Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork 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 CORK COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Cork Council for the year ended 31 December 2017, 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 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 10 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 Financial Standing

2.1 Statement of Comprehensive Income

The Council recorded a deficit for the year of €5.4m, reducing its general reserve balance to €7.3m at year end. This deficit for the year includes a provision of €5.7m relating to a negotiated settlement in October 2018 of a longstanding legal case involving the Council (paragraph 2.2.1).

In accordance with Section 104(2) of the Local Government Act 2001 the members approved all expenditure variances at their meeting on 11th June 2018 including transfers to reserves of €6.9m in excess of budget. Revenue income and expenditure variances were again recorded between budgeted and actual out-turn across Service Divisions, as detailed in Note 16 to the AFS.

2.2 Statement of Financial Position (Balance Sheet)

The Council continues to show a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2017. Strict budgetary control and financial management is required to maintain this position. The Council's long term borrowings remain significant and specifically those loans which require to be funded by Council's revenue account (paragraph 7).

2.2.1 Legal Provision

In previous audits it was recommended that the Council should prepare a corporate report on the probable and quantifiable costs and compensations relating to ongoing legal cases. This would facilitate the Council in making an appropriate provision in the AFS. The preparation of a Litigation Risk Register by the County Solicitor's office is a welcome development in this regard.

The legal provision in the 2017 AFS is €11.2m, representing a significant increase on the €2m legal provision in the previous year. The original draft AFS had a legal provision of €5.5m which, in accordance with the Local Authority Code of Practice and Accounting Regulations (ACOP), excluded those ongoing cases where the Council deemed their potential liability to be either not quantifiable or low risk.

However, following the negotiated settlement of a longstanding legal case involving the Council in October 2018, the Council has amended its annual financial statement by increasing its legal provision by €5.7m in order to adequately provide for these previously unquantifiable costs.

2.3 Local Property Tax

Local Property Tax (LPT) received by Council in 2017 was €32.5m representing an increase of €2.6m on the 2016 comparative amount of €29.9m. LPT is recorded in the Statement of Comprehensive Income at €16.5m which represents the discretionary portion of LPT. The remaining €16m was designated as self-funding and distributed across the Council's services in accordance with the Department's direction. This funding model, based on local retention of LPT, was first introduced in 2015.

Chief Executive's Response

Through active financial management and budgetary control the Council had maintained a positive financial position at 31 December 2017. However this was impacted by a post balance sheet event, being the negotiated settlement of a longstanding legal case in October 2018, which required an increase in the legal provision. This has had a serious significant impact on the Council's cumulative revenue surplus in 2017 and options for the ultimate funding of this settlement are being pursued. However it should be noted the ongoing prudent financial management of budgets and activity in gradually building a surplus provided scope to handle an exceptional event such as this.

The surplus revenue position for the year, prior to the AFS amendment made following the post balance sheet event referred to previously, was primarily achieved through improved collection account performances. The Council's loan book reduced from €393m to €371m in 2017 with the non mortgage asset loans reducing from €117m to €94m. The Council provides for the annual loan repayments that are funded by its own resources through its adopted annual budget in order to meet the development needs of the County.

3 Income Collection

3.1 Income Summary

A summary of the income collections as disclosed in Appendix 7 of the AFS is set out below:

Income Source	Debtors (€m)	Debtors (€m)	Yield (%)	Yield (%)
	2017	**2016**	**2017**	**2016**
Commercial Rates	14.9	17.5	90	88
Housing Rents	0.9	1.2	95	93
Housing Loans	3.9	4.1	55	55

3.2 Commercial Rates

Commercial rates revenue collected during the year totalled €120m with a collection rate of 90%. The continued improvement in debt collection for this income source is to be welcomed, particularly given that rates accounted for 41% of the Council's revenue income in 2017. Debtor balances decreased by 15% to €14.9m which included write offs of €11.5m in respect of vacant properties and uncollected accounts.

Almost eleven thousand businesses contribute to the rates income in Cork County Council. However, the top 100 companies accounted for 52% (€67.6m) of the €129.5m accrued rates in 2017.

3.3 Housing Rents

The rents collection performance for the year was satisfactory, with arrears reducing by 23% to €926k at 31 December 2017. There was a 3.9% increase in rent accrued largely due to a blanket 3% increase applied to all rent accounts from February 2017. A differential rent scheme review commenced during the year to streamline the former town councils areas into a county wide scheme. The financial consequences of this action will be more evident in 2018.

The need for improvements in procedures relating to the consolidation of all rent collection records, financial management reporting and analysis of debt as recommended in previous audits have not yet been implemented.

3.4 Housing Loans

Cork County Council housing loan collection performance remained at a 55% yield while arrears decreased to €3.9m at 31 December 2017. National statistics prepared by the Local Government Audit Service for 2016 show the national average collection rate for local authority housing loans was 71%.

The combined outstanding principal, equity and arrears on all housing loans decreased from €85m in 2016 to €79m in 2017 of which €38.3m (48%) relate to Shared Ownership accounts. The combined outstanding principal, equity and arrears on accounts categorised as being greater than 12 months in arrears at year end 2017 is €19.73m of which €14.85m (75%) relate to Shared Ownership accounts.

A number of housing loan accounts have been selected for inclusion in schemes such as Local Authority Mortgage to Rent (LAMTR) and the roll up of shared ownership loans into a re-structured single annuity loan. However, at time of audit, no single case has yet been completed. It is recommended that progress in this area should be prioritised.

3.5 Provision for Doubtful Debts

The provision for doubtful debts in 2017 amounted to €27.1m and represents a reduction of €7.6m on the 2016 amount. The Council has revised its methodology for calculating the provision for development levies in 2017 and this, combined with continued improvements in the commercial rates collection performance, has impacted on the level of provision required.

It has previously been recommended at audit that a provision should be made against an increasing inter-authority current debtor amount, of €2m at 31 December 2017, which is unpaid and unlikely to be paid in the short term. This has not been completed. Therefore, while it is recommended that the provision should be increased to adequately address this debtor, the provision for doubtful debts is not materially inadequate. Furthermore, as stated in last year's audit report, some collection areas would benefit from a more systematic process in determining an appropriate provision for doubtful debts each year.

Chief Executive's Response
Our rates collection performance improved again in 2017, exceeding the national target set. Commercial Rates are critical to the financial stability of the County Council and it is expected that this performance will be maintained in 2018.

The Housing Rent collection performance improved from 93% to 95% in 2017 with corresponding reduction in arrears. The Housing Rent management system is one of the legacy systems which are due for review and upgrade and it is intended to progress this in 2019.

Housing Loan arrears have reduced by over €1m since 2015 due to continued focus on arrears. The national Mortgage Arrears Resolution Process (MARP) is being followed to deal with outstanding arrears and provide a solution agreeable to the Council and borrower, up to and including repossession. Both the Mortgage to Rent Scheme and the restructuring of shared ownership loans are being advanced as a priority of the Housing and Finance sections which will also help address some of the longer term outstanding arrears. The transfer of the Housing Loan system to the main financial system will be completed in Q1 2019 which will improve functionality and thus aid debt management.

The Council acknowledges the adequacy of the bad debt provision, which includes a systematic review of debtor streams to determine an appropriate doubtful debt provision on an annual basis and will be further reviewed as part of the AFS 2018 work programme.

4. Transfer of Water and Sewerage Functions to Irish Water

The Council acts as an agent for Irish Water (IW) under the terms of a service level agreement since IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at local, regional and national levels since 2014.

4.1 Irish Water Service Level Agreement (SLA)

During previous audits it was noted that the closing balance on the SLA account included an outstanding sum of €3.4m in respect of charges dating from 2014 which remained unpaid by IW. In 2018 the Council has deemed it appropriate to address this matter by fully offsetting this debtor amount against IW creditor amounts of €6.5m in accordance with Section 7 of Local Government (Financial Provisions) (No. 2) Act 1983.

4.2 Historical Charges

Over the past number of years it has been repeatedly reported at audit that there has been a lack of progress on reaching an agreement between Cork County Council and Cork City Council regarding issues related to design build operate (DBO) balances and historic reciprocal water treatment charges between the local authorities. No significant progress has been made on this issue since the last audit.

4.3 Transfer of Assets to Irish Water / Retained Water Assets

During previous audits it was reported that all water related assets were removed from the Council's fixed assets in compliance with national arrangements for local authorities. Cork County Council, however, retained 10% of the value of its Water and Sewerage Network assets within fixed assets while determining the legal title of properties adjacent to water treatment facilities. The €88m nominal value for these assets was originally recorded in Note 1 of AFS 2014 and remains unchanged in the 2017 AFS.

No significant progress has been made since last year's audit in identifying and registering assets into Council ownership. It is recommended that this matter be progressed as a priority issue.

Chief Executive's Response
As part of the ongoing transition arrangements with IW, local authorities were required to transfer water assets from their balance sheet. In order to safeguard the Council's interests that may remain in a portion of these assets an amount of €88m, representing 10%, has been retained to represent Cork County Council's interest in water assets. A specific reconciliation exercise is ongoing to identify folio references and maps in respect of these assets in order to affect the transfer of relevant assets to Irish Water. A review of the position will be taken as part of the 2018 AFS work programme.

Cork County Council will liaise with the City Council to arrange a final close-out on the issues related to design build operate (DBO) balances and historic reciprocal water treatment charges between the local authorities.

5. Capital Account

The Capital account consists of 1,394 capital codes and recorded a net favourable position of €112.2m at 31 December 2017, comprising favourable balances of €142.5m and deficit balances of €30.3m. The majority of expenditure related to housing and roads capital projects which accounted for 73% of the €127m expended during 2017.

5.1 Capital Balances

There are 588 favourable capital balances totalling €142.5m recorded on the capital account. Most of these relate to reserves which are ring fenced for specific purposes including funding of future capital projects. There are 348 deficit capital balances totalling €30.3m. In addition, it was noted that 458 capital codes had a nil balance at year end 2017.

Included within these balances are 486 (35%) capital codes which had no financial activity during 2017. 110 of these are codes with deficit balances totalling €11.3m and 231 are codes with favourable balances totalling €26.3m.

It is recommended that the ongoing review of capital codes and balances is continued in order to ensure management can clearly establish the Council's capital funding requirements.

5.2 Housing Capital

In 2017, the Council spent €58m on housing capital which is summarised as follows:

Housing Capital Expenditure	2017 (€m)	2016 (€m)
Social Housing Acquisitions	40.7	30.0
Approved Housing Bodies Funding	9.3	3.2
Capital Works to Housing Stock	6.4	5.8
Land	1.0	0.3
Others	0.6	0.3
Total	**58.0**	**39.6**

The Council spent €40.7m (2016 €30m) on acquiring social housing, primarily through single house acquisitions, including those acquired through Part V Agreements (€23.3m), turnkey developments (€16.5m) and social housing construction projects (€0.9m).

5.2.1 Deficit Housing Balances

There is an overall €2.9m favourable capital balance in housing at year end 2017. This includes 284 favourable balances totalling €19.7m and 231 deficit balances amounting to €16.8m. The majority of favourable balances are either committed to ongoing projects or have been earmarked to fund planned future housing projects.

Regarding the €16.8m of deficit housing balances at year end 2017, management has advised that these balances are categorised as follows:

Funding Status of Housing Deficit Balances	Amount (€)
Projects where applications for funding have yet to be made to the Department but will be completed in due course	€11.5m
Projects the Council will have to fund from its own resources	€1.6m
Projects where funding applications were made and a decision is still awaited	€1.2m
Projects where funding is guaranteed and in place	€2.5m

In respect of the €11.5m deficit balances subject to future funding applications to the Department, many of these relate to projects where there has been no activity on the code for a number of years.

I have requested management to conduct a review of all deficit balances and address any matters delaying the funding of same. In cases where it has been determined that grant funding is not available, a plan should be put in place to clear these deficits.

5.3 Roads Capital

In 2017, the Council incurred expenditure totalling €33.6m on roads capital. The following are the primary expenditure areas;

- Grant funded National Roads schemes (€20m)

- Cork Science and Innovation Park (€5.4m)
- Plant and Machinery Asset Replacement (€2.8m)
- Other Roads schemes (€1.7m)
- Footpaths and Public Lighting works (€1.6m)

Roads capital has a net favourable balance of €15.3m at year end 2017. This consists of 242 capital codes, 74 of which have favourable balances totalling €23.1m, 41 capital codes with deficit balances totalling €7.8m and 127 capital codes have a nil balance. The vast majority of favourable balances are committed to ongoing capital projects or have been earmarked to fund planned future roads capital projects or plant and machinery asset replacements.

The deficit balances include €6.58m which are categorised as currently having no source of funding secured. The most significant unfunded deficit balance relates to the Cork Science and Innovation Park (€5.4m) which was transferred from Economic Development Directorate to Roads Directorate in 2017 (paragraph 5.3.1).

Other significant deficit balances currently with no source of funding include capital projects which have had no financial activity recorded during the past number of years;

- Carrigtwohill Railway Underbridge (€623k) and;
- Ballincollig Bypass Land Acquisition (€489k)

Management has advised that funding for these longstanding deficit balances remains to be secured. It is again recommended that management should progress the sourcing of funds to address all unfunded deficit balances and, where appropriate, reduce the number of capital codes by identifying and addressing codes which are no longer active.

5.3.1 Cork Science and Innovation Park (CSAIP)

The €5.4m expenditure incurred on this capital project in 2017 is an accrued amount relating to compensation payments to landowners within the proposed site for the park. These lands are required to develop a spine road in order to provide access to the park and facilitate the provision of water services. Management has estimated the cost of this project will be €20m approximately. At time of audit no definitive funding has been secured for the €5.4m deficit on the capital account for this project.

However, management has advised that the CSAIP lies within an area of the county of Cork which will transfer to Cork City Council in June 2019 following the boundary alteration. This project will continue after that date without the direct involvement of Cork County Council. Management has further advised that the principle of funding the financial commitments of Cork County Council for this and other legal commitments such as CPO activities is under discussion by the Implementation Oversight Group (IOG) as part of the boundary alteration. While discussions on these matters are underway at time of audit, the detailed compensation measures have yet to be agreed and finalised.

Chief Executive's Response

The Council prepared the 2018-2020 Capital Investment Programme in 2018, which helps manage our capital investment and management reporting. The capital account is closely monitored throughout the year to oversee spend to budgets and manage balances including the transfer of favourable balances and re-allocation to fund deficits and capital projects. This ongoing review enables the Council to identify our Capital funding requirements. Preparation of the 2019-2021 Programme will commence in November 2018 and this work will include a review of the capital account in order to establish the overall funding requirements.

Cork County Council is undertaking a significant Capital Delivery Programme to develop social housing which will help to address deficit balances on its Housing Capital Account. Aspects of the programme involve development on sites where debit balances exist. As development takes place, in locations where demand for social housing exists, land and development costs will be recouped. In other locations, this may involve the AHB sector or non housing uses of lands where little or no housing demand exists or has been met through alternative developments.

The sourcing of funds to address all unfunded Roads capital deficit balances is considered as part of the Capital Programme and AFS work. It is envisaged that Carrigtwohill Railway Underbridge will be funded by future development contributions and the Council will engage with TII in respect of Ballincollig Bypass.

As part of preparations for the AFS 2018 work programme a comprehensive review of debit and credit balances will be undertaken across all programme groups in order to significantly rationalise the number of accounts and create a clearer picture of actual funding requirements for capital investment and activity.

The CSAIP was to be funded from special development contributions and the future development contributions and income generated from the development of the Park. The Implementation Oversight Group (IOG), in their report on the boundary extension, and the Local Government Bill 2018, outline provisions which should apply to the financial compensation package which must be finalised between the two authorities. Legal commitments entered into by the County, such as CPO activities, would transfer to the City Council, together with all associated debts and expenditure. Work on the detailed measures has commenced through the auspices of the IOG but has yet to be completed and discussions are also ongoing with City Council with regard to CSAIP.

6. Fixed Assets

The net book value of fixed assets increased by €41m from €8,140m at year end 2016 to €8,181m at year end 2017.The most significant movement in fixed assets during 2017 related to Housing which increased by over €42m. This is primarily due to the completion of housing schemes in Castletreasure in Douglas, Cúl Ard in Carrigtwohill, Oliver Plunkett Hill in Fermoy and College Manor in Cobh with a combined total value of €24.7m together with 85 single house acquisitions completed in 2017 with a combined total value of €18.1m.

Previous audits have identified shortcomings in the fixed assets management system including the absence of one overall system for the recording of all land, property and plant. Furthermore, there is a need for a structured approach to the physical inspection and verification of assets which is currently being carried out on an ad hoc basis. During last year’s audit, management advised it would include the needs of a proper fixed asset management system as part of its review of the financial management system which had been scheduled for 2017. At the time of audit this review has yet to be carried out.

Chief Executive’s Response
Work within currently available resources is ongoing on the management of the Council’s fixed assets. Some improvements have been made in the inspection and verification of assets and this will be further addressed over the next two years. The development of an integrated fixed assets management system has been impacted by the availability of resources and the functionality of the existing system. Initial work commenced in 2018, investigating the options for a new fixed asset management system, and this will be continued over the coming year.

7. Loans Payable

Council borrowings reduced during 2017 by €21.8m to close at €386m at year end. These borrowings consist of loans totalling €288.9m which have a corresponding stream of income to fund repayments and loans of €97.1m which are funded by the Council's own resources.

The categories of loans which have a corresponding stream of income are social leasing loans of €147.2m, recoupable loans of €74.6m, mortgage loans of €49.5m and shared ownership rented equity loans of €17.6m. The social leasing loans were repaid on an interest only basis. The categories of loans which are funded by the Council's own resources are assets loans of € 94.8m and bridging finance loans of €2.3m.

Annual loan repayment costs incurred during 2017 were €25.7m, consisting of principal repayments totalling €20.3m and interest payments totalling €5.4m. The value of loan repayments for those categories of loans without a corresponding stream of income totalled €11.6m.

7.1 Assets Loans

Loan borrowings for the creation of assets may be summarised as follows:

Assets Loans	2017 (€m)	2016 (€m)
Land Purchases	35.2	50.3
Waste Management	28.2	31.0
Civic Buildings	23.3	27.2
Other (Roads / Cemetery)	8.1	8.9
Totals:	**94.8**	**117.4**

Asset loans payable decreased by €22.6m during 2017 primarily due to the re-classification of 10 land loans totalling €11.3m which have been transferred to the Land Aggregation Scheme (LAGS) as Recoupable Loans per Circular Fin 01/2018. Furthermore there were three land loans redeemed for €2.1m together with special repayments on two land loans of €1.2m during 2017. The remaining land purchases loans totalling €35.2m continue to be paid on an interest only basis.

7.2 Treasury Management

During last year's audit it was recommended that Finance Department should develop a formal investment fund strategy in order to ensure the optimal level of investments and borrowings is achieved. The Finance Department has previously stated its commitment to carrying out a treasury management review including a revision of treasury management policy during 2018. Internal Audit drafted a report in September 2018 on treasury management which includes a number of recommendations. These have been accepted by management with a commitment to implement by Q1 2019. The implementation of these recommendations will be reviewed at the next audit.

Chief Executive's Response
The Council's loan book is actively managed throughout the year. In order to minimise the impact on annual budgets and secure best value for money, the Council refinances and redeems loans where possible, as evidenced in 2017. The Council continues to negotiate in relation to land loans, which are being addressed on a national basis on behalf of local authorities.

The Council is committed to undertaking a review of our Treasury Management Policy and implementing the recommendations of the Internal Audit report on Treasury Management by end Q1 2019.

8. Development Contributions

8.1 Financial Management System

During previous audits a number of control weaknesses in the legacy system used to manage development contributions have been documented. These include issues such as not facilitating effective debt management or corporate reporting. Management has advised that a steering committee has been set up to establish the requirements for an integrated financial management system. It is recommended that this work should be expedited given the expanding level of development activity across the county.

8.2 Special Development Contributions

Section 48 (12) (b) of the 2000 Planning & Development Act requires the repayment of special contributions to the planning applicant, together with any interest arising, where the specific infrastructure works were either not commenced within five years or not completed within seven years of the date that the payment was made to the local authority.

The 2017 AFS records €9.7m of special development contributions previously held in Development Management being transferred to the Roads directorate (€7.9m) and Recreation and Amenity directorate (€1.8m). During previous audits, management were requested to conduct a detailed review to establish if the timelines for carrying out the specified works have been met and to determine repayments that are due. I have also requested management to establish the Council's legal obligations to organisations that may no longer be in existence.

Chief Executive's Response
In 2017 a Project Manager at SEO level was assigned to the project for a development contributions management system. A Steering Committee for this project was set up which is headed up by a Divisional Manager with DOS' for Planning, Roads, Municipal Districts, I.T., Head of Finance and the Project Manager also sitting on the Committee. While the impact of the proposed boundary change will have a significant impact on capacity, the Steering Committee will continue to drive progress on the agreement of requirements for an integrated financial management system and the solutions to provide this.

A review of special development contributions has commenced to identify the specific work requirements, activity and impact on Council's obligations.

9. Procurement

During the last audit it was noted that a new Procurement Officer had been appointed and that a number of initiatives were underway which intended to improve compliance with the Council's Corporate Procurement Policy and the National and EU Procurement Directives. This included the establishment of a procurement portal on the Council's intranet as a central repository for policy and tools available for purchasers. Notwithstanding these welcome initiatives, further improvements to the financial management system are required to improve corporate oversight of this area.

At audit, a number of suppliers and service providers, for both revenue and capital expenditure, were reviewed in order to ascertain whether or not their engagements were in compliance with the relevant directives. A number of instances of procurement non-compliance were identified and have been communicated to management.

Chief Executive's Response
Work is ongoing through the Procurement Office to raise awareness and provide guidance to Council staff on procurement and significant progress has been made since the re-establishment of the Office in April 2017. The Council will be rolling out a comprehensive training programme over the next year to all relevant Council staff and this will aid the achievement of value for money from procurement into the future in addition to compliance.

10. Local Authority Companies

The Council's interest in companies is set out in Appendix 8 to the AFS. Nine companies are listed including information with regard to the extent of control exercised by the Council, brief financial details and the date of the latest financial statements received to which this information relates. None of these companies are consolidated in the Council's AFS.

The publication of a guidance document in July 2017 entitled "Cork County Council Subsidiary Companies – Key Principles and Operational Procedures" was noted during last year's audit. Included in this document are a number of key governance principles including common financial year ends and reporting processes together with a timeline for completion of the audits for all Cork County Council companies.

10.1 Spike Island Development Company DAC

The most recently audited accounts of Spike Island Development Company note that the company is dependent on the financial support of the Council in order to continue as a going concern.

While the accounts show a significant increase in turnover in the year, the company continued to incur losses of €48k in 2017 and had a net liability position of €115k at 31 December 2017. Council provided a revenue subvention of €649k in 2017 which accounted for over half the revenue recorded by the company. The Council has also provided the company with a loan which has a balance at the year end of €989k.

10.2 Claycastle Leisure Company DAC

The company maintains a leisure centre in Youghal which is operated by a third party and is dependent on the financial support of Cork County Council. During 2017, this company received €50k from the Council to fund the maintenance of the assets.

Inconsistencies between the company's 2017 financial statements and Cork County Council's AFS 2017 were identified during this audit. I have requested management to conduct a detailed review of these matters including relevant loan agreements and transactions to ensure clear and consistent treatment of assets and liabilities in both the Council's AFS and those of the company.

10.3 Briery Gap Cultural Centre Company

Briery Gap Cultural Centre operates out of a building in Macroom which is owned by the Council. The Director's Report states that normal activities of the company have been curtailed due to the fire suffered at its premises in May 2016. Plans for the redevelopment of the building have been prepared including discussions with the Department of Arts in relation to funding this rebuild.

Until the building is refurbished, the scale of the events organised by the company is restricted. The company's financial statements show it received €69k funding from Cork County Council in 2017.

Chief Executive's Response
The Council implemented its Subsidiary Companies Key Principles and Operational Procedures in 2018, which includes a new compliance reporting process and enhanced corporate governance arrangements across all Council companies. In Q2 2018 annual performance review meetings were held with company directors and senior Council management. Outside of this formal review process, ad hoc meetings are also held throughout the year. In reference to the specific issues, the loan to SIDC will be repaid in 2018, a detailed review of the relevant loan agreements and transactions for Claycastle Leisure Company DAC will be undertaken as part of the AFS 2018 work programme and discussions are ongoing regarding the redevelopment of the library and cultural centre in Briery Gap Macroom.

11. 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 appropriate systems of financial management and control are in place. Improvements were noted during this audit in Council's processes for the integration of risk into management decision making and oversight.

11.1 Risk Management

The Risk Oversight Committee is responsible for supporting risk management within the Council and meets with selected directorate representatives on a quarterly basis to review individual Directorate Risk Registers which feed directly into the Corporate Risk Register. The Risk Oversight Committee's work is overseen by the Corporate Development Management Sub-Group (CDG) which evaluates and re-assesses each corporate risk twice yearly. The CDG then formally submits the Corporate Risk Register to the Senior Management Team (SMT) for further deliberation and eventual sign off.

I welcome the fact that an updated Corporate Risk Register was prepared in 2017 which identified a number of new risks and included current and future mitigations against these risks.

11.2 Internal Audit

The 2017 Internal Audit (IA) annual work plan was approved by the Audit Committee and the Chief Executive. The head of Internal Audit reports directly to the Audit Committee and to the Chief Executive in respect of the unit's work. The unit produced eight reports during 2017 which were of a high standard. I have taken account of these reports during this audit. The IA unit is well resourced with a staff complement of eight. At time of audit, however, it is noted that there are currently two vacancies within the unit.

11.3 Audit Committee

The Audit Committee met on seven occasions during 2017. I attended the December 2017 meeting to discuss my 2016 audit report. The Audit Committee's report relating to issues raised in the 2016 audit report (pursuant to Section 121 of the Local Government Act) was presented to Council at their meeting on 28th May 2018.

Chief Executive's Response
The areas of effective governance and risk management are of strategic importance and significance for the Council and we have established a robust attitude to dealing with proper governance and both strategic and operational risks. The Corporate Risk Register is reviewed and tested on a quarterly basis by Senior Management Team, while the Directorate risk registers are reviewed and tested on an ongoing basis by the Risk Oversight Committee. As part of the governance model, management are committed to ensuring that the Internal Audit Unit remains adequately resourced and see the Unit as critical to the control environment within the Council.

12. Cork Boundary Alteration

At time of audit, the Local Government Bill 2018 has recently been published and negotiations between Cork City Council and Cork County Council on the implementation of the boundary alteration affecting the two local authorities are ongoing through the Implementation Oversight Group (IOG). It has been widely acknowledged that the boundary alteration process and the associated realignment of political structures represent significant challenges for local government in Cork.

The Council, in its Corporate Risk Register, has identified the boundary alteration as the chief risk facing the organisation currently. At this stage it is not possible to gauge the impact that this may have on the Council's finances into the future. This is due to the fact that financial compensation and the details attaching to same have not yet been agreed. While the boundary alteration did not impact on the 2017 AFS, it is important that the financial challenges and specific risks associated with this change are clearly identified and addressed by management for future years.

Chief Executive's Response
The proposed Cork Boundary Alteration is the most significant challenge and therefore risk facing the County Council. The Council is working with the IOG and City Council to agree financial arrangements and a detailed implementation plan to give effect to this change at the transfer date in 2019. A high level implementation team has been appointed in the County Council to drive and coordinate the necessary programme of work to identify and address or minimise the risks to the County Council.

13. Provision of Housing by Approved Housing Bodies

Approved Housing Bodies (AHBs) account for almost 1,800 housing units, representing approximately 20% of Cork County Council's housing stock. During the last audit, non-compliance issues were identified with regard to the recommendations made in the Local Government Audit Service (LGAS) Value for Money report on the Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies (AHB) (VFM Report no. 29 published December 2015). Management has advised that a number of AHBs, which represent a relatively small number of AHB 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.

Cork County Council has made some progress since last year's audit and has performed a number of inspections of AHB properties in the year. Council also contacted the four largest AHBs, which account for approximately 80% of the AHB properties, requesting information relating to the inspections they performed in the year. Two AHBs advised that they inspect all properties annually whilst another AHB advised it inspects 20% of the properties annually. The other AHB did not respond to Cork County Council's request. As noted in the VFM report, the inspections should verify details of the occupants, along with condition of the property and general condition and management of the estate, where applicable.

Given the number of housing units under the remit of AHBs and the reliance placed on the AHBs to inspect and report on their own properties, there is a significant risk to the Council. In order to mitigate this risk, it is recommended that full implementation of the recommendations in VFM no. 29 should be progressed as a priority issue.

Chief Executive's Response
The Council has made some progress since last year's audit and has performed a number of inspections of AHB properties in the year. The four largest AHBs have been contacted, which account for approximately 80% of the AHB properties, requesting information relating to the inspections they performed in the year. In addition, a further 2 AHBs, who operate in Cork County, have signed up to the Housing Agency's Voluntary Regulation Code. Efforts will continue to progress the full implementation of the VFM No. 29 recommendations.

14. Preparation of Accounts Deadline

Under the Code of Practice and Accounting Regulations, as enshrined in legislation by the Local Government Act, 2001, the local authority is required to prepare their accounts by 31 March each year. The draft AFS 2017 for Cork County Council, prior to the adjusting event referred to in paragraph 2.2.1, was not finalised until 31 May 2018.

Chief Executive's Response
The impact of reduced staff resources and vacancies, coupled with the additional requirement to progress the boundary implementation, impacted on the ability of the Council to prepare and present the accounts earlier than 31 May 2018. The Council will endeavour to present draft AFS 2018 by 31st March 2019.

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.

Colin Nolan
Local Government Auditor

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