



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork City Council

for the

Year Ended 31 December 2009



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AUDITOR'S REPORT TO THE MEMBERS OF CORK CITY COUNCIL

1. Introduction

I have completed the statutory audit of the accounts of Cork City Council for the year ended 31 December 2009. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on Page 3 of the AFS.

This report is issued in accordance with Section 120 of the Local Government Act, 2001.

2. Main Issues

Attention is drawn to the following main issues in this report:

Capital Account

The Council's capital account moved from a credit balance of €17m at beginning of year to a debit balance of €32m at year-end. A review of the account highlighted capital debit balances of €55.9m for which funding had not yet been secured. It is anticipated that application for government grants will be made for most of the balances. However, at least €12m will have to be funded from the revenue/capital account over the next few years. (See paragraph 5.2).

City Manager's Response

The more significant changes relate to Housing & Building, which moved from €24.4m debit to €63.4m debit reflecting the Council's activities in the provision of Social/Affordable and Voluntary Housing. These debit balances will be funded over time from Central Government Allocations and sales of Affordable Houses. Internal capital receipts are available to be put towards the €12m referred to which will be supplemented by existing annual contributions from revenue.

Affordable Housing

The Council has 218 affordable units on hand and available for sale at end of 2009. The downturn in the housing market has affected the sales of the affordable houses. In the meantime the Council is using bridging loans to fund the cost of the units and continues to roll up the interest charge, which was €1.12m in 2009.

Agreement has been reached with the Department of the Environment Heritage and Local Government to transfer 85 of the units to social leasing. (See paragraph 5.4).

3. Financial Performance

The Income and Expenditure Account with comparative figures for the previous year may be summarised as follows:

	2009	2008
	€m	€m
Expenditure	192.25	189.09
Income	<u>192.32</u>	<u>189.13</u>
Overall Surplus for Year	0.07	0.04
Opening Balance at 1 st January	<u>0.25</u>	<u>0.21</u>
Closing Balance at 31 st December	<u>0.32</u>	<u>0.25</u>

A detailed Financial Review is set out on pages 1(i) to 1(iv) of the AFS. As explained in the review, the deterioration in the general economic climate resulted in reduced receipts from rates, commercial water, domestic and commercial refuse and parking. Some government grants were also reduced. However, the introduction of the Non Principal Private Residence charge (NPPR) provided Cork City Council with a new source of income of €2.1m in 2009.

The increase in revenue expenditure was less than 2% on the previous year. This was as a result of cutbacks made during the year to the payroll and to non-pay expenditure. Strict budgetary control measures were in place during the year, which ensured the Council returned a surplus for the year.

4. Financial Standing

- 4.1 The Balance Sheet shows net assets of €3,379m at 31 December 2009, consisting of the following:

	2009	2008
	€m	€m
Fixed Assets	3,175	3,128
Work In Progress & Preliminary Expenses	262	260
Long Term Debtors	71	72
Net Current Assets/(Liabilities)	69	86
Long Term Creditors	<u>(198)</u>	<u>(197)</u>
Net Assets	<u>3,379</u>	<u>3,349</u>

4.2 Fixed Assets

The value of fixed assets after accounting for depreciation increased by 1.5%, from €3,128m in 2008 to €3,175m in 2009. The increase includes the provision of community facilities (€6.3m) and the net addition of 131 houses to the housing stock. The housing stock now stands at 8,634 houses.

4.3 Cash Position

The bank balance has increased from €43.75m to €60.03m in the year. However, in the same period the creditors and accruals increased by €28m to €68m. The accruals include €13.4m for the purchase of the Marina Park and €14m for housing at Atkins Hall and Market Gardens.

City Manager's Response

The increase in creditors is primarily due to activities in Housing and Building as detailed previously.

4.4 Loans Payable

The overall long-term loans payable remained constant at €197m. However, the mix of loans borrowed changed. Specifically, loans borrowed for the acquisition of assets were reduced by €15m and the bridging loans for affordable houses were increased by €14m. Full details are set out in note 8, pages 14 and 15 of the AFS.

5. Capital Account

5.1 The Capital Account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council. This account is stated in Note 12 and appendices 5 & 6 in the AFS. Loans and assistance to persons housing themselves are excluded from the capital account and these are accounted for directly in the Balance Sheet.

A summary of the transactions on the capital account, with comparative figures for 2008 is as follows:

	2009 €m	2008 €m
Expenditure	186.965	221.051
Income	<u>138.211</u>	<u>199.946</u>
Outturn for the year	(48.754)	(21.105)
Opening balance favourable	<u>17.077</u>	<u>38.182</u>
Closing balance favourable/(adverse)	<u>(31.677)</u>	<u>17.077</u>

5.2 Debit Balances in the Capital Account

The Council's capital account moved from a credit balance of €17m at beginning of year to a debit balance of €32m at year-end.

A review of the account highlighted capital debit balances of €55.9m for which funding had not yet been secured. It is anticipated that application for government grants will be made for most of the balances.

However at least €12m will have to be funded from the revenue/capital account over the next few years.

I have recommended that a capital management reporting system be put in place and that Management carry out an annual review of all capital balances. This should be done in order to progress the submission of final accounts and grant applications and also to keep management informed of all funding issues facing Cork City Council.

City Manager's Response

My comments at 2 above on the movement in capital balances and the €12m are relevant here. An annual review of capital balances is current practice. On your recommendation a more streamlined capital reporting system will be put in place.

5.3 Extension of Time Claim at Link Point Knocknaheeny

In 2002 Cork City Council decided, as part of a master plan, to regenerate the Knocknaheeny area. This included works on Hollyhill Lane for which three contracts were awarded:

- i. Provision of a community resource building at the top of Hollyhill Lane on the Link Point site –contractor no 1
- ii. Provision of affordable housing of 21 units at the bottom of Hollyhill Lane – contractor no 2, and
- iii. Development of the middle site –contractor no 2.

Although contractor no 1 had commenced work on the Link Point project, development of the middle site required the partial handover of that site to contractor no 2 for improvement works to the sewerage and drainage system. As a result work on Link Point project was delayed. Prior to handing back the Link Point site it was found that the contract work on the middle site was not completed to a satisfactory standard and this further delayed the recommencement of work.

In 2006 the Council's Consulting Architects advised that the costs associated with any agreed delay due to the drainage diversion works were likely to be extensive and advised the Council to put in motion whatever steps deemed necessary to recover costs from contractor no 2 for the works which were not in accordance with the original contract.

Arising from the delays Council paid an extension of time claim in the sum of €543k to contractor no 1 at Link Point project.

My audit concerns in relation to the extension of time claim are as follows:

- i. It is accepted that the undertaking of the drainage diversion works had cumulative negative effect on the project and caused delays to the Link Point Contract. However, Cork City Council did not establish the issue of liability in relation to the extension of time claim prior to its payment in 2009 even though the events leading to the claim and notice of the claim itself took place in 2006. This should have been resolved and formally agreed when notice of the claim was first received in December 2006.
- ii. There were weaknesses in Cork City Council's management system which allowed the extension of time claim go undefended between December 2006, when notification of the claim was received and March 2009 when payment was made.
- iii. The Council did not carry out a check of its debtors so as to determine whether the building contractor owed it any sum prior to paying the extension of time claim. At that time the contractor owed €200k approx. to the City Council, which could have been offset against the claim. This debt remains uncollected by Cork City Council.

City Manager's Response

In the case of development at Hollyhill Lane the Council took a decision in the interests of securing a better overall development, to delay work on the community resource building at the top of Hollyhill Lane to facilitate the provision of certain development works on the adjoining site being developed on behalf of the Council.

The Council were aware that this could give rise to a claim for extra payment from the contractor for the delay but considered that it was in the best interests of the overall development to delay works on the community building.

A claim was duly received under the terms of the building contract and processed appropriately with the Council succeeding in having a settlement of €543,000 agreed on foot of a claim of €1.18m.

The Council were solely liable for payment of the claim to the "Link Point" contractors. Approximately €290,000 of the €543,000 claim paid related to the delays caused by the works on drainage diversion. While issues were raised about snagging and the condition in which the contractors who carried out the drainage works left the site, the Council in the interest of avoiding further delay instructed the contractor involved in the Link Point to deal with whatever snagging issues were outstanding. In these circumstances the Council did not consider that efforts to secure any recoupment from the drainage contractors would be justified. The audit trail on this file was not as comprehensive as it should be and measures will be taken to have better recording of decisions in the future.

It is acknowledged that the Council before making the payment did not carry out an exercise to determine whether the contractor involved owned any monies to the Council in respect of other matters. It transpires that monies were owed to the Council. The amounts due will be followed up using the standard procedures for recovering of monies outstanding.

5.4 Affordable Housing

The Council has 218 affordable units on hand and available for sale at end of 2009. The downturn in the housing market has affected the sales of the affordable houses. In the meantime the Council is using bridging loans to fund the cost of the units and continues to roll up the interest charge, which was €1.12m in 2009.

Agreement has been reached with the Department of the Environment Heritage and Local Government to transfer 85 of the units to social leasing.

6. Major Revenue Collections

The percentage yields from the main revenue collection accounts were as follows:

	2009	2008
	%	%
Rates	86	92
Commercial Refuse	73	56
Commercial Water Charges	78	81
Housing Rents and Annuities	92	93
Domestic Refuse	100	99
Housing Loans	91	90

Rates

The collection yield for rates has been affected by the current economic climate. The increase in arrears is due to a few major clients currently going through the liquidation process and also to a large increase in the number of vacant properties in the City.

7 Development Contributions

The development contributions system records balances of €10.3m outstanding at the close of 2009. These balances are reflected in the AFS as follows:

	€m
Short Term Debtors (Note 5)	4.8
Long Term Debtors (Note 3)	<u>5.5</u>
Total	<u>10.3</u>
Creditors & Accruals – Deferred Income	<u>5.5</u>
Total Deferred Income	<u>5.5</u>

The amount included in short-term debtors (€4.8m) represents amounts now due that have been accrued as income. A provision for doubtful debts of €3.3m has been made against this short-term debtor.

The balance of €5.5m represents phased payments due in future periods that have not been accrued as income to date but noted in the accounts as long term debtor and as deferred income.

Receipts from development contributions were used to fund €6m of various works throughout the city during 2009.

8. Specific Matters

A number of other specific matters, arising at audit, have been detailed in a management letter issued at the close of the audit. Matters raised referred to procedural and control issues, which have been discussed and agreed with Management.

9. Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Manager and the elected members to ensure that sound systems of financial management and internal control are in place

9.1 Audit Committee

This is the second year of operation of the audit committee. The main focus of the committee has been to promote stronger control environment in the Council operations, with special attention paid to the development of best practice in the internal audit function. The Committee issued an annual report to the Council dated 30th March 2010.

As the external auditor, I met the committee to discuss my audit report and any follow up action required by management.

9.2 Internal Audit

The internal audit unit, which reports to the City Manager, has been reorganised and is working closely with the Audit Committee. In 2009 a qualified accountant was appointed to head up the unit, which operated with a complement of five staff. It carried out a number of audits and reviews in the year and I took account of their work in planning my audit.

9.3 Value for Money

The Council should review the present use of all its properties including long term-leased property to ensure maximum value for money is being obtained.

Manager's response

The City Council has reviewed its leased properties and within the review mechanisms and conditions of the relevant leases has sought to achieve best value.

9.4 Risk Register

The City Council has undertaken a risk management process over the past number of years. The Council engaged the support of Consultants to assist with this process and a series of workshops and seminars were held in 2007 and 2008. Arising from this, management have prepared a draft corporate risk register and a risk map. However, completion of the corporate risk register has been delayed pending the preparation and submission of a risk register for each department.

Completion of this risk register should be prioritised.

9.5 Management Investigation

As previously reported, investigations are currently in progress in relation to the distribution by private contractors of parking and domestic refuse discs. As the investigations are not complete I have deferred consideration of the matter to my next audit.

10. 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.

Grace Coakley

Grace Coakley
Local Government Auditor
17th August 2010