



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of South Dublin 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
Irish Water	4
Capital Balances	5
Bridging Loans	6
Part V Affordable Housing	7
Interests in Associated Companies	8
Compulsory Purchase Orders	9
Procurement	10
Governance	11

## **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 2015, 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 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 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 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 €49.17k after net transfers to reserves of €18.9m. This represents a reduction of €1.27m on the previous year's figure of €1.32m. The cumulative Revenue balance was €12m at year end 2015.

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 11th April 2016

## 2.2 Local Property Tax (LPT)

Appendix 9 identifies the appropriation of the Local Property Tax(LPT) income of €20.5m in 2015. The use of €18m LPT (identified as self funding) replaced the grants in 2015 for both Housing and Roads formerly given by the Department of Housing, Planning Community and Local Government (Department). The discretionary LPT of €2.5m increased the Revenue account income for 2015 and replaced the Local Government Fund/General Purpose Grant.

## 2.3 Rental Accommodation Scheme Reserve Transfers

The Rental Accommodation Scheme(RAS) reserves of €13.4m were used to pay RAS/Leasing Landlords and purchase property of €579k. These payments would normally have been funded by the Department but this years reserves were used instead as directed by the Department. The balance at year end for this reserve was €2m.

## 3 Income Collection

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

Income	Yield			Net Debtors		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
				€m	€m	€m
Rates	81%	80%	77%	27.07	30.3	34.6
Housing Rents and Annuities	74%	73%	75%	7.88	7.83	7.25
Housing Loans	90%	90%	96%	0.50	0.53	0.2

### 3.1 Rates

The reduction in arrears to €27m represents a significant improvement on last years figures of €30.3m which is to be commended. Current Arrears are analysed as follows:

Category of Debt	Debtor %	Amount €m
Instructions being Processed in the Court System	36%	€9.87
Sherriff declaration of No Goods	7%	€1.77
Post Returned and Occupier Unknown	4%	€1.06
Not formally declared vacant	10%	€2.62
Arrangements in place	25%	€6.75
Collectable	17%	€4.71
Liquidation	1%	€0.29
<b>Total</b>	<b>100%</b>	<b>€27.07</b>

From the table above, €10m reflects rates that are currently being processed through the Courts system. Council considers reliance on this procedure is a very important aspect of the current collection process, as without it, cases cannot be brought to a successful conclusion.

A bad debts provision of €21.4m has been included in the accounts. This is satisfactory.

### Chief Executive's Response

As outlined the collection rate has improved as we emerge from a very challenging economic position. The issue of debt collection has also been examined nationally and revised and enhanced powers of collection are being considered for incorporation into rates legislation.

## 3.2 Rents

The collection yield of 74% represents an improvement of 1% on last years figure. The arrears figure stands at €7.9m and is net of credit balances currently €1.1m. A provision for housing rents bad debts of €2.4m has been made. This is satisfactory.

Category	Number of Accounts	Amount €m
Accounts in Credit	3,330	-€1.16
Less than 6 months	5,186	€1.81
6 months to 1 year	1,192	€2.06
Between 1 and 2 years	796	€2.54
Greater than 2 years	865	€2.63
<b>Totals</b>	<b>11,369</b>	<b>€7.88</b>

A number of proactive measures have been implemented since the last audit, including an arrears management procedure manual, a more focused arrears management process and a system to review social housing assessment

processes and procedures. I have been informed, that as a result, the collection figures should show a substantial improvement next year.

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

It is hoped to further improve on progress made in 2015

### **3.3 Housing Loans**

The lack of an integrated loans system in South Dublin County Council has resulted in difficulties in reconciling balances and producing reports.

During audit, it was noted that six repossessed houses with a value of €803k were incorrectly accounted for and had to be adjusted. These adjustments impacted a number of areas within the AFS, namely the Income & Expenditure account, Balance Sheet, Funds Flow Statement, Note 3, Note 12, Note 15, Note 16, Note 17, Note 20, Appendix 2, Appendix 4 and Appendix 7.

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

Following a review of housing systems generally it is planned to go to tender for a fully integrated housing system (including loans) before the end of 2016.

### **4. Irish Water**

Irish Water (IW) is fully responsible for the provision of all water related services. The Council continues to deliver services on behalf of IW under a service level agreement. However, some functions relating to the collection of commercial water charges which up to now has been carried out by the Council as an Agent for IW is scheduled to be transferred by year end 2016.

- 4.1** There are boundary, wayleave, rights of way and unregistered sites issues that continue to be addressed by the relevant sections within the Council.
- 4.2** Four HFA loans with a value of €13.1m were paid by the Department in 2015. The two remaining water related non HFA loans totalling €5.7m remain in the Council's AFS at year end 2015. These are included under Note 3 Long Term Debtors and Note 8 Loans Payable.
- 4.3** Following a due diligence process carried out by IW, a balancing statement was completed on the 27 March 2015. This resulted in an amount of €9.3m owing to Irish Water and 0.3m owed to the Council by IW. €9.3m has been paid to Irish Water in December 2015.
- 4.4** An amount of €3m regarding a draw down of a bond relating to Boherboy Water Supply Scheme, a Scheme now in the ownership of IW was received in 2015. This money is now due to IW.

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

The transition to Irish Water is an ongoing process and dedicated resources are in place to ensure the smooth operation of the SLA in so far as possible.

## **5. Capital Balances**

While significant work has been undertaken since the last audit on Capital jobs, a large number of debit balances remain. It is important that where no source of funding is identified, arrangements are put in place to reduce the deficits over a planned period of time.

### **5.1 Housing Capital**

There are 220 Housing Capital projects which need considerable work, verification and finalisation. Included in this number are a large number of Housing Capital debit balances which total €27m.

These can be categorised as follows:

- Voluntary Housing
- Affordable Housing
- Social Housing
- Revenue expenditure capitalised

It is imperative that the work on Housing Capital be prioritised to ensure that records accurately reflect funding.

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

As reported in 2014 the progressive and developmental nature of the role of local government requires advance investment in studies, business case development, land and other assets to facilitate economic development. These investments are recovered over time as plans reach fruition. In the specific case of housing the nature of the financial relationship with the department of housing is such that expenditure is only recovered in arrears with significant time lags often recurring particularly with regard to final accounts on housing projects.

## **6. 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 and are due to expire within the next two years. These affordable housing units have been allocated to voluntary housing bodies under the Social Leasing Scheme.

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

The housing directorate is conscious of this and will liaise with the department with regard to the ongoing servicing of this loan.

## **7. Part V Affordable Housing**

The downturn in the economy had an adverse effect on the sale of properties under the Part V affordable housing scheme which had implications for agreements already in place. As a result, some developers were at a loss of €4.6m from the sale of the properties and the Council agreed to offset this against future Part V developments. There is no provision for this liability/deferred income in the accounts.

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

The solution reached in this case was practical and that which least impacted the council financially. The matter will be provided for in accounting terms.

## **8. Interests in Associated Companies**

South Dublin County Council has an interest in four associated companies as outlined in Appendix 8 to the AFS. The 2015 audited accounts of South County Dublin Leisure Services Ltd were not available for this audit but a review of the draft 2015 accounts showed a net deficit of €395k in the Balance Sheet.

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

The completion of the accounts will be sought immediately.

## **9. Compulsory Purchase Orders**

Compulsory Purchase Orders (CPO) for the acquisition of lands under Road schemes are estimated to be €26m. These schemes have been confirmed by An Bord Pleanála and Notices to Treat have been served. €4.4 million relates to National Roads CPO's which is fully recoupable from the relevant authority. The balance of €21.5m reflects Non National Road schemes which will be partly funded in some cases. No provision has been made in the AFS for these land acquisitions.

It must also be noted that a number of plots have yet to be valued where Notices to Treat have been served.

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

- Notice to Treats have been served. (NTT fixes date of valuation and establishes contract subject to claim being made within a "reasonable time")
- Notice of Intention to Enter has not been served on a number of schemes – this date fixes date of interest charges commencement.
- Some schemes are complete, others ongoing and two are subject to review.
- Council funding comes mainly from Development Contributions and land disposal capital income streams.
- Table below gives a brief summary of the main outstanding schemes and the funding sources.



- There is provision in the 2016-2018 Capital Programme for expenditure on both completed and planned schemes in the sum of €17M, of which €1.1 is provided for the Rathcoole and Knocklyon schemes. (€9.6M funded by Development Contributions, €7.4 Grants).
- Where NTTs have been served and no valuation is entered it is generally the case that no compensable interest has been identified.

Dev ref	Scheme	Estimated	Funding	Status
CA 297	ORR/Kingswood	€4m	Part funded/SDCC	Completed
CA 298	Firhouse Rd/Old Bawn improvement	€0.25M	Part funded /SDCC	Completed
CA303	ORR-Adamstown	€0.5M	Part funded/SDCC	Completed
CA 307	Nangor Rd	€0.5M	Part funded	Construction to commence Oct 16
CA 309	R120		Part funded Notices served	Construction to commence Oct 16
CA 311	Knocklyon Rd	€7.7M	SDCC Dev levies	Under review
CA312	Robinhood/Ballymount	€1.8M	SDCC Dev levies	Ongoing
CA 315	Rathcoole Rd	€6M	SDCC Dev Levies	Under review
CA 316	Greenhills/Calmount	€0.75M	Part funded/SDCC	Ongoing.
	TOTAL	€21.5M		

## 10. Procurement

South Dublin County Council operates a dedicated Procurement unit. In my review, I noted a number of contracts have exceeded tender price and one had been extended to include other works. This does not comply with the Procurement Directive.

The Procurement unit should be involved in all procurement decisions and should be consulted where new elements are added to the contracts to ensure all frameworks are current and compliant.

### Chief Executive's Response

In some cases contracts do exceed tender price for a variety of reasons. The procurement unit of the council is now fully established and is making good improvements in procurement practice.

## 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. In line with this, it is incumbent on an organisation to imbed the Register in both their corporate and business plans. This would ensure that all risks are linked to operational plans, taking account of changes and ensuring that controls are in place to meet the changing business environment.

**Chief Executive's Response**

This is current practice.

## **11.2. Internal Audit Function**

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.

In 2015 the Council's internal audit function consisted of six personnel. 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 seventeen reports during the year, which were reviewed by the audit committee. I have taken account of their 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.

A handwritten signature in black ink, appearing to read 'Ita Howe'. The signature is written in a cursive style with a large initial 'I'.

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**Ita Howe**  
**Local Government Auditor**  
**Date 21<sup>st</sup> September 2016**