



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Monaghan County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF MONAGHAN COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Monaghan County Council for the year ended 31 December 2017, 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, 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 2017 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.

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 AFS

2.1 AFS Classification Revisions

The 2016 net assets comparative figure in the 2017 AFS has changed by €285k when compared to the 2016 audited AFS. This is due to a change in the classification of Agent Works Recoupable balances in the Statement of Financial Position from Note 5, Trade Debtors and Prepayments, to Note 10, Other Balances. This change was mandated by the Department's General Accounts Working Group.

In addition, there are no 2016 comparatives in Note 14 Transfers from/ (to) Reserves, due to the new format of the note as mandated by the Department's General Accounts Working Group.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a deficit for the year in the amount of €158k (2016: surplus of €485k) after transfers to reserves of €1.3m. This resulted in an increase in the cumulative deficit on the revenue account to €2.38m at 31 December 2017 (2016: cumulative deficit of €2.22m). 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 May 2018 Council meeting, in accordance with section 104 of the Local Government Act, 2001.

3.2 Statement of Financial Position

Significant movements in the finances of the Council in 2017 include the following:

- Increase in fixed assets of €14.3m
- Increase in work in progress and preliminary expenses net expenditure of €1.4m
- Decrease in trade debtors and prepayments of €2.2m
- Decrease in cash at bank of €3.9m.

The increase in fixed assets mainly related to additions to the housing stock of 100 houses.

The increase in net expenditure in both work in progress and preliminary expenses mainly related to expenditure incurred on the Monaghan Town Peace Campus project in 2017 of €818k.

The decrease in trade debtors and prepayments related to:

- Reduction in prepayments of €3m which related to deposits paid for house purchase transactions that were in progress at 31 December 2016 but were not completed until quarter 1 2017. This did not re-occur to the same extent at 31 December 2017
- Reduction in commercial rates debtors of €474k
- Increase in government debtors of €1.4m in respect of social housing provision.

Chief Executive's Response

The changes highlighted above reflect the level of activity that was undertaken by the Council in 2017. The decrease in cash at bank is mainly due to the timing of cash inflows and outflows. The bank balance at 31 December 2017 was €5.7m.

3.3 Fixed Assets: Property Interest Register

Further progress has been made in relation to the establishment of the Council's property interest register. However it is not yet complete.

A new dedicated property asset management system has been procured to host the property interest register. It is currently being updated and reconciled to the Council's fixed asset register for items that are common to both registers. To date, corporate building

assets have been reconciled. However other categories of assets, including land and housing assets remain to be reconciled.

Management should ensure that the necessary resources are allocated to this task to ensure that the property interest register is brought up to date and reconciled to the fixed asset register in a timely manner.

As recommended in the Local Government Audit Service's VFM Report No. 30 "Corporate Estate Management and Maintenance in Local Authorities", the Council has developed a Property Asset Management Plan for 2018 – 2020 which is due to be approved by the management team in October 2018.

Chief Executive's Response

The Council has performed a reconciliation between the FAR (fixed asset register from Agresso) and the PIR (property interest register as maintained by Corporate Assets section) for corporate buildings during 2018 and will repeat this exercise for the 2018 year end.

A full reconciliation between iHouse and the fixed asset register was carried out for the 2017 year end. This is considered more effective than reconciling the FAR to the PIR for housing stock.

3.4 Development Contributions

A provision for bad debts of €0.56m (2016: €0.56m) representing 24% (2016: 18%) of total arrears of €2.35m (2016: €3.15m) 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.

In compliance with Circular Fin 04/2017 issued by the Department, the current element only (i.e. outstanding accounts due for payment in the following twelve months) of the development contributions arrears was included as a debtor in the 2017 AFS.

Chief Executive's Response

Based on the current level of development contribution debtors as at 30 September 2018 of €1.825m, the provision for bad debts of €0.56m is 31% before adjustment for the long term portion of debtors. Taking into consideration the anticipated level of long term debtors the percentage is c. 35%. This is considered adequate. The bad debt provision will be revisited when the 2018 AFS is being completed.

4 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	
	2017	2016	2017	2016
Rates	85	82	3.4	3.9
Housing Rents and Annuities	96	95	0.2	0.2
Housing Loans	77	80	0.2	0.2

4.1 Rates

The collection yield increased year on year by 3% from 82% to 85%, with a corresponding reduction in debtors of €0.5m. The collection yield target set by NOAC for 2017 was 82.41%. There is a bad debt provision of €1.6m (2016: €1.6m) provided for rates, representing 47% (2016: 41%) of these debtors. This appears reasonable.

An analysis of rates accounts in arrears at 31 December 2017 shows that 57% (2016: 56%) of rates arrears is aged greater than 12 months. Specific doubtful arrears, as shown in Appendix 7 of the AFS, amounted to €1.6m at the end of 2017 (2016: €1.6m) which corresponds with the bad debt provision.

4.2 Housing Loans

The collection yield decreased year on year by 3% from 80% to 77%. There is a bad debt provision at year end representing 40% (2016: 30%) of these debtors. This appears reasonable.

At 31 December 2017, the Council had a mortgage loan funding deficit of €0.74m (2016: €0.85m). While the improvement recorded for 2017 is acknowledged, 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 funding deficit. The Council is in the process of matching redeemed loans for 2015 – 2018 with loans drawn down from the Housing Finance Agency. When this is completed these loans will be redeemed with the HFA. All future loan redemptions will be redeemed with the HFA on a quarterly basis.

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.

The Council acts as an agent for IW under the terms of a service level agreement. The

Council received €4.4m from IW under this agreement in 2017 (2016: €4.6m).

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 91 folio numbers have transferred to IW. The last Ministerial Order was on the 27th July 2018. There are approximately 102 folios yet to be transferred.

Detailed work is ongoing preparing supporting material for the transfer of these assets which includes the subdivision of folios and associated mapping, the registration of unregistered sites, the establishment of legal rights of way and the resolution of outstanding title anomalies.

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 monthly 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.

6 Capital Account

The net capital balance at 31 December 2017 recorded a surplus of €8.4m (2016: €14.5m).

Despite the overall credit balance on the account, there remained some large deficits on individual schemes that have remained unchanged for several years which 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.

These deficits were highlighted in my previous audit report, and I note that there has been no progress made during 2017 in reducing the balances arising.

In addition, the following new projects commenced in 2016/2017 and have built up significant deficit balances as at 31 December 2017:

- Peace Campus Monaghan Town €0.8m
- MRF Improvement Works €0.4m.

Management needs to address the funding of these projects.

Chief Executive's Response

A considerable number of capital balances have been reconciled during 2018 and processes have been improved for the setting up of capital job codes. Going forward funding streams will be identified and allocated in advance.

The Council continues to address the issue of outstanding capital balances. 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.

The Leisure Facility balance will be addressed when the current loan repayment for this facility expires. Funding has been received during 2018 from the Special EU Programmes Body for the Clones Erne East Sports Project. Annual Metropolitan Area Network income of approximately €4,000 is allocated to the North East Broadband Phase II balance. Funding for the Peace Campus has been sought from Peace IV Programme. MRF balances along with landfill capping charges will be funded by a loan. The loan repayments will be provided for in the revenue budget.

7 Scotch Corner Landfill

The Scotch Corner landfill closed to waste contractors in April 2016. The landfill continued to accept incinerator bottom ash until 6 October 2017.

There are substantial CRAMP (Closure Restoration Aftercare Management Plan) aftercare costs 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.

CRAMP requires the Council to ensure the availability of adequate financial provision for the maintenance of the landfill for a period of 30 years following closure.

A tender competition was run for the capping contract. It was recently awarded and the construction contract is due to be signed in October 2018. Works are due to commence in October 2018 and are expected to be complete in late quarter 2 in 2019.

The Council's remediation reserve amounted to €598k at 31 December 2017 and remained unchanged from 2016.

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 €3.6m as at 31 December 2017 (2016: €2.9m).

I acknowledge that good progress has been made in reconciling the refundable deposits balance at 31 December 2017. Planning bonds and waste permit bonds in the amount of €1.25m have been reconciled. However planning deposits, road opening deposits and housing tenancy deposits remain to be reconciled.

Management should ensure that the necessary resources are allocated to this task to ensure that this reconciliation is completed in a timely manner.

Chief Executive's Response

From 1 October 2018 the Council have implemented a process for all future refundable deposits to ensure they are allocated against a customer account. All balances will be easily identifiable. A reconciliation of historical balances has also commenced.

There is a process in place for the repayment and retention of housing tenancy deposits. This will correct the deposit balance over the next few years.

9 Public Procurement

The Council's procurement policy is outlined in its Procurement Procedures Manual which was recently updated, and approved by the management team in September 2018. It is supported by the Council's Corporate Procurement Plan 2017 – 2019 which was approved by the management team in March 2017.

Responsibility for ensuring compliance with the Council's procurement policy is currently devolved to divisional management.

In 2017, the Council advertised 47 tenders on the eTenders website compared with 32 in 2016.

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.

During 2017 significant improvement was noted as follows:

- Increase in the purchase to pay cycle compliance rate to 91% (2016: 24%)
- The establishment of a procurement unit
- The appointment of a full time procurement officer
- The appointment of departmental procurement and admin leads
- The establishment of a procurement steering committee.

The above will contribute to improved compliance with the Council's own internal procedures and with national guidelines and protocols.

Chief Executive's Response

The Council is satisfied that the recent developments referred to above and the ongoing implementation of the actions of the corporate procurement plan will strengthen the procurement function.

Any weaknesses identified in the procedures will be examined.

10 Provision of Housing by Approved Housing Bodies

The Local Government Audit Service issued a Value for Money report on the oversight role of local authorities in the provision of housing by Approved Housing Bodies (AHB). This report made a number of recommendations with regard to the implementation of controls in the management of social housing provided by AHBs.

A review of these controls in Monaghan County Council highlighted weaknesses including the following:

- Regular formal meetings are not held with AHBs
- Audited Financial Statements are not provided by AHBs to the Council
- The Council does not have a periodical inspection regime for AHB properties.

Chief Executive's Response

Monaghan County Council has regular on-going communication with AHBs and formal meetings are only arranged if and when deemed necessary.

Monaghan County Council will request the Audited Financial Statements from AHBs going forward.

This is a relatively recent requirement and to address this Monaghan County Council now includes AHB stock in our planned private rented inspections. 11 AHB owned properties were inspected during 2017.

11 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, the management team and the elected members are responsible for ensuring that there are sound systems of financial management and internal control in place.

11.1 Anti-Fraud and Corruption Contingency Plan

The Council's Anti-Fraud and Corruption Contingency Plan was updated and adopted by the management team in June 2018. This policy needs to be reviewed on a regular basis given the evolving nature of fraud and corruption risks.

11.2 Internal Audit Function

The Council's internal audit function consists of two members of staff (full-time equivalent of 1.5 staff).

The head of the unit reports directly to the audit committee and to the Chief Executive. The unit produced 4 reports during the year. The completion of the 2017 Internal Audit annual work plan has been impacted by the investigation carried out by internal audit into the financial irregularity (see paragraph 12).

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

11.3 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's Risk Management Policy was updated and adopted by the management team in October 2017.

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.

11.4 Audit Committee

The audit committee met on five occasions during 2017 and issued their Annual Report for that year in January 2018.

Chief Executive's Response

The Anti-Fraud and Corruption Contingency Plan will be reviewed on an annual basis.

Regarding section 11.3 above, MCC have acquired a new software package for the production of a Risk Register. The new package will track changes to the risk register over a period of time which will assist in the monitoring and review of the risk register.

12 Investigation into Financial Irregularity

An investigation into financial irregularities regarding payments to suppliers and the use of Low Value Purchase cards was completed by a council official in March 2017. Arising from this investigation, internal audit conducted a retrospective review of transactions covering the preceding 3 years which has recently been completed. The results of these investigations have been considered by the Chief Executive and dealt with in accordance with the Council's policies and procedures.

The Council have informed the Gardaí in relation to this matter.

Chief Executive's Response

A staff member has been dismissed as a result of this internal investigation.

This matter is currently the subject of a Garda investigation and the Council are awaiting the outcome of this investigation.

LVP card procedures and guidelines have been reviewed and updated and all LVP cardholders have received training on this. Regular spot checks and section audits on

LVP card spend and controls are carried out to ensure compliance with the new procedures and guidelines.

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.

A handwritten signature in blue ink that reads "Brendan Leane". The signature is written in a cursive style with a light blue background highlight.

Brendan Leane
Local Government Auditor

11th October 2018

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