



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 2017

Department of Housing, Planning and Local Government

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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 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 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 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

The net surplus for the year amounted to €35,104 after transfers to reserves of €34.2m. 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 2017 are shown below.

2.1 Fixed Assets

There was an increase in Community Assets of €5.2m when compared to 2016 bringing the total at the end of 2017 to €9.3m. This is accounted for mainly by the addition of the Round Tower Visitor Centre in Clondalkin to the heritage assets of the Council.

2.2 Trade Debtors and Prepayments

There was an increase in trade debtors and prepayments of €16.5m from €48m in 2016 to €64.5m in 2017, including an increase in government debtors of €10.5m and development levy debtors of €8.2m.

2.3 Bank Investments

Bank investments increased by €31.3m to €181.5m in 2017 and refundable deposits held by the Council increased by €6.9m to €21m.

3 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	
	2017	2016	2017	2016
	%	%	€m	€m
Rates	84	83	25.0	23.1
Rents & Annuities	76	75	7.8	7.8
Housing Loans	80	81	1.1	1.0

3.1 Rates

The percentage collected in 2017, which showed a slight improvement on the previous year, excludes specific doubtful arrears of €4.9m from the amount for collection. These doubtful arrears have increased significantly from €1.1m in 2016, reflecting an increase in the number of vacancy applications received or pending.

An analysis of the ageing of rates debtors by year, prepared in January 2018, can be summarised as follows:

Year	% of Total
2017	56%
2016	18%
2015	10%
2014	6%
2013 and earlier	10%

The Council uses various means to follow up and collect arrears of rates including payment arrangements and reference to its Law Department.

Chief Executive's Response

The increased collection rate for 2017, while marginal, is part of improved trend over the past few years. Proposed amendments to the recently published Local Government (Rates) Bill 2018 should also strengthen and improve collection levels.

3.2 Rents and Annuities

The collection yield for housing rents improved again in the current year while the arrears remained at approximately the same level.

An analysis of the ageing of arrears by year provided at audit is as follows:

Year	% of Total
2017	24%
2016	35%
2015	17%
2014	7%
2013 and earlier	17%

There are a significant proportion of arrears outstanding for more than one year and every effort should be made to deal with these cases.

Chief Executive's Response

All cases prior to 2016 have to be now dealt with under the new Housing (Miscellaneous Provisions) Act 2014. The arrears cases that are not engaging with the debt management policy are being dealt with in accordance with the Act and following the timelines outlined and further collection improvement is anticipated.

3.3 Housing Loans

There was a decrease in the collection percentage for housing loans in 2017 when compared to 2016.

An analysis of arrears by year provided at audit is as follows

Year	% of Total
2017	24%
2016	32%
2015	16%
2014	9%
2013 and earlier	19%

There are a significant number of loan accounts with substantial credit balances. These should be reviewed and appropriate adjustments to the loan accounts made.

Chief Executive's Response

The credit balances are being addressed in Q3 of 2018 and in some cases, consent is required prior to capitalising. All account holders have been written to and confirmation of consent is awaited. All account holders with arrears that have not engaged with MARP are being advanced through the legal process.

3.4 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.

The balances on the loan system do not agree with the amounts included in the annual financial statements.

The continued use of this system as means of accounting for housing loans represents a risk to the Council and consideration should be given to suitable alternatives.

Chief Executive's Response

Investigations are ongoing into a replacement loan system and South Dublin County Council is working with the other Dublin Local Authorities to agree on a system that will meet the needs of the loan book.

3.5 Debtors and Provision for Doubtful Debts

Gross debtors, including those from the main income collections, are shown in Note 5 to the AFS and amounted €93.2m at the end of 2017. An overall provision for doubtful debts is also shown and amounts to €31.2m in 2017. The calculation of this provision should reflect the likelihood of collecting the debts and should be based on an analysis of each category of debtor. The use of aged debtor reports should also be used to arrive at realistic provision in each category.

Chief Executive's Response

A bad debt provision of 33% is prudent and provides a sufficient safeguard for the Local Authority in the event of nonpayment by its debtors. An analysis of the provision will be undertaken before the completion of the Annual Financial Statement for 2018.

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.

All water and foul drainage assets have been transferred to IW, including all water mains, foul sewers, reservoirs and pumping stations. Where there is land associated with these assets, the Council processes the transfer of each parcel of land via the Property Registration Authority and this process is ongoing.

Chief Executive's Response

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

5. Capital Account

Capital expenditure in 2017 amounted to €66m (€58m in 2016) and total capital income, including transfers from revenue, amounted to €114m in 2017 (€95m in 2016). This resulted in improvement in the capital account balance of €48m and a closing credit balance of €170m. The increase in expenditure in 2017 occurred mainly in the housing area and

amounted to €46m in 2017, compared to €33m in 2016. Income from Local Property Tax and grants increased from €35m to €48m, while development contributions income increased from €20m to €25m in the current year.

5.1 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	
	2017 €m	To Date €m
St Aidans, Tallaght (Social Build Programme)	8.2	8.3
Clondalkin Round Tower Project	3.9	5.8
Land Acquisition at Newcastle	2.3	2.3
Mayfield Phase 2	2.3	2.5
Ballycullen Flood Alleviation	1.9	1.9
MacUilliam Infill Housing	1.6	1.9
Letts Field, Clondalkin (Build Programme)	1.5	1.8
Voluntary Housing –New Bancroft Tallaght	1.1	1.1

Other significant expenditure categories in 2017 included CALF Voluntary Housing (€6.7m), and Pre-sale and Pre-let Repairs (€3.8m).

5.2 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. During 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. The total amount written down amounted to €4.5m and covered 50 capital jobs including local authority housing and traveller accommodation schemes.

In the areas of voluntary and affordable housing, there are a number of jobs with no current activity but a residual balance on the account. This includes 14 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

There is a large amount of work involved in the reconciliation and verification required on the capital balances and progress continued in this regard during the year. Every effort will be made to bring this matter to finalisation in the coming year.

5.3 Voluntary Housing and Approved Housing Bodies

The Council's Internal Audit Unit carried out a review of the systems in place for the administration and oversight of funding provided to Approved Housing Bodies (AHBs) under the various voluntary housing schemes. The review took account of the findings in

“VFM Report No. 29 - The oversight role of local authorities in the provision of social housing by Approved Housing Bodies” issued by the Local Government Audit Service.

The internal audit report identified a number of issues relating to the registration of mortgages, the lack of a comprehensive database and the failure to obtain statements of occupancy from all AHBs. Some progress has been made in the reconciliation of loans given to AHBs and work on the provision of data for the Central Credit Register in September is continuing. Every effort should be made to implement fully the recommendations made in order to allow the Council fulfil its oversight role under the various social housing schemes.

Chief Executive’s Response

A register of all AHB loans under CAS, CALF and CLSS has been created setting out the loan value details, AHB details and the property details. In respect of CAS and CLSS loans the details of existing mortgages, value of mortgage, date of mortgage, folio details are all recorded. Analysis is currently being done on those loans without existing mortgages through the examination of paper files and Agresso financial records.

The Housing Department is working with the Department of Housing, Planning and Local Government to reconcile all historical loan approvals versus expenditures on the CAS and CLSS loans which did not have mortgages put in place by the Council. In respect of CALF loans all loan details are recorded detailing the AHB, loan value, CALF loan date, payment and availability effective date and the term of the loan. AHB Mortgage to Rent and CALF loans are also included on the AHB register with the same details set out as standard CALF loans. This AHB register is currently being used to reconcile AHB loans for the purposes of the Central Credit Register return due in September.

6. Fixed Assets

Total fixed assets at the end of 2017 stood at €3,211m compared to €3,202m in 2016 and there were significant additions to assets during the year in a number of areas i.e. Housing €10m, Land €7m and Heritage €5.5m.

6.1 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.

Significant progress has been made in this regard recently; 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. Arrangements are being made to cross-reference these records in order to maintain consistency into the future.

6.2 Property Register

The need for a comprehensive property register for all council property was raised at previous audits and some preparatory work has been carried out recently in respect of land. The Council uses a geographic information system to map council land acquisitions and disposals, and this system is linked to a database of additional property information. The mapping of all land acquisitions and disposals in recent years is progressing and

further work will be required to update the contents of the related database. Every effort should be made to complete this task at the earliest possible date.

Chief Executive's Response

The Senior Executive Officer, South Dublin County Council (SDCC) Property Management Section, has taken an active role in the National Property Interest Register Working Group, which presented a report to the CCMA / Land Use and Transportation Sub-Committee. The current view of the group is that a new modern system is a better approach than re-working an older system. In order for this to happen the working group would have to draw up a technical specification and carry out procurement, which will take time.

In the interim, SDCC is implementing a process of updating and improving the existing systems referred to i.e. the Geographic Information System for mapping purposes and database, such that if, and when, the new system is developed nationally the information can be migrated across to that system. This process of mapping and data entry will commence in September 2018.

7. Loans Payable

Loans payable by the Council at the end of 2017 amounted to €197m (€210m in 2016) and can be analysed as follows:

Loan Type	2017	2016
Recoupable	99m	103m
Mortgage Related	46m	51m
Bridging Finance	34m	34m
Assets	18m	22m
	197m	210m

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 2017, differs from the balance shown in the Council records. This matter should be resolved and an adjustment to the accounts, if required, should be made.

Chief Executive's Response

This matter will be further examined.

8. Contributions and Bonds

8.1 Development Contributions

Income from development contributions in 2017 amounted to €25.2m (€20.5m in 2016) and current debtors stood at €18.8m at the year-end (€10.6m in 2016). The increase in income reflects the higher levels of activity in the construction sector and demonstrates the significance of these contributions as a 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.

The Financial Contributions System (FCS) for recording and accounting for development contributions, while recording transactions on individual planning permissions, does not provide the necessary management reports to account for these charges adequately and makes reconciliation with the main financial system cumbersome and time-consuming. Every effort should be made to produce proper control accounts to facilitate accounting for this vital source of funding.

Chief Executive's Response

Further enhancement and improved financial management reporting by the FCS has been specified to the system provider and is under development. This will streamline the reconciliation process and improve controls.

8.2 Bonds

The FCS also records details of cash lodgements in lieu of bonds, which are included in Note 8 of the AFS and amounted to €13.6m at the end of 2017. The details recorded in the FCS were found to be incomplete and were not reconciled to the financial management system.

Chief Executive's Response

A bonds module to sit within the FCS is under development. This will provide a comprehensive and systemised record of all bonds and facilitate the management and reconciliation of same.

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.

During 2017 the Council implemented an upgrade of its financial management system (Agresso MS4) which facilitates the capturing of procurement reference information at the requisition stage and a sample of transactions were reviewed at audit. In the course of audit tests carried out it was noted that, in some instances, the relevant procurement information was not recorded correctly in the financial system. While recognising that the sample reviewed covered a period immediately after the implementation of the upgrade, it is important that all staff raising and approving requisitions are familiar with and follow the appropriate procedures to enable the effective operation of the procurement features of the financial system.

Chief Executive's Response

There are a number of measures in place in SDCC to support purchasers meet procurement requirements, such as a dedicated Procurement Unit, a Corporate-wide Procurement Steering Group, a Corporate Procurement Plan and Chief Executive Order, procurement handbook and intranet page, regular training and information sessions, a contract management database and an annual contracts pipeline.

The rollout of Milestone 4 affords the Council an opportunity to avail of new procurement functionality within the financial management system and this functionality was live from October 2017. The use of procurement references facilitates improved analysis and monitoring of procurement spend and is required for collating procurement data across the local government sector. As part of this new functionality budget holders are now required to verify that the correct procurement reference is chosen before approving any requisition. A range of supports have been provided to ensure staff are informed of and understand this requirement, including the preparation of Frequently Asked Questions and a list of procurement references that is frequently updated on the intranet, or alternately can be searched within Milestone 4, and the Procurement Unit can provide additional assistance if required.

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 most recent financial statements available for these companies covered the year ended 31 December 2016. Every effort should be made to obtain financial statements at the earliest possible date.

Chief Executive's Response

Copies of the 2017 accounts were made available before the close of the audit.

11. 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.

11.1 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 15 reports during the year, including two 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 2016 at the September meeting, which the Auditor attended.

11.2 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.

11.3 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.

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.

A handwritten signature in black ink, appearing to read 'Richard Murphy'.

Richard Murphy
Principal Auditor
24th August 2018

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