Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Cavan County Council for the Year Ended 31 December 2020

Local Government Audit Service

Prepared by the 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 2020, 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 2020 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 COVID-19 – Impact on Local Authorities

2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities during 2020. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level, the Government introduced a number of schemes including the restart grant schemes and rates waiver scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below. In addition, local authorities were reimbursed by the Department for the loss of income from goods and services and for additional COVID-19 expenditure incurred by them (see paragraph 2.4).

In June 2021, it was agreed by the General Accounts Working Group to amend Note 23 and include an additional Note 24 in relation to Restart Grants / Plus in the audited Annual Financial Statements 2020.

2.2 Restart Grants Scheme

During 2020, the Government decided to support commercial micro, small and medium businesses, through the Restart Grant Scheme and later the Restart Grant Plus Scheme. The qualifying businesses were required to have a rateable premises and experienced a loss of turnover due to the COVID-19 restrictions. The scheme provided for assistance with the costs of reconnecting with the marketplace, reopening their business and re-employing staff. Qualifying businesses who met the specified eligibility criteria could apply to the local authority for grants under these schemes.

Under the service level agreement between Enterprise Ireland, Department of Enterprise, Trade and Employment, the Department and each local authority, the Council had responsibility to manage within its functional area the processing of applications and payments, in accordance with the criteria specified, and to make reports to the above Government departments to enable oversight and review of the scheme. Each business was responsible to self-certify in completing its application that it met these criteria.

The Council only verified the application against a rate account, where one existed, and confirmed that the applicant had fully completed the application including the declaration. The Council did not have to verify any other information included in the application. Where rates were not assessed in 2019 or 2020, estimates of liability were made by the local authority. This was necessary to determine the support available to the relevant business.

Accordingly the audit of expenditure under these schemes, which amounted to €9.74m in Cavan County Council for the year ended 31 December 2020, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

2.3 Rates Waiver Scheme

In order to support both the local government sector and commercial ratepayers, a funding package of €900m was allocated by the Government to fund the cost

of a waiver of commercial rates for nine months from 27 March 2020 to 27 December 2020.

The waiver was available to businesses, which were forced to close, and those, which experienced significant negative economic disruption due to public health restrictions, imposed in response to COVID-19.

The total amount received by Cavan County Council for the year ended 31 December 2020 was €5.97m.

The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

The methodology and manner for calculating rates income collection differs in 2020 compared to prior years.

2.4 Reimbursement for loss of goods and services income and COVID-19 related expenditure

The Department reimbursed the Council for the loss of goods and services income and additional expenditure incurred by them as a result of COVID-19. The total amount received by Cavan County Council for the year ended 31 December 2020 was €1.1m, split between €600k for the loss of goods and services income and €500k for additional COVID-19 related expenditure.

3 Financial Standing

3.1 Statement of Comprehensive Income

A surplus of €92 was recorded for the year after net transfers to reserves of €5.1m. Details of over / under expenditure are included in note 16 to the AFS. These were approved by the Council at the April 2021 meeting.

3.2 Statement of Financial Position

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

- Increase in long term debtors / long term creditors 'Other' of €1.3m and €1.6m respectively
- Increase in bank investments of €10.8m
- Decrease in trade debtors and prepayments of €3.2m
- Increase in creditors and accruals of €6.4m.

The increase in long term debtors / creditors is due to the provision of capital asset leasing facilities, while the increase in bank investments is due to timing

differences. Included in the reduction in trade debtors and prepayments is €1.6m pertaining to Government debtors and €322k in respect of rates arrears.

The movement in creditors and accruals includes €1.3m in respect of the potential liability due as a result of rates valuations appeals, €1.4m on expenditure accruals and €1.4m of deferred income pertaining to rates waivers.

4 Income Collection

4.1 Summary of Income Collection

Income Source	Yield %		Net Debtors €m	
	2020	2019	2020	2019
Rates	76	79	3.3	3.6
Rents & Annuities	82	85	1.4	1.0
Housing Loans	84	81	0.1	0.1

4.2 Rates

The table indicates a 76% collection yield in 2020 (79% in 2019). However, as highlighted in paragraph 2.3, due to the effect of COVID-19, the Department introduced a nine month waiver (credit in lieu) of commercial rates from 27 March to the 27 December and this had an effect on the actual amount collected. As outlined in appendix 7 to the AFS, for prior year comparison purposes, if this sum had been categorised as 'Collected' rather than as 'Waivers and Credits' the percentage collected would have been 83%.

Chief Executive's Response

The Council will continue to prioritise the collection of rates. The COVID-19 waiver for 2021 will be applied to the rates customer's accounts in accordance with the guidance issued from the Department.

4.3 Rents and Annuities

The collection yield in respect of rents and annuities in 2020 was 82% compared to 85% in 2019. Gross arrears of rents increased to €1.7m at the end of 2020 (€1.3m in 2019). However, it should be noted that in February 2020 the Council completed a rent review in respect of all customer accounts. This contributed to the increase in the rent billed to customers in 2020.

A review of a sample of accounts in arrears indicated that there is insufficient follow up of these. Robust, written procedures should be implemented and communicated to all officials involved in the process of arrears collection.

Chief Executive's Response

The Council will continue to prioritise the collection of rents and annuities and following up on the arrears. A review of procedures with regard to the collection of these will be undertaken and any weaknesses addressed.

4.4 Housing Loans

The collection yield in respect of housing loans in 2020 increased to 84% compared to 81% in 2019. A review of a sample of accounts indicated that generally arrears are being monitored for payment. I have been informed that the housing loans section is currently in the process of formalising its Mortgage Arrears Resolution Process (MARP) process. The local authority should ensure that the appropriate resources and training are in place to ensure the full implementation of this process.

Chief Executive's Response

The Council will continue to prioritise the collection of housing loans and is currently in the process of organising the appropriate resources and training to assist with the implementation of the MARP process.

4.5 Provisions for Bad Debts

The provisions for bad debts associated with the above collection accounts appear to be adequate but should be kept under constant review given the current and future effects on the economy of COVID-19.

Chief Executive's Response

Provisions for bad debts will be reviewed on a regular basis and as part of the Budget 2022 process. Provisions will be reviewed in detail as part of the budgetary process, given the uncertainty and the challenging economic environment as a result of the pandemic.

5 Fixed Assets

5.1 Accounting for Fixed Assets and Work in Progress (WIP)

Significant weaknesses continue to exist with regard to accounting for fixed assets and WIP, detailed as follows:

- In excess of €568k of costs (and for which no accrual had been made in 2019) were incurred in 2020 and added to fixed assets previously capitalised in 2019. This is not in compliance with circular Fin 01/2005.
- There is double counting of costs in excess of €3.3m. €2.2m of this sum is included in WIP while also included as land. A sum of €829k is included in the totals of both buildings and WIP while a sum of €243k is included in the totals for both housing and land.
- It was highlighted at the previous audit that the land costs associated with the construction of a fire station and two housing developments was not transferred from the value of land fixed assets to the relevant project code to record the total expenditure on these projects. As a result, the value of these assets continue to be understated while the value of land is overstated in the AFS.

The above matters have not been corrected in the AFS. These have no impact on the income and expenditure account.

Robust procedures need to be formulated for accounting for fixed assets. A review is required to be undertaken in respect of the value of land and projects included in WIP. It is imperative that these matters are corrected in conjunction with the updating of the new property register in order to ensure the information uploaded to this new register is accurate (see paragraph 5.2 below).

Chief Executive's Response

The Council will transfer the land costs associated with the fire station and the two housing developments to the relevant job code to reflect the actual cost of these projects in the AFS 2021.

A review of fixed assets will be undertaken in 2021 to address the issues above, and policies and procedures implemented for dealing with all aspects of fixed asset accounting.

5.2 Land / Property Register

The local authority is continuing to work on the implementation of a new land / property register and are currently at the stage of reviewing all data for the purpose of transferring to the new system.

When all data has been transferred to this new system, a reconciliation should be completed between this and the local authority's financial management system (FMS).

Chief Executive's Response

As outlined, the Council is continuing to work on the implementation of the property register. The Council will prioritise the verification and transfer of the data, and a reconciliation between the Land/Property Register and the Financial Management System (FMS) will be completed for AFS 2021.

5.3 Housing Stock Reconciliation

The housing stock reconciliation is not complete. This reconciliation should be completed at the time of preparation of the accounts to ensure that the number of properties included in the housing department's records agree with the number of properties included in the AFS.

Chief Executive's Response

Work is ongoing on the completion of this reconciliation in conjunction with the implementation of a new system. Priority is being given to this task in 2021, and a completed housing stock reconciliation will be available for the AFS 2021.

6 Long Term Debtors

6.1 Shared Ownership Housing Loans

It was highlighted at the previous audit that a number of shared ownership housing loans will be redeemed in the coming years. During 2020 the local authority continued to work with mortgagees of these loans with regard to the significant balances on their rent and rented equity accounts.

Chief Executive's Response

The finance section is continuing to work on this area in 2021 and is dealing with the mortgagees on their shared ownership housing loans.

6.2 Long Term Investments - Associated Companies

The net assets of two subsidiary companies limited by shares and 100% owned by the Council were not reflected in long term debtors. These net assets totalled €544k, according to the most recent accounts available at the time of preparation of the 2020 AFS. This has no effect on the income and expenditure account. Consideration should be given to accounting for these companies in accordance with the guidance as issued under circular Fin 02/2009.

Chief Executive's Response

This matter will be reviewed as part of the preparation of the AFS 2021, in accordance with the guidance as issued under circular Fin 02/2009.

7 Debtors

7.1 Fire Charges Debtors

There was an amount of €455k outstanding at the end of 2020 in respect of fire charges. Weaknesses were noted with regard to the management of these accounts. These weaknesses should be addressed.

Chief Executive's Response

This matter is currently being dealt with and systems are being put in place to deal with the management of fire charges debtors.

8 Creditors

8.1 Provision for Rates Valuation Appeals

In 2020, the Council provided €1.3m in respect of future rates valuation appeals from rates customers. This was in accordance with section 56 of the Valuation Act 2001. This provision was classified as a trade creditor in the AFS. This accounting treatment should be reviewed for 2021.

Chief Executive's Response

The treatment in respect of this provision will be accounted for in accordance with any guidance issued by the Department for AFS 2021.

8.2 Other Creditors

Expenditure totalling €260k in respect of pension gratuities of Council employees who retired in January 2021 were included in 'Other Creditors' in note six to the accounts. This is not in accordance with the Accounting Code of Practice (ACOP). This has not been adjusted in the AFS.

Chief Executive’s Response

Expenditure pertaining to the payment of pension gratuities will be accounted for in accordance with the ACOP in future.

8.3 Expenditure Accruals

An amount of €154k continues to be accrued in the accounts since 2015, in respect of a refund due to the Department as a result of an over recoupment

regarding the redemption of loans to the Housing Finance Agency (HFA). These loans had been borrowed by the Council for the provision of water services, a function which was subsequently taken over by Irish Water (IW). This amount should either be refunded to the Department or approval obtained to utilise on the provision of water services / funding of group water schemes for which the local authority remains responsible.

Chief Executive's Response

Cavan County Council has been in contact with the Department with the view to resolving this matter. This issue will be raised with the Department again with the view to having it resolved in 2021.

9 Capital Account

9.1 Capital Balances

At the end of 2020 there was a net credit capital balance of €21.4m (€18.8m in 2019). This balance includes grant monies of €2.1m, which remained unspent at the end of the year in respect of the Virginia Civic Centre project.

Debit balances totalling €2.98m, which have remained static for the last number of years, are also included in the closing capital balance. A sum of €2.6m of this amount relates to the purchase of lands.

A review of housing capital balances noted that a total of €506k of debit balances will require funding from a combination of future budget provisions and transfers from the revenue account. This sum does not form part of the €2.98m of static balances mentioned above.

Chief Executive's Response

In 2020 the Council received approval to drawdown part of the grant aid approved for the Virginia Civic Centre project. Construction on this project commenced in 2021 and is due for completion in late 2022.
The Council will review all outstanding housing capital balances in 2021.

9.2 Funding for the Upgrade of Vacant Houses

In September 2020 the Council received approval for funding totalling €969k in relation to the upgrading of vacant houses. A sum of €850k of this amount was received in December 2020, €327k of which remained unspent at the end of the year.

Chief Executive's Response

A significant programme of works on vacant houses is ongoing with the remaining balance of houses approved in 2020 to be completed in 2021.

9.3 Matters Highlighted at Previous Audits

The following matters have been highlighted at previous audits and which remain unaddressed:

(a) Unspent Grant Monies Received from Transport Infrastructure Ireland (TII)

The Council received a total of €196k surplus to requirements from TII in respect of four roads projects. It was recommended that approval be sought from TII to use these monies on other ongoing projects and if this was not obtainable it should be refunded by the local authority.

Chief Executive's Response

This matter is still ongoing with the TII and is currently under review in 2021.

(b) Cavan Eastern Access Route

A credit balance of €506k is being carried forward on this project since 2016. There is also a balance in trade debtors of €177k, €143k of which relates to the year 2014, pertaining to the contractor who was involved in the construction of this by-pass. I have been informed at previous audits that an adjustment may be required to correct these balances.

These balances should be reviewed and any matters brought to a conclusion.

Chief Executive's Response

This is currently being reviewed by the roads section and will be dealt with accordingly.

10 Operation of Part V Register and 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.

The Part V register presented at audit indicated that a sum of €1.5m remained outstanding at year end in respect of financial contributions due. A sum of €33k was collected in respect of these in 2020.
An internal audit report finalised in October 2019 with regard to the operation of Part V highlighted a number of recommendations which should be implemented to address deficiencies in controls in this area.

Chief Executive's Response

Significant progress was made on this in early 2020 and procedures put in place to reduce the outstanding debt. However, unfortunately due to COVID-19, this work was put on hold, and this work will resume in late 2021 to deal with all outstanding matters.

11 Transfer of Title to Irish Water (IW)

To date, the local authority has transferred title of 71 properties to IW and an additional 49 assets were transferred under Ministerial Order. A further 12 properties are ready for transfer subject to the necessary approval. There are currently 40 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.

I have been informed that there are 17 disused assets which will not be transferred to IW and that these will be taken back into the local authority's possession. The Council should ensure that when this occurs that they are appropriately accounted for in the books of the local authority.

Chief Executive's Response

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

The Council will ensure that the correct accounting treatment is used in respect of the 17 disused assets.

12 Other Matters

Appendix 8 to the AFS which includes details of the interest in the local authority in companies and joint ventures was not included in the draft AFS submitted to the Council at the April meeting at which the AFS was considered. This appendix is included in the audited AFS.

Chief Executive's Response

This has been noted and Appendix 8 has been included in the audited AFS 2020.

13 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 accounts of Glassell Limited were not independently audited as it availed of the audit exemption on the grounds that it meets the conditions specified in Section 359 of the Companies Act 2014.

14 Governance and Propriety

14.1 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.

14.2 Corporate Risk Register

The Council recently completed its Corporate Risk Register. This register incorporates the overarching risks and opportunities pertaining to the local authority.

14.3 Internal Audit

Internal audit continues to operate a high quality service within the local authority. Account has been taken of the work completed by this unit during the course of the audit.

14.4 Procurement of Supplies / Services

A dedicated procurement unit operates within the local authority providing / ensuring the implementation of robust procedures with regard to the procuring of supplies and services.

14.5 Fraud and Contingency Plan / Protected Disclosures Policy

The Council has in place a Fraud and Contingency Plan which was updated in 2019. It also operates a Protected Disclosures Policy details of which are 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.

Local Government Auditor
3 August 2021

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