



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cavan County Council

for the

Year Ended 31 December 2013



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AUDITOR'S REPORT TO THE MEMBERS OF CAVAN COUNTY COUNCIL

1. Introduction

- 1.1** I have audited the annual financial statement of Cavan County Council for the year ended 31 December 2013, which comprise the Statement of Accounting Policies, Income and Expenditure Account, Balance Sheet, Funds Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is the Accounting Code of Practice for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express an opinion on the annual financial statement (AFS) of the Council as presented for audit, in accordance with the Code of Audit Practice. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 5 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an opinion on the statement and to report my opinion to you. I conducted my audit in accordance with the principles and practice of Local Government Audit. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual financial statement. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the financial statement, 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error.

- 1.2** This report is issued in accordance with Section 120 of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

1.3 Late Receipt of the Draft Annual Financial Statement / Information Required for Audit

The final draft annual financial statement was not presented for audit until 9 June 2014. This is despite the fact that the Accounting Code of Practice issued by the Department of the Environment, Community and Local Government (the Department) states that the Council's draft annual financial statement should be prepared by 1 of April of the following year.

In some cases, serious delays were experienced in receiving responses to audit requests for information. In one case a response was not received for a period in excess of two months. This has had a negative impact on the conduct of this audit. It has also resulted in a considerable delay in concluding the audit.

This is a serious governance issue that needs to be addressed by management.

Response of the Acting Chief Executive

The main reason for late presentation of the annual financial statement for 2013 was the additional workload required by the finance department in 2014 on the following projects:

- The setting up of a financial reporting claims system and the validation of this system under a service level agreement with Irish Water
- The amalgamation of Cavan Town Council and Cavan County Council
- The setting up of the necessary financial reporting requirements for the new Local Enterprise Office

The workload associated with these three projects lead to an inevitable delay in finalising the annual financial statement for 2013. The preparation of the annual financial statement for 2014 will not be impacted by such projects and it will be a priority to have it completed and available by 31 March 2015.

A system will be put in place to ensure that in future, responses to audit queries are dealt with in a timely manner.

2. Financial Standing

Details of over / under expenditures are contained in note 17 to the AFS.

The Council borrowed €4.25m in loans in 2013. This includes €3m for the Cavan Eastern Town Access Route, €1.15m in respect of the Corranure Landfill Capping and €102k in respect of the Bailieboro Water Conservation Project.

There were capital debit (adverse) balances totalling €11.236m at the end of 2013, funding has to be indentified for €4.071m of this sum.

Response of the Acting Chief Executive

The revenue account shows a surplus of €115 resulting in an increase in the general revenue reserve at 31 December 2013 to €1.663m. This reflects the ongoing prudent management of the Council's finances.

The main elements of capital debit balances relate to water and sewerage, €5.067m and land acquisition and development, €3.725m net. The Council has submitted details of water and sewerage debit balances at 31 December 2013 to Irish Water, who will carry out a due diligence exercise on these before the end of 2014. In relation to the unfunded debit balances totalling €4.071m, these relate mainly to land acquisitions and will be funded when these assets are disposed of.

3. Income Collection

3.1 Summary of Collection Accounts

Details of percentage yields from the main revenue collection accounts for 2013 with comparative percentages for the previous four years were as follows:

	2013	2012	2011	2010	2009
Rates	71%	71%	75%	79%	82%
Housing Rents & Annuities	80%	80%	82%	84%	87%
Housing Loans	67%	74%	82%	85%	99%
Commercial Water	55%	47%	50%	53%	47%

The declining collection yields are a serious issue for the Council. As may be seen from the above, the collection yields have been declining since 2009.

3.2 Rates

At end of 2013 arrears of rates totalled €3.896m (€3.629m in 2012). Rates totalling €1.35m were written off in 2013 (€1.628m in 2012).

3.3 Housing Rent and Annuities

Housing rents and annuities arrears amounted to €940k (€859k in 2012). Arrears continue to increase on a significant number of accounts. The top ten rent accounts in terms of the largest arrears range from €8k to €13k.

3.4 Housing Loans

Housing loan arrears amounted to €268k in 2013 (€242k in 2012). Arrears on a significant number of accounts continue to increase as payments received are insufficient to cover the monthly loan accrual. The arrears on ten accounts ranged from €7k to €17k. As part of the follow up of arrears, the Council is engaging the mortgage arrears resolution process (MARP).

A provision for bad debts of €45k was made in the accounts representing 17% of total housing loan arrears outstanding at the end of 2013. Based on a sample of arrears selected for review, it is recommended that the provision for bad debts be increased.

3.5 Commercial Water

Commercial water debtors at the end of 2013 amounted to €1.496m (€1.749m in 2012). The collection yield increased to 55% from 47% in 2012. €717k of commercial water invoices were not issued to customers until 2014.

3.6 General

In the case of both housing loans and housing rents and annuities, account statements are not issued annually. It is recommended that such statements be issued on an annual basis.

It is paramount that sufficient resources are allocated to the follow up of outstanding arrears. It was highlighted at the previous audit that a dedicated credit control unit should be set up to pursue payment of arrears.

Response of the Acting Chief Executive

Collection yields improved in 2013 in respect of commercial water and remained the same for both rates and housing rents and annuities. There was a deterioration in collection yields in respect of housing loans. The collection yields reflect the difficult economic environment for both domestic and commercial customers. In relation to housing loans, considerable work has been done in relation to arrears in 2014 and all available solutions are being examined to deal with the situation.

It is proposed to issue annual statements of account in respect of both housing loan accounts and housing rent and annuity accounts from 2014. The establishment of a dedicated credit control unit is included in the work force plan for the organisation recently submitted to the Department of the Environment, Community and Local Government (the Department).

4. Procurement

Procurement procedures were not properly implemented in ensuring that value for money was achieved in the following cases:

- (a) Payments of €440k for the upgrade of four wastewater treatment plants
- (b) Payments of €140k for the upgrade of Ballyjamesduff waste water network
- (c) Payments of €109k for carrying out repairs to leaks on the water network
- (d) Payments of €87k for carrying out works on various water mains

In each of the above, the e-tenders process was not utilised and the number of contractors invited to submit quotes were less than the number recommended in accordance with the public procurement guidelines.

Response of the Acting Chief Executive

With regard to (a) and (b) above, 'Emergency Funding' was requested from the Department to upgrade these plants due to pollution incident, operational concerns and concerns from the Fisheries Board / EPA. Funding was allocated, and a period of six weeks was given to complete the work. The use of e-tendering was not possible within this timeframe. Contractors with known ability, health and safety compliances and the ability to deliver within the timeframe were requested to quote for the work. The process used ensured that works were completed within the timeframe and value for money obtained.

With regard to (c) and (d) above, quotations were requested from contractors to carry out repairs on water mains networks within the county. The work was for emergency repairs only. The quantity of these repairs was unknown at the start of the year. The work was of an emergency nature and required an immediate response to ensure continuity of supply to consumers. The contractor is on the approved list of health and safety contractors for the County Council.

5. Butlersbridge / Belturbet Road Improvement Scheme

The approved tender contract for this scheme was €26m. Actual contract costs amounted to €24.6m at the end of 2013. The scheme was substantially completed in December 2013. At the time of concluding the audit it was noted that the contractor submitted the final account in February 2014. Included in this is an amount due of €25.4m over and above the approved tender price in respect of claims made by the contractor. €6.8m of this relates to a claim for which an arbitration process has just commenced. The balance of €18.6m relates to a number of additional claims made by the contractor which the Council is disputing and have been referred to conciliation. This project is being funded by the National Roads Authority.

Response of the Acting Chief Executive

The position is as outlined above. The Council is awaiting the arbitrator's decision in relation to the €6.8m claim whilst the claims totalling €18.6m have been referred to conciliation. A conciliator has not yet been appointed.

6. Corranure Landfill Capping

In 2011 the Council employed a contractor to carry out capping works at the landfill site at Corranure. The original approved contract price for carrying out these works was €554k. At the end of 2013 total actual contract costs amounted to €1.263m.

According to the contract, the works were due to be completed in March 2012. However the works were only substantially completed in July 2013.

Response of the Acting Chief Executive

A number of issues arose during the construction phase which gave rise to additional expenditure. These included regrading of all side slopes of a cell to revised levels in order to provide stability and to facilitate lining works, additional covering and repair works, additional lining repair works to the base liner of the western slope of the site, additional heavy duty geo-membrane material at the eastern and western slope of the site and additional gas management works. A decision was taken by the County Council not to progress works in the months of December to March to avoid the reoccurrence of odours which gave rise to a prosecution by EPA. This resulted in a longer construction phase for the project.

7. Purchase of Plot of Land for Reservoir

The Council purchased 1,960 square metres of land for €47k for the purpose of constructing a reservoir as part of the Ballyconnell Regional Water Supply Scheme. As part of the contract price for purchasing the land, the Council also agreed to carry out private works to the value of €43k. No independent valuation was obtained in respect of the purchase price of this plot of land.

Response of the Acting Chief Executive

The land in question was adjacent to the existing reservoir site and is the highest point in the area. An alternative site would not have been viable from a technical viewpoint. The option of using a compulsory purchase order would have incurred additional costs and delayed the project. The land owner has signed a document stating satisfaction with the works. Procedures will be reviewed to obtain independent valuations for future projects.

8. Inter Capital Transfers

Surplus funds on a water scheme totalling €300k were transferred to a general capital reserve in programme group eight 'Miscellaneous Services'. The funding of this scheme was made up of a combination of development contributions, loans and specific grants. It is not appropriate that these funds be transferred to a general capital reserve. I am requesting that this accounting transfer be reversed in 2014.

Response of the Acting Chief Executive

The amount of €300k transferred to the general capital reserve will be reversed in 2014.

9. Ethics Register

A review of the ethics register revealed that a significant number of declarations had not been returned within the required timeframe. It was further noted that in the case of some declarations which had been returned, these were not fully completed. In accordance with Part 15, Section 171 of the Local Government Act, 2001 these declarations should be furnished to the ethics registrar within the required timeframe.

Response of the Acting Chief Executive

Elected members and relevant staff were notified by the Ethics Registrar in accordance with the time frame set out in the Local Government Act 2001, together with guidelines for completing the declaration. The guidelines specify the date by which declarations should be submitted (the return period). Reminders were subsequently issued by the Ethics Registrar to staff / elected members who did not return declarations by the date specified.

It is ultimately a matter for an elected member or relevant grade of staff (as the case may be) to submit the declaration. The Ethics Registrar is not in a position to know who will adhere to the timeline until the return period date has passed.

In order to improve compliance levels with the "return period" and to ensure that all declarations received are fully completed, it is proposed that in future, a further communication will issue in advance of the return period, reminding staff/elected members who have not completed the declaration, of their obligation to complete by the end of February and advising that failure to comply with the requirements of Section 171 is an offence. The Ethics Registrar of the day will be advised to ensure that all forms must be thoroughly checked. Follow up action will be initiated, if appropriate, to ensure that the declaration is fully completed and meets the requirements of the Regulations.

10. Depreciation of Landfill

Depreciation has never been charged in respect of the landfill site at Corranure. Depreciation should be charged on this asset. An adjustment also needs to be made to the accounts in respect of cumulative depreciation applicable to the end of 2013.

Response of the Acting Chief Executive

An adjustment will be made in respect of cumulative depreciation applicable to Corranure Landfill in the 2014 annual financial statement.

11. Development Contributions

A total of €839k was collected in 2013 in respect of development contributions.

The Council carried out 25 site inspections in 2013 (17 site inspections in 2012). As payment of outstanding contributions by developers is based on the sale / renting / lease of properties in some cases, it is recommended that regular site inspections be made as part of the follow up of arrears.

Response of the Acting Chief Executive

It is recognised that the follow up of arrears of development contributions is an important issue for this Council. The closing of house sales require certification that all planning conditions are in place. This provides a self compliance mechanism that ensures contributions are paid. The Council will continue to monitor this area closely.

12. Contingent Liability / Related Company

Glassell Limited, which was owned by the Town Council and whose principal activity is the operation of a multi storey car park, incurred an operating loss of €514k in 2013 (€530k in 2012). The Town Council was committed to purchasing this car park from its owners in 2015 at a cost of €6.7m. Due to the amalgamation of the Town Council with the County Council, the County Council will be responsible for the discharge of this agreement.

Response of the Acting Chief Executive

It is acknowledged that following the amalgamation of the Town Council and Cavan County Council, Cavan County Council will be responsible for the purchase of the multi-storey car park in 2015 and this matter is presently being considered by Council.

13. Internal Audit

I have taken account of the work of the internal auditor in carrying out my audit.

It was highlighted in the previous audit report that internal audit experienced difficulties in obtaining progress reports / responses from management. These difficulties continued to be experienced by internal audit in 2013. Internal audit is a key internal control element of corporate governance. It is paramount that management responses in respect of matters raised by internal audit are provided in a timely manner and that issues raised are addressed.

Response of the Acting Chief Executive

It is acknowledged that Internal Audit is a key internal control element of corporate governance and every effort will be made to ensure that internal audit reports are responded to in a timely manner.

14. Changes in Local Government Structures 2014

"Putting People First" sets out the Government's vision and blueprint for local government. Amongst the principal features that will impact here is the amalgamation of the three town councils with Cavan County Council.

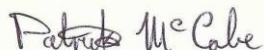
These changes will require management in the local authority to ensure that adequate provision for both staff and resources are in place in order to meet the challenges, within the tight time-frame specified.

Response of the Acting Chief Executive

"Putting People First" will require some re-structuring of the organisation as a result of the establishment of three municipal districts and the absorption of the three town councils into mainstream Local Government. While the existing area structure will form the base, a re-alignment will be required to replace the existing four areas with three municipal districts. The new structures will also necessitate a further re-organisation of the outdoor workforce to fit in with the new areas. Management is conscious of the need to make adequate provision for the operation of the new structures within the resources available. A project team was established in 2013 to deal with the financial implications of amalgamation. It is expected that work on this element of amalgamation will be finalised by end of September 2014.

15. Acknowledgement

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



Patrick McCabe
Local Government Auditor
10 September 2014