



**Rialtas na hÉireann**  
Government of Ireland

# **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Fingal County Council**

**for the**

**Year Ended 31 December 2017**

Department of Housing, Planning and Local Government

[housing.gov.ie](http://housing.gov.ie)

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# AUDITOR'S REPORT TO THE MEMBERS OF FINGAL COUNTY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Fingal County Council for the year ended 31 December 2017, which comprise 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 the 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 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 3 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 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.

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 / Financial Position

The Council recorded a surplus of €2k for the year after making net transfers of €41.6m to reserves. The Members approved some over-expenditure at their budget meeting in November 2017 and additional expenditure at their May 2018 meeting. A summary of the budget compared with the outturn per service division is disclosed in note 16 to the AFS.

### 2.2 Fixed Assets

The Council's fixed assets increased by €40m during 2017, mainly due to:

- Net increase in housing stock of 169 units
- Addition of the Castle Mill Access Road

During previous audits I expressed concern in relation to the absence of a proper reconciliation process between the Council's Fixed Asset Register (FAR) and the Council's Property Interest Register. The exercise of properly updating and reconciling both set of records was planned to be completed by the end of 2017, however this has not been achieved. This work needs to be brought to a conclusion.

During the audit, two land sales totalling in excess of €600k were noted as not being recorded as disposals in the FAR; the explanation received was that the original assets had not been set up on the FAR. Other errors in the recording of fixed assets on the FAR were corrected during 2017.

The reconciliation of housing stocks records between the FAR and the Housing Section's records also needs to be improved as I noted differences existed at the end of 2017.

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

The Council directed substantial resources into updating the Property Interest Register (PIR). As part of the process, the inputting of the unique identifier 'FOR' was completed on PIR by the end of 2017. This will enable both the FAR and PIR to be reconciled during 2018, insofar as the requirements of the national guidelines for the Fixed Assets Register for accounting purposes on Agresso will allow.

The comments of the Auditor have been noted in relation to the two land sales which will be rectified for AFS 2018. Procedures will be put in place to prevent future occurrences. Housing stock - A review of the current processes will be undertaken between Finance and the Housing Department to identify any potential weaknesses. We will amend procedures to mitigate against future errors.

## **2.3 Net Current Assets**

The Council's current assets of €273m exceeded its current liabilities by €182m at the end of 2017, which represented a relatively healthy liquidity position.

Included under debtors in note 5 were:

- Of €22.9m government debtors, monies due from the Department of Housing, Planning and Local Government (the Department) accounted for €22.5m. It should be noted that at the close of audit, €7.7m remained outstanding.
- Of €17.3m prepayments, payments estimated at €16m related to deposits on new house purchases.

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

The debtor balances are monitored closely and strong communications links exist between the Department and the Council.

### 3 Income Collection

#### 3.1 A summary of the revenue collections are as follows:

Income Source	Yield		Debtors	
	2017	2016	2017	2016
Rates	96%	96%	€6.56m	€8.03m
Rents & Annuities	86%	90%	€3.43m	€2.25m
Housing Loans	100%	100%	-€0.19m	-€0.01m

#### 3.2 Rates

The Council achieved a collection yield for the year of 96%, consistent with the previous two years. The rates debtor reduced by €1.47m to €6.56m at 31 December 2017. During the audit, rates debtors representing 19% or €1.22m of the closing arrears were reviewed to establish the progress being made in the collection of these sums. The following points were noted:

- 11 accounts valued at €857k (70%) had judgements against them or have ongoing legal actions
- 2 accounts valued at €237k (19%) had agreed payment plans in place
- 1 account valued at €65k (5%) was proposed for strike off as deemed not to be collectable
- 1 account valued at €61k (5%) was in the process of having their rates revised by the Valuation Office

The 2017 bad debt provision for rates at the year-end amounted to €4.68m which was a 31% drop on the 2016 figure. While the 71% provision is a reduction of 14% on the previous year, it is considered high based on my review.

#### Chief Executive's Response

The Council continues to achieve the highest collection rate in the country due to the diligence, efficiency and dedication of the Rate Collectors and all of the staff in the Rates Section. As noted the level of arrears continues to decrease and every effort is made to maintain this downward trend.

After our annual review we consider the bad debts provision to be at an appropriate level.

#### 3.3 Rents

Rent arrears have increase during the year by 52% to €3.43m. A collection level of 86% was recorded, which was down from 90% in the previous year. The Council needs to review the effectiveness of its rent collection function. At the year-end the Council had 5,806 active rent accounts of which 3,641 (63%) were in arrears. Of these:

- 1,361 were in arrears of less than 4 weeks
- 2,019 were in arrears for between 4 weeks and 1 year
- 261 accounts were in arrears of more than one year

The bad debts provision for rents of €1.6m represents a 47% provision on the closing debtor; however it has remained unchanged from the previous year. The Council needs to review its bad debt provision with a view to increasing it for this income stream.

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

The monitoring and management of rents income is a priority item for the Housing Department and revised procedures necessitated by amended rent arrears legislation have been agreed with Law Department and are now in place. A dedicated Debt Management Unit is also now in place.

Housing will consult with the Finance Department on the bad debt provision as recommended.

### **3.4 Housing Loans**

The Council's loans system (Cygnus) and its postings to the general ledger continued to cause considerable difficulties for the 2017 audit. These resulted in the AFS having to be amended for a number of material errors. The finance function needs to ensure that the figures posted to the general ledger are correct and this should be done prior to finalising the AFS. It was also noted that there were procedural issues in the updating of Mortgage Protection Insurance relating to 2017 which are in the process of being corrected.

The housing loans collection in Appendix 7 recorded a 100% collection, due to: (i) 1,167 accounts recording prepayment totalling €1.42m, (ii) 321 accounts recording arrears of €1.23m and (iii) 20 accounts recording a nil balance. The following is a summary of the accounts in arrears:

- 122 (38%) had arrears of less than one month
- 67 (21%) had arrears between one and three months
- 132 (41%) had arrears over three months.

The Council does not have a bad debt provision against the €1.23m loan arrears in place at the end of 2017. The reasons for this approach are: (a) it considers that the Mortgage Arrears Resolution Process (MARP) fund should cover the majority of potential losses and (b) the Council has €2.2m in its capital reserves to address future losses of both principal and interest on those loans not covered by the MARP fund. Included in the capital account are legacy balances relating to the loans system of €2.98m against which the Council had made provisions in previous years of €3m to fund these balances.

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

We acknowledge your comments and we note the difference between the Housing loans system Cygnus and Agresso was amended as part of the 2017 Audit processes.

The procedural issue in the updating of Mortgage Protection Insurance relating to 2017 is also being corrected.

Housing is satisfied with the approach adopted in relation to bad debt provision. This matter will be kept under review by Finance and Housing to ensure a prudent approach continues to be adopted in relation to the levels of bad debt provision.

## **4 Transfer of Water and Sewerage Functions to Irish Water**

As highlighted in previous audit reports the Council removed fixed assets with a net book value of €665m from its 2014 AFS in accordance with Circular Fin 02/2015.

The Council maintains a register to track the progress in transferring title of these assets to Irish Water (IW). In 2017, a total of 32 assets had completed the transfer process and are now registered with IW. There is a further asset awaiting the next Ministerial Order to complete its transfer and the Chief Executive has recently signed an Order for the submission of a further 6 assets for Ministerial approval. By mid-2018, there will be a further 15 assets with the Property Registration Authority of Ireland for sub-division and subsequent transfer to IW.

The remaining assets are either not registered or have title issues that require further work to facilitate their transfer. This is likely to be time consuming due to the level of research required to perfect title prior to their transfer. There are between 40 and 50 assets that fall into this category.

The Council had €23.6m in water related loans at the end of 2017. The cost of repaying capital and interest on these loans is being funded by the Department.

At December 2017 the Council recorded a service level agreement debtor of €1.5m as being due from IW and an accrual of €1.5m in respect of IW's share of development charge receipts collected but not yet paid. In addition to the above the Council also recorded a creditor of €1.1m relating to IW's share of the short term development charges debtor at the year-end.

The Council records a favourable balance of €10.45m in its contingency fund for IW. This reserve was set up to cover specific costs relating to water capital projects and the transfer of functions to IW.

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

A retired official with the required property experience is working three days a week to advance the transfer process. The cost is being grant aided by the Department of Housing, Planning and Local Government. As the Auditor has noted the process of regularising each individual title prior to transfer is slow but progress is being made.

## **5 Capital Account**

The Council's capital account closing balance improved by €28.6m to record a credit balance €158m at the end of 2017. This improvement is partly attributable to the transfers from the revenue account of €25m.

The Council expended €111m on capital projects during 2017. The major expenditure was in the areas of Housing & Buildings €69m, Development Management €23m, Roads Transport & Safety €9m, Recreation and Amenity €4.5m and Environmental Services €3m.

## 5.1 Housing Capital

The capital expenditure on housing can be summarised into the following categories:

<b>Summary</b>	<b>€</b>
Capital Assistance Schemes	10,160,760
Repairs & Maintenance	7,598,479
Leasing	2,000,000
Part V	2,412,412
Construction	13,160,633
Affordable	433,676
Acquisitions	25,670,810
House Purchase Loan	1,476,000
Capital Advanced Leasing Facility & Mortgage To Rent	5,238,255
Repossessed Dwellings	423,429
Administration and Miscellaneous	557,672
<b>Total</b>	<b>69,132,126</b>

The main sources of funding for housing capital during 2017 were government grants and Local Property Tax of €56.6m, transfer from revenue of €5.2m and others including sales of €8m and loans of €0.4m.

### Chief Executive's Response

The level of expenditure reflects activity in the provision and maintenance of social housing and the management of expenditure and recoupment under this programme is a priority item for the Housing Department.

## 5.2 Capital Project Balances

The 2016 audit report listed the major unfunded capital job balances and highlighted my concerns in relation to the funding of a number of these. The Council has agreed funding arrangements for the majority of the projects listed, however progress was poor in relation to the following:

<b>Job</b>	<b>Balance</b>	<b>Note</b>
Respond Housing Association	€695,540	Voluntary Housing Project
Woodford Developments - Santry Demesne	€355,448	Voluntary Housing Project
Clann Housing - Voluntary Housing Group	€241,695	Voluntary Housing Project
New Street Swords	€784,394	Funding needs to be Agreed
Housing at Garristown Remediation Works	€621,463	Funding needs to be Agreed
Scoil Neasain Social - Remedial only	€572,300	Funding needs to be Agreed

The 2016 audit report highlighted my concern in relation to the funding of the Council's holdings of development lands. These holdings have been reviewed during the audit with



the Economic Development Directorate who have indicated that the estimated sale proceeds together with the surpluses that have been built up on other sales should be sufficient to clear these balances.

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

In relation to the Housing projects listed above, work is currently on-going on the balancing and closing of legacy capital project balances and this should be reflected in the course of the 2018 audit. The codes identified by the Auditor are included in the Capital Balancing Works Programme for 2018.

In relation to New Street Swords, Economic Development has reviewed previous proposals for development of these lands and following discussion with the proposed developer, the Council has agreed an extension of the licence for a further year with a view to allow the developer to explore future development options. A decision on how to address the debit balance will be taken once the development option proposal has been explored fully.

## **6 Bridging Finance and Unsold Affordable Housing Units**

The Council had 437 units of unsold affordable housing at the year-end. 275 of these were leased to voluntary bodies and the remaining 162 at Parnell Estate were managed by a property company on the Council's behalf.

The income generated from lettings, together with reserves built up from previous years, allowed the Council to redeem €2m in bridging finance resulting in a closing balance of €56.6m for these units.

In addition to the bridging loans, the Council had €11.7m of unfunded balances in its capital account at the year-end in relation to these properties. The Council also had a €29m contingency fund in the capital account to cover potential costs associated with these unsold affordable housing projects.

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

The Department is aware of the issue of the substantial bridging finance balance on unsold affordable housing units and this matter will be kept under review.

## **7 Development Charges**

The Council collected €28.8m in cash and processed notional offsets to the value of €2.7m representing total receipts of €31.5m from development charges in 2017. The Council's short term debtor increased from €62.6m in 2016 to €84.4m at 31 December 2017. The Council's bad debt provision also increased from €43.6m in 2016 to €65.6m at 31 December 2017. Included in the debtors figures are duplicate development charges due to a number of permissions being granted on the same site. The final amounts due in respect of these developments can only be determined when the developments works on the various sites have been completed.

The Council has a list of notional offsets of approximately €11.5m against development contribution debtors at the year-end. In many instances the developers have completed construction works and as a result the development charges are not being actively pursued. The Executive Management Team (EMT) agreed a policy document covering offsets in June 2016. Only one new agreement has been entered into since that date.

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

The short term debtor increased from €62.6m to €84.4, this increase reflects an increase in commencement of development activity in the County.

Duplicate development charges arise when developers seek multiple amendments and modifications to parent permissions. A full reconciliation of the permissions and account will be carried out on completion of development or when permissions have expired.

The bad debt provision is reviewed annually and we are satisfied that the bad debt provision is sufficient for the level of debtors.

## **8 Procurement**

During the course of the audit a number of incidents came to our attention where the Council staff failed to comply with the Council's own purchasing procedures and national procurement guidelines. These breaches included a number of legacy issues highlighted at previous audits, with new matters being referred to the Procurement Unit (PU) for their attention.

The PU is staffed by an Administrative Officer plus four other staff members. The unit actively monitors compliance and reports to the EMT on a monthly basis. During the audit, we were provided with details of non-compliance encountered by the unit during their 2017 reviews. Failure to adhere to procurement procedures exposes the Council to financial and reputational risk.

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

The procurement section has been operating as an advisory and compliance monitoring unit without being an integral part of the procuring process. The result is that compliance monitoring takes place after the fact. This initial phase of procurement reform has seen improvements in compliance over the last number of years.

In 2018, a review has been undertaken that recommends moving on to the next phase which will give the procurement unit direct control of the process in a way which will allow it to ensure compliance. It is envisaged that this review will be implemented by the end of 2018.

## **9 Refundable Deposits**

As recorded in note 8 to the AFS the Council held €34.1m in refundable deposits at the end of 2017. The control records and reconciliations maintained by the Planning Section covering cash bonds, securities and Section 49 were satisfactory and these accounted for €27.5m of this balance. The Council's records covering road opening licences, communication licences and environment regulations and permits remain unsatisfactory, with the Council staff unable to provide reconciliations and back-up schedules to cover these funds during the audit. This issue has been raised at previous audits and has not been properly addressed by management.

## **Chief Executive's Response**

We acknowledge the above issues; a new system was put in place in 2017 to deal with the legacy issues and to ensure the provision of debtor's listings is more readily available. A review of this will take place in 2018 to ensure that all auditor requirements can be dealt with prior to completion of the 2018 AFS.

## **10 Governance**

Corporate governance comprises the system 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.

### **10.1 Internal Audit Unit (IAU)**

The structure of the IAU changed slightly and is currently headed up by an Administrative Officer, assisted by three Staff Officers. For administrative reasons the unit reports to the Director of Corporate Affairs and Governance. The work plan for 2017 was approved by the Audit Committee. Their audit reports are submitted directly to the Chief Executive and the Council's Audit Committee. During 2017 the IAU produced fifteen reports which the Audit Committee reviewed. I have taken account of these reports in the course of this audit.

### **10.2 Risk Registers**

The Council's risk registers are being updated on a quarterly basis on its new computerised risk management system and are also being reviewed by the EMT.

### **10.3 Audit Committee**

The Audit Committee held five meetings during 2017. I attended their meeting on 18 September 2017 to discuss the 2016 audit. The Committee's annual report for the year 2017 was noted at the Council's March 2018 meeting.

## **11 Interest of Local Authority in Companies**

Appendix 8 to the AFS records the Council's interest in 22 entities. These companies are further classified as subsidiaries where the Council has over 50% control (13 companies) and associates where the control is less than 50% (9 companies).

The following should be noted in relation to the Appendix 8 disclosure for these companies:

- Only one company had its audited accounts available for 2017
- Three companies do not have December 31<sup>st</sup> as their year-end
- Abridged accounts were provided by four companies
- Draft financial statements were used in two cases

The Council should, where it exercises control over companies, be in a position to ensure that the accounting year-ends are contemporaneous with the Council's year-end. It should also ensure that the accounts are completed and audited prior to the finalising the Council's own AFS. I have been informed that governance and the financial stewardship of these companies has become a standard item on the agenda of the Council's EMT and that all companies are also reviewed annually by the team. I would recommend that the items referred to above form part of future EMT reviews.

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

All accounts used in appendix 8 of the 2017 AFS were the statutory audited accounts taken from the Companies Register Office website.

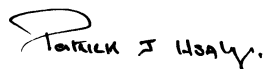
We requested all subsidiaries to bring the year end into line with our year end.

The list of companies was circulated to the Management Team and the relevant Directors review the companies under their control and provided the latest set of audited accounts.

A directors training programme was completed for all Directors acting on behalf of the Council in 2017.

## **12 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.



Patrick J Healy.

**Patrick Healy**  
**Principal Local Government Auditor**

**9 July 2018**

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