



**Rialtas na hÉireann**  
Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Cork City Council**

**for the**

**Year Ended 31 December 2018**

Department of Housing, Planning and Local Government

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

# CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL .....	1
1 Introduction .....	1
2 Financial Standing .....	1
2.1 Statement of Comprehensive Income .....	1
2.2 Work in Progress and Preliminary Expenses.....	1
2.3 Net Current Assets .....	1
3 Income Collection .....	2
3.1 Summary of Income Collection .....	2
3.2 Rates.....	2
3.3 Rents .....	2
3.4 Housing Loans .....	3
3.5 Rental Accommodation Scheme (RAS) .....	3
4 Transfer of Water and Sewerage Functions to Irish Water .....	3
5 Fixed Assets.....	4
5.1 Fixed Assets Overview.....	4
5.2 Fixed Asset Register .....	4
5.3 Property Register .....	4
6 Capital Account .....	5
6.1 Capital Account Overview .....	5
6.2 Favourable Capital Balances .....	5
6.3 Unfavourable Capital Balances .....	5
6.4 National Transport Authority Grant.....	5
6.5 Inchigagan House and Land .....	6
7 Part V Agreements .....	6
8 Loans Payable.....	7
8.1 Loans Payable Overview .....	7
8.2 Asset Loans.....	7
8.3 Bridging Finance Loans.....	7
8.4 Recoupable Loans .....	7
9 Procurement .....	8
10 Approved Housing Bodies (AHBs) .....	8
11 Cork Event Centre .....	9
12 Governance and Propriety .....	9
12.1 Governance Overview.....	9

12.2	Internal Audit Function and Audit Committee .....	9
13	Local Authority Companies .....	10
13.1	Interest in Local Authority Companies.....	10
13.2	Governance of Local Authority Companies .....	11
14	Cork Boundary Alteration .....	11
	Acknowledgement .....	12

# AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Cork City 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 3 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 surplus for the year amounted to €43k after net transfers to reserves of €6.8m. The €2.4m reduction in the bad debt provision for rates and the €1m of accrued income in relation to fire charges due from Cork County Council contributed to the funds available for transfers. The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS. The approval of the members, as required by S.104 of the Local Government Act, 2001 was obtained on 13 May 2019.

### 2.2 Work in Progress and Preliminary Expenses

Expenditure on work in progress and preliminary expenses amounted to €62.9m at the end of 2018. This expenditure relates mainly to housing projects (€56m).

### 2.3 Net Current Assets

The Council's current assets exceeded its current liabilities by €31.7m at the end of 2018. Although this represents a relatively healthy liquidity position, strict financial management is required to ensure service delivery and funding for strategic capital projects.

### 3 Income Collection

#### 3.1 Summary of Income Collection

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

Income Source	Yield		Debtor	
	2018	2017	2018	2017
	%	%	€m	€m
Rates	82	79	16	19
Rents & Annuities	88	85	3	4
Housing Loans	69	78	1	1

#### 3.2 Rates

The Council achieved a collection yield for rates of 82% in 2018 after processing write-offs, waivers and vacant property adjustments of €5.8m in the year. It is noted that the €63.9m collected in the year, is a ten year high.

The year-end arrears have reduced by €3m to close at €16m by the end of 2018. The bad debt provision has been reduced by €2.4m to €10.6m in 2018. This provision is reasonable given the profile of the arrears.

#### Chief Executive's Response

The Council improved its collection level in 2018 and increased the amount of income available to meet the ever increasing demands on the Council's resources.

#### 3.3 Rents

There was marked improvement in the collection yield in respect of rents and annuities in 2018. Details of the collection yield in respect of the last four years are as follows:

	2018	2017	2016	2015
Collection Yield	88%	85%	81%	81%

The Council made a bad debt provision of €2.5m against the arrears, which is reasonable given the aged debt profile of these arrears.

#### Chief Executive's Response

The increased performance directly relates to the additional resources put in place in late 2016 to specifically concentrate on arrears management.

### 3.4 Housing Loans

Details of the percentage collection yield in respect of the last four years are as follows:

	2018	2017	2016	2015
Collection Yield	69%	78%	70%	71%

The fall in the collection yield for housing loans to 69% is disappointing.

In respect of the collection performance, the following is noted:

- The collection rate is below the 2017 national average of 72%.
- The net arrears of €1m is made up of 330 accounts in credit (€0.1m) and 289 accounts in arrears (€1.1m)
- €885k of the arrears are outstanding over 180 days.

The Council has made a bad debt provision of €839k against the arrears, which is reasonable given the aged debt profile of the loan book.

#### Chief Executive's Response

The Council has continued to work with borrowers in arrears and has successfully offered long term sustainable solutions to many of those in arrears by working within the MARP regulations. The collection level of housing loans fell in 2018 however, as it was not possible to close off a number of longstanding unsustainable loans. This was the result of certain borrowers not engaging with the Council and forcing it into long drawn out legal processes none of which were resolved prior to year end.

### 3.5 Rental Accommodation Scheme (RAS)

Net arrears relating to RAS tenants amounted to €159k at year-end (net of credit balances of €47k), bringing gross arrears up to €206k. The Council has made a bad debt provision of €165k which is reasonable given the aged debt profile of these arrears.

#### Chief Executive's Response

The monthly analysis of arrears continues to demonstrate that the net and gross arrears are decreasing on a monthly and annual basis. Arrears will continue to be targeted in 2019.

## 4 Transfer of Water and Sewerage Functions to Irish Water

The responsibility for water and sewerage functions was transferred to Irish Water (IW) in 2014 and the Council delivers services on behalf of the company under a service level agreement. The Council also continues to liaise with IW's National Special Projects Office (NSPO) in relation to the transfer of assets.

#### Chief Executive's Response

The transition to Irish Water is an ongoing process and the Council continues to work to ensure the smooth operation of the SLA and the completion matters relating to the transfer of assets.

## 5 Fixed Assets

### 5.1 Fixed Assets Overview

The net book value of fixed assets was €3,281m at the end of 2018 compared to €3,262m in 2017. The most significant increases relate to housing (€18m) and land (€3m).

### 5.2 Fixed Asset Register

The Council's fixed assets are recorded in the fixed asset register, which is part of the financial management system (JD Edwards). Issues have been raised at previous audits in relation to the reconciliation of this register with other Council property records, including insurance schedules. During this audit, we highlighted to management the need for a comprehensive review of its heritage and moveable assets.

### 5.3 Property Register

The need for a comprehensive property register for all council property was raised at previous audits. I acknowledge the progress made over the last year to map the Council's assets and land to the geographic information system (GIS). This GIS is linked to a database of additional property information. Further work will be required to update the contents of the related database.

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

The need for a comprehensive property register has long been acknowledged. Effort and resource was directed into the PIR system which was a cross-authority project. Unfortunately, the local authorities involved have now agreed that PIR does not meet the requirements. The PIR user group of local authorities have engaged with an alternative software provider to ascertain if their system will meet the technical requirements with a view to procurement. Progress has been made mapping Council assets and land to the geographic information system (GIS), further work is being undertaken to increase the accuracy and usability of the property information in this interim solution.

## 6 Capital Account

### 6.1 Capital Account Overview

The Council incurred total expenditure of €99.3m on capital projects in 2018, with total income amounting to €100.8m, including transfers from revenue. This resulted in a surplus of €1.5m for the year, and a favourable balance of €31.5m at year end. Expenditure in the year related mainly to housing (€72.4m) and roads projects (€13.3m).

The net favourable balance of €31.5m comprises favourable balances of €91.1m and unfavourable balances of €59.6m. It was noted at audit that the Council offset the longstanding credit balance of €11m on the Atkins Hall scheme against a number of other historic housing capital balances.

### 6.2 Favourable Capital Balances

Many of the €91.1m of favourable balances on capital codes relate to reserves that are ring fenced for specific purposes or have been earmarked to fund future capital projects.

### 6.3 Unfavourable Capital Balances

At the end of 2018, there were 259 codes with unfavourable balances totalling €59.6m. Although management have advised of funding applications that have been made or are about to be made in respect of a significant number of these codes, an immediate funding stream is not in place in respect of the following project balances:

Capital Project	Balance at 31/12/18
Docklands Bridge	€4.9m
Marina Park Lands	€4.0m
Cork North West Regeneration	€4.0m
Inchigagan House & Lands	€2.8m
Kifts Lane Property	€2.7m
Refurbishment of Spriggs Road Flats	€2.5m
Old Whitechurch Road Land	€2.5m
Affordable Housing Schemes	€2.0m
Cushing Place Remedial Works Scheme	€1.9m
St Catherine's Cemetery Extension	€1.8m
Housing Construction & Acquisition Schemes	€1.8m
<b>Total Above</b>	<b>€30.9m</b>

#### Chief Executive's Response

A review of the capital codes is ongoing and further progress will be made in 2020.

### 6.4 National Transport Authority Grant

At the end of 2018, the Council received €1.2m of funding from the National Transport Authority to acquire a property for a roads project. At audit, I was informed that the acquisition of this property has not yet been finalised due to ongoing title issues and the



funds remain with the Council.

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

The formal transfer process and associated payment release for the above acquisition will be closed out when the acquisition is finalised. In keeping with normal practice, the funding agency (National Transport Authority) has and will continue to be kept apprised of progress with regard to completion of this transfer.

### **6.5 Inchigagan House and Land**

In 2018, the Council purchased Inchigagan House along with the surrounding 106 acres of land at a cost of €2.8m. Circular 17/2016: "Policy for Property Acquisition and for Disposal of Surplus Property" issued by the Department of Public Expenditure and Reform sets out that a business case following a standard appraisal process, is a necessary step in the achievement of value for money in relation to the purchase of property and lands.

While the Council obtained independent valuations of the property prior to acquisition, a business case as required by this Circular was not prepared in advance of the purchase.

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

Earlier this year a new Senior Executive Estates Officer was appointed, following which a Strategic Review has been initiated in relation to the management of the Property Department functions. The strategic review will be fully cognisant of the directives in the 17/2016 circular and the recommendations of the 2013 OPW report 'Accommodating Change – Measuring Success - Property Asset Management Delivery Plan'.

## **7 Part V Agreements**

At previous audits weaknesses were highlighted in the Council's recording and follow up of Part V agreements. It is acknowledged that some progress has been made, however the Council needs to apply the required resources to properly address this issue. I have requested management to put timelines in place to resolve this matter.

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

In 2017, the Council commenced a review to ensure that all Part V obligations are recorded and actively pursued. The review is ongoing and due for completion in 2019.

## 8 Loans Payable

### 8.1 Loans Payable Overview

Total loans payable as disclosed in Note 7 to the AFS amounted to €131.2m at year end.

Included in this figure are €69.8m of loans which are funded by the Council's own resources. These comprise asset loans of €41.7m and bridging finance loans of €28.1m.

The total loans payable figure also includes €61.4m of loans which have a corresponding stream of income and comprises recoupable loans of €39.5m, mortgage loans of €18.2m and shared ownership rented equity loans of €3.7m.

### 8.2 Asset Loans

The balance due on these loans amounted to €41.67m at 31 December 2018.

This includes:

- €33.84m relating to 67 acres of land across two separate locations which are held on an interest only basis (€224k paid in 2018)
- €7.83m remaining on a loan drawn down to clear historic capital balances (€398k of principal and interest paid in 2018).

### 8.3 Bridging Finance Loans

The balance due on these loans amounted to €28.1m at year end. The majority of these are on an interest only basis, at a cost of €361k in the year. They mainly relate to 84 houses originally built for resale under the Affordable Housing Scheme but are now let to Approved Housing Bodies under the Social Leasing Scheme. The Department has agreed to finance the interest repayments on €21.5m of the balance due, with the Council funding the remaining interest repayments. At present, there are no proposals for repaying the principal on these loans.

### 8.4 Recoupable Loans

The balance due on these loans amounted to €39.5m at year end. Principal and interest payments by the Council on these loans are fully recoupable from the relevant state body. Hereunder is a summary of these loans:

Loan Purpose	Balance at 31/12/18	Principal & Interest Paid in 2018
CLSS - Approved Housing Bodies	€21.78m	€1.62m
Cork Courthouse	€9.19m	€1.86m
Cork Main Drainage Scheme	€8.53m	€1.65m

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

The City Council will commence a major infrastructural project on the Old Whitechurch Road lands in Q4, 2019. Funding has been secured under the Local Infrastructure Housing Activation Fund initiative (LIHAF) to deliver same and to enable housing development on the site. The DHPLG has established an internal working group to consider a long term strategy to deal with unsold affordable properties in the State and its outcome will inform the Council's plan for dealing with same.

## **9 Procurement**

I welcome the appointment of a full time Procurement Officer in May 2019. During the audit a number of procurement compliance issues were noted relating to 2018 and these have been communicated to the Procurement Officer. Improvements to the financial management system are also required to improve corporate oversight of this area. Progress made in this area will be reviewed at the next audit.

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

The Procurement Unit is currently taking action on the instances of procurement compliance issues raised by the auditor. Improvements to the financial management system as set out above are being reviewed to identify the best solution to achieve improved corporate oversight.

## **10 Approved Housing Bodies (AHBs)**

At the end of 2018, there were 801 properties financed through the Council that were either owned or managed by 36 different AHBs. At year end, the Council has recorded recouppable loan balances of €49.9m and €8.1m of CALF funding in respect of these AHBs.

It is noted that fourteen of these AHBs, which own 15 housing units, have still not signed up to the Voluntary Regulation Code which was launched by the Minister for Housing in 2013 as a framework for AHBs to prepare for statutory regulation.

A national Value For Money report 'The Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies' completed in December 2015, made a number of recommendations with regard to the implementation of controls in the management of social housing provided by AHBs. During this audit it was noted that some progress has been made by Housing in implementing these recommendations. Further work is still required to ensure the recommendations are fully implemented. In particular, the Council should regularly inspect these properties to confirm they are being maintained and occupied in accordance with the relevant schemes and also ensure that the register of these properties is fully and regularly updated.

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

The auditor's comments are noted. Inspections have commenced on properties in 2019. The Council is completing an overall register of tenants in AHB units.

## 11 Cork Event Centre

During 2014 the Council ran a procurement competition for the awarding of funding for the development and operation of an event centre within the city. Arising from that process, a preferred bidder was selected and the project was estimated to cost approximately €50m in total. Cork City Council was to provide €8m of funding towards the project, the Government was to provide €12m and the preferred bidder would take the risk of funding above the €20m of state funding.

In the period from December 2014 to March 2017, there were significant redesigns to the project and the estimated cost had risen to approximately €73m at that time. Consequently, the preferred bidder requested an addition €12 million in public funding plus an estimated additional contingency of €6 million be funded from public funds. There has been ongoing engagement between the Council and the relevant Government Departments to agree a funding package to be put to the preferred bidder. Any development on the project will be examined further at the next audit.

### Chief Executive's Response

The Council continues to engage with the relevant Government Departments and the preferred bidder with a view to bringing this project to fruition. Planning permission was granted on the 10th October 2019. Recent discussions with Central Government on additional funding have been positive. The City Council is engaged in detailed discussions in relation to the terms and conditions and other contractual matters in the context of the ongoing process which should allow the City Council enter final contractual arrangements with the preferred bidder.

## 12 Governance and Propriety

### 12.1 Governance Overview

Corporate governance comprises the system 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.

### 12.2 Internal Audit Function and Audit Committee

The Local Government (Financial and Audit Procedures) Regulations 2014 require local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit has an important role in providing the Chief Executive with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements.

The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the Chief Executive and to the audit committee on audit reports issued and progress on the implementation of audit recommendations made. The unit issued 14 reports during the year, including three reviews related to the Council's obligations under The Public Spending Code, and I have taken account of the findings in these reports, where appropriate, in the course of my audit.

## Chief Executive's Response

The Internal Audit unit continues to be well resourced to ensure that it is in position to support management in the execution of its governance responsibilities. The 2019 Audit Programme as signed off by the Audit Committee is currently being executed providing valuable information regarding the adequacy of control systems and procedures.

## 13 Local Authority Companies

### 13.1 Interest in Local Authority Companies

The Council's interest in four companies is shown in Appendix 8 to the annual financial statement. These are:

Company	Voting Power
The Cork Opera House DAC	100%
Cork Urban Enterprises CLG	22%
Spórt-Ionad Réigúinach Chorcaí Cuideachta Faoi Theorainn Rathaiochta T/A Leisureworld CLG	100%
SDC Investment Holdings Ltd.	9%

In respect of the above companies, the following are noted:

- The Council's interest in these companies has not been consolidated in the AFS
- Included as "other" in note 3 to the Council's AFS are repayable loans provided to: (i) The Cork Opera House (€776k), (ii) Cork Urban Enterprises (€200k) and (iii) Leisureworld (€200k)
- Only The Cork Opera House had 2018 accounts prepared in time for inclusion in Appendix 8 of the Council's AFS
- Leisureworld also control a wholly owned subsidiary, "Livingwell Management Limited". The principal activity of this company is the management of St. Peter's Church, Cork on behalf of Cork City Council. This company had accumulated profits of €7,396 and net assets of €7,496 at 31 December 2017. The accounts of this company were not consolidated into Leisureworld's accounts
- SDC Investment Holdings Ltd. is a holding company for "The Software Development Centre Limited". The principal activity of The Software Development Centre Limited is to act as a property owner and manager (primarily the NSC Campus, Mahon). This company had accumulated profits of €2,986,673 and net assets of €6,336,546 at 31 December 2017. The accounts of this company were not consolidated into the parent company's accounts. I have requested management to conduct a strategic review of its holdings in this company.

## Chief Executive's Response

The Council has taken note of the items set out above by the auditor. A strategic review will be the undertaken of SDC Investment Holdings Ltd as requested.

## 13.2 Governance of Local Authority Companies

In April 2019, Internal Audit issued a report following a high level review of the Council's corporate governance of two of the companies under the aegis of the City Council. This report provided management with adequate assurance that key controls are operational but also identified areas where management controls could be stronger.

At the last audit, it was reported that the Council completed two draft documents; "Corporate Governance Requirements and Annual Compliance Statement" and "Governance Oversight of Third Party Service Providers". These were formally approved by management in 2019 who anticipate that these will help in their oversight and governance of such companies.

### Chief Executive's Response

The City Council welcomes the positive assurance provided by Internal Audit's review of its corporate governance of Local Authority companies.

As noted, these documents were formally adopted by Senior Management Team earlier in 2019. These procedures will form the basis of strengthening management controls in this area.

## 14 Cork Boundary Alteration

The Local Government Act 2019 provided for the transfer of part of the administrative area of Cork County Council to Cork City Council on 31 May 2019. Part 3 of the Act sets out the financial arrangements to be made between Cork City Council and Cork County Council. Management have identified the financial risk associated with the compensation payable by the City Council to the County Council as the chief risk associated with the transfer.

The financial arrangements consist of the following:

- A contribution by the County Council to the City Council in respect of 2019 for the performance by the City Council of functions in relation to the relevant area during the period commencing on the transfer day and ending on 31 December 2019, payable not later than 30th April 2020; and
- The payment of an annual contribution to the County Council by the City Council for the period commencing 1st January 2020 and ending on 31st December 2029 or such longer periods as may be prescribed by the Minister. The manner and dates of payment to be agreed between both councils.
- Other financial arrangements (financial settlement) calculated before the 31st August in the year immediately preceding the year the contribution is payable.

An independent review, carried out on behalf of the Cork Boundary Alteration Implementation Oversight Committee (IOC), established that Cork County Council's 2017 AFS was a reasonable basis for the calculation of the annual contribution. At the time of audit, negotiations regarding the constituent amounts payable are ongoing under the stewardship of the IOC.

The Local Government Act 2019 sets out clear timeframes and provides for the intervention of the IOC should issues arise with respect to securing an outcome to negotiations between

the two authorities. At time of audit, management projected that the necessary timelines, as set by the IOC, would be adhered to.

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

Ongoing discussions are taking place between Cork City Council and Cork County Council in respect of the following financial matters:

- Lot 1: Annual Contribution
- Lot 2: Assets and Liabilities and Capital Balances
- Lot 3: Development Contributions

The IOC and the structures it has put in place are facilitating and overseeing these discussions in line with the Local Government Act 2019.

### **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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John Collins  
Local Government Auditor  
24 October 2019

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