



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of South Dublin County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

housing.gov.ie

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

1 Introduction

I have audited the Annual Financial Statement (AFS) of South Dublin County Council for the year ended 31 December 2018, which comprises 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 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 2018 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 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 judgments 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 net surplus for the year amounted to €39,306 after transfers to reserves of €35.3m. The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS. The approval of the members, as required by S.104 of the Local Government Act, 2001, was obtained.

Significant movements in the finances of the Council in 2018 are shown below.

2.2 Work in Progress

There was an increase of €30.3m in Work in Progress and Preliminary Expenses cumulative expenditure when compared to 2017; bringing the total at the end of 2018 to €111.4m. This represents an increase of 37% and reflects the higher level of activity in 2018, particularly in the construction and acquisition of social housing units.

2.3 Bank Investments

Bank investments increased by €52m from €182m in 2017 to €234m at the end of 2018, which reflects the improvement in the capital account balance and the decrease in debtors in the current year.

2.4 Trade Debtors and Prepayments

There was a decrease in trade debtors and prepayments of €10.1m from €64.5m in 2017 to €54.4m in 2018, including a decrease in development levy debtors of €5.1m and commercial debtors of €4.1m.

3 Income Collection

3.1 Summary of Income Collection

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

Income Source	Yield		Debtors	
	2018	2017	2018	2017
	%	%	€m	€m
Rates	86	84	23	25
Rents & Annuities	75	76	8.1	7.8
Housing Loans	75	80	1.3	1.1

The yield from Rates improved in 2018 while Rents & Annuities and Housing Loans were lower than in 2017.

3.2 Rates

The percentage collected in 2018, which showed an improvement on the previous year, excludes specific doubtful arrears of €4.5m from the amount for collection. The level of specific doubtful arrears is similar to the previous year and reflects the number of vacancy applications received or pending.

There was a 10% increase in the amount collected in 2018; €115m compared to €104m in 2017. Every effort should be made to further improve on this collection and to deal with arrears issues on a timely basis.

In 2017, as part of a national rates revaluation, all of the Council's rates properties were revalued. A substantial number of ratepayers have appealed their rateable valuations and, if successful, these appeals could have a significant impact on the Council's finances.

Chief Executive's Response

As stated, there was a significant improvement in cash collection in 2018 of over €11m. There has been a steady improvement in rate collection over the past numbers of years and this trend is set to continue. The Council is making provision in its budgets for possible reductions following Valuation Tribunal appeals.

3.3 Rents and Annuities

The collection yield for housing rents fell slightly in the current year while the arrears showed a corresponding increase and amounted to €8.1m at the end of 2018. This situation will require a concerted effort to improve collection.

An analysis of the ageing of accounts in arrears shows that a substantial proportion of accounts in arrears are outstanding for two years or more. This is an indication of the recognised need to introduce a better system of debt management in order to deal with arrears cases on a timely basis.

Chief Executive's Response

South Dublin County Council has established a Debt Management Unit who will be focusing on improving the collection of outstanding monies particularly Housing Rents. This will greatly improve the collection rates over the coming years.

3.4 Housing Loans

There was a further significant decrease in the collection percentage for housing loans in 2018 when compared to 2017. The amount collected in 2018 decreased when compared to 2017 and there was an increase in arrears at the year end. As with the other main collection areas, a concerted effort to improve loan arrears collection is required.

Chief Executive's Response

Dedicated resources are being allocated to the collection of Housing Loans and this will greatly improve the collection rates over the coming years.

3.5 Housing Loans System

The system for recording and accounting for housing loans is not integrated with the main financial management system and does not provide adequate management information on the various types of loan accounts. It does not account correctly for all loan types and requires a complex reconciliation procedure to provide information for the financial accounts. While the reconciliation procedure does ensure the consistency of transactions between the loans system and the financial management system, the continued use of this system for recording of housing loans represents a risk to the Council. Every effort should be made to implement an alternative system as soon as possible.

Chief Executive's Response

Fingal County Council, as lead authority, have established a project team (that includes representation from South Dublin County Council) to commence a tender process for the procurement of a new Housing Loans System. Tender documentation is being prepared for publication in Quarter 4 2019. It is anticipated that a contractor will be appointed in Quarter 1, 2020 to commence the implementation of the transition to a new Housing Loans System with a project delivery time scale of approximately 18 months.

3.6 Debtors and Debt Collection

Gross debtors, including those from the main income collections, are shown in Note 5 to the AFS and amounted €81.8m at the end of 2018. An overall provision for doubtful debts is also shown and amounts to €32.2m in 2018. The calculation of this provision reflects the likelihood of collecting the debts and is based on an analysis of each category of debtor.

In order to improve the collection of Rates, Housing Rents and Loans, proposals to set up a dedicated debt management unit within the Council have been discussed. The introduction of such a unit should provide a more effective approach to dealing with arrears and improve collections.

Chief Executive's Response

The current level of bad debt provision is considered prudent having regard to the various categories of debtor. South Dublin County Council has established a Debt Management Unit who will be focusing on improving the collection of outstanding monies particularly Housing Rents and Housing Loans. This will greatly improve the collection rates over the coming years.

4 Transfer of Water and Sewerage Functions to Irish Water

The responsibility for water and sewerage functions was transferred to Irish Water (IW) in 2014 and the Council delivers services on behalf of the company under a service level agreement. The Council also continues to liaise with IW's National Special Projects Office (NSPO) in relation to the transfer of assets.

Chief Executive's Response

The transfer of the water and sewerage assets to Irish Water is an ongoing process to which resources are deployed.

5 Capital Account

5.1 Capital Account Overview

Capital expenditure in 2018 increased significantly and amounted to €123m (€66m in 2017) and total capital income, including transfers from revenue, amounted to €133m in 2018 (€84m in 2017). This resulted in improvement in the capital account balance of €38m and a closing credit balance of €208m. The increase in expenditure in 2018 occurred mainly in the housing area which amounted to €89m in 2018, compared to €46m in 2017. Income from Local Property Tax and grants increased from €48m to €101m, while development contributions income decreased from €25m to €20m in the current year.

5.2 Capital Projects

A list of the larger individual capital projects in progress, showing current and cumulative expenditure to date, is as follows:

Capital Project	Expenditure 2018 €m	To Date €m
R120 Adamstown Road Improvement Scheme	15.2	16.9
White Pines Housing Acquisitions	10.9	10.9
St Aidans Tallaght Social Housing	10.8	19.1
Letts Field Clondalkin Social Housing	6.0	7.7
Ballyboden Social Housing	6.0	11.1
Killinarden Tallaght Social Housing	5.1	6.1
Killinenny Dublin 24 Social Housing	4.5	4.5
Shackleton Hall Part V Acquisitions	4.0	4.0
Mac Uilliam Infill Housing	3.5	5.3
Dromcarra Tallaght Social Housing	2.4	3.5
Tallaght Stadium 3rd Stand	2.2	2.3

In addition to the above €13.3m was incurred in respect of CALF Voluntary as compared to €6.7m in 2017.

5.3 Capital Account Balances

A number of issues relating to the recording and categorisation of transactions on the Capital Account was raised at previous audits and a review of specific categories of housing capital accounts was recommended. In 2017, a number of long-standing balances on completed schemes was identified and these balances were written down by transfer from specific revenue reserve, as provided for in circular Fin 11/2016.

In the areas of voluntary and affordable housing, there remains a number of jobs with no current activity but residual balances on the accounts. This includes 15 affordable housing jobs (net balance €2m) and 32 voluntary housing jobs (net balance €1m). These accounts should be reviewed in order identify a current or future source of funding and closed where appropriate.

Chief Executive's Response

The voluntary and affordable accounts are currently being reviewed and their position will be addressed before next year's audit.

5.4 Voluntary Housing and Approved Housing Bodies

A number of recommendations were made at the last audit in relation to the administration and oversight of funding provided to Approved Housing Bodies (AHBs) under the various voluntary housing schemes. A register of all AHB loans has since been set up which records details of CAS, CLSS and CALF transactions and this register is used for the compilation of the Central Credit Register (CCR) returns. In addition to the above, there are a number of CLSS loans which were issued in previous years and have not been fully reconciled with the financial management system (Agresso). The task of reconciling these loans should be prioritised and carried out as soon as possible so that the completeness

and accuracy of the register can be assured.

Chief Executive's Response

Work is ongoing on the AHB register but historical data issues are creating challenges in completing the process. Resources and priority will continue to be assigned to this task.

6 Fixed Assets

6.1 Fixed Asset Overview

Total fixed assets at the end of 2018 stood at €3,245m compared to €3,211m in 2017 and there were significant additions to assets during the year in the housing area, increasing by €42m to €1,655m in 2018.

6.2 Fixed Asset Register

The Council's fixed assets are recorded in the fixed asset register, which is part of the financial management system (Agresso), and issues have been raised at previous audits in relation to the reconciliation of this register with other Council property records.

As stated in the previous audit report, significant progress has been made in this regard; housing stock records have been reconciled with housing units in the fixed asset register and insurance records have been agreed to buildings in the asset register. These records have been cross-referenced in order to maintain consistency into the future. Work has also commenced on the validation of plant records in the Fixed Asset Register to vehicle fleet insurance records. The verification of land assets to property records will require a significant effort and has yet to commence.

Chief Executive's Response

The Council has made significant progress in reconciling the housing & building assets with its insurance details. Work in relation to reconciling the Council's plant assets in Agresso with our fleet policy details will continue in 2019. Verification of our Agresso land assets is reconciled with our own internal land registers pending the establishment of the national property register.

6.3 Property Register

The need for a comprehensive property register for all Council property was raised at previous audits and some progress has been made in the development of a geographic information system to map Council land acquisitions and disposals. The input of historical data is in progress and this will facilitate the linking of acquisition and disposals information to a map based register. Once this task has been completed, the cross referencing of this register with the information in the Fixed Asset Register, particularly in relation to land and buildings, should commence.

Chief Executive's Response

As part of the development of the Digital Property Register, a significant amount of historical

data has already been mapped onto the system, this includes mapping information and data. This will continue until all records are mapped. The Finance Department have set up a flag on the Agresso FMS to create a common index enabling the matching of land assets to records on the GIS system. In addition, IT have been requested to develop a specific searchable layer on the GIS options list to allow reconciliation of same.

In respect to the cross referencing of the Fixed Asset Register information with Council owned land and buildings, work on this in conjunction with relevant departments, including Corporate Services, Public Realm, Community and Housing will be commenced.

7 Loans Payable

Loans payable by the Council at the end of 2018 amounted to €190m (€197m in 2017) and can be analysed as follows:

Loan Type	2018	2017
Recoupable	93m	99m
Mortgage Related	47m	46m
Bridging Finance	34m	34m
Assets	16m	18m
	190m	197m

Recoupable loans and mortgage related loans are matched by corresponding long-term debtors in Note 3 in the AFS. Bridging finance relates to loans, which were used to fund the cost of affordable housing units, and these loans are currently being repaid on an interest only basis. The cost of repaying the principal on these loans, which remains constant at €34m, will require funding at some point in the future.

The principal outstanding, in respect of one particular loan, as shown on the Housing Finance Agency statement at the end of 2018, differs from the balance shown in the Council records. This matter needs to be resolved.

Chief Executive's Response

There has been investigation and examination of the conflicting balance and further engagement will be undertaken with the HFA with a view to resolving this matter in advance of the next audit.

8 Contributions and Bonds

8.1 Development Contributions

Income from development contributions in 2018 amounted to €20.4m (€25.1m in 2017) and current debtors stood at €13.7m at the year-end (€18.8m in 2017). These contributions represent a significant source of funding for the provision of the required Council services now and into the future. The availability of timely and accurate management information is important to enable management to monitor, record and account for development contributions.

Weaknesses in the management reports available from the Financial Contributions System (FCS) were highlighted at the previous audit and these have been largely addressed. Regular reports of FCS transactions are generated and a system for recording and reconciling transactions from FCS reports and Agresso on a quarterly basis has been established. This is an important control to ensure the accuracy and consistency of Council

records.

Chief Executive's Response

Significant progress has been made in enhancing the FCS system and reports are now being produced on a monthly basis. Further enhancements, if required, will be procured and the overall upgrade in the system will lead to improved collections.

8.2 Bonds

The FCS also records details of bonds, including cash lodgements in lieu of bonds, which are included in Note 8 of the AFS and amounted to €16.2m at the end of 2018. The details recorded in the FCS were found to be incomplete and were not reconciled to the financial management system. There is also a lack of adequate management reports in relation to bonds. It is important that bonds details on the FCS system are complete and that management information can be reported on which will allow consistency with the FMS (Agresso) to be verified.

Chief Executive's Response

The work to improve the Development Contributions module of the FCS is now being replicated in the Bonds module. This work, including the loading of historical data will be complete by the end of 2019.

9 Procurement

The Council has a centralised Procurement Unit, comprising a Procurement Officer and a team of four staff, and its work is guided by the Corporate Procurement Plan, the most recent version of which was prepared in consultation with the Procurement Steering Group and Senior Management and covers the period 2018 - 2020.

The role of the Procurement Unit includes:

- providing ongoing assistance to staff preparing requests for tenders / quotations;
- developing and co-ordinating procurement training for staff;
- centrally managing the advertisement and receipt of tenders / quotations via the e-tenders platform; and
- co-ordinating the publication of summary information on contracts awarded in line with EU and national requirements.

In 2017 and 2018 the Council carried out procurement compliance checks and found that while there were year on year improvements, there were still gaps in some areas. At audit a sample of procurement transactions were tested and in the course of these audit tests it was noted that, in some instances, the relevant procurement information was not recorded correctly in the financial system. Some contracts had also been extended past their maximum expiry date. These findings are consistent with the results of compliance checks carried out by the Procurement Unit.

Chief Executive's Response

The Procurement Unit has been pro-active in developing and implementing a framework of measures to raise awareness and monitor procurement compliance, and to support budget holders in the application of good procurement practice. As noted, the compliance checks have identified year on year improvements. It is envisaged that continued progress will be demonstrated when the checks are carried out again, as a number of tender processes have been completed and/or commenced since the 2018 checks. Both the Procurement Unit and the Steering Group are actively monitoring the Contracts Database and the Procurement Pipeline to ensure alignment with the expiration of existing contracts. The Procurement Unit have developed a 'Frequently Asked Questions on Procurement' section on the intranet to guide staff in the use of the relevant procurement reference when raising a requisition in the financial management system.

10 Local Authority Companies

The Council's interest in four companies is shown in Appendix 8 to the annual financial statements. These are:

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

All four companies are companies limited by guarantee without having a share capital and the voting power of representatives of the Council is shown as a percentage. The Council's interest in these companies has not been consolidated in the accounts. The most recent financial statements available for these companies covered the year ended 31 December 2018.

Chief Executive's Response

The most recent financial statements for the Council's associated companies will continue to be available for audit as agreed.

11 Governance and Propriety

11.1 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 sound systems of financial management and internal control are in place. According to the audit committee charter, the committee has an independent role to advise the Council on financial reporting processes, internal control, risk management and audit matters.

11.2 Internal Audit and Audit Committee

The Local Government (Financial and Audit Procedures) Regulations 2014 require 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.

The Council's internal audit function currently consists of 6 personnel, of which one is a member of the Institute of Internal Auditors. The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the Chief Executive and to the audit committee on audit reports issued and progress on the implementation of audit recommendations made.

The unit produced 14 reports during the year, including three reviews related to the Council's obligations under The Public Spending Code, and I have taken account of the findings in these reports, where appropriate, in the course of my audit.

The Council's audit committee held four meetings during the year and considered the auditor's report on the annual financial statements for the year-end 31 December 2017 at the September meeting, which the Auditor attended.

11.3 Risk Management

The Council's Risk Management Policy document sets out how risk management should be formalised and embedded in the culture and ethos of the organisation, including the need to develop an awareness and understanding of the likelihood of potential risks to the organisation.

The Council's Risk Register includes corporate risks and departmental risks, which are divided into operational areas, and these are rated and reviewed by management on a regular basis. Relevant mitigating controls and actions are identified and recorded against each risk in the register.

11.4 Ethics Declarations

Part 15 of the Local Government Act, 2001 obliges Council members and designated staff to submit an annual declaration of specified interests. Declarations were received for all Council members and designated staff of the Council.

Acknowledgement

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



Richard Murphy

Principal Auditor

28 August 2019

