



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dún Laoghaire-Rathdown 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

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AUDITOR'S REPORT TO THE MEMBERS OF DUN LAOGHAIRE-RATHDOWN
COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Dún Laoghaire-Rathdown 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 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 4 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 The surplus for the year amounted to €21k after net transfers to reserves of €14m leaving a favourable balance of €9.7m. All transfers were approved by the Members. The main variances between the adopted budget and the AFS are detailed in Note 16 of the AFS. The Members approved the over-expenditure at the Council meeting on 11 April 2016.

Significant movements in the finances of the Council in 2015 include the following:

- Increase in operational assets of €15.7m
- Reduction in work in progress of €25m
- Reduction in long term debtors of €11.5m
- Increase in bank investments of €10m
- Increase in creditors and accruals of €6m
- Reduction in loans payable €13m

Chief Executive's Response

The increase in operational assets, together with the reduction in work in progress is mainly due to the capitalisation of the dlr Lexicon in 2015. The movement in long term debtors is primarily due to a 15% reduction in the development levy debtor from 2014.

Bank investments increased as a result of an excess of capital income compared to capital expenditure – primarily development levies and Local Property Tax (LPT) housing capital receipts. Loans payable reduced as a result of early redemptions of €7m which included a bridging loan of €6m. Standard principal repayments also exceeded borrowings by €6m.

3 Income Collection

The yields from the main revenue collection accounts over the last eight years were as follows:

	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%
Rates	85	78	78	75	76	81	85	91
Housing Rents and Annuities	79	80	77	79	80	81	82	86
Housing Loans	62	57	64	64	73	81	88	98

3.1 Commercial Rates

The collection yield for rates improved from 78% in the previous year to 85%. It should be noted however, that Appendix 7 of the AFS incorporated a number of changes in 2015. One such change was the categorisation of accounts in receivership, examinership or liquidation as specific doubtful debts, and their exclusion from the calculation of the percentage collection. This means that the performance indicator for rates collection is now based on “collectable arrears” which is similar to the model used by the Revenue Commissioners and other public sector bodies. If this change had not been applied in 2015 the collection yield for rates would have been 80% based on the previous formula for calculating the collection performance.

The Local Government Debt Management Project Group (LGDMPG) which was set up in an effort to prioritise the issue of debt management and debt collection requested every local authority to achieve a target for improvement of rates collection performance in 2015. The target set for Dún Laoghaire-Rathdown County Council was a 10% reduction in the outstanding arrears at the end of 2015 compared to 2014, and the Council exceeded it by €0.3m, reducing the arrears at the close of 2015 to €19.74m.

During audit a sample representing 12.8% (€2.5m) of the total arrears of €19.74m was selected for examination. The findings established that of the sample examined:

- 53.32% (€1.35m) - arrears were still being pursued
- 34.78% (€0.88m) - arrangements to clear the arrears were in place
- 6.7% (€0.17m) - arrears are in respect of vacant property
- 5.19% (€0.13m) - arrears are struck-off in 2016 or the business is in administration, examinership or liquidation

The review indicated that procedures are in place and every effort is being made to collect the arrears.

Chief Executive's Response

The Council is satisfied with the collection performance achieved in 2015. While recognising the economy is improving, it still presents significant challenges for many ratepayers, cognisance of which is being taken in rate collection efforts. The Council will continue to strive to improve, on an incremental basis, the collection performance over the forthcoming years and to achieve the nationally set targets for rate collection for this authority.

3.2 Housing Rents

Housing rent arrears in 2015 amounted to €3.5m. During audit a sample representing 4.8% (€167k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 61.00% (€103k) - pre legal action letters or warnings issued
- 14.00% (€23k) - tenant had vacated the dwelling
- 14.00% (€23k) - currently on an arrangement to pay
- 11.00% (€18k) - pending court hearings

The available resources are being utilised effectively in the collection of arrears.

Chief Executive's Response

The collection yield of current rents (excluding arrears) was 97.16%. Rent reviews can result in the retrospective application of rent charges and depending on timing can impact on the closing balance at year end.

3.3 Housing Loans

The closing arrears figure of €795k is a net figure, which can be further analysed as accounts in arrears of €914k and accounts in credit of €119k. The collection yield for housing loans having deteriorated dramatically over the last number of years showed a small reversal in the trend to 62% in 2015.

During audit a sample representing 53% (€418k) of the total arrears was selected for examination. The findings established that of the sample examined:

42.32% (€177k)	- the borrower is in dialogue re payment arrangements
26.89% (€112k)	- pre legal action or warning letters issued
10.98% (€46k)	- borrower had vacated the dwelling
9.92% (€42k)	- pending court hearings
9.89% (€41k)	- currently on a payment plan

A review of all credit balances should be undertaken and procedures put in place to either off-set the credit balances against the loan, or where applicable make a refund.

Chief Executive's Response

The Council, in accordance with instructions from the Department of Housing, Planning, Community and Local Government (the Department), continued to manage its eligible housing loan arrears under the Mortgage Arrears Resolution Process (MARP) in 2015, including negotiating arrangements and resolutions of arrears with borrowers, as far as possible. Repossessions are always the last resort, however, when all processes of the loan arrears policy are exhausted, litigation through the courts will be pursued in line with MARP guidelines. Under a court order, one shared ownership loan was repossessed by the Council in 2015.

When the annual statements are issued, customers are advised that if their account is in credit, they should contact the Council with a view to having the credit balance capitalised. In the case of shared ownership loans customers are advised that the credit can be used to buy out the equity element of the loan.

Only where the customer gives authorisation, is the credit balance capitalised.

3.4 Provision for Doubtful Debts

The accounts include an adequate provision for doubtful debts for each of the above.

4 Transfer of Water and Waste Water Functions to Irish Water

Irish Water (IW) was established on 1 January 2014, and is responsible for providing and developing water services in Ireland. The Council continues to deliver services on behalf of Irish Water under a service level agreement.

As part of a due diligence process carried out by Irish Water a statement of relevant debtor and capital balances as at 31 December 2013 was completed and signed off in 2015. This balancing statement resulted in a net creditor due to Irish Water of €139k and is included in Note 6 in the AFS.

In accordance with Water Services (No. 2) Act 2013 (Property Vesting Day) (no. 3) and (no. 7) Orders the water element of development levies, amounting to €1.75m was transferred from the Capital Account to the IW Account in 2015. Of this €603k was paid to IW in 2015, and the balance of €1.15m is included as trade creditor in Note 6 in the AFS. A further €1m is included in trade creditors in respect of short term water development levy debtors.

Chief Executive's Response

The amount owing on the balancing statement together with development levies due has been paid to Irish Water in 2016.

5 Debtors

Included in trade debtors is €1.9m in respect of the Capital Loan and Subsidy Scheme (CLSS), which up to 2014 would have been recouped from the Department. Since then the Department changed the funding policy directing that the CLSS is to be funded from the Local Property Tax (LPT). Its treatment as a debtor should therefore be reconsidered.

Chief Executive's Response

The transactions were posted in accordance with the Department's prescribed accounting treatment.

6 Register of Lands

As reported in previous audits there is no reconciliation carried out between the figures on the financial management system (FMS) and those in the combined land register records.

The land register is a combination of a physical archive of council owned lands and an electronic system called Property Interest Register (PIR), which is a purpose built property register database and mapping system, and was designed in response to an identified need in local authorities to chronologically record every transaction on every parcel of land owned by the authority, from acquisition, through tenure to disposal.

The Council first recorded lands on its financial management system in 2003, listing 53 parcels of land totalling €104m. Since then the records on the general ledger show that eight parcels of land have been used or disposed of and a further eight have been acquired, resulting in a total value of €147m as at 31 December 2015. The current procedure is that all land acquired since 2007 is recorded on PIR, but the old records have yet to be fully incorporated. Of the 53 parcels of land, ten with a total value of €45m have not yet been recorded on PIR.

The full implementation of the PIR system is slow and requires a dedicated team with property management expertise to deliver on this project. All land owned by the Council should be registered on PIR and a reconciliation should be carried out annually with the figures on the FMS.

Chief Executive's Response

Following an organisational re-structure in early 2016 the Property Management Section designed a three year Property Interest Action Plan (PIAP), which includes

populating PIR with the old property records and ensuring all land owned is recorded in the FMS.

A project team of staff assigned to PIR has been established as recommended in the plan.

The majority of land parcels on PIR have been identified on the FMS and the PIR reference number included as a relation on the asset master file, which will facilitate future reconciliations.

7 Capital Balances

While substantial progress has been made in recent years on clearing a number of unfunded capital balances, there are a number of significant debit balances on the capital account where funding has not yet been identified. Some of the larger balances in which there was no movement during 2015 include:

Harbour Square Acquisition Costs	-	€14m
Ballyogan Depot	-	€14m
Site at Shanganagh Castle	-	€ 9m
Unit 3 B Corrig Road Sandyford Ind. Est.	-	€ 5m
The Metals Capital Project Phase 1	-	€ 5m

Chief Executive's Response

During the financial year 2015, the debit balances on 58 capital jobs were cleared by the drawdown of match funding. While there are a number of significant debit balances in the capital account, there are also a number of significant credit balances, which are being matched where appropriate. This reviewing of capital balances exercise is continuing in 2016.

8 Development Contributions

8.1 Development contributions are included in the accounts on a receipts basis for amounts levied prior to 2004. From 2004 onwards amounts levied are included on an accruals basis. Total development contribution debtors in the AFS at 31 December 2015 were €62.6m analysed as long term debtors of €27.5m and short term debtors of €35.1m in the AFS. The development contributions debtor reduced by 15% from the previous year.

8.2 The valuation of development levies is based on the commencement notices received. Not all of these projects will proceed, and as it becomes definite that they won't they are deactivated. In 2015 records with condition amounts to the value of €2.68m were deactivated.

Chief Executive's Response

Development contributions are accounted for in accordance with Circular Fin 06/2008.

9 Procurement

The Council does not have a dedicated procurement section or procurement officer. There is however a procurement manual, which sets out the procedures to be followed when acquiring goods and services, and also the approval/procurement limits.

I recommend that the appointment of a dedicated procurement officer be prioritised.

Chief Executive's Response

An administrative Officer has recently been appointed to the Corporate, Communications and Governance department, whose remit will include procurement.

A procurement group has also been established composed of representatives from the major spending departments such as Housing, Infrastructure and Climate Change, and Municipal Services. Regular training in procurement methods is provided on an on-going basis to staff in various departments.

10 Payroll

The salaries and wages cost for 2015 was €46m which is 31% of the revenue expenditure. Our review of the payroll highlighted a small number of wages employees who are being paid excessive overtime, acting allowances and travel pro rata their basic pay. The details of these cases were discussed with management. Circular Letter LG (P) 13/09 states that Councils should request approval from the Department for all proposals to grant acting up allowances that exceed six months. The Council did not make such a request. These acting allowances for undertaking additional duties were for the most part paid on a long term basis. All overtime and allowances should be reviewed by management.

Chief Executive's Response

The majority of the overtime payments were to staff in the mechanical and water sections. The overtime in the mechanical section was for servicing vehicles for the winter maintenance programme and was required in order to maintain the vehicles in a safe and roadworthy condition.

The overtime in the water section was in the main of a preventative nature to ensure that infrastructure was proactively maintained during adverse weather forecasted events. Additionally overtime, along with acting allowances, resulted from staff vacancies in order that the same level of service was maintained.

The implementation of the Council's workforce plan continues with the regularisation of all long term acting positions in salaried posts having been mainly completed. It is proposed to schedule competitions for the regularisation of waged posts commencing in September 2016, subject to resources being available. This will reduce the incidence of overtime and acting.

11 Internal Audit Function

The Council's internal audit function consists solely of one member of staff, who in 2015 was assisted in this role by the provision of additional services from the panel of service providers for the supply of Accounting and Auditing Services, established by the Department of Justice. Four areas were approved by the audit committee from the 2015 audit plan; one was commenced and finished within the year while the other three were finalised in early 2016. I have taken account of the work of internal audit in carrying out my audit.

The head of internal audit reported directly to the Head of Finance and quarterly, or otherwise as requested, to the audit committee. In 2016 the Director of Corporate, Communications and Governance replaced the Head of Finance in this reporting structure.

I recommend that the internal audit function should be reviewed. It is critical to have a professional internal audit function to contribute to the corporate governance of the local authority, and to provide the necessary support for the audit committee.

Chief Executive's Response

A competition was held for the filling of vacancies and the creation of a panel for administrative officers. Appointments have been offered to fill vacancies including that of the Internal Auditor and it is expected that the appointment will be effected in September 2016.

12 Local Authority Companies

The Council has recorded its interest in two companies in Appendix 8 to the AFS, DLR Properties Ltd and DLR Leisure Services. The latter is limited by guarantee and is not incorporated in the AFS, while the former is limited by shares and is incorporated. The nominal value of the share capital of DLR Properties Ltd is €100 and the Council's interest in this share capital is reflected in Notes 3 and 10 of the AFS. In addition the net expenditure of €58.3m incurred by the Council in relation to its interest held in the Cherrywood Complex is also included in the Other Balances total in Note 10 of the AFS.

Chief Executive's Response

DLR Properties Ltd owns and manages two buildings in Cherrywood (Blocks AA and G2) totaling approximately 160,000 sq. ft. and 20 acres of development, serviced and amenity lands also at Cherrywood. Block AA is now fully let as is half of block G2 and the company is continuing to market the remainder of the building.

The value of the company's assets at the end of 2015 was €57m of which €54.1m relates to land and buildings, up from €40.3m in 2014.

13 Risk Management

Risk Management is a planned and systematic approach to identifying, evaluating and responding to risks and providing assurances that those responses are effective. Effective risk management and internal control mechanisms are important to organisations achieving their desired business outcomes. The creation and maintaining of Risk Registers forms an integral and essential part of an effective risk management system.

The Corporate Plan was adopted in 2015 and the individual Departmental Risk Registers are currently in the process of being updated.

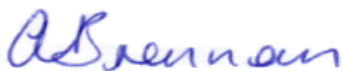
Chief Executive's Response

The Council's risk registers were prepared in 2011/2012 and these required updating and refreshing to reflect the revised organisational structure, the current organizational priorities and objectives and the risks to their achievement. The Corporate Register was updated during the latter part of 2015 and work on updating the departmental registers commenced in March 2016. Workshops were held with the various Council Departments to facilitate and enable the preparation of the risk registers.

The corporate risk register and that of the Finance and Risk Management Department have been submitted to the Audit Committee for its consideration, following which no changes were recommended. Draft registers encompassing all other Council directorates have been prepared, and will be submitted to future meetings of the Audit Committee for its consideration. It is envisaged this process will be completed before the end of 2016.

Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to me and the audit team by the executive of the Council.



Anne (N) Brennan
Local Government Auditor
7 September 2016