



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cavan County Council

for the

Year Ended 31 December 2019

Department of Housing, Local Government and Heritage

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AUDITOR'S REPORT TO THE MEMBERS OF CAVAN COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Cavan County Council for the year ended 31 December 2019, which comprises 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, Local Government and Heritage.

My main statutory responsibility, following 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 2019 and its income and expenditure. My audit opinion, which is unmodified, 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 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 judgments made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

This report is prepared in accordance with Section 120(1) (c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2 Non – adjusting post balance sheet event – COVID-19

In accordance with Circular Fin 05/2020, the local authority has included a note in their Annual Financial Statements (see note 23) in relation to COVID-19. This note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities post year-end. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cashflow of the local authority and the ability to deliver services.

The local authority has taken a number of steps to address these both at local and national level including the following:

Local Level

- Identifying the principal income streams from goods and services and the potential estimated financial impact on these
- Estimating the reduction in rates income
- Presentation to the members of the impact of COVID-19 on the local authority's financial position including a six-month end revenue report to the end of June 2020, taking into account a six month's waiver in rates income.
- Acute management of discretionary expenditure
- Tracking of all expenditure associated with COVID-19
- Constant monitoring and improvement of collection procedures

In addition to the above, the Council also has approval of both the members and the Department of Housing, Local Government and Heritage (the Department) to access overdraft facilities of €9m.

National Level

- 'Acute Financial Matters' (AFM) reports are prepared by the Acute Financial Matters subgroup of the CCMA City and County Manager's Association for the Department. These reports provide details of the estimated potential loss of commercial rates income and receipts from goods and services to each of the local authorities nationally. In addition, an AFM report was completed in July 2020, 'Analysis of Local Government Emergency Costs associated with the Public Health Emergency COVID-19.
- In accordance with circular Fin 11/2020 the Department will provide funding to the local authority to cover the six month's rates waiver. In addition, grant aid has been made available through the local authorities for businesses that meet certain criteria in order to help support businesses and the local economy.

Chief Executive's Response

The Council will continue to monitor the impact of the COVID-19 pandemic and take appropriate actions as required. In addition to the above, in accordance with Circular Fin 16/2020, the Department will provide funding to the local authority to cover a further three month's rates waiver for the period 28 September to 27 December 2020, again with the number of exceptions as outlined in Circular Fin 11/2020.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €88 for the year after net transfers to reserves of €2.3m. Details of over/under expenditure are contained in note 16 to the AFS and were approved at the June 2020 Council meeting.

3.2 Statement of Financial Position

Significant movements in the finances of the Council during the year included:

- Increase in fixed assets of €11m
- Increase in work in progress and preliminary expenditure of €15m
- Increase in trade debtors and prepayments of €2.1m
- Decrease in cash at bank of €2.7m

- Increase in long term debtors / long term creditors 'Other' of €865k and €843k respectively

The increase in fixed assets is due mainly to additions to housing in the year, including the completion of two housing developments at Mullagh and Ballyhaise, providing 16 additional housing units at a total cost of €2.9m (see also paragraph 9.2 below).

The increase in work in progress includes roads projects with expenditure totalling €5.3m, town hall refurbishment €1.1m and the provision of capital asset leasing finance (CALF) to Approved Housing Bodies (AHBs) of €3.7m (see also paragraph 9.1 below).

The movement in trade debtors and cash at bank is due mainly to timing differences including an increase in government debtors at year end of €2.4m while the increase in long term debtors / creditors relates to the provision of CALF facilities to AHBs.

4 Income Collection

4.1 Summary of Income Collection

Income Source	Yield %		Net Debtors €m	
	2019	2018	2019	2018
Rates	79	83	3.6	4.1
Rents & Annuities	85	84	1.0	1.0
Housing Loans	81	77	0.1	0.1

4.2 Rates

The collection yield in respect of rates decreased in 2019 to 79% compared to 83% in 2018. However, this is due to the reclassification of €1.3m of specific doubtful arrears (SDA) to a general provision for bad debts. The SDA total is deducted from the net closing arrears amount when calculating the collection yield percentage.

Gross arrears (net of credit balances) at the end of 2019 decreased by €512k to €3.7m (€4.2m in 2018). A sample of arrears selected for review indicated that these are being pursued for payment. However, there were a number cases noted where more follow up is recommended.

A provision for bad debts of €3.1m representing 85% of total gross arrears outstanding at year end was made to the accounts. (see also paragraph 4.5 below).

Chief Executive's Response

The Council will continue to prioritise the collection of rates. Whilst the collection yield decreased in 2019 to 79% compared to 83% in 2018 as a result of the reclassification of €1.3m of SDA to a general provision for bad debts, it should be noted that the rates collected in actual money terms increased by €507k from 2018 to 2019.

4.3 Rents and Annuities

The collection yield in 2019 in respect of rents and annuities was 85% (84% in 2018). A sample of accounts reviewed indicated that increased follow up of arrears is required.

The provision for bad debts represents 66% of the total gross arrears outstanding. It is my opinion that while not material, this provision may be inadequate and should be revised.

Chief Executive's Response

The matter of the bad debt provision will be reviewed in conjunction with the finance section in 2021 and amended accordingly. The Council will continue to prioritise the collection of rents and following up on arrears.

4.4 Housing Loans

The collection yield in respect of housing loans at the end of 2019 was 81% compared to 77% in 2018.

A sample of loans examined noted that the Council is pursuing arrears for payment. However, it was noted for a number of accounts that there were time delays in issuing 'follow up' reminder notices to customers regarding payment of arrears.

A provision for bad debts of €149k, representing 112% of the total gross arrears outstanding, was made in the accounts. This is an over-provision and should be corrected.

Chief Executive's Response

The Council will continue to prioritise the collection of housing loans, and a system for the reminder notices is currently being rolled out. The level of bad debt provision will be reviewed and amended accordingly in 2021.

4.5 Provisions for Bad Debts

The COVID-19 pandemic is currently, and will in the future, have a negative impact on the economy which cannot be quantified at this time. It is crucial that provisions for bad debts be kept under constant review in conjunction with robust credit control processes.

Chief Executive's Response

Provisions for bad debts will be reviewed regularly in line with debtor balances and are currently being reviewed for the budget 2021 process with increased provisions being made as part of this process, given the uncertainty and challenging times as a result of the COVID-19 pandemic.

5 Investigation Pertaining to Procurement / Payments made by the Council

This matter was highlighted at the previous audit.

In 2019, further work was undertaken and the matter has recently been brought to a conclusion. Based on the conclusions reached, there is no material impact on the financial position of the local authority.

In addition, the Council engaged the Institute of Public Administration to carry out a review of its governance procedures (see paragraph 15.2 below).

Chief Executive's Response

As noted, this matter has been concluded with no material impact on the financial position of Cavan County Council. Procurement and 'Purchase to Pay' reports are completed on a quarterly basis, with Internal Audit performing a review of same at regular intervals throughout the year.

6 Capital Account

6.1 Unfunded / Static Balances

Net capital balances at the end of 2019 amounted to a surplus of €18.8m. Included in this amount is €3.5m of debit (adverse) balances where the balance has either increased or remained static over the last four years. €3.0m of this amount relates to the purchase of land some years ago.

Chief Executive's Response

The debit balances in respect of the purchase of land will be addressed when the land is disposed of by the Council.

6.2 Unspent Grants Received from Transport Infrastructure Ireland (TII)

There continues to remain a surplus of grant monies of €196.4k received from TII in respect of the construction of four individual roads projects. Details of these are as follows:

Project Description	Surplus Funding €000
Shannow to Ballinagh	24.2
Construction of Salt Barn at Moynehall	33.2
Cavan By-Pass	46.7
Road Realignment at Corduff to Ballytrust	92.3
Total	196.4

If approval is not obtainable from TII to utilise these monies on other ongoing projects, then it should be refunded by the local authority.

Chief Executive's Response

This matter is ongoing, and the Council will engage with TII with a view to refunding this sum or to seek agreement to utilise this funding for other TII road projects which are overspent. This will be dealt with in 2021.

6.3 Capital Balances

A review of capital balances noted the following:

- (a) A credit balance of €526k on a project which should have been treated as deferred income.
- (b) A credit balance on a roads project completed some years ago, of €506k. This project was funded by combination of development contributions and a loan of €3m borrowed in 2013.
- (c) There are a number of completed housing projects pertaining to the former Cavan town council with credit balances carried forward each year.

The Council should review and resolve the above matters.

Chief Executive's Response

The Council is engaging with the contractor in relation to outstanding issues on this roads project and the final funding position on this project will not be known until these are resolved.

The balances referred to on the completed housing projects will be reviewed in early 2021 and dealt with accordingly.

All capital balances will be reviewed in January 2021 as part of the preparation of the AFS 2020.

7 Debtors

7.1 Fire Charges Debtors

The system in operation for recording fire charges is considered inadequate for financial reporting purposes. There was no report available, providing details of the individual balances included in the closing balance at the end of the year. As a result, the closing debtor balance at the end of 2019 in respect of fire charges which amounted to €279k could not be substantiated. A provision for bad debts of €104k was made in the accounts in respect of this amount. This matter should be addressed.

Chief Executive's Response

This matter will be addressed with the software provider to seek a possible link with the financial management system (FMS) for providing reports and analysis on a quarterly basis, with year-end reports agreeing with the FMS. The provision for bad debts will be reviewed in the context of the outstanding debtor balances.

8 Long Term Debtors

8.1 New Housing Loans Issued

It was noted during a review of the 'Rebuilding Ireland' housing loans issued to borrowers during 2019, that the loans were incorrectly set up on the housing loan system. This resulted in the coding of interest and mortgage protection insurance costs due being

miscoded in the accounts. This matter should be corrected and any necessary adjustments made. It should be noted that this miscoding is not material in the context of accounts.

Chief Executive's Response

The issues raised are being corrected in conjunction with the finance section as it appears that there is a technical issue which needs to be resolved. All adjustments will be processed accordingly.

8.2 Shared Ownership Housing Loans

Included in long term debtors (note 3 to the accounts) is an amount of €1.8m pertaining to shared ownership loans, of which €1.4m relates to the rented equity portion while just €0.4m pertains to the loan portion. There are 23 accounts in total.

I have been informed that a number of these loans will be redeemed in the coming years. When this occurs, the rented equity portion will become due for payment. This may be an issue in the future in the case of borrowers, who have not made provision to redeem the rented equity portion of the loan.

Chief Executive's Response

This is currently being reviewed by the finance section and the issues highlighted are currently being dealt with and will continue to be progressed in 2021.

9 Fixed Assets

9.1 Work in Progress

A review of work in progress identified projects incorrectly classified therein including more than €3.7m of both income and expenditure in relation to the provision of capital asset leasing facility loans and a capital assistance scheme to AHBs.

A review of all projects included in work in progress should be undertaken to ensure their accurate classification in the accounts. This matter does not affect the closing balance on either the revenue account or capital account.

Chief Executive's Response

A thorough review of all projects included in work in progress will be undertaken in December 2020 / early 2021 with all sections to ensure their accurate classification in the accounts and will form part of the AFS 2020 preparation work.

9.2 Accounting for Fixed Asset Additions

A review of a sample of constructed additions to fixed assets revealed significant weaknesses with regard to the following additions:

- (a) Virginia Fire Station
- (b) Construction of eight housing units at Mullagh
- (c) Construction of eight houses at Ballyhaise

The cost of the land associated with these developments and owned by the Council, was

not transferred from the Council's land fixed assets bank to each relevant capital construction project code resulting in the overstating / understating respectively of the value of land fixed assets and the asset additions, by the cost of the land utilised. Similarly, the cost of land utilised in the construction of a previous housing scheme at Mullagh some years ago was not included in the overall cost of the scheme.

Regarding (a) and (b) above, the cost of this land was omitted for Departmental budget approval and subsequently not claimed from the Department.

Procedures should be put in place for accounting for fixed assets. A full and thorough review should be undertaken of land fixed assets in order to ensure that its value is accurately stated. In addition, a reconciliation should be completed between the fixed asset register, insurance schedule and property register (see paragraph 9.3 below).

Chief Executive's Response

The Council will arrange for the transfer of the housing lands from the FMS lands register to the relevant capital job code to reflect the actual cost of the various projects and review the budgets accordingly. A reconciliation between the insurance schedule and fixed assets on the FMS is currently being undertaken and will also be reconciled with the property register in 2021. All differences will be followed up with the respective sections.

9.3 Land / Property Register

Weaknesses have been highlighted at the previous audit with regard to updating the land / property register. I have been informed that the Council is currently in the process of putting in place a new property asset management system which is compatible with its graphic information system (GIS) and map information system. When this is completed, work will commence on updating this database with all Council properties.

Chief Executive's Response

As outlined, the Council is in the process of installing a new property asset management system compatible with its GIS and map information system. Once this new system is operational, work will commence on the update of the new property management system.

9.4 Housing Stock Reconciliation

The housing stock reconciliation was not completed for audit. This reconciliation should be completed at the time of preparing the draft accounts to ensure the inclusion of all housing stock in both the accounts and fixed asset register. This should be made available at audit.

Chief Executive's Response

Work is ongoing on this reconciliation and will be completed and stock agreed in conjunction with finance in 2020. This will form the basis for stock reconciliations in future years, and a reconciliation will be provided as part of the AFS 2020.

10 Transfer of Title to Irish Water (IW)

To date, the local authority has transferred title of 67 properties to IW and an additional 49 assets were transferred under Ministerial Order. Five further properties are ready for transfer subject to the necessary approval. There are currently 45 properties remaining to be transferred. As there are ongoing issues regarding right of way, sites not registered and subdivision of folio, this process will take time to finalise.

Chief Executive's Response

The position with regard to the transfer of title to IW is as outlined by the auditor. As there are ongoing issues regarding right of way, sites not registered and subdivision of folio, this process will take time to finalise, and Cavan County Council are continuing to work with IW regarding this.

11 Accounting for the Provision of Housing by Approved Housing Bodies (AHBs)

A national Value for Money report 'The Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies' completed in 2015 made a number of recommendations with regard to accounting for the provision of housing by AHBs. A review noted that a number of these recommendations continue to have only been partially implemented while a number have yet to be implemented.

Chief Executive's Response

A review of the Value for Money report 'The Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies' will be carried out in 2021 and an implementation plan will be agreed for recommendations to be implemented in so far as possible taking into account the work being carried out in this area by the Housing Agency Regulation Office.

12 Operation of Part V Register / Controls

Part 2, Section 3 of the Planning and Development (amendment) Act, 2002 requires developers to provide land for public housing. This could be in the form of a financial contribution, land or a combination of these, to the local authority at an agreed cost. The purpose of this requirement is to assist in the provision of social and affordable housing.

A total of €42k was collected in 2019 pertaining to Part V financial contributions. The Part V register presented at audit indicated that a sum of €1.5m remained outstanding at year end in respect of financial contributions. Weaknesses in the follow up of outstanding arrears of these contributions continued during 2019.

It was highlighted at the previous audit that the internal audit unit was in the process of finalising a report in this area. This report, which was finalised in October 2019, highlighted significant deficiencies in controls in this area. These should be addressed.

Chief Executive's Response

Significant progress was made in early 2020 to reduce this outstanding debt. However, unfortunately due to COVID-19, this work was put on hold, but will resume early 2021.

13 Purchase Orders / Supplier Invoices

Following a review of purchase payments, it was noted that there continues to be cases where purchase orders are not being generated on the purchasing system at the time of ordering goods. This is not in compliance with recommended purchasing procedures and

may result in some expenditure not being accrued in the accounts.

Chief Executive's Response

Procurement and 'Purchase to Pay' reports are currently being completed on a quarterly basis and a review is currently being undertaken by the finance, internal audit and procurement sections with all the directorates. A new IT app system has been rolled out by the procurement section to aid with the completion of these returns.

14 Local Authority Companies

The Council's interest in companies is set out in appendix 8 in the AFS. This table includes information about 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.

The signed audited accounts were not available when requested at audit in respect of Bridge Street Resource and Community Centre Limited. With regard to Glassell Limited, this company availed of the audit exemption on the grounds that it meets the conditions specified in Section 359 of the Companies Act 2014.

15 Governance and Propriety

15.1 Corporate Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

15.2 Corporate Governance Review Completed by the Institute of Public Administration (IPA)

In 2019, the Council engaged the Institute of Public Administration (IPA) to carry out a review of its governance procedures. A final draft of the report of the IPA into this review concluded that with the exception of some areas, and for which recommendations have been made, the Council was compliant with its governance obligations.

Chief Executive's Response

This report was considered and discussed by the Senior Management Team. The recommendations will be presented to the Corporate Policy Group for review and implemented going forward.

15.3 Corporate Risk Register

There is no Corporate Risk Register in the local authority combining the risks of all directorates of the local authority.

Chief Executive's Response

The risk register for each directorate for 2020 has been compiled into one risk register by the finance and internal audit sections, and will form part of the Corporate Risk Register, which is currently being completed, and will take into account the COVID-19 Pandemic and the associated risks. This Corporate Risk Register will be available in January 2021.

16 Internal Audit Function

In addition to a number of cash control checks, the internal audit unit completed a total of seven reports including two public spending code and two review reports in 2019.

Internal Audit continues to provide a high quality service in the local authority. I have taken account of the work of internal audit during the course of the audit.

16.1 Fraud and Contingency Plan

The Council updated its Fraud and Contingency Plan in January 2019.

16.2 Protected Disclosures Policy

The Council's Protected Disclosures Policy which was adopted by the Council's Audit Committee in June 2017 is available on the local authority's website.

Acknowledgement

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



Patrick McCabe
Local Government Auditor
22 December 2020

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