



**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 2018**

Department of Housing, Planning and Local Government

[housing.gov.ie](http://housing.gov.ie)

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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 2018, 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 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 2018 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 Financial Standing

### 2.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €77k (2017: deficit of €158k) after transfers to reserves of €0.8m. This resulted in a reduction in the cumulative deficit on the revenue account to €2.3m at 31 December 2018 (2017: cumulative deficit of €2.38m). 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 2019 Council meeting, in accordance with section 104 of the Local Government Act, 2001.

### 2.2 Statement of Financial Position

Significant movements in the finances of the Council in 2018 include the following:

- Increase in fixed assets of €4.1m
- Increase in work in progress and preliminary expenses net expenditure of €1.1m
- Increase in long term debtors of €3.4m

- Decrease in trade debtors and prepayments of €1.1m
- Increase in bank investments of €4m.

The increase in fixed assets mainly related to net additions to the housing stock of 34 houses. The increase in net expenditure in work in progress and preliminary expenses mainly related to expenditure incurred in 2018 on:

- Carrickmacross Market House of €312k
- Clones Post Office of €140k
- Monaghan Town Peace Campus of €120k.

The decrease in trade debtors and prepayments was primarily as a result of a reduction in commercial rates debtors and miscellaneous debtors. The movement in bank investments reflects the reduction in cash at bank and cash in transit balances, and the net cash inflow from operating activities in the year.

### **Chief Executive's Response**

The changes highlighted above reflect the level of activity that was undertaken by the Council in 2018. The increase in fixed assets and work in progress reflect the level of activity in progressing capital projects during 2018.

## **2.3 Fixed Assets: Property Interest Register**

A dedicated property asset management system has been procured to host the Council's property interest register. It has been updated and is currently being 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, as noted in the 2017 audit report, other categories of assets, including land and housing assets remain to be fully reconciled.

As recommended in the 2017 audit report, management should ensure that the necessary resources are allocated to this task so that the progress achieved to date is maintained and that the property interest register is kept up to date and reconciled to the fixed asset register for all categories of assets.

The Council has developed a Property Asset Management Plan for 2019 – 2020, as recommended in the Local Government Audit Service's VFM Report No. 30 "Corporate Estate Management and Maintenance in Local Authorities. The plan was approved by the Council's management team in February 2019.

### **Chief Executive's Response**

Nominated staff from each section have received training on the use of the property asset management system. Each section will now populate the system with any assets that are missing, under the supervision of Corporate Assets Section. Safeguards have been put in place to ensure no assets are incorrectly deleted from the system. It is envisaged that significant progress will be made in recording assets by the year end.

## **2.4 Development Contributions**

A provision for bad debts of €0.56m (2017: €0.56m) representing 32% (2017: 24%) of total arrears of €1.76m (2017: €2.35m) 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 2018 AFS.

### Chief Executive's Response

The comments regarding the bad debt provision are noted. The bad debt provision will be reviewed as part of the 2019 Annual Financial Statement process.

## 3 Income Collection

### 3.1 Summary of 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	
	2018	2017	2018	2017
	%	%	€m	€m
Rates	89	85	2.99	3.38
Housing Rents and Annuities	96	96	0.16	0.18
Housing Loans	78	77	0.23	0.24

### 3.2 Commercial Rates

The collection yield increased year on year by 4% from 85% to 89%, with a corresponding reduction in debtors of €0.4m. The collection yield target set by NOAC for 2018 was 86.9%. There is a bad debt provision of €1.6m (2017: €1.6m) provided for rates, representing 54% (2017: 47%) of these debtors. This appears reasonable.

An analysis of rates accounts in arrears at 31 December 2018 shows that 60% (2017: 57%) 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 2018 (2017: €1.6m) which corresponds with the bad debt provision.

### 3.3 Housing Rents and Annuities

The collection yield achieved for the year was 96% (2017: 96%), with a reduction in arrears to €0.16m (2017: €0.18m), which represents a very good performance. There is a bad debt provision at year end representing 15% (2017: 10%) of these debtors. This appears reasonable.

### 3.4 Housing Loans

The collection yield increased year on year by 1% from 77% to 78%, with a reduction in arrears to €0.23m (2017: €0.24m). There is a bad debt provision at year end representing 42% (2017: 40%) of these debtors. This appears reasonable.

At 31 December 2018, the Council had a mortgage loan funding deficit of €0.83m (2017: €0.74m). As highlighted in previous years audit reports, a funding source needs to be identified to eliminate this deficit as soon as possible.

As highlighted in the 2017 Audit Report, I have recommended to management that 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 reconciled all loans redeemed by mortgagees between 2015 and 2018 and redeemed these loans with the Housing Finance Agency in 2019. Redemptions are monitored on a quarterly basis and any material amounts are redeemed with the Housing Finance Agency.

## **4 Irish Water**

### **4.1 Transfer of Irish 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 €3.7m from IW under this agreement in 2018 (2017: €4.4m).

### **4.2 Transfer of Fixed Assets - Water Property, Plant and Equipment**

Section 12 of the Water Services (No. 2) Act 2013 provides for the transfer of Water Services Assets to Irish Water (IW), which is given effect by Ministerial Order. To date 105 folio numbers have transferred to IW. The last Ministerial Order was number S.I. 573 of 2018. There are approximately 88 folios yet to be transferred as some assets contain more than one folio.

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.

The Council should allocate the necessary resources to expedite the transfer of these assets without delay.

### **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.

## 5 Capital Account

### 5.1 Capital Account Overview

Capital expenditure in 2018 amounted to €28.2m (2017: €32.1m) and total capital income, including transfers from revenue, amounted to €26m in 2018 (2017: €26m).

This resulted in a reduction in the capital account balance of €2.2m and a closing credit balance of €6.2m. The reduction in expenditure in 2018 primarily relates to reduced activity in the housing capital programme offset by increased activity in the roads capital programme. Income from grants decreased to €19.7m in 2018 (2017: €22.9m).

### 5.2 Capital Projects

The net capital balance at 31 December 2018 recorded a surplus of €6.2m (2017: €8.4m).

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

Capital Project	2018 €m	2017 €m
Central Monaghan Development	1.4	1.4
Peace Campus Monaghan Town	1.0	0.8
Dublin Street Enhancement Project	0.7	0.7
Monaghan Swimming Pool/ Leisure Facility	0.7	0.7
North East Broadband Phase II	0.4	0.4
MRF Improvement Works	0.4	0.4

These deficits were highlighted in the 2017 Audit Report, and I note that there has been no or limited progress made during 2018 in reducing the balances arising.

In addition, the following new project commenced in 2017 and has built up a significant deficit balance as at 31 December 2018:

- Clones Offices Old Library €1.1m.

Management needs to address the funding of these projects and put arrangements in place.

#### 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 deficit for the Central Monaghan Development will be prioritised when considering outstanding capital balances. The Peace Campus in Monaghan Town is an ongoing project and will be fully funded by Peace Funding, Development Contributions and borrowings. The Leisure Facility balance will be addressed when the current loan repayment for this facility expires. Annual Metropolitan Area Network income of approximately €4,000 is allocated to

the North East Broadband Phase II balance. MRF balances along with landfill capping charges have been funded by a loan drawn down in 2019. A loan has been drawn down to fund the Clones Office Old Library and the capital balance has been cleared.

## **6 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 as follows:

- Capping costs of €0.94m
- Aftercare costs at a current estimated annual cost of €0.6m.

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 works contract. Capping works commenced in November 2018 and were substantially completed in May 2019. The final account for the capping works has been received and amounts to €942k (net of VAT). This has been funded by a loan of €700k with a term of 30 years, with the balance being funded from the Council's landfill remediation reserve. The balance on the Council's remediation reserve amounted to €598k at 31 December 2018.

Ongoing aftercare costs of the landfill will have a significant impact on the finances of the Council in the years ahead.

The Council have recently engaged consultants to carry out an evaluation of the future use of the site.

### **Chief Executive's Response**

The Council used the reserve amount supplemented by borrowing to fund the capping costs. All outstanding capital balances relating to landfill have now been cleared. The ongoing aftercare costs will be funded from revenue account by means of an annual provision in the budget.

## **7 Refundable Deposits**

Refundable deposits amounted to €4.9m as at 31 December 2018 (2017: €3.6m).

I acknowledge that further progress has been made in reconciling the refundable deposits balance at 31 December 2018. A new process was put in place from October 2018, whereby planning deposits can be individually identified on the financial management system going forward, which is working well. Historical planning deposits are in the process of being reconciled.

Planning bonds, waste permit bonds, housing tenancy deposits, and planning deposits dating back to 2011, in the amount of €1.7m have been reconciled as at 31 December 2018. However the balance of planning deposits, and road opening deposits, remain to be reconciled.



As highlighted in the 2017 audit report, management should ensure that the necessary resources are allocated to this task to ensure that the progress achieved to date is maintained and that all deposits are reconciled in a timely manner.

### **Chief Executive's Response**

Work is ongoing reconciling the remaining unreconciled balances. A staff resource has been allocated to refundable deposits.

## **8 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 January 2019. It is supported by the Council's Corporate Procurement Plan 2017 – 2019 which was approved by the management team in April 2017.

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

In 2018, the Council advertised 49 tenders on the eTenders website compared with 47 in 2017.

I acknowledge the following progress made during 2018:

- The Council's procurement procedures were updated to incorporate procedures for emergency type procurements and sole supplier type procurements, including a derogation form to be completed and placed on the procurement file.
- Under EU directive 2014/24/EU, Councils are required by October 2018 to facilitate the electronic receipt of tenders with a value above the EU thresholds. The Council has adopted as policy, and as a matter of good practice, the electronic receipt of all public tenders and not just tenders with a value above the EU thresholds. This policy was approved by the management team in October 2018.

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

In the course of the audit a range of purchases across 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.

The following weaknesses in procurement procedures were also noted:

- The procurement steering committee did not meet from September 2018 to October 2019. It is scheduled to meet on a quarterly basis. It is important that the steering committee meet regularly as it provides the strategic support and direction for the procurement function.
- A procurement spend analysis has not been carried out since 2015. According to the Corporate Procurement Plan, this analysis should be carried out quarterly. The benefit of a spend analysis is that it provides assurance that council and national contracts and framework agreements are being availed of and that non-compliant expenditure is identified. This spend analysis should be carried out on a regular basis.

Management needs to address the above instances of non-compliance with procurement regulations and weaknesses in procurement procedures.

### **Chief Executive's Response**

In relation to the non-compliances with public procurement identified within the organisation, the Procurement Officer will compile a list of the issues identified and place these issues on a 'lessons learned register'. The Procurement Officer will make relevant staff aware of the non-compliances, through the lessons learned register, and provide refresher training to relevant staff on their duties and responsibilities as part of the procurement team to mitigate against these non-compliances reoccurring.

The Procurement Steering Committee take a proactive role in the area of procurement and the preparation of procurement policies and templates. Since the appointment of a new Procurement Officer, these meetings have reconvened with a meeting being held in October 2019. The next Procurement Steering Committee meeting is scheduled for January 2020 and this committee will continue to meet on a quarterly basis to fulfil its brief.

The benefits of spend analysis are noted. In drafting the Corporate Procurement Plan for 2020-2022, the Procurement Officer will be conducting spend analysis on the spend in 2018. Following publication of the Corporate Procurement Plan 2020-2022, the Procurement Officer will conduct regular spend analysis at the frequency as determined by the new Corporate Procurement Plan.

## **9 Magheracloone Sinkhole**

In late 2018, a number of sinkholes appeared in Magheracloone. This occurred on land covering old disused underground mine shafts owned by a local mining company.

A number of public local roads were closed for a period of time while investigations were carried out. The Department of Communications, Climate Action and Environment commissioned an independent engineering report which was published in December 2018. It confirmed that the sinkhole was caused by water being pumped into a disused mine owned by a local mining company causing ground subsidence to occur.

The Council incurred costs of €317k, from September 2018 to date, mainly relating to staff costs, plant hire and security costs that were directly attributable to the mining company involved. The Council invoiced these costs to the company in January 2019 and August 2019 and they were settled in full by the company in September and October 2019.

### **Chief Executive's Response**

Monaghan County Council liaise closely with all parties impacted by the subsidence at Magheracloone. Improvement works has been carried out on the roads that were impacted when diversions were in place. Monitors to measure ground movement have been installed along the LP4900 road. All costs to date incurred by the Council have been reimbursed by the company.

## **10 Local Authority Companies**

The Council has acquired an interest in a number of companies in 2018, the details of which are disclosed in Appendix 8 of the AFS. The companies have not commenced trading and therefore there are no financial statements available to date.

## **11 Governance and Propriety**

### **11.1 Overview**

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.

### **11.2 Internal Audit Function**

The Council's internal audit function consists of two members of staff.

The head of the unit reports directly to the audit committee and to the Chief Executive. The unit produced 8 reports during the year, including reviews related to the Council's obligations under the Public Spending Code.

A review of the implementation of 2014 - 2018 Internal Audit report recommendations as at 30 September 2019 indicates that 95% of the recommendations were implemented.

I have taken account of the findings in these reports, where appropriate, 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 adopted by the management team in October 2017.

The Council's Risk Register, which is hosted on a dedicated risk register software package, includes corporate risks and departmental risks. Mitigating controls and actions are identified and recorded against each risk in the risk register. They are subject to regular reviews by the Council's management team.

### **11.4 Audit Committee**

The audit committee met on five occasions during 2018 and issued its Annual Report for that year in January 2019.

The Audit Committee considered the auditor's report on the Annual Financial Statement for the year ended 31 December 2017 at the November 2018 meeting, which the auditor attended.

### **11.5 Ethics Declarations**

Part 15 of the Local Government Act, 2001 obliges Council members and designated staff to submit an annual declaration of specified interests. Declarations were received for all Council

members by the due date. However, the declaration for one designated staff member was not received by the due date.

#### **Chief Executive's Response**

The staff member referred to was on sick leave when the annual declaration was due to be submitted. The declaration was submitted when the staff member returned to work.

## **12 Investigation into Financial Irregularity**

As reported in the 2017 audit report, there was an investigation into financial irregularities regarding payments to suppliers and the use of Low Value Purchase cards that 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. The results of these investigations were considered by the Chief Executive and dealt with in accordance with the Council's policies and procedures.

The Council informed the Gardaí in relation to this matter. It is currently the subject of a Garda investigation.

#### **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 check 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 audit by the management and staff of the Council.



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Brendan Leane  
Local Government Auditor

30 October 2019

