquisition and for Disposal of Surplus Property". I have requested management to review their procedures and reports to Members that accompany the Section 183 notices to ensure that more detailed information, such as valuations and a business case / management consideration of the transaction, is included.

Chief Executive's Response

An external review of the finance function in Cork County Council is about to commence which includes a review of the corporate financial system and future system requirements. This will involve reviewing the way fixed assets are currently managed and recorded across the organisation. In the interim, the following measures are being undertaken;

- Increased integration of Fixed Asset Register, Property Register and Insurance database to facilitate improved reconciliations
- Introduction of a new verification process for all assets under the control of the Municipal Districts

The land holding at Ballynacubby was initially acquired by the local authority (Kinsale Town Council) for the provision of much needed housing in the Kinsale area. This remains the position but the method of delivery has now changed from direct construction by the Council to delivery by an AHB. Making Council land available to Approved Housing Bodies to maximise output is encouraged by the DHPLG and the scheme will be occupied by approved applicants from Cork County Council's social housing list. The view taken was that, for the transaction to take place, any outstanding loan amounts would be cleared. It should be noted that if the Council were to develop the scheme, the land costs that could be claimed from the DHPLG would be based on loans outstanding as opposed to the valuation of the lands.

While the overall outcome is the same as if the scheme was being built by the local authority, it was felt that the Ballynacubby site was particularly suited to delivery of a scheme by an AHB. If the land, or a portion of it, was to be made available on the open market, it is acknowledged that this circular would be applicable and the optimum market price would be attained by the LA but the site in this case could not be considered to be surplus land.

7. Loans Payable

Council borrowings reduced during 2018 by €14.1m to close at €372m at year end. These borrowings consist of loans totalling €283.5m which have a corresponding stream of income to fund repayments and loans of €88.5m which are funded by the Council's own resources.

The principal outstanding on those categories of loans with a corresponding stream of income are social leasing loans of €147.2m, recoupable loans of €70.8m, mortgage loans of €49.6m and shared ownership rented equity loans of €15.9m. The social leasing loans are being repaid on an interest only basis with repayments during 2018 totalling €1.9m. The categories of loans which are funded by the Council's own resources are asset loans of €86.2m and bridging finance loans of €2.3m.

Annual loan repayment costs incurred during 2018 were €18.9m, consisting of principal repayments totalling €14.2m and interest payments totalling €4.7m. The value of loan repayments for those categories of loans without a corresponding stream of income totalled €9.2m.

7.1 Asset Loans

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

Asset Loans	2018 (€m)	2017 (€m)
Land Purchases	33.7	35.2
Waste Management	25.4	28.2
Civic Buildings	19.9	23.3
Other (Roads / Cemetery)	7.2	8.1
Totals:	**86.2**	**94.8**

Principal repayments on asset loans totalled €7.1m during 2018. The Council also fully redeemed one land loan at Commugue, Kinsale totalling €0.4m and made special capital repayments on three other land loans totalling €1.1m during 2018. The remaining land purchase loans totalling €33.7m continue to be paid on an interest only basis.

7.2 Treasury Management

It was previously recommended at audit that the Finance Department should develop a formal investment fund strategy in order to ensure the optimal level of investments and borrowings is achieved. In addition, Internal Audit published a report in September 2018 on treasury management which includes a number of recommendations accepted by management, including a commitment to implement by Q1 2019. During this audit I was advised that these recommendations have not yet been implemented.

Chief Executive's Response

The Council's loan book is actively managed throughout the year. 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 recent years. The Council continues to negotiate in relation to land loans, which is being addressed on a national basis on behalf of local authorities.

The Treasury Review has been delayed by impact of the additional requirement to progress the boundary implementation. The Council is committed to commencing a review of our Treasury Management Policy in 2019 and implementing the recommendations of the Internal Audit report on Treasury Management.

8. Development Contributions

8.1 Financial Management System

Previous audit reports have highlighted control weaknesses in the legacy system used to manage development contributions. These include issues such as not facilitating effective debt management or corporate reporting. The establishment of a steering committee in

2017 to ascertain the Council's requirements, as advised by management, was a welcome development. However, no significant progress has been made since the last audit.

It is recommended that the identification, acquisition and roll out of an appropriate integrated financial management system to replace the reliance on some legacy systems still in use by the Council should be prioritised. Until such time as this is achieved, it is recommended that a practical working system for monitoring and managing development contributions is developed as soon as possible. Increased development activity across the county reinforces the need to have a functioning development contribution management system in place. Cork County Council is embarking on an ambitious capital infrastructure program over the next number of years. Development contribution income, together with grant funding and borrowings, will be used to fund this capital program, as noted during the Council meeting of February 2019.

8.2 Special Development Contributions

It was noted during the last audit that €9.7m of special development contributions which had previously been held in Development Management was transferred to the Roads directorate (€7.9m) and Recreation and Amenity directorate (€1.8m). Section 48 (12) (b) of the 2000 Planning & Development Act requires the repayment of special contributions to the planning applicant, together with any interest arising, where the specific infrastructure works were either not commenced within five years or not completed within seven years from the date that the full payment was made to the local authority.

Last year, it was recommended to management to conduct a detailed review to establish if the timelines for carrying out the specified works have been met, to determine repayments that are due and to establish the Council's legal obligations to organisations that may no longer be in existence. While management has previously advised that such a review has commenced, at the time of audit any potential liability that may exist had not yet been identified.

Chief Executive's Response

The Council is committed to ensuring a functioning development contribution management system is in place which is critical to the delivery of our Capital Programme. An external review of the financial governance functions in Cork County Council is about to commence which includes a review of the corporate financial system and future system requirements. As outlined in the 2017 report, while a steering committee for this project was set up together with a dedicated project manager, the impact of the proposed boundary change has had a significant impact on the Council's capacity to drive progress. The development of an interim practical system for monitoring and managing development contributions will be addressed in 2019.

The progression of the review of special development contributions was impacted by resource capacity. This review will be prioritised and work has commenced to identify the specific work requirements, activity and consequent impact on Council's obligations.

9. Procurement

During previous audits the shortcomings in the Council's financial management system as a means to record and report on procurement processes for the Council's expenditure have been highlighted.

It is acknowledged that a number of initiatives have been undertaken to improve the Council's compliance with the National and EU Procurement Directives following the appointment of the Head of Procurement and support staff in 2017. Management has advised that since the last audit a detailed staff procurement training programme contract has been awarded to external consultants under an Office of Government Procurement (OGP) framework agreement. This training programme will be implemented in phases over a number of years.

However, the shortcomings in the financial management system continue to impede the Council's ability to accurately measure the impact of the initiatives introduced by the Procurement section. While it is noted that steps have been taken to procure external expert consultancy advice on how this matter should be addressed by Council, no significant progress has been made in this area since the last audit.

From our sample testing of expenditure incurred by the Council during 2018, a number of instances of procurement non-compliance have again been identified and communicated to management.

Chief Executive's Response

The Finance Department is actively seeking to address this issue to ensure that the result achieved will provide the corporate body with the appropriate tools to allow all divisions to make optimal strategic decisions including, but not limited to, procurement. A core element within this is to ensure that accountability resides where it should in a governance context and following on from this that the correct systems are in place to support and re-enforce governance. For this reason the Finance Department is in the process of awarding a Financial Governance and Systems Review Contract, which will produce a governance recommendation and a detailed implementation plan that will include a systems selection and implementation process.

In the context of procurement itself, as well as the need to be able to track compliance through establishing links between financial transactions and the procurement competition conducted, systems should also be able to provide information that allows Cork County Council to identify corporate strategic procurement opportunities. In order to be effective, 'opportunity analysis' will involve using a mix of detailed spend data analysis, market knowledge and consultation with stakeholders. All of the elements required need appropriate analysis tools, approval routes and communication structures that will allow Cork County Council to take a strategic approach and it is recognised that financial systems and reporting tools are at the heart of this. The importance of accurate data capture and unequivocal accountability within a well developed governance structure is critical to ensuring that systems themselves are fit for purpose and deliver on this need.

The plan is that by the end of January 2020 Cork County Council will have a clear road map on how this and other requirements in this area will be delivered.

10. Local Authority Companies

The Council's interest in companies is set out in Appendix 8 to the AFS. Nine companies are listed including information with regard to the extent of control exercised by the Council, brief financial details and the date of the latest financial statements received to which this information relates. None of these companies are consolidated in the Council's AFS in accordance with the Local Authority Code of Practice and Accounting Regulations.

The publication of a guidance document in July 2017 entitled "Cork County Council Subsidiary Companies – Key Principles and Operational Procedures" was noted during previous audits. 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.

10.1 Spike Island Development Company DAC

As has been the case in previous years, the most recently audited accounts of Spike Island Development Company note that the company is dependent on the financial support of the Council in order to continue as a going concern.

As was noted during the last audit, the accounts show a significant increase in turnover in the year. However, the company continued to incur losses of €15k in 2018 and had a net liability position of €130k at 31 December 2018. The Council provided a revenue subvention of €666k in 2018 which accounted for 40% of the revenue recorded by the company. The Council has also provided the company with a loan which has a balance at the year end of €512k.

10.2 Claycastle Leisure Company DAC

The company owns and maintains a leisure centre in Youghal which is operated by a third party and is dependent on the financial support of Cork County Council. During 2018, this company received €60k from the Council to fund the maintenance of the assets.

Chief Executive's Response

The Council and its subsidiaries continue to operate under our "Subsidiary Companies Key Principles and Operational Procedures". This facilitates appropriate compliance reporting process and good corporate governance arrangements across all Council companies. In Q2 2019 annual performance review meetings were held with company directors and senior Council management. Outside of this formal review process, ad-hoc meetings are also held throughout the year. In reference to the specific issues, the loan to SIDC will be fully repaid in 2019; the SIDC board is actively working to increase visitor numbers and revenue to reduce the Council subvention; the operation and financial management of the leisure centre is overseen by the Claycastle board and forms part of the performance review meetings.

11. 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.

11.1 Risk Management

The Risk Oversight Committee (ROC) 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 for further deliberation and eventual sign off.

In 2018, due to the scale and volume of risks outlined in individual risk registers, the ROC procured a bespoke IT risk management software package. Management has advised that this software will aid the committee in carrying out their duties under the ROC terms of reference.

11.2 Internal Audit

The 2018 Internal Audit (IA) 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 twelve reports during 2018 which were of a high standard. I have taken account of these reports during this audit. The IA unit is well resourced with a staff complement of eight.

11.3 Audit Committee

The Audit Committee met on six occasions during 2018. I attended the December 2018 meeting to discuss my 2017 audit report. This report was presented to Council at their meeting on 22nd July 2019 together with the report from the audit committee under Section 121(3) of the Local Government Act 2001 as amended by Section 60 of the Local Government Reform Act 2014.

Chief Executive's Response

Good corporate governance and risk management continue to be priorities for the Council. This is reflected in the objectives of the key governance documents such as the Annual Service Delivery Plan (ASDP) 2018 and in the strategic objectives of the new Corporate Plan 2019-2024. The Council's commitment to good governance is demonstrated by the Council commissioning an independent review of its governance arrangements and the report is due to be finalised shortly. The Council will review the findings of this report and will implement its recommendations to further embed and sustain good governance principles and practices in the organisation. The Council continues to fulfil its legal and regulatory obligations with regard to the Audit Committee and is committed to continuing the proper resourcing of our Internal Audit Department.

12. Provision of Housing by Approved Housing Bodies

Approved Housing Bodies (AHBs) accounted for 2,041 housing units prior to the boundary alteration with Cork City Council, representing approximately 20% of Cork County Council's housing stock. Management has advised that this figure has been reduced to 1,673 following the boundary alteration on 31st May 2019. During previous audits, 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 2019 a VFM Progress Report on this issue was prepared which showed a slight improvement in Cork County Council's level of compliance with the 2015 recommendations.

Some progress has been made by Cork County Council in addressing its AHB oversight responsibilities including carrying out a number of inspections of AHB properties in the year to ensure they are being appropriately maintained and occupied. During last year's audit, management advised that it had contacted the four largest AHBs, which account for approximately 80% of the AHB properties, requesting and receiving information relating to the level of inspections they perform each year. However, it was noted that one AHB did not respond to Cork County Council's request. Management has advised this year that it is still awaiting a response from that AHB. This is unsatisfactory and needs to be addressed immediately.

As has been highlighted during previous audits, given the number of housing units under the remit of AHBs and the reliance on some AHBs to inspect and report on their own properties, there is a significant risk to the Council. In order to mitigate this risk, it is recommended that full implementation of all applicable recommendations made in VFM no. 29 should be progressed.

Chief Executive's Response

The Council continues to make progress in this area and has included the inspection of a number of AHB properties as part of the Rental Standards Inspection Programme in the current year. In addition, the four largest AHBs, who are responsible for approximately 80% of the AHB properties in the County, have been contacted, requesting information relating to the inspections that they carried out. A further 2 AHBs, operating in Cork County, have also signed up to the Housing Agency's Voluntary Regulation Code. Cork County Council is committed to continuing our efforts to progress the full implementation of the VFM No. 29 recommendations.

13. Cork Boundary Alteration

The boundary alteration process and associated realignment of political structures in 2019, as underpinned by the Local Government Act 2019, represents significant challenges for local government in Cork. Cork County Council, in its Corporate Risk Register, identifies the boundary alteration as the most significant risk facing the organisation currently. The chief risks associated with the boundary alteration are financial and relate to the adequacy of the agreed financial arrangements to be negotiated between both authorities.

The financial arrangements consist of the following;

- A contribution by Cork County Council to Cork City Council in respect of 2019 for the performance by the City Council of functions in relation to the relevant area from the transfer day of 31st May 2019 to 31st December 2019, payable not later than 30th April 2020.
- The payment of an annual contribution by Cork City Council to Cork County Council over a ten year period up to 31st December 2029, or such longer periods as may be prescribed by the Minister. The manner and dates of payment to be agreed between both councils.
- Other financial arrangements calculated before 31st August in the year immediately preceding the year in which the annual contribution is payable.

While the details of the financial compensation package are not finalised at time of audit, an independent review, which was carried out on behalf of the Cork Boundary Alteration Implementation Oversight Committee (IOC), reported in December 2018 that Cork County Council's AFS 2017 was a reasonable basis for the calculation of the annual contribution.

The Local Government Act 2019 sets out clear timeframes and provides for the intervention of the IOC should issues arise with respect to securing an outcome to negotiations between the two authorities. At time of audit, management projected that the necessary timelines, as set by the IOC, would be adhered to.

Chief Executive's Response

The Cork local government boundary alteration has been the single biggest priority for members of Council, and the senior leadership team, over the past 12-18 months. In Q2 2018 a dedicated High Level Implementation Team was established, to ensure a planned and orderly approach to the transition of services to Cork City Council. The subsequent enactment of the Local Government Act 2019 (January 2019) further clarified the parameters within which the transition was required to be delivered.

The process was planned and managed in a strategic manner with the preparation of comprehensive transition plans and a joint communications plan, sharing these with the City, as well as the County establishing a structure of directorate to directorate team meetings to make decisions and to deliver upon the range of tasks. Regular progress reports were presented to the Implementation Oversight Committee in order to ensure that the level of progress was clearly communicated and understood.

It is important to note that the process has been extremely challenging for all concerned, and particularly for this organisation due to the range and extent of services which had to be transitioned to the City. It required a whole of organisation approach which was successfully achieved. This successful delivery impacted on a daily basis on every unit within the organisation. It was achieved from within the existing staff complement and has had a significant impact on all Directorates in terms of their capacity to progress some of the more strategic operational matters.

The County was particularly alert to the importance of the financial negotiations. A high level team, led by the Head of Finance and Director of the Boundary Transition Programme, has been working with the IOC and its Finance Panel in painstakingly examining the range of income and costs. The negotiations are reaching a conclusion at this point.

I am satisfied that this Council has delivered a highly professional approach to the boundary transition and believe that the organisation has successfully achieved all of the statutory obligations that were placed on it through the legislation and the statutory IOC Implementation Plan.

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.

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Colin Nolan
Local Government Auditor

25 October 2019

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