

**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of South Dublin County Council**

**for the**

**Year Ended 31 December 2014**



**Comhshaol, Pobal agus Rialtas Áitiúil**  
Environment, 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 2014, 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 the Environment, 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 2014 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 9 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 €1.32m after net transfers to reserves of €23.5m. This represented an improvement of €2.69m on the previous year's deficit of €1.36m. The cumulative Revenue balance was €12m at year end 2014. Overall income reduced by €13.1m during 2014. This was mainly as a result of a reduction of €15.5m in the local government fund allocation for the year.

Note 17 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 13 April 2015.

### 3 Income Collection

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

Income	Yield %		Net Debtors €m	
	2014	2013	2014	2013
Rates	80%	77%	30.3	34.6
Housing Rents and Annuities	73%	75%	7.83	7.25
Housing Loans	90%	96%	0.53	0.20

#### 3.1 Rates

The amount shown as collected includes €15.6m which relates to adjustments for vacant properties. These amounts were not in fact collected. This affects the collection performance included in Appendix 7. I have requested that these be reclassified in the future.

It was noted during a review, of total arrears, that 17% of cases related to previous occupiers, representing €5.2m of the arrears. Below is an analysis of the findings for the full review:

Category of Debt	% Debtor
With the Law Department	43%
Sherriff declaration of No Goods	6%
Post Returned and Occupier Unknown	5%
Not formally declared vacant	9%
Arrangements in place	23%
Collectable	14%

A bad debts provision of €22.6m has been included in the accounts for commercial rates. This amount is satisfactory.

#### Chief Executive's Response

The accounts for 2014 are correct. Appendix 7 as it currently stands is deficient in that there is no column in which to reflect vacancy credits.

We have again requested that the General Accounts Working Group and Department of the Environment, Community and Local Government (the Department) amend the format of Appendix 7 to show the vacancy credits separately from the collected amounts. We will pursue this request and incorporate their prescribed accounting treatment accordingly.

Regarding the previous occupier arrears, from a collection point of view, these cases are treated the same way as any other case. The only difference is that the debt for any particular case won't increase. Cases such as these arise every time an occupier vacates a premises leaving rates unpaid. Some of these cases are performing in that they are on payment plans, or direct debit, others are going through the legal process, and the remainder are at various other stages of collection. It is only when all reasonable steps have been taken to recover the debt that these cases considered for strike off.

### 3.2 Rents

The collection yield of 73% is below the national average of 83% identified in 2013. A review of the arrears found that 4% are dormant with arrears totaling €443k. A provision for bad debts of €2.2m in respect of housing rents has been made. This is satisfactory.

#### Chief Executive's Response

The housing rents team are undertaking a review of the rent assessment and collection procedures with a view to automating the process in consultation with the Corporate Performance and Change Management team.

In the period May-October 2015 a cumulative figure of €53,000 was achieved in terms of arrears reduction. This was as a consequence of arrears management in designated estates throughout the County where individual arrears balances were in excess of €3,000. This targeted approach will continue to be applied. It is considered this approach represents best use of available resources.

## 4 Irish Water

Irish Water (IW) was established on 1 January 2014, and now has full responsibility for the provision of all water related services. The establishment of this entity has had a significant impact on the accounts of the Council. The Council continues to deliver services on behalf of IW under a service level agreement.

### 4.1 Fixed Assets

The net book value of fixed assets removed from the accounts relating to IW amounted to €485.86m at 31 December 2014. In accordance with Circular Fin 02/2015 issued by the Department of Environment Community and Local Government (the Department) on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- Section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- Section 21 provides IW with power to charge for water services
- A mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (Included in Service Level Agreement) pending the ultimate statutory transfer
- The revised accounting Code of Practice, published in December 2014 stipulates that "Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise as asset in the Statement of Financial Position when it is

probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in a number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out.

The following was also noted in the course of the audit:

- In 2014, the net book value of fixed assets transferred to IW amounted to €485.86m. This was after an audit adjustment of €59.9m, in respect of the following completed assets, which had not been transferred from work in progress:
  - Boherboy water supply scheme including Saggart reservoir with pumping station and Kiltalown reservoir
  - Lynches Lane foul drainage pumping station
  - Newcastle Glebe foul drainage pumping station
  
- Infrastructure assets under the heading water and sewerage network with a net book value of €201.82m remain in the accounts of the Council. These assets are retained for the Council's continued responsibility for flood alleviation and consist of:
  - Surface water drainage network
  - Foul drainage pumping station at Grange Castle
  - Dangan Park surface water
  - Tobermaclugg surface water stream upgrade
  
- There are boundary, wayleave and rights of way issues, in addition to sites which were never registered. These are currently being addressed by the relevant sections within the Council.

These matters will be kept under audit review.

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

Fixed assets to the value of €59.9m awaiting final accounts were originally included in work in progress. Upon receipt of the final accounts they were transferred to the fixed asset register and subsequently disposed of as part the transfer of assets to Irish Water. This was carried out as an audit adjustment.

Irish Water was established pursuant to the Water Services Act 2013. All of the functions (subject to some limited exceptions), conferred on water services authorities by virtue of the Water Services Act 2007 (the "2007 Act"), transferred to Irish Water as from 1 January 2014 (Water Services (No.2) Act (Commencement) Order 2013)). The transfer of water services property from the local authority to Irish Water commenced with an initial Ministerial Order to transfer 'below ground assets' (S.I. 13 of 2015) and by way of further orders all water services related 'above ground' assets are in a legal process of being transferred.

South Dublin water and foul drainage networks have transferred to Irish Water. To date no individual reservoir or pumping station sites have yet transferred from South Dublin to Irish Water. work is ongoing on folios which are being examined to ensure that the correct water services asset, as registered to South Dublin County Council by the PRAI is listed for transfer.

#### 4.2 Water related Loans

Four HFA and two other water related loans with a value of €13.1m and €5.7m respectively remain in the Council's AFS at year end 2014. The HFA loans are identified under Note 8 to the AFS as amounts falling due within one year. This has been accounted for on the basis that the HFA loans will be fully paid by the Council and recouped from the Department in 2015. The others loans of €5.7m are shown under Note 3 Long Term Debtors and in Note 8 Loans Payable in the AFS. No plans have yet been made to repay these loans.

#### 4.3 Balancing Statement with Irish Water

As part of a due diligence process carried out by IW, a balancing statement including water debtors, unfunded balances and development levies was completed on the 27 March 2015. The statement resulted in a net balance due to IW of €9m, which comprises of €313k owed by IW to the Council and €9.3m of development contributions held by the Council for the future benefit of IW. Although this has been examined by consultants on behalf of IW, it had not, at the date of audit been formally accepted and agreed by them.

#### Chief Executive's Response

South Dublin County Council has submitted a balancing statement to Irish Water and discussions are ongoing.

#### 5. Unfunded Balances

The Council is carrying unfunded balances with a total value of €128.7m. The significant balances totalling €91.4m are as follows:

Division	€
Housing- Social Houses legal fees, Non Asset backed Expenditure	10.1m
Affordable Housing – legal fees, costs of selling	3.7m
Voluntary Housing	1.2m
Roads- Land Acquisition costs	11.8m
Development- Acquisition of lands	47.4m
Recreation & Amenity( Swimming Pool, Library, Golf Course)	6.6m
Miscellaneous- Extension of Civic Offices	10.6m

A review of all capital jobs is required with a view to clearing these unfunded balances from existing relevant credit balances. It is important that where no source of funding is identified that arrangements are put in place to reduce the deficits over a planned period of time.

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

There will invariably be unfunded balances in the capital account due to timing differences between certain expenditures and the allocation of corresponding funds e.g. levies can only be applied to levy funded projects once the levies have been received, projects funded from the revenue account over a number of years and outstanding grants from government departments. As the development agency for the county the council is mandated and expected to create the conditions for economic development and this includes advance land acquisitions and the development and funding of facilities that underpin economic and community development including quality of life.

From an accounting perspective the capital account is reviewed throughout the year ensuring that all grants are claimed and relevant income sources identified. A detailed review of all capital balances is currently underway with all departments. Credit balances will be allocated to relevant unfunded balances as part of this process and other sources of funding will be identified. This will significantly reduce the amount of unfunded balances in the capital account.

#### **6. Bridging Loans**

Bridging loans of €38.4m are in place for 149 affordable houses. The repayment periods range from one to nine years and are on an interest only basis. These units have now been allocated to voluntary housing bodies under the Social Leasing Scheme to address current housing needs. The leases are for an initial five year period with interest costs fully recoupable from the Department provided the houses are occupied by qualifying tenants.

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

Unsold affordable units is a legacy issue common to the entire sector following the sharp and immediate collapse of affordable housing sales in late 2008.

Following redemption of bridging loans of €2m in 2015 in respect of affordable housing units transferred to social housing late in 2014 the value of bridging loans in place for the 149 affordable housing units is now €36.4m.

Clarification is awaited from the Department as to whether the 149 unsold affordable can be included in the incremental purchase scheme due to be commenced in January 2016.

#### **7. Interests in Associated Companies**

South Dublin County Council has an interest in five associated companies. It must be noted that the 2013 audited accounts for these companies were the latest accounts available to me at audit. The summary details of these are disclosed in Appendix 8 to the AFS.



## **Chief Executive's Response**

South Dublin County Leisure Services Ltd is a management company which manages the operation of Clondalkin, Tallaght and Lucan Leisure Centre's on behalf of the Council. It is a company limited by guarantee.

Most of the debt referred to was related to historical water charges which were disputed by the company but an agreement was reached and the debt has subsequently been reduced. The matter was resolved and the water bills have been paid up to date since.

## **8 Governance**

### **8.1 Risk Management**

The loss of expertise and knowledge has created risk in the control framework. This is due to reductions in staff numbers over the last number of years and staffs' unfamiliarity with operational procedures and processes. This is reflected in some areas of the Risk Register.

## **Chief Executive's Response**

In the period 2008 – 2015 south Dublin county council lost 27% of its staff as part of an accelerated downsizing programme across the public sector necessitated by the economic and financial crises of the time . The incentivised retirement programmes and moratorium on recruitment were in the case of this council exacerbated by the staff age profile which saw many additional staff retire having reached retirement age. Incentivised retirement programmes while necessary are a blunt instrument and naturally favour those with longest service and as a consequence those most likely to be experienced and most knowledgeable.

Planned loss of human capital is manageable through appropriate workforce planning but the sudden and sustained loss of corporate knowledge as a consequence of the foregoing is extremely challenging. It is an enormous tribute to remaining staff that services were maintained. A comprehensive organisational review and associated workforce planning and recruitment process has been ongoing throughout the latter part of 2014 and all of 2015 which has been disruptive but necessary. National pressure on the public appointments service has resulted in longer delays in recruitment as senior level but I remain hopeful that the entire process will be completed in the early part of 2016.

### **8.2. Internal Audit Function**

Regulation 9 of the Local Government (Financial and Audit Procedures) Regulations 2014 requires 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.

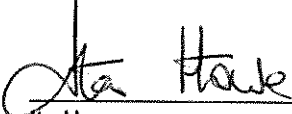
Local authorities are also obliged to establish audit committees in accordance with section 59 of the Local Government Reform Act, 2014. A key function of the audit committee is to "foster the development of best practice in the performance by the local authority of its internal audit function." This requires the audit committee to ensure that an internal audit function is in place that operates to professional internal audit standards. This encompasses the approval and monitoring of the annual work plan of the internal audit function and ensuring that management

properly engages with internal audit, including the implementation of its recommendations. The audit committee cannot discharge its statutory functions without the support of a properly resourced internal audit function.

In 2014 the Council's internal audit function consisted of 4 personnel, of which have relevant professional qualifications. The 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 the Chief Executive in carrying out the work of the unit. The unit produced twelve reports during the year, which were reviewed by the audit committee. I have placed reliance on this work.

### **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 19 November 2015