



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Monaghan County Council

for the

Year Ended 31 December 2014



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AUDITOR'S REPORT TO THE MEMBERS OF MONAGHAN COUNTY COUNCIL

1. Introduction

- 1.1** I have audited the Annual Financial Statement (AFS) of Monaghan County Council for the year ended 31 December 2014, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on 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 the Environment, Community and Local Government.

My main statutory responsibility is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2014 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 this statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

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

1.3 Late Receipt of the AFS

The AFS was not presented to the members until the July 2015 meeting. It should be prepared by 1 April in accordance with the Accounting Code of Practice.

Chief Executive's Response

The additional workload to be undertaken by the finance department including the implementation of the Irish Water financial reporting system and the amalgamation of the town councils contributed to the late presentation of the AFS for 2014. The Council will endeavour to have the Draft Annual Financial Statement completed by 31 March in compliance with the Accounting Code of Practice in future.

2. Financial Standing

2.1 Income and Expenditure Account

The income and expenditure account recorded an overall surplus for the year of €429k (after net transfers to reserves of €3.042m). However, a capital receipt for €227k was incorrectly posted to the revenue account in 2014. In accordance with regulation 16 of the Local Government (Financial and Audit Procedures) Regulations 2014, I have directed that an adjustment should be made in the accounts in 2015 to correct this.

At the end of 2014 there was a deficit of €2.88m on the general revenue balance (€3.309m in 2013). While the reduction in the deficit in 2014 is welcomed, tight budgetary controls need to be maintained and continuously reviewed in order to eliminate this deficit.

Details of the revenue account over / under expenditures are disclosed in note 17 to the AFS.

Chief Executive's Response

The receipt incorrectly posted to the revenue account in 2014 has been adjusted for in 2015.

It is the Council's plan to continue to reduce the deficit on the general revenue balance through tight budgetary controls.

2.2 Capital Account

The net capital balance at the end of 2014 showed a surplus of €12.333m. This sum includes a debit (adverse) amount of €3.2m in respect of closing balances on some projects which have remained static for a number of years. Funding proposals should be put in place to eliminate these balances.

A rolling three year capital budget was not prepared. In accordance with section 135 of the Local Government Act, 2001 a rolling three year capital budget should be prepared and submitted to the elected Council on an annual basis.

Chief Executive's Response

Unfunded capital debit balances are reviewed on an ongoing basis and when possible provision is made in the budget to provide for the phased reduction of these balances.

A three year capital budget has been prepared for the years 2016 to 2018. This budget will be prepared annually and submitted to the Council along with the revenue budget.

3. Transfer of Water and Wastewater Functions to Irish Water

Irish Water (IW) was established on 1 January 2014. It now has full responsibility for the provision of all water related services. The establishment of this entity has had a significant impact on the accounts of the Council.

3.1 Water Property, Plant and Equipment

The net book value of fixed assets removed from the accounts relating to IW amounted to €145.6m at 31 December 2014. In accordance with Circular Fin 02/2015 issued by the Department of the Environment, Community and Local Government (the Department) on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- section 21 provides IW with power to charge for water services
- a mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (included in a Service Level Agreement) pending the ultimate statutory transfer
- the revised accounting Code of Practice, published in December 2014 stipulates that “Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise an asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in a number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

Some of the issues that need to be addressed by the Council prior to the completion of the transfer of title include:

- Folios / maps have to be subdivided in some cases

- Right of way issues
- Sites not registered
- Some parcels of land in possession of the Council are registered to third parties

Chief Executive's Response

Work is ongoing to address the issues with regard to the transfer of title of properties to IW.

3.2 Accounting for Irish Water

3.2.1 Amendments to AFS

As a result of the audit, the accounts presented to the Council have been amended to take account of certain aspects of Circular no 02/2015 "Accounting for the transfer of water services to Irish Water in the Financial Statements of local authorities" issued by the Department in February 2015.

This amendment resulted to an increase in trade debtors of €1.59m due from IW. It also gave rise to the creation of net credit balances of the same amount in the capital account on water related projects. These balances have not been accounted for either on the balancing statement agreed with IW or through the service level agreement (SLA). The Council needs to liaise with IW in relation to these balances.

Chief Executive's Response

The Council is in discussions with IW regarding all water related capital balances at the end of 2014.

3.2.2 Development Contributions

Circular 04/2015 "Accounting for Development Contributions following the transfer of water services functions to Irish Water in the financial statements of the local authorities" issued by the Department in March 2015, was not complied with by the Council due to the following:

- The figure in respect of short term debtors for water and sanitary contributions could not be verified
- The figure for cash received in respect of water and sanitary development contributions could not be verified

These matters are currently being reviewed by the Council.

Chief Executive's Response

A complete review of development contributions is currently being undertaken. Computer software has been purchased which will assist with the reconciliation of water related contributions and cash received, which is due to IW. This review will be completed for the 2015 AFS.

3.2.3 Other Matters

The following details were overlooked when claiming payment from IW in respect of the SLA in 2014:

- €335k received from IW customers in respect of sludge treatment and discharge licences
- €174k due to IW regarding the treatment of leachate taken from the landfill

As a result, these amounts were not deducted by IW when making payment to the Council for operating the SLA. I understand that amendments have been made in 2015 reflecting the overpayment to the Council by IW. It should be noted that these matters do not affect the revenue account.

Chief Executive's Response

In future, all amounts due to and from IW will be accounted for through the service level agreement.

4. Income Collection

4.1 Summary of Collection Accounts

Details of percentage yields from the main revenue collection accounts for 2014 with comparatives for the previous two years were as follows:

	2014	2013	2012
Rates	64%	65%	64%
Housing Rents & Annuities	95%	95%	95%
Housing Loans	80%	80%	84%

4.2 Rates

The collection yield in respect of rates is a cause for concern. At the end of 2014 arrears of rates amounted to €5.497m (€5.227m in 2013). Rates totalling €2.494m were written off in 2014 (€3.066m in 2013). The Council made a provision for bad debts of €1.389m which I consider to be adequate.

4.3 Housing Loans

Housing loan arrears amounted to €258k in 2014 (€250k in 2013). The 20 highest loan account balances in terms of arrears represent 52% of the total outstanding at the end of 2014. Arrears on a significant number of accounts continue to increase.

A provision for bad debts was made in the accounts representing just 8% of total housing loan arrears. It is recommended that this provision be increased.

At the end of 2014 the Council had a mortgage loan funding deficit of €1.097m. A funding source needs to be identified to eliminate this deficit as soon as possible. Going forward, any loans redeemed by mortgagees to the Council should in turn be redeemed by the Council to the Housing Finance Agency.

Chief Executive's Response

The decline in the collection yield for rates is directly attributable to the current financial difficulties facing many commercial enterprises at present. All accounts in arrears are being actively pursued with a number of files currently with the Council's solicitors. Payment plans have also been agreed in many cases in order to ensure collection while at the same time easing the cash flow pressure on the businesses concerned. During 2015 the Council introduced a new debt management policy in accordance with the recommendations of the national debt management project.

The Council recognises the financial difficulties faced by many of its loanees and in order to minimise loan arrears has a dedicated official who deals with each loanee in arrears on an individual basis. Payment plans have been agreed with many of the top 20 accounts in arrears in order to assist them in managing their arrears. The bad debt provision will be reviewed when preparing the 2015 AFS.

The Council has funds available which will be used to address the mortgage loan funding deficit. All future loan redemptions will be redeemed with the Housing Finance Agency.

5. Acquisition of Property at Latlurcan

In December 2013, the Council received a grant of €800k from the Department to purchase 16 houses at Latlurcan. These houses were owned by a company which went into administration in 2011. This acquisition formed part of a contract to also purchase 19.9 acres of development land beside the houses. The relevant contract agreement was signed by the Council and the administrator in October 2014. Following this, a deposit of €115k representing 10% of the total contract price, was paid by the Council to the administrator's solicitor.

Legal issues have since arisen that have prevented the purchase of this property from progressing.

Chief Executive's Response

The purchase of this property is still a priority for the Council. It is anticipated that it will be 2016 before the matter is resolved.

6. Outstanding Debtor / Capital Balance - Mixed Use Development Project

It has been highlighted at previous audits of a former town council that amounts are outstanding from a developer who was involved in the construction of a 'mixed use development' on an existing car park in Monaghan town. These arrears relate to penalty payments due to the town council from the developer for non completion of the construction of a new car park (part of the development) within the timeframe specified in the contract drawn up between both parties.

As part of the merger of the town councils, these arrears were transferred to the County Council's accounts. At the end of 2014 and up to the end of October 2015, total arrears outstanding amounted to €268k. In August 2015, this developer went into administration. The Council has concerns that there is little chance of recovering this amount. A provision for bad debts should therefore be made in the accounts of the County Council in respect of this balance.

This construction project was subsequently abandoned and the site reinstated as a car park. At the end of 2014 there was an unfunded debit balance in the capital account relating to this project of €1.092m. A funding source for this large deficit needs to be identified.

It should be noted that this matter does not affect the revenue account.

Chief Executive's Response

The Council has engaged the services of a legal firm to pursue the outstanding amount. A bad debt provision as recommended will be made in 2015 accounts. The debit balance associated with the project will be considered along with other unfunded debit balances.

7. Procurement / Contract Overrun

7.1 Procurement

The Council did not comply with public procurement guidelines as follows:

- In 2014 the Council paid €95k for the services of a contractor to provide road surfacing. However this service was not tendered for.
- The Council failed to re-tender for the services of a contractor to transport leachate from the landfill after the original tender had expired. Costs paid by the Council to the contractor engaged to provide this service post expiry of tender amounted to €283k to date, of which €125k was incurred in 2014.

Chief Executive's Response

The payment of €95k relates to the hire of a 'velocity patcher' from a local contractor. It is proposed that for 2016, expression of interests' will be sought as part of the procurement process to ensure competitive tendering.

In relation to the transportation of leachate, the contractor continued to be engaged at the original tender price after the tender expired. The Council is currently in the process of re-tendering for this service through e-tenders.

7.2 Contract Overrun - Monaghan to Emyvale Road Contract Works

The original approved tender for these works was €5.7m. However, total actual contract costs at the end of 2014 amounted to €7.1m. This project is being funded by the National Roads Authority.

Chief Executive's Response

The contract overrun arose as a result of unforeseen soft ground conditions that had to be dug out and replaced. In order to provide certainty as to the final cost of the contract the Council had a risk assessment carried out. Based on the outcome of this risk assessment the National Roads Authority agreed to an additional allocation for the scheme.

8. Registration of Title

It has been highlighted at previous audits that registration of title could not be established with regard to some properties of the Council. At the last audit I was informed that it was in the process of compiling a list of all its properties and is liaising with the Property Registration Authority in this regard.

When this task is completed a reconciliation of these properties should be carried out to ensure their inclusion in fixed assets in the accounts.

Chief Executive's Response

A corporate assets unit was set up in 2014 within the corporate and governance section, as part of changes made within the Council. This unit is continuing the process of reviewing and recording an inventory of all Council properties. A key part of these works is the registration of title of Council properties and also their inclusion in the fixed assets register. All public bodies are now required to record their properties on the National Public Service web based property register which is operated and managed by the Office of Public Works.

9. Construction of Apartments on Land Registered in Former Town Council's Name

Apartments were constructed by a developer in 1994/1995 on land which was, and continues to be, registered in a former town council's name. There is no record of the sale of this land in the books of the Council. This property is not included in fixed assets. This matter needs to be investigated to establish whether or not this land is the property of the Council.

Chief Executive's Response

This matter will be investigated by the Council's corporate assets unit.

10. Group Water Schemes - Capital Grants

At the end of 2014, there were credit balances totalling €1.3m in respect of capital grants received from the Department to fund group water schemes. These grant monies were received years ago. To date these monies have not been utilised. However in 2014 a further grant for €612k was received from the Department in respect of a claim submitted by the Council to fund group water schemes. The Council should inform the Department of these unutilised grants before seeking any further grants for this purpose.

Chief Executive's Response

The Council was in discussions with the Department in relation to using these credit balances to fund debit balances on a number of sewerage schemes. However, the matter was not pursued as these debit balances were subsequently transferred to Irish Water.

The Council will contact the Department with regard to the utilisation of these credit balances.

11. Development Contributions

Errors were noted during a review of development contributions with regard to the split between long and short term debtors. This should be addressed. This matter does not affect the revenue account.

Chief Executive's Response

This matter will be addressed as part of a complete review of development contributions currently being undertaken by the Council which will be completed for the 2015 AFS.

12. Internal Audit Function

The quality of output of the internal audit unit is of a high standard. However, given the size, scope and nature of business of the local authority, an internal audit unit consisting of one staff member is inadequate. It is recommended that the Council considers increasing resources to this unit. The internal auditor reports directly to the audit committee and the Chief Executive in carrying out the work of the unit. The unit produced three reports during the year. I have taken account of the work of the internal auditor in carrying out my audit.

Chief Executive's Response

The Internal Auditor is supported by staff from the corporate services directorate, who assist with administrative duties. The staffing of the function will be examined in conjunction with the overall staffing requirements of the Council.

13. Acknowledgement

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



Patrick McCabe
Local Government Auditor
20 November 2015