Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork City Council

for the

Year Ended 31 December 2019

Department of Housing, Local Government and Heritage

housing.gov.ie

CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL 1

1 Introduction 1

2 Non – adjusting post balance sheet event – COVID-19 1

3 Financial Standing 2

3.1 Statement of Comprehensive Income 2

3.2 Work in Progress and Preliminary Expenses (WIP) 2

3.3 Completed WIP Schemes 2

3.4 Net Current Assets 3

4 Income Collection 3

4.1 Summary of Income Collection 3

4.2 Commercial Rates 3

4.3 Rents 3

4.4 Housing Loans 4

4.5 Bad Debt Provisions 4

5 Transfer of Water and Sewerage Functions to Irish Water 4

6 Fixed Assets 5

7 Capital Account 5

7.1 Capital Account Overview 5

7.2 Capital Account Debit Balances 6

7.3 National Transport Authority Grant 7

7.4 Kyrls Quay Property 7

7.5 Cork Science and Innovation Park 7

7.6 Glanmire Roads Improvement Scheme 8

7.7 Special Development Contributions 8

8 Loans Payable 9

9 Housing Maintenance 9

10 Procurement 10

11 Derelict Sites & Vacant Sites Levies 10

11.1 Derelict Sites Levy 10

11.2 Vacant Sites Levy 11

12 Cork Events Centre 11

13 Governance and Propriety 12

13.1 Governance Overview 12

13.2 Internal Audit Function and Audit Committee 12

13.3 Data Protection 12
14 Local Authority Companies 12
14.1 Interest in Local Authority Companies 12
14.2 The Cork Opera House DAC 13
14.3 Leisureworld & Livingwell Management Ltd 13
14.4 SDC Investment Holdings Ltd and the Software Development Centre Ltd. 13
14.5 Cork Urban Enterprises CLG 14
15 Cork Boundary Alteration 14
Acknowledgement 15

AUDITOR’S REPORT TO THE MEMBERS OF CORK CITY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Cork City Council for the year ended 31 December 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 3 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and 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.

Management has advised that the Council has taken a number of steps to address these both at local and national level including:

- Preparation of a mini budget in May 2020. This mini budget estimated that the Council would lose €8.4m from local income, excluding commercial rates. In order to meet this deficit, savings of €2.8m and a reduction in expenditure of €5.8m compared to the 2020 adopted budget was identified.

- Participation in a national submission of acute financial management reports to the Department of Housing, Local Government and Heritage (the Department) that dealt with the impact of the COVID-19 pandemic on 2020 commercial rates, local government goods and services income and additional expenditure incurred as a response to the pandemic

The following assistance has been made available to the local authority:

- The Department initially announced a 6 month commercial rates waiver up to 27 September 2020 for eligible businesses. Under this scheme, the Council will receive approximately €32m. By the end of October 2020, the Council had received €12.7m of this allocation.

- The waiver scheme was subsequently extended for a further three months to the end of 2020. At the time of this audit, the Council's allocation has not yet been confirmed.

3 Financial Standing

3.1 Statement of Comprehensive Income

The surplus for the year amounted to €53k after net transfers to reserves of €5.7m. The surplus for the year includes €9.5m of parking income and a €1.3m reduction in the bad debt provision for rates. Management has advised that as a result of the COVID-19 pandemic, they expect that there will be a significant loss in parking income and the bad debt provision for rates will have to be significantly increased.

The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS. The approval of the members, as required by S.104 of the Local Government Act, 2001 was obtained on 14 September 2020.

3.2 Work in Progress and Preliminary Expenses (WIP)

Expenditure on work in progress and preliminary expenses amounted to €86m at year end. This expenditure relates mainly to housing projects (€74m). At audit, €2.8m of this expenditure was identified as being on projects that were either completed or no longer progressing. I have requested management to make the appropriate adjustments in the 2020 AFS.

3.3 Completed WIP Schemes

The following housing schemes were completed during 2019 and are included within the housing stock figures at year end:

Scheme	€
43 Units - Church Road	11.87m
30 Units - Arus Mhuire	7.66m
29 Units - Phase 1B of Cork North West Regeneration	7.52m
4 Units - Tramore Road	1.11m
Total 106 Units	**28.16m**

At audit, it was noted that the completed housing units at Tramore Road were categorised as "purchased" assets instead of "transfers WIP" in Note1 of the AFS.

3.4 Net Current Assets

The Council's current assets exceeded its current liabilities by €32m at the end of 2019. However, there are loans payable amounting to €185m and significant debit capital balances to address (section 7.2). The full financial impact of the COVID-19 pandemic on the Council's financial position has yet to be determined.

Chief Executive's Response

The Council welcomes the auditor's comments on the 2019 surplus; this has arisen through cost control. The Council notes the auditor's comments on the expenditure included in Work in Progress (WIP) and will ensure the appropriate adjustments are made in the 2020 AFS.

4 Income Collection

4.1 Summary of Income Collection

Appendix 7 to the AFS shows the movements on the major revenue collections in the year. All efforts should be made to further improve these collection yields where possible, but it is acknowledged that COVID-19 may present challenges in this regard. The collection yields were as follows:

Income Source	Debtors (€m)	Debtors (€m)	Yield (%)	Yield (%)
	2019	**2018**	**2019**	**2018**
Commercial Rates	13.9	16.0	83	82
Housing Rents	3.6	3.3	88	88
Housing Loans	0.6	1.0	78	69

4.2 Commercial Rates

Commercial rates revenue collected during the year totalled €64m and was similar to the previous year. Write offs, vacant property adjustments and waivers amounted to €4.4m. The year end arrears have reduced by approximately €2.1m to €13.9m.

Commercial rates accounted for 34% of the Council's revenue income in 2019. Although there are over 6,500 rateable customers making up the valuation base, the top twenty customers account for €10m (15%) of the total rates income for the year.

Chief Executive's Response

We will continue to focus on collection performance in 2021 across all income categories and to address the outstanding arrears. The introduction of a rates wavier for 2020 has posed a significant challenge to the collection of arrears in 2020. Due to this we foresee the need to increase the bad debt provision in the 2020 AFS.

4.3 Rents

During 2019 the housing rents section integrated almost 1,000 tenants from the extended boundary area into the City's social housing list and managed collection from over 9,700 tenants.

Although the collection yield was consistent with the previous year, the net year end arrears increased by 9% to €3.6m. This figure is a combination of €1.2m in relation to accounts in credit and €4.8m for accounts in arrears. It is noted that €2m of these arrears are outstanding for over a year. This situation will require a concerted effort to improve collection.

Chief Executive's Response

Efforts to stem the rise in arrears were significantly impaired by COVID-19 with arrears continuing to increase through Q1 and Q2 2020.

There has been a reduction in the level of arrears for Q3 and Q4 in 2020 as a result of an intensified collection process.

4.4 Housing Loans

The collection yield increased from 69% in 2018 to 78% in 2019. This improvement was partly facilitated by €275k of arrears that were written off that mainly related to caravan loans.

The net arrears of €604k is made up of 322 accounts in credit (€85k) and 200 accounts in arrears (€689k). It is noted that €428k of these arrears are outstanding for over 180 days, with the "top 20" arrears cases comprising €511k (74%) of the total arrears.

During 2019 management identified 10 arrears cases totalling over €158k, that were eligible for the Shared Ownership Restructuring scheme or the Mortgage to Rent scheme. While none were concluded by the end of the year, management advised that these were resolved in 2020. It is imperative that these schemes are utilised as much as possible to address poorly performing loans.

Chief Executive's Response

We will continue to work to resolve unsustainable loans and to focus on addressing the arrears as they arise. We note the auditor's comments on the importance of the utilisation of the Mortgage to Rent and Shared Ownership Restructuring scheme in effectively managing poor performing loans.

4.5 Bad Debt Provisions

Gross debtors, including those from the main income collections, shown in Note 5 to the AFS amounted to €71m, for which the Council has made an overall bad debt provision of €21.9m. While this was considered materially adequate for the year, it is important given the challenging situations that businesses, tenants and borrowers find themselves in as a result of the global pandemic, that the Council keeps the provision under constant review.

Chief Executive's Response

These bad debt provisions will be kept under constant review.

5 Transfer of Water and Sewerage Functions to Irish Water

The responsibility for water and sewerage functions was transferred to Irish Water (IW) in 2014 and the Council delivers services on behalf of the company under a service level agreement. The Council continues to liaise with IW's National Special Projects Office (NSPO) in relation to the transfer of assets. By the end of 2018, eighteen of the thirty eight assets identified by the Council for transfer had completed. Since then, no further assets have been transferred.

Chief Executive's Response

Between 2017 and 2019 there has been significant change in the staff in both Cork City Council and Irish Water who have been working on this project. A lot of momentum was lost while new staff trained and obtained knowledge regarding this complex matter. In addition, Irish Water have introduced continuous change to their process and adapt their systems on foot of learnings from this process. This has also slowed progress. The current COVID-19 pandemic has put further strain on this process, with resources being redirected to delivering essential time sensitive frontline services like the provision of clean drinking water to 210,000 citizens and thousands of businesses in Cork City.

6 Fixed Assets

The net book value of fixed assets increased by €303m to €3,584m. The transfer of assets from Cork County Council arising from the boundary alteration process has been the main contributor to the significant increase. These have been included at the valuations supplied by Cork County Council. Management have advised that further assets within the extended boundary area including the roads network, will be included in AFS 2020 when valuations are confirmed.

In the course of this audit, omissions across various fixed asset categories were identified and brought to management's attention for correction in AFS 2020. At the last audit I drew attention to the absence of a comprehensive property interest register. I also recommended that a detailed review, including physical inspection of assets was required to validate the accuracy and completeness of the fixed asset register. In particular, I identified the need for a review of its heritage and moveable assets. At the time of this audit, these matters are unresolved.

It is important that appropriate measures are in place to ensure that all fixed assets are properly safeguarded against loss, misappropriation or damage.

Chief Executive's Response

The Council will continue its work with Cork County Council to address the issues that have arisen regarding accuracy and completeness of the additions arising as a result of the boundary extension.

7 Capital Account

7.1 Capital Account Overview

Capital expenditure for the year increased by 37% to €136m, mainly comprising housing (€108m) and roads projects (€11m). There was a credit balance on the capital account of €30.5m at 31 December 2019 (2018: €31.5m) which comprises debit and credit balances on 638 individual job codes.

7.2 Capital Account Debit Balances

At the end of 2019 there were a number of projects with significant debit balances where little progress has been made to reduce the balance from the previous year or where an immediate funding stream was not in place. Arrangements should be put in place to address these outstanding balances:

Capital Project	Balance at 31/12/19
Housing Projects	€18.4m
Development Sites	€6.8m
Docklands Bridge	€4.7m
Housing Voids Programmes	€4.1m
Marina Park Lands	€3.8m
Inchigaggin House & Lands	€2.8m
Cork Science & Innovation Park	€2.8m
St Catherine’s Cemetery Extension	€1.8m
Total Above	**€45.2m**

Chief Executive's Response

Housing Projects
Progress will continue to be made with the Department of Housing, Local Government & Heritage to fund housing projects that have been completed and which require final account submissions. Projects will be developed under the Rebuilding Ireland Action Plan for Housing and Homelessness which may provide funding and the Council will, if necessary, agree a funding plan for the remaining outstanding balances.

Development Sites
These sites have been acquired by the Council so that their development potential is achieved either by the Council developing them or to enable further private sector development in the area. In the latter case they are likely to be disposed of in the medium term. The Council plans to finance the current debit balances from either this redevelopment or from the sale of the sites.

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

Housing Voids Programmes
Housing voids capital balances at 2019 year end are broken into balances for void programmes from 2015 to 2019, with balances being cleared from rental income on the properties returned, through the revolving fund programme. The projections are programmed to clear over a number of years, typically five years. However, the extent of the programme and works required and Departmental funding support can impact on the actual remaining balances of a particular year and subsequently impact the term required to apply rental income and clear same. Some years have been cleared and some years are close to zero balance. All balances will be cleared with rental income.

Marina Park Lands
The balance of €3.8m on Marina Park Lands will be funded through a combination of revenue contributions to capital plus future development charges.

Inchigaggin House & Lands
The Council is in the process of disposing of the house and will utilise the lands for development. It will use the funding generated to fund this debit balance.

Cork Science & Innovation Park
Funding has not been assigned for the expenditure incurred to date or any future land acquisition or infrastructure development costs. Funding opportunities will be explored in line with the future development policy for the area.

St. Catherine's Cemetery Extension
This will be funded from the income from future grave plot sales in St. Catherine's Cemetery.

7.3 National Transport Authority Grant

In last year's report, I set out that during 2018 the Council received €1.2m of funding from the National Transport Authority to acquire a property for a roads project. At the last audit, I was informed that the acquisition of this property has not yet been finalised due to ongoing title issues and the funds remain with the Council. At the time of this audit, this matter is still ongoing.

Chief Executive's Response

The transfer process has been progressed and is expected to be closed out shortly.

7.4 Kyrls Quay Property

In 2019, the Council purchased property at Kyrls Quay at a cost of €2.75m. Circular 17/2016: "Policy for Property Acquisition and for Disposal of Surplus Property" issued by the Department of Public Expenditure and Reform sets out that a business case, following a standard appraisal process, is a necessary step in the achievement of value for money in relation to the purchase of property and lands. While the Council obtained an independent valuation of the property prior to acquisition, a business case, as required by this circular, was not prepared in advance of the purchase.

Chief Executive's Response

Kyrls Quay is currently being worked upon in a number of areas; clearing up the title, regaining possession of the roadway and the production of a masterplan for the area. When these key elements are complete the value will have been enhanced and the property will be brought back to the market for disposal.

7.5 Cork Science and Innovation Park

This project had been referred to in both the 2017 and 2018 reports of the Local Government Auditor to the Members of Cork County Council. Arising from the boundary alteration process, responsibility for this project has now transferred to Cork City Council.

Capital expenditure for 2019 includes compulsory purchase order ("CPO") costs of €2.75m to a landowner within the proposed site for this park. Management advised that additional CPO and construction costs of approximately €7m are expected in order to develop the necessary roads infrastructure to access Phase 1 of the park. At the time of this audit, it is unclear as to how this project will be funded.

Chief Executive's Response

In relation to the infrastructure provision, the detail design has now been completed on a small section of the proposed roadway (phase 1) and this can be progressed to tender stage and beyond if required in order to support development at the southern end of the property.

7.6 Glanmire Roads Improvement Scheme

In 2017 the Department approved an application from Cork County Council for Local Infrastructure Housing Activation Fund (LIHAF) funding of €4.4m based on a project cost of €5.9m, excluding land and property acquisitions. The approval for the original project was to facilitate development of an access road and necessary road upgrades to unlock land that would provide an additional 1,200 houses in Glanmire in the long term.

Arising from the boundary alteration process, responsibility for this project transferred to Cork City Council. The project commenced in 2019 and is due for completion by the end of 2021. At audit, management advised that the scope of the project has expanded from that originally submitted in 2017 and is now expected to cost approximately €19m, including necessary property acquisitions. Management also advised that there is presently a funding shortfall of approximately €10m for the project.

Given the potential funding deficit to be financed from Cork City Council's own resources, a clear financing and project development plan needs to be adopted.

Chief Executive's Response

The City Council is currently in discussions with the Department of Housing, Local Government and Heritage in relation to what level of contribution it will make towards the €10m shortfall in funding. There is no firm commitment from the Department yet in relation to the funding shortage. Any residual funding required after departmental funding will have to be met by the City Council through development contributions generated in the administrative area of Cork City Council.

7.7 Special Development Contributions

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.

Management has advised the since the last audit a review has commenced of planning permissions granted by Cork City Council since mid-2017 to establish those that have a special development contribution attached. Since this review commenced, €2.7m of special development contributions that require monitoring have been identified. This review should be extended to include planning permissions granted prior to mid-2017 to identify the works for which the special development contributions have been raised. Given the significance of the timelines involved, it is recommended that the review is expedited so that the Council's financial obligations are clearly established.

There are a number of planning permissions granted by Cork County Council for developments that are now within the extended City boundary that included special development contributions. Management have advised that there are ongoing discussions with Cork County Council officials and the Cork Boundary Alteration Implementation Oversight Committee (IOC) to obtain clarity in the information provided to them by Cork County Council. Given the time that has now elapsed since 31 May 2019, when the boundary alteration came into effect, it is of concern that this information has not yet been clearly established.

Chief Executive's Response

There are some legacy issues in development contributions that we are currently working to resolve.

It should be noted that Cork City Council received the requested information on county development contributions files in June 2020, which was thirteen months after the transition date. The City Council were unable to progress this issue until the information requested had been received. The Implementation Oversight Group were aware of this issue.

A review of special development contributions is being carried out. This review is expected to be complete by the end of December 2020. We are confident that the review will consist of records of special development contributions for the previous seven years.

The report produced will be updated as new special contributions become due and will also identify what permissions have commenced. Annual reconciliations will be produced to ensure the accuracy on the status of the outstanding planning permissions.

8 Loans Payable

Capital debt as shown in Note 7 amounted to €185m at the end of 31 December 2019.

This includes €47.7m of loans that were transferred from Cork County Council under the terms of the boundary alteration process; €44.6m of which are recoupable from the Department and €3.1m relating to a loan for land on which the Council has plans to develop housing.

Chief Executive's Response

The auditor's comments are noted.

9 Housing Maintenance

At the end of 2019 the Council had approximately 9,700 social housing units and spent over €11.6m on maintenance during the year. This spend included over €5.7m of payroll costs, of which €0.9m was overtime. At previous audits we have highlighted to management weaknesses in the control environment relating to housing maintenance. We also identified shortcomings in the financial controls to readily identify the expenditure on each property including direct payroll costs and examine unusual variances. In the course of this audit significant control weaknesses were again identified.

During 2019, this section spent over €334k using thirty low value purchase cards. Instances of significant breaches in the Council's policy governing the use of these cards were brought to my attention in the course of this audit. A significantly enhanced control environment is required to mitigate the risk of such breaches re-occurring.

In late 2019, Internal Audit finalised a review of this area and could only provide limited assurance that value for money was achieved by the section. The report identified a number of control weakness and highlighted as high risk the absence of a routine maintenance plan, together with ineffective cost and resource management practices. The recommendations from this review should be implemented without delay.

Chief Executive's Response

The annual budget makes provision for overtime cost. Measures have been put in place to record overtime data and profile same to ensure management stay within budgetary provisions in Q1 2021. The City Council will be attaching stricter protocols on the approvals around overtime and conditions attached to same.

The City Council is aligned with a national asset management system roll out and it is hoped that this will be in place towards the end of 2021. The financial system functionality and the establishment of business analytics to ensure per property expenditure and income profiling is to be determined and will need close collaboration within the Council and the use of the JD Edwards system. The latter is critical in order to meet the required levels of financial controls. The Council will progress any opportunities that exist on the current financial system that will allow for asset based financial management in Q1 of 2021.

At all times the Council requires appropriate use of low value purchase cards. Revised and enhanced low value purchase card controls are now in place. The Housing Directorate within the Council will make itself available to support and improve any further necessary changes and implementation of additional controls. Monitoring and review of the enhanced controls will be continuous throughout 2021.

10 Procurement

The procurement section in Cork City Council primarily provides an advisory role and is responsible for raising awareness and developing appropriate procurement practices across all directorates. Since the last audit a procurement training plan is in place, the Council's procurement policy has been updated and the Corporate Procurement Plan 2020-2022 has been approved by management. In addition, the unit has been involved in a detailed review of the use of low value purchase cards.

As has been reported during previous audits, the shortcomings in the Council's financial management system continue to impede the Council's ability to accurately measure the impact of the initiatives introduced by the procurement section.

Chief Executive's Response

The Procurement Unit continues to monitor procurement activity and spend across the organisation. The unit provides training and assistance to Council staff on procurement best practice and compliance on an ongoing basis.

Improvements to the financial management system as laid out above are being reviewed to identify the best solution to achieve corporate oversight.

11 Derelict Sites & Vacant Sites Levies

11.1 Derelict Sites Levy

A derelict site levy of 3% on the market value of a property included on the Derelict Sites Register is charged on the 1st January of the financial year following entry onto the Council's derelict site register (from 2020 this charge increased to 7%). The Council's register at the end of 2019 included one hundred properties, with a cumulative value of €31m. During 2019, the Council collected only €190k of the €1.8m that was due. Given the poor collection rate, management has made a full provision for these arrears in the AFS.

11.2 Vacant Sites Levy

The Urban Regeneration and Housing Act 2015 introduced the Vacant Site Levy and set out the steps and procedures to be followed by planning authorities in order to apply the levy, to be charged for the first time in January 2019. In October 2018, Circular Letter PL 06/2018 was published by the Department which specified a number of amendments to the Vacant Site Levy provisions including the following;

- Increase in levy from 3% to 7% of market valuation from January 2020
- Clarification on the definition of "vacant or idle" lands including exemptions from the levy
- Removal of reduced / zero rates of levy

As Cork City Council did not have any sites listed on its vacant sites register at 1 January 2018, the Council was not entitled to issue any invoices during 2019. A vacant sites register was available from 1 January 2019 with a combined value of approximately €27m for the fifteen sites listed, including four sites owned by the City Council valued at €8.4m. The Council commenced billing for this levy in 2020 and by the end of October 2020 had collected only €22k excluding charges on Council owned sites.

Chief Executive's Response

The collection of derelict sites levies and vacant sites levies is challenging. Proper ownership of sites and proper title of sites is normally difficult to establish. Often the owners of such sites may have entered liquidation/receivership, with the only course of receiving the levies being through the courts system which can be lengthy and costly. The majority of monies collected from these sites occurs when they are sold or being developed.

12 Cork Events Centre

In last year's report I set out the background to this project. Since then, it is acknowledged that the Council has continued to engage with the relevant stakeholders to progress the project.

At the time of this audit, management advised that:

- construction cost inflation has resulted in the estimated project costs increasing from €73m in March 2017 to the present estimate of €85m
- a commitment for €50m of state funding is in place (central government €42m and Cork City Council €8m)
- a final formal funding agreement between the government, the City Council and the developer/promoter has not yet been finalised
- COVID-19 has had a significant impact on the global live entertainment industry and its impact on the delivery of this project is presently unclear
- Cork City Council has spent €1.3m to date on the project, including €310k to defend a High Court action taken against the Council in 2020 that was subsequently withdrawn by the applicant

Chief Executive's Response

All parties are continuing to meet on the Cork Events Centre and have recently re-affirmed their commitment to deliver this project

Despite uncertainty around the reopening of the global live entertainment industry, the parties continue to progress the project.

The intention is to bring the funding agreement (which dictates the terms on which government support is granted) to as close a point as possible to where it can be signed off once revenue streams are restored in the events industry.

13 Governance and Propriety

13.1 Governance Overview

Corporate governance comprises the system and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place.

13.2 Internal Audit Function and Audit Committee

During 2019 the unit issued nine reports, including four reviews related to the Council's obligations under The Public Spending Code. I have taken account of the findings in these reports, where appropriate, in the course of my audit.

13.3 Data Protection

The EU General Data Protection Regulation (GDPR) provides a single, harmonised data privacy law for the European Union and was directly applicable from 25 May 2018. Public bodies, whose activities have a commercial comparative in the private sector, are subject to fines and potential court cases seeking damages in the event of an infringement. As such, local authorities are subject to the above.

Internal Audit recently reviewed the Council's systems and processes for the collection and processing of personal data and could only provide management with limited assurance of the effectiveness of the controls in place to ensure compliance with GDPR. The recommendations from this review should be implemented without delay.

Chief Executive's Response

The City Council has appointed a GDPR representative in each directorate and all are working towards the implementation of the recommendations of the review.

14 Local Authority Companies

14.1 Interest in Local Authority Companies

The Council's interest in six companies is shown in Appendix 8 to the annual financial statement, all of which have been audited by external audit firms. In respect of these companies, the following are noted:

- The financial performance included in Appendix 8 refers to the 2018 results for these companies, other than Cork Opera House whose results for the year ending 31 March 2019 are shown. At previous audits I have highlighted the need for timely finalisation of these accounts to ensure that the Council's AFS reports the most up-to-date position of these subsidiary companies.

- Included as "other" in note 3 to the Council's AFS are loans provided to: (i) The Cork

Opera House (€654k), (ii) Cork Urban Enterprises (€200k) and (iii) Leisureworld (€125k). The remainder of the "other" balance relates to a loan to Cork Film Festival of €128k.

14.2 The Cork Opera House DAC

At audit, we obtained the financial statements for The Cork Opera House DAC for the year ending 31 March 2020. The auditor's opinion on the accounts was unmodified and did not include an emphasis of matter paragraph. The company's profit before tax reduced from €251k for the year ended 31 March 2019 to €60k for the year ended 31 March 2020. It is also noted that net current liabilities increased from €13k to €51k over the same time period.

The directors' report dated 31 July 2020 stated that management had not determined the financial impact of COVID-19 as the crisis was ongoing at the date of signing of the financial statements. They also added that prior to year end the company had to stop trading due to the impact of COVID-19 and did not anticipate re-opening before 30 September 2020. The directors considered that it was appropriate for the financial statements to be prepared on a going concern basis on the basis of continuing actions to contain costs, the cash flow projections and the necessity for additional financial support.

14.3 Leisureworld & Livingwell Management Ltd

At audit, we obtained the 2019 financial statements for Leisureworld and its subsidiary company, Livingwell Management Ltd. The auditors' opinion on these accounts were unmodified and did not include an emphasis of matter paragraph.

Leisureworld's 2019 accounts records a €99k profit after tax for the year, with net current assets improving by €347k over the year to €157k on 31 December 2019.

Livingwell Management Ltd is a 100% owned subsidiary of Leisureworld. The principal activity of this company is the management of St. Peter's Church, Cork on behalf of Cork City Council. The company recorded a loss after tax of €29k in 2019 and a net current liability position of €65k at year end. These results are not consolidated into the results of the parent company.

The directors' reports for both companies dated September 2020, highlight that the COVID-19 crisis has created major business challenges and that management is currently assessing the ongoing and projected impacts of the crisis. The reports also set out that the Boards have engaged with its key stakeholder and were satisfied that there is sufficient funding for the companies to continue as a going concern.

14.4 SDC Investment Holdings Ltd and the Software Development Centre Ltd.

Appendix 8 of the Council's AFS sets out that the Software Development Company is a wholly owned subsidiary of SDC Investment Holdings, of which the Council has 9% of the voting power.

The following is noted from the 2019 financial statements of the Software Development Centre Ltd. obtained at audit:

- The accounts were prepared on a going concern basis
- The company recorded a profit for the year of €528k
- The aggregate value of capital and shareholder reserves was €8.3m at the end of 2019

The following is noted from the 2019 financial statements of the SDC Investment Holdings Ltd. obtained at audit:

- The company's only asset is an investment in its subsidiary undertaking, Software Development Centre Ltd.
- The accounts were prepared on a going concern basis
- The company is non trading, thus has no current or long term liabilities
- The aggregate value of capital and shareholder reserves was €3.65m at the end of 2019

At the last audit I requested management to conduct a strategic review of its holdings in the SDC Investment Holdings Ltd. and the Software Development Centre Ltd. At the time of this audit, this had not been progressed by management.

14.5 Cork Urban Enterprises CLG

The principal activity of the company is the rental of property at the Ballyvolane Enterprise Centre. At audit, we obtained the 2019 financial statements for this company. The auditors' opinion on these accounts was unmodified and did not include an emphasis of matter paragraph.

These accounts showed a surplus for the financial year, after taxation, amounting to €56k (2018 - deficit €40k) and the net assets value had increased to €717k (2018: €662k)

Although the directors' report stated that management is closely monitoring the evolution of the COVID-19 pandemic, including how it may affect the company, the economy and the general population, the accounts were prepared on a going concern basis.

Chief Executive's Response

The auditor's comments above are noted and are an accurate statement of affairs. The City Council will continue to engage with all the companies that it has an interest in and provide support during the current COVID-19 crisis.

15 Cork Boundary Alteration

The boundary alteration and associated realignment of political structures in 2019, as underpinned by the Local Government Act 2019, took place from 31st May, 2019. While a number of the financial arrangements between both local authorities have been agreed, there remain a number of unresolved items still under negotiation at time of audit.

Management has advised that the following is the current position regarding the financial arrangements between both local authorities:

- A contribution by Cork County Council to Cork City Council of €5.675m in respect of 2019 for the performance by the City Council of functions in relation to the relevant area from the transfer day of 31 May 2019 to 31 December 2019. This amount was offset against the first annual contribution made by Cork City Council in August 2020.
- Cork City Council to make payments to Cork County Council of €13.07m annually (with indexation to be applied) over a ten year period up to 31 December 2029, or such longer periods as may be prescribed by the Minister.
- Other financial arrangements which have been or are in the process of being negotiated include transfer of deficit and surplus capital balances, loan balances, bonds, securities and development contributions.

It is recommended that management continue to engage with their counterparts in Cork County Council in order to finalise and agree any outstanding matters so that Council's financial obligations are clarified as soon as possible.

Chief Executive's Response

Management will continue to engage with our counterparts in Cork County Council to finalise financial arrangements in relation to:

- Deficit & surplus capital balances
- Bonds & securities
- Development contributions
- Loan balances

Acknowledgement

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

John Collins

Local Government Auditor

18 December 2020

housing.gov.ie

Department of Housing, Local Government and Heritage

Rialtas na hÉireann
Government of Ireland