



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of South Dublin County Council**

**for the**

**Year Ended 31 December 2016**



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

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## **AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DUBLIN COUNTY COUNCIL**

### **1 Introduction**

- 1.1** I have audited the Annual Financial Statement (AFS) of South Dublin County Council for the year ended 31 December 2016, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on 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 is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2016 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 7 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 this 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 Income and Expenditure Account**

The Council recorded a surplus of €10.62k after net transfers to reserves of €31.853m, an increase of €12.9m on last year's figures. This mainly related to Rental Accommodation Scheme (RAS) payments of €8.6m which had been paid out of Capital RAS Reserves in 2015, but in 2016 was funded by grants. The cumulative revenue balance was €12.1m at year end 2016.

Note 16 to the AFS sets out the variances between the actual outturn and adopted budget. The draft AFS and the over-expenditure was approved by the members at their meeting of the 10th April 2017.

Significant movements in the finances of the Council during the year included:

- Increase in Bank Investments of €64.7m
- Decrease in Long Term Creditors of €10.9m

- Reduction of the specific revenue reserve of €5.9m.

The Bank Investments increased from €85.5m to €150.2m. The additional investment funds arose from the sale proceeds of lands and the transfer of monies from a fund investment.

The decrease in long term creditors is mainly due to a change in accounting policy as per Department circular Fin 11/2016 and Fin 04/2017 whereby the long term development levy debtors are no longer reported in the AFS.

The reduction in specific revenue reserve of €5.9m is noted in paragraph 6.1.

### 3 Income Collection

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

Income	Yield			Net Debtors		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
				€m	€m	€m
Rates	83%	81%	80%	23.15	27.07	30.3
Housing Rents and Annuities	75%	74%	73%	7.75	7.88	7.83
Housing Loans	81%	90%	90%	0.99	0.50	0.53

#### 3.1 Rates

The reduction in arrears from €27m to €23m represents a significant improvement on last years figures of 2%. Current arrears are analysed as follows:

Category of Debt	Debtor %	Amount
Arrangements in place	19%	€ 4,481,289.43
In the process of collection	30%	€ 7,031,721.89
Instructions being processed in the court system	35%	€ 7,994,448.33
Liquidation	1%	€ 259,666.95
Not formally declared vacant	5%	€ 1,052,785.41
Post returned and occupier unknown	5%	€ 1,270,991.76
Sheriff declaration of no goods	5%	€ 1,058,206.23
<b>Total</b>		<b>€23,149,110.00</b>

I commend the efforts made in improving the collection yield however, a considerable body of work remains.

### Chief Executive's Response

The improvements are indeed welcome and my comments at last audit regarding a gradual recovery from recession collection levels remain relevant. Planned rates legislation with strengthened and streamlined collection powers is awaited and likely to be in place in early 2018.

### 3.2 Rents

The collection yield of 75% represents a further improvement of 1% on last years figure. The arrears figure stands at €7.7m and is net of €1m credit balances.

Current arrears are analysed as follows:

<u>Process</u>	<u>Amount</u>	<u>%</u>	<u>No of Accounts</u>
Legal	€338,451	4.37	36
Debt relief notices	€35,982	0.46	14
Arrangements/Debt management plans	€816,881	10.54	443
Investigation/follow-up	€6,558,298	84.63	11,683
Total	€7,749,612		12,176

The housing directorate are currently looking at an integrated housing system. This should improve the automation of the arrears process.

### Chief Executive's Response

Progress has been maintained since last audit and I expect this to continue with an agreed debt management policy now in place and more resources being deployed in this area.

### 3.3 Housing Loans

The closing arrears figure of €0.99m is a net figure, which can be further analysed as accounts in arrears of €1.33m and accounts in credit of €0.34m. Following a recommendation made at a previous audit, a review of the credit balances was carried out in 2016, and €0.35m was offset against the individual loan balances.

### Chief Executive's Response

The council continues to review loan customer accounts with a view to ensuring that appropriate credit balances are, with the customers consent, credited to their capital account to reduce their overall indebtedness and providing them with the option of either reducing their monthly instalment or their loan term.

#### **4. Mortgage Funding Gap**

The mortgage funding gap has increased over the last two years to €1.2m. This is due to proceeds of housing loans redeemed, not being used to defray the Council's corresponding borrowings with Housing Finance Agency (HFA).

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

This issue will be addressed in the course of the 2017 financial year.

#### **5. Irish Water**

The Council continues to deliver services on behalf of Irish Water under a Service Level Agreement (SLA). The following represents the current position with Irish Water.

- 5.1** All of the underground assets were transferred to Irish Water under S.I. No. 13/2015 - Water Services (No. 2) Act 2013 (Property Vesting Day) Order 2015.
- 5.2** The remaining elements for transfer are over-ground infrastructure associated with assets.
- 5.3** South Dublin County Council continues to manage water & drainage including the management of reservoirs, pumping stations and network under the SLA.
- 5.4** South Dublin County Council retains the sum of €3m regarding a draw down of a bond relating to Boherboy Water Supply Scheme. The accounts are currently being finalised for this scheme.

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

The transition to Irish Water is an ongoing process to which dedicated resources continue to be deployed to ensure the smooth operation of the SLA.

#### **6. Capital Account**

The Capital account recorded a net credit balance of €122m as at 31 December 2016, which includes accounts with debit balances totalling €88m. It is important that where no source of specific funding is identified, arrangements are put in place to reduce the deficits over a planned period of time.

##### **6.1 Housing Capital Balances**

The winding down of the specific revenue reserve in 2016, enabled the housing directorate to address some historical unfunded capital project balances.

The specific revenue reserve was a mechanism put in place to facilitate the changeover in accounting treatment when local authorities moved from accounting on a cash basis to the accruals basis. In accordance with circular Fin 11/2016, local authorities are permitted to use their specific revenue reserve in one of the following manners:

1. Write down of general revenue reserve deficits

2. Write down of unfunded capital project balances.

In compliance with the foregoing circular, €5.9m was transferred from the specific revenue reserve to various capital jobs. The reduction in the number of accounts with unfunded balances is commendable, but it is still an issue. Where no funding is identified, arrangements should be put in place to reduce the deficits over a planned period of time.

## **6.2 Housing Capital Projects**

A number of issues in regard to the categorisation and recording of transactions on the capital account in respect of housing were noted.

The following areas of housing should be reviewed with a view to ensuring transactions are recorded in the correct category as per the relevant schemes.

- Voluntary Housing- 37 jobs
- Affordable Housing- 14 jobs
- Social Housing & Miscellaneous - 41 jobs
- Traveller Accommodation Programme- 39 jobs

It is imperative that the work on the above is prioritised to ensure that records are complete and in the case of voluntary housing, that correct mortgages are charged on the properties.

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

As acknowledged above, significant work has been undertaken on the capital account and this is ongoing.

## **6.3 Housing Loans System**

The housing loans system is not integrated with the financial system and as a result, necessitates the posting of journals to record the loan balances. This system is slow, does not facilitate reporting easily and is cumbersome.

The loans system does not reconcile with the financial system. At the end of 2016, the loan system recorded a balance of €51.62m while the general ledger recorded a balance of €50.81m, leaving a reconciling difference of €0.81m. This difference relates to repossessed houses being incorrectly adjusted for on the loans system in 2016.

This difference needs to be addressed.

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

This matter will be further examined in advance of the next audit cycle.

## **7. Bridging Loans**

The Council's capital debt includes bridging loans of circa €33.9m in respect of the acquisition of 139 affordable houses. These loans are on an interest only basis, which are funded by the Department. These affordable housing units have been allocated to voluntary housing bodies under the Social Leasing Scheme.

## **8. Property Register**

The property management system is currently being updated and consequently does not fully reconcile to the Fixed Asset Register. In addition, it also needs to be reconciled to the Property Registration Authority .

It was noted that consideration is now being given to the implementation of a national system. I am informed that this has yet to be agreed with the Local Government Management Agency sectoral working group who are developing a national business case.

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

A lot of work was undertaken in this area throughout 2016. Notwithstanding the possibility of a national system further reconciliation work is ongoing within the existing framework.

## **9. Interests in Associated & Subsidiary Companies**

South Dublin County Council has an interest in three subsidiaries and one associated company as outlined in Appendix 8 to the AFS. These are:

- South Dublin Arts Centre Company Limited
- Grange Castle Facilities Management Limited
- South County Dublin Leisure Services Limited
- Civic Theatre Company Limited.

Audited accounts for the year ended 31 December 2016 for all companies were reviewed in the course of the audit.

In the case of South County Dublin Leisure Services Limited, a net deficit of €140k was recorded in the balance sheet in 2016. This represents an improvement of €255k on last years deficit of €396k. The remaining deficit needs to be addressed.

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

All accounts have been provided prior to completion of the audit.

## **10. Procurement**

South Dublin County Council has a dedicated procurement unit. The procurement manual has been updated and reflects the implementation of the 2014 Directives. In addition, there is an intranet page committed to procurement guidelines, processes and

templates. There is also a contracts database to prevent contracts lapsing in the future. These should be utilised by each directorate engaged in the procurement of works and services.

In the course of the audit some weaknesses were found and these are noted in the paragraphs below.

### **10.1 Monastery Walking Route**

The Council agreed a contract tender price of €198,463 ex. vat for the construction of the above route but this was extended due to a further subsequent allocation of funding from the National Transport Authority (NTA) to include supplementary works and changes. This brought the total paid to the contractor to €417,268, which is €218,805 above the original tender price.

In addition, the consultants were procured at a tender price of €15,500 ex. vat but the NTA significantly broadened the scope of the works including construction supervision and this resulted in the consultants being paid €121,818 above the agreed tender price, giving a total paid to the consultants of €137,318. These works and consultants fees were not tendered as required as per the procurement national guidelines.

### **10.2 Tallaght to Templeogue Cycle Route Scheme**

In last year's audit, I referred to the above scheme being referred to conciliation. This scheme involved the construction of a cycle route. The construction contract tender price was €1.99m ex. vat. Additional claims were lodged by the contractor which was disputed by the Council. The contractor was referred to conciliation where the final account was agreed at €3.43m, €1.44m above tender price. A further sum of €145k was paid to the contractor over and above the conciliation agreement for additional works. The final contract price including extra works after conciliation was €3.58m ex. vat.

### **10.3 Contract for replacement of Windows and Doors**

The Council issued a tender for the replacement of windows and doors to their housing stock. The original contract was awarded to the successful tenderer in 2013 for a period of three years expiring in June 2016. Since 2015 to date the payments in respect of this project have been made to a company other than the original tenderer. This second company was not part of a tendering process.

### **10.4 Contract for Electrical Maintenance and Rewiring**

This contract expired in May 2015. This has yet to be tendered.

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

In keeping with the 2015 commitment a significant Procurement unit is now fully operational and making significant progress in the implementation of our procurement plan. In relation to the specific instances referenced herein:

- Items one and two are what they are and not an abuse of procurement protocols. Where National funders increase funds or broaden the scope of works mid contract this is beyond the control of the procurement unit.
- In relation to item three EU procurement rules allow for the circumstance outlined.
- In relation to item four these tenders have since been advertised.

## **11 Governance**

### **11.1 Risk Management**

The Risk Register forms part of the corporate governance structure of an organisation and is fundamental to ensuring that all business processes are properly protected. The Risk Register is up to date in South Dublin County Council and is reviewed on a continuing basis by the Council's management team.

### **11.2. Internal Audit Function**

Internal Audit has produced eleven internal audit reports and six public spending code in-depth reviews which continue to be of a very high standard. The Internal Auditor reports directly to the Chief Executive and the audit committee. This unit provides an important role regarding assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements. I have taken account of these reports in this audit.

### **Acknowledgement**

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



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**Ita Howe**  
**Principal Local Government Auditor**  
**Date 31 July 2017**