



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Monaghan County Council

for the

Year Ended 31 December 2016



An Roinn Tithíochta, Pleanála agus Rialtais Áitiúil
Department of Housing, Planning and Local Government

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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 (the Council) for the year ended 31 December 2016, which comprise 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, Planning and Local Government.

My main statutory responsibility, following the 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 2016 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 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.

2. Financial Standing

2.1 Statement of Comprehensive Income

The net surplus for the year amounted to €485k after transfers to reserves of €231k. This resulted in reducing the cumulative deficit on the revenue account to €2.2m at 31 December 2016. The variances between the adopted budget and the actual outturn in the revenue account are shown in Note 16 to the AFS.

Additional expenditure was approved by the members at the June 2017 Council meeting, in accordance with section 104 of the Local Government Act, 2001

2.2 Statement of Financial Position

2.2.1 Significant movements in the finances of the Council in 2016 include the following:

- Increase in fixed assets of €3.8m
- Decrease in long term debtors of €1.5m
- Decrease in trade debtors and prepayments of €1.5m
- Decrease in loans payable of €1.6m
- Elimination of the specific revenue reserve of €771k

The increase in fixed assets mainly related to additions to the housing stock of 25 houses.

There was a change in accounting policy as per Department circular Fin 11/2016 and Fin 04/2017 whereby the long term development contribution debtors and the related long term creditor are no longer reported in the AFS. This accounted for €0.6m of the decrease in long term debtors and the reduction in long term creditors at 31 December 2016. In addition, the 2016 year end mortgage and rented equity debtors decreased by €0.6m when compared to the previous year.

The decrease in trade debtors and prepayments related to:

- Settlement of the Irish Water (IW) balancing statement debtor of €4.5m in 2016
- Increase in prepayments of €3.5m. This related to deposits paid in relation to house purchase transactions that were not completed at 31 December 2016
- Reduction in rates arrears of €0.7m

The specific revenue reserve was a mechanism put in place to facilitate the changeover in accounting treatment when local authorities moved from accounting on a cash basis to the accruals basis. In accordance with the Department's circular Fin 11/2016, local authorities are permitted to eliminate their specific revenue reserve, if deemed appropriate, for the purpose of one or a combination of the following:

1. Write down of general revenue reserve deficits
2. Write down of unfunded capital project balances.

In accordance with this circular, the Council used the balance on the specific revenue reserve to write down the general revenue reserve deficit by €771k.

2.2.2 Fixed Assets: Property Interest Register

I note that significant progress has been made in relation to the establishment of the Council's property interest register. However it is not yet fully complete. When completed, this register should be reconciled to the Council's fixed asset register.

In addition, as recommended in the Local Government Audit Service's VFM Report No. 30 "Corporate Estate Management and Maintenance in Local Authorities" the Council should develop a Property Asset Management Plan and Property Asset Management System to ensure the effective management of the Council's property and building assets.

Chief Executive's Response

The Council will develop a Property Asset Management Plan and implement a Property Asset Management System. When complete, a reconciliation with the Council's fixed asset register will be undertaken for items that are included in both registers.

2.2.3 Development Contributions

A provision for bad debts of €0.6m (2015: €0.6m) representing 18% (2015: 17%) of total arrears has been made. In accordance with the concept of prudence outlined in the Code of Practice and Accounting Regulations for Local Authorities, I have recommended to management that this provision is increased.

Chief Executive's Response

The provision for bad debts will be reviewed as part of the 2017 AFS preparation.

3. Income Collection

A summary of the major revenue collection yields and the corresponding closing debtors with comparisons for the previous year are as follows:

Income Source	Yield		Debtors	
	%		€m	
	2016	2015	2016	2015
Rates	82	77	3.9	4.6
Housing Rents and Annuities	95	95	0.2	0.2
Housing Loans	80	80	0.2	0.2

3.1 Rates

The collection yield increased year on year by 5% from 77% to 82%, with a corresponding reduction in debtors of €0.7m. There is a bad debt provision of €1.6m (2015: €1.4m) provided for rates, representing 41% (2015: 30%) of these debtors.

An analysis of rates debtors relating to 2016 carried out at the end of June 2017 showed that €3m of these arrears remained outstanding, of which €2.1m related to 2015 and previous years.

Chief Executive's Response

All accounts in arrears are being actively pursued with a number of files currently with the Council's solicitors. Payment plans have been agreed in many cases in order to ensure collection and ease the cash flow pressure on the businesses concerned. The specific doubtful arrears provision is reviewed annually.

3.2 Housing Loans

The collection yield for 2016 remained unchanged at 80% when compared to the previous year. There is a bad debt provision of €63k (2015: €59k), representing 30% (2015: 27%) of these debtors.

At 31 December 2016, the Council had a mortgage loan funding deficit of €0.85m (2015: €1.02m). While I acknowledge the improvement recorded for 2016, a funding source needs to be identified to eliminate this deficit as soon as possible. I have recommended to management that in future, any loans redeemed by mortgagees should in turn be redeemed by the Council with the Housing Finance Agency.

Chief Executive's Response

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

4. Transfer of Water and Sewerage Functions to Irish Water

The responsibility for water and sewerage functions was transferred to IW in 2014.

The Council acts as an agent for IW under the terms of a service level agreement. The Council received €4.6m from IW under this agreement in 2016 (2015: €4.8m).

Section 12 of the Water Services (No. 2) Act 2013 provides for the transfer of Water Services Assets to IW, which is given effect by Ministerial Order. To date, 63 folio numbers have transferred to IW. The last Ministerial Order was on the 30th June 2016. The Council is currently in the process of transferring a further 7 assets which is expected to be completed in the next Ministerial Order. There are approximately 130 folios yet to be transferred. I will review progress again at the next audit.

Chief Executive's Response

The Council continues to act as an agent for Irish water in accordance with the terms of the service level agreement. Invoices issue to Irish Water on a monthly basis to recoup the cost of providing the service on behalf of Irish Water.

Work is ongoing in relation to the transfer of assets to Irish Water.

5. Capital Account

The net capital balance at 31 December 2016 recorded a surplus of €14.5m (2015: €14.4m)

Despite the overall credit balance on the account, there remained some large deficits on individual schemes that still require funding. The largest of these were as follows:

- Central Monaghan Development €1.4m
- Dublin Street Enhancement Project €0.7m
- Monaghan Swimming Pool/Leisure Facility €0.7m
- Clones Erne East Sports Project €0.4m
- North East Broadband Phase II €0.4m

I highlighted these deficits in my previous audit report, and I note that there has been no progress made during 2016 in reducing the balances arising.

Management needs to address the funding of these projects as soon as possible.

Chief Executive's Response

The Council continues to address the issue of outstanding capital balances where possible. Some provisions are made in the Annual Budget for specific outstanding balances. Provisions made by the former Town Councils to address outstanding balances are continued in the Annual Budget.

Funding is expected from the Special EU Programmes Body for the Clones Erne East Sports Project. The Leisure Facility balance will be addressed when the current loan repayment for this facility expires.

The remaining balances will be addressed whenever the current balances being provided for are eliminated.

6. Governance

Corporate governance comprises the systems 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.

6.1 Internal Audit Function

The Council's internal audit function currently consists of two members of staff. I note that the head of the unit has a relevant academic qualification, and a new assistant was appointed to the unit in early 2016 and currently works 2.5 days per week on audit duties.

The head of the unit reports directly to the audit committee and to the Chief Executive. The unit produced 5 reports during the year.

A new procedure for internal audit reports was adopted by the management team in June 2016. Under this procedure, the relevant Director/Head of Unit is required to submit a report on the implementation of audit recommendations no later than three months following the timeframe for delivery.

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

Chief Executive's Response

The Council recognises the importance of the internal audit function and the account taken by the Local Government Auditor of the work completed by internal audit. The new procedure for internal audit reports adopted in June 2016 is working well and ensures timely follow up on internal audit recommendations.

6.2 Risk Management

An effective risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed.

The Council has a corporate risk register and departmental risk registers in place. They are subject to regular reviews by the Council's management team.

7. Scotch Corner Landfill

The Scotch Corner landfill closed to waste contractors in April 2016. Incinerator bottom ash is still being accepted at the site and is due to cease in early October 2017.

There are substantial aftercare costs (CRAMP) associated with the remediation of this site. These are estimated as follows:

- Capping costs of approximately €1.2m
- Aftercare costs for the next 30 years at a current estimated annual cost of €0.56m

The Council's remediation reserve amounted to €598k at 31 December 2016 and remained unchanged from 2015.

Management should review the adequacy of the current reserve to ensure that funds are available to meet the expected significant costs of remediation.

Chief Executive's Response

The Council intend to use the reserve amount supplemented by borrowing to fund the capping costs. The loan will be taken out over the maximum term allowed in order to minimise the impact on the Council's finances. Ongoing after care costs will have to be provided for in the annual budget.

8. Refundable Deposits

Refundable deposits amounted to €2.9m as at 31 December 2016 (2015: €2.8m). I note that there is still no listing of individual deposits available to explain the balances recorded under the various categories of refundable deposits, despite this matter being highlighted in my previous audit report.

I have advised management that the necessary internal control procedures should be implemented with immediate effect.

Chief Executive's Response

A complete review of refundable deposits will be undertaken.

9. Public Procurement

The Council's procurement policy is outlined in its Procurement Procedures Manual and is supported by its Corporate Procurement Plan 2017 – 2019. Responsibility for ensuring compliance with the Council's policy is currently devolved to divisional management.

I note that the Council advertised 32 tenders in 2016. The Council's procurement procedures date from 2014 and need to be updated to reflect the EU Directives transposed into Irish Law on a timely basis. In addition, procedures for publishing contract award notices should be improved.

In the course of the audit a range of purchases across a number of departments were examined for compliance with procurement policy and procedures and a number of instances of non-compliance were noted and referred to the relevant Council departments for action.

A procurement unit has recently been established which fulfils an advisory support role to the various administrative departments of the Council, in the preparation and planning of tenders, and guidance in the award procedures of contracts. A full time procurement officer was appointed in early 2017. A procurement steering committee has recently been set up and is scheduled to meet on a quarterly basis. I acknowledge the improved governance in this area that should contribute to improved compliance with the Council's own internal procedures and with national guidelines and protocols.

Chief Executive's Response

During the course of 2017 and in conjunction with the completion of the Corporate Procurement Plan 2017 – 2019, a Procurement Team was put in place supported by a Procurement Unit. The Council's Procurement Procedures are currently being updated and will reflect any changes that have occurred since the last update.

Non-compliance issues identified are reviewed with individual departments to eliminate re-occurrences and put procurement strategies in place.

10. Low Value Purchase (LVP) Cards

In 2016 there were 97 LVP cards in use and the annual spend on LVP cards was €0.5m. Current LVP card procedures are contained within the Council's Procurement Procedures Manual. However they date from 2014 and are not adequate.

Separate LVP card procedures need to be developed and issued. They need to be updated to include strict guidelines for the use of LVP cards, ensuring standard purchasing controls are adhered to.

A review of the number of cards in use and the associated limits should also be undertaken.

Chief Executive's Response

Separate Procedures and Guidelines have been produced for the issue and use of Low Value Purchase Cards. These procedures will be rolled out during October 2017 and training will also be provided in conjunction with the rollout of the procedures. A review of the number of cards in use and the level of activity on individual cards is currently being undertaken. Any underused LVP cards will be withdrawn and cancelled.

11. 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.



Brendan Leane
Local Government Auditor
12 October 2017