LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Monaghan County Council

for the

Year Ended 31 December 2015

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

CONTENTS

	Paragraph
Introduction	1
Financial Standing	2
Income Collection	3
Transfer of Water and Sewerage Functions to Irish Water	4
Capital Account	5
Governance	6
Scotch Corner Landfill	7
Refundable Deposits	8
Acknowledgement	9

AUDITOR'S REPORT TO THE MEMBERS OF MONAGHAN COUNTY COUNCIL

1. Introduction

1.1 I have audited the Annual Financial Statement (AFS) of Monaghan County Council for the year ended 31 December 2015, 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, Community 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 2015 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 5 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

1.2 This report is prepared in accordance with Section 120(1)(c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2. Financial Standing

2.1 Statement of Comprehensive Income

The net surplus for the year amounted to €175k after transfers to reserves of €2.79m. This resulted in reducing the cumulative deficit on the revenue account to €2.7m at 31 December 2015. 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 in accordance with section 104 of the Local Government Act, 2001.

2.2 Statement of Financial Position

2.2.1 Significant movements in the finances of the Council in 2015 include the following:

- Increase in fixed assets of €2.9m
- Decrease in long term debtors of €3m
- Decrease in trade debtors and prepayments of €4.8m
- Increase in bank and investment balances of €1.8m
- Decrease in creditors and accruals of €5.2m
- Decrease in loans payable of €6.4m

The increase in fixed assets mainly relates to additions to housing stock of 26 houses. The decrease in trade debtors and prepayments, creditors and accruals and loans payable was mainly attributable to the discharge of debts and liabilities relating to the transfer of functions to Irish Water.

2.2.2 Fixed Assets: Property Interest Register

I note that work is ongoing in relation to the establishment of the council's property interest register. It is important that this work is completed without further delay.

This register when complete should also be reconciled to the councils fixed asset register.

Chief Executive's Response

This work is ongoing. When complete, a reconciliation with the Council's fixed asset register will be undertaken for items that are included in both registers.

2.2.3 Development Contributions

Included in debtors as at 31 December 2015 was €3.2m (2014: €3.8m) in respect of amounts owing on development contributions, of which €0.6m (2014: €2.9m) was disclosed as long term.

The analysis carried out for 2014 between long term and short term development contributions was estimated and was determined not to be accurate. A further review was carried out for 2015. This analysis was based on whether a payment plan was in place, with payments due greater than 12 months being disclosed as long term. This now reflects the factual position more accurately.

A provision for bad debts of €0.6m representing 17% of total arrears has been made. In accordance with the concept of prudence outlined in the Code of Practice and Accounting Regulations for Local Authorities, it is recommended that this provision is increased.

Chief Executive's Response

Monaghan County Council commenced the implementation of a Development Contributions System in 2015. This work is ongoing and involves reviewing all accounts for both the County Council and former Town Councils. The provision for bad debts will be reviewed as part of the 2016 AFS preparation.

3. Income Collection

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

Income Source	Yield %		Debtors €m	
	2015	2014	2015	2014
Rates	77	71*	4.6	5.4
Housing Rents and Annuities	95	95	0.2	0.2
Housing Loans	80	80	0.2	0.2

* restated

3.1 Rates

The methodology for calculating rates yields was amended in 2015 which resulted in specific doubtful arrears being excluded from the total collection figure. The arrears which are excluded are set out in Appendix 7 of the AFS. The 2014 collection percentage has been restated for comparative purposes.

The collection yield increased by 6% from 71% to 77%. There is a bad debt provision of €1.4m provided for rates, representing 30% of these debtors.

Chief Executive's Response

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

3.2 Housing Loans

The collection yield has remained unchanged at 80%. There is a bad debt provision of €59k, representing 27% of these debtors.

At 31 December 2015 the Council had a mortgage loan funding deficit of €1.02m (2014: €1.09m). A funding source needs to be identified to eliminate this deficit as soon as possible. In future, any loans redeemed by mortgagees should in turn be redeemed by the Council with the Housing Finance Agency.

Chief Executive's Response

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

4. Transfer of Water and Sewerage Functions to Irish Water

Irish Water (IW) was established on 1 January 2014. It has full responsibility for the provision of all water related services. As part of the due diligence between IW and the Council, IW agreed to pay the Council €4.5m for the transfer of debtors and development contributions and balances on water and waste water capital projects. This sum was paid in August 2016.

IW related loans amounting to €5m were included in the accounts of the Council at 1 January 2015. The Department funded the redemption of these loans in 2015.

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

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 are issued to Irish Water on a monthly basis to recoup the cost of providing the service on behalf of Irish Water.

5. Capital Account

The net capital balance at 31 December 2015 showed a surplus of €14.4m.

Despite the overall credit balance on the account, there remained some large deficits on individual schemes amounting to €4m that require funding. The largest of these, which arose from the unification of former town councils with the county council in 2014, are as follows:

- Central Monaghan Development €1.1m
- Dublin Street Enhancement Project €0.7m
- Monaghan Swimming Pool/Leisure Facility €0.7m
- Clones Erne East Sports Project €0.4m

Plans need to be put in place to address the funding of these projects.

Chief Executive's Response

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

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

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

6. Governance

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

6.1 Internal Audit Function

In 2015, the Council's internal audit function consisted of one person who had a relevant academic qualification. An assistant commenced work in the Internal Audit unit in early 2016 and works 2.5 days per week.

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

A new procedure for internal audit reports was adopted by the Management Team in June 2016. Under this procedure, the relevant Director/Head of Unit is required to submit a report on the implementation of audit recommendations not later than 3 months following the timeframe for delivery.

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

Chief Executive's Response

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

7. Scotch Corner Landfill

7.1 Remediation of Site

The Scotch Corner landfill closed to waste contractors in April 2016. Incinerator bottom ash is still being accepted at the site. There is substantial aftercare costs associated with the remediation of this site. These are estimated as follows:

- Capping costs of approximately €1.2m
- Aftercare costs for the next 30 years at a current estimated annual cost of €0.5m

The council's remediation reserve amounted to €598k at 31 December 2015.

I have been advised that the remediation of the site is expected to be a significant drain on the future finances of the council.

Chief Executive's Response

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

7.2 Depreciation of Landfill

The accounting policy adopted by the Council for the depreciation of the landfill is not in compliance with the Code of Practice and Accounting Regulations for Local Authorities (ACOP). The landfill was fully depreciated by the Council in 2012. The accounting policy adopted by the Council states that the landfill "has been depreciated to zero balance because in the long term the landfill is considered to be a liability because of the aftercare requirement of the landfill licence".

However the ACOP states that land assets such as landfill sites, should be depreciated according to capacity used, with the net book value representing the capacity remaining at the balance sheet date.

This represents a departure from the ACOP. This does not impact the revenue account.

Chief Executive's Response

Because of the anticipated aftercare costs, the Landfill was deemed to be a liability rather than an asset in the long term, and it was on this basis that it was depreciated to zero balance.

8. Refundable Deposits

Refundable deposits amounted to €2.8m as at 31 December 2015. There is no listing of individual deposits available to explain the balances recorded under the various categories of refundable deposits. This needs to be addressed for the 2016 audit.

Chief Executive's Response

Refundable deposits are currently being addressed.

9. Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to the audit team by the management and staff of the Council.

Brendan Leane
Local Government Auditor
18 November 2016