



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dún Laoghaire-Rathdown County Council

for the

Year Ended 31 December 2016



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 DÚN LAOGHAIRE-RATHDOWN COUNTY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Dún Laoghaire-Rathdown County Council (DLRCC) for the year ended 31 December 2016, 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, Community and Local Government (the Department).

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 2016 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 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.

- 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 Statement of Comprehensive Income

The surplus for the year amounted to €43k after net transfers to reserves of €13.9m 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 10 April 2017 as follows: €0.83m in Division A (Housing & Building), €0.32m in Division B (Transportation), €0.05m in Division G (Agriculture, Education, Health and Welfare) and €1.91m in Division H (Miscellaneous services).

2.2 Specific Revenue Reserve

The Specific Revenue Reserve in Local Authority accounts was a mechanism put in place to facilitate the changeover in accounting treatment when Local Authorities moved from accounting on a cash basis to an accruals basis. In 2016 the Department gave approval to eliminate the Specific Revenue Reserve if deemed appropriate for the purpose of one, or a combination of the following:

- a) Write down of General Revenue Reserve deficits
- b) Write down of unfunded capital project balances

There is no deficit on the general revenue reserve in DLRC and as a result the write down of unfunded capital project balances was the option taken.

The total amount in the Specific Revenue Reserve at the beginning of 2016 was €18.45m, and this was wound down as follows:

Harbour Square Acquisition Costs	-	€13.95m
Harbour Square First Floor	-	€ 2.46m
Accessible Entrance Harbour Square	-	€ 0.05m
The Metals Project Phase 1	-	<u>€ 1.99m</u>
		<u>€18.45m</u>

2.3 Local Retention of Local Property Tax and Equalisation

The funding model, based on local retention of Local Property Tax (LPT), was first introduced in 2015. The Government agreed that funding provided from the LPT for 2016 would be maintained at the levels of the previous year; excluding the amounts required to self-fund housing and roads. Based on its surplus position when expected 2016 LPT receipts were compared to the General Purpose Grant Allocations 2014, DLRC was required to self-fund some services in Housing and Roads areas to the value of €24.72m analysed as follows:

Housing €21.22m	-	revenue and capital
Roads €3.50m	-	revenue

80% of all LPT receipts were retained at local level and the remaining 20% collected nationally were re-distributed on an equalised basis. Based on its surplus position DLRC did not receive an allocation from the 20% and was required to self-fund services in the Housing and Roads areas. The LPT allocation for DLRC for 2016 was €40.59m, and as the local adjustment factor of -15% was applied it was revised downwards to €33.11m.

3 Income Collection

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%
Rates	85	85	78	78	75	76	81	85	91
Housing Rents and Annuities	77	79	80	77	79	80	81	82	86
Housing Loans	62	62	57	64	64	73	81	88	98

3.1 Commercial Rates

The collection yield for rates remained static at 85% when compared with the previous year. Comparison with the years 2008 to 2014 is somewhat distorted as prior to 2015 accounts in receivership, examinership or liquidation were not categorised as specific doubtful debts and were included in the calculation of the percentage collection.

During audit a sample representing 17.8% (€3.2m) of the total arrears of €17.9m was selected for examination. The findings established that of the sample examined:

- 59.4% (€1.90m) - arrears were still being pursued
- 30.3% (€0.97m) - arrangements to clear the arrears were in place
- 7.2% (€0.23m) - businesses are in administration/examinership/liquidation
- 3.1% (€0.10m) - arrears were cleared by March 2017

Of the arrears of €17.9m due at the end of 2016, €5.8m (33%) was collected in the first half of 2017. 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 reasonably satisfied with the collection performance achieved in 2016. While the economy is undoubtedly improving, it still presents significant challenges for many ratepayers, cognisance of which is taken in rate collection efforts.

While the collection percentage remained unchanged from 2015, there was a significant reduction (9.6%) in outstanding arrears, decreasing from €19.8m in 2015 to €17.9m in 2016. The Council will continue to make every effort possible to maximise income collection and minimise outstanding arrears.

3.2 Housing Rents

Housing rent arrears in 2016 amounted to €4m. During audit a sample representing 5.8% (€232k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 55.2% (€128k) - tenant either not engaging or not adhering to an agreed plan
- 14.2% (€33k) - arrears due in respect of Improvement Works in Lieu Scheme
- 11.4% (€27k) - change in tenant's income not being notified to the Council
- 11.0% (€26k) - currently on arrangement to pay
- 8.2% (€19k) - on hold depending the outcome of the tenant's personal litigation

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

Chief Executive's Response

It is hoped to further concentrate resources to tenants who are not engaging or adhering satisfactorily to repayment plans following the training of newly assigned staff to the Housing Rents section.

3.3 Housing Loans

The closing arrears figure of €786k is a net figure, which can be further analysed as accounts in arrears of €882k and accounts in credit of €96k. The collection yield for housing loans having deteriorated dramatically during the recession years showed a small reversal in trend over the last two years to 62% in 2016.

During audit a sample representing 62% (€516k) of the total arrears was selected for examination and in all cases, evidence was found that the Council is vigilant in pursuing these arrears.

Evidence was also found that the Council reviews the accounts in credit, and communicates to customers the credit balance on their account outlining the options available to them.

Chief Executive's Response

The Council is currently managing Housing Loan arrears under the Mortgage Arrears Resolution Process. It should be noted that at 31 December 2016, 87% of these arrears were attributable to Shared Ownership loans which constitute 15% of the Council's Loan book and which, with higher instalments, were more susceptible to the recent contraction in the economy.

3.4 Environmental Waste Charges

The Council withdrew from the provision of a direct waste collection service in August 2010, but continues to pursue collection of the outstanding arrears and in 2016 €158k was collected.

Chief Executive's Response

Payments due to a local authority for the provision of a service remain payable, irrespective of the time lapsed from the date it first became payable, until such time the liability has been discharged. The debt remains legally payable and the Council is committed to maximising collection of all charges due to it, including outstanding environmental waste charges.

While the Council's main collection efforts have now been completed in respect of this charge, payments are still received through instalment arrangements in place and also during the sale of properties where the Council will not issue certificates required in the conveyancing process until outstanding charges due are discharged.

3.5 Provision for Doubtful Debts

Overall the bad debts provision is adequate, but some areas may be over provided for and other areas under provided for. An example of this is the provision for doubtful debts of the rates debtors' book is 76% and the provision for the combination of the rents and loans debtors' book is 33%.

The provision for doubtful debts should be reviewed.

Chief Executive's Response

While the bad debt provision in the accounts is adequate an assessment of the bad debt provision in respect of individual debtors will be undertaken.

4. Transfer of Water and Sewerage 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 billing and collection of non-domestic water charges was

undertaken by the Council on behalf of Irish Water in accordance with the terms of a Service Level Agreement between the organisations.

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 of €139k which was paid over to Irish Water on 25 February 2016.

88% of all water development levies collected is remitted to Irish Water on a quarterly basis and the balance of 12% is retained to fund the Council's responsibility in respect of surface water. At the end of 2016 €754k was due to Irish Water and this is included in the trade creditors in Note 6 of the AFS.

5. Capital Account

The capital account recorded a credit balance of €89.86m as at 31 December 2016 which represented an increase of €32.85m on the previous year's closing balance.

5.1 Unfunded Balances

While good progress had been made in recent years on clearing of unfunded capital balances, apart from the unwinding of the specific revenue reserve, there was little movement in 2016. At year end there were forty six completed projects remaining on the capital account with a total balance of €36.96m where funding has not yet been identified. 80% of the balance is in respect of the following four projects:

Ballyogan Depot	-	€13.75m
Site at Shanganagh Castle	-	€ 9.05m
Unit 3 B Corrig Road Sandyford Ind. Est.	-	€ 5.18m
Church Road (Phase 111)	-	€ 1.44m

In addition there were thirty non project account balances amounting to €12.27m where funding has not yet been identified. 80% of this balance is in respect of the following four projects:

Enniskerry Road Housing Construction	-	€ 3.63m
The Metals Capital Project (Phase 1)	-	€ 2.82m
Affordable Housing	-	€ 1.70m
Playing Fields at Hudson Road	-	€ 1.66m

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.

Chief Executive's Response

The review of the capital account that had commenced in previous years continued in 2016 with a focus on the winding down of the specific revenue reserve and drawing down from Part V contributions to clear housing debit balances.

Considerable investigative works are required to clear debit balances and while a large number of debit balances were not cleared substantial progress has been made. The review of the capital account is an on-going exercise and will be continued in 2017 and beyond.

6. Fixed Assets

Register of Lands

I reported in previous audits that there is no reconciliation carried out between the figures on the financial management system (FMS) and those in the combined land register records. Since 2007 the Council has been in the process of recording its land assets on an electronic system called Property Interest Register (PIR). This system was designed to chronologically record every transaction on every parcel of land owned, from acquisition, through tenure to disposal.

Land recorded in Note 1 of the AFS for year ending 31 December 2016 was valued at €147m and consisted of 58 parcels, 42 of which have been recorded in part or in full on the PIR system.

The National Property Asset Management Delivery Plan requires all organisations within the public sector to populate a national property register provided by the Office of Public Works.

The Council has identified Property and Facility Management as a high priority in its risk register. In late 2016 it carried out its own internal review, which made a number of significant recommendations and has since engaged consultants from the internal audit framework to do a further review.

While progress has been made in this area, it is slow and is an area that should be prioritised.

Chief Executive's Response

As stated some progress has been made on this matter and the filling of three vacancies in the property management section in the coming months will greatly assist in making further progress. Internal audit are also carrying out a review of DLR's corporate estate and facility management with a view to ensuring best practices are identified and put in place.

DLRCC is also working directly with the recently established Local Authority National Property Management group which is seeking to address the challenges faced by local authorities nationally in meeting the requirements of the National Property Asset Management Delivery Plan and to also address the issues highlighted in relation to the PIR and fixed asset register. DLR will actively consider and engage with the recommendations of this group when they are published.

7. Loans Payable

Loans payable were reduced by 5% from €137m to €130m during 2016. All of the loans are with the HFA with the exception of two, one for the facility at Ballyogan and the other for the County Hall Works. The closing balance on the loan for the Ballyogan Facility was €5.2m and the loan for the County Hall Works was fully redeemed in 2016.

8. Development Contributions

Section 49 of the Planning and Development Act, 2000 enables a Planning Authority when granting planning permission pursuant to Section 34 of the Act to attach a condition to a planning permission requiring payment of a financial contribution in respect of any public infrastructure service or project and is generally referred to as a Supplementary Development Contribution Scheme (SDCS)

The Section 49 SDCS debtors were omitted from the 2016 AFS. This is inconsistent with the accounting policy on Development Debtors and Income in the Statement of Accounting Policies in the AFS.

In 2016 there were two Section 49 Schemes in operation in DLRCC as follows:

- 'Extension of Luas Line B1 – Sandyford to Cherrywood' with an estimated capital cost of €264m. All levies collected are transferred within one month of receipt of payment, to the Transport Infrastructure Ireland (formerly the Railway Procurement Agency) who is responsible for construction. DLRCC treat this as a refundable deposit and it is included in note 9 in the AFS.
- 'Glenamuck District Distributor Road Scheme and Surface Water Attenuation Ponds Scheme' with an estimated capital cost of €143m. Levies collected are retained by the Council for construction of the two projects. Debtors in respect of this SDCS were €3.64m at 31 December 2016. The short term element of €775k should have been included in development levy debtors in the AFS and I have directed that it should be adjusted in the 2017 AFS.

Chief Executive's Response

Development levies due in relation to the Glenamuck District Distributor road will be included in the development levy debtor calculation for AFS 2017.

9. Payroll

The salaries and wages cost for 2016 was €45m which is 30% of the revenue expenditure. Our review of the payroll highlighted a number of employees who are being paid excessive overtime and allowances when compared to 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 long term acting positions referred to were in place prior to the issuing of LG (P) 13/09. Since the completion of the Council's Work Force Plan efforts are continuing to address the regularisation of long term acting positions in accordance with the Haddington Road Agreement.

The majority of the long term acting positions, particularly on the administrative and professional/technical side, have been resolved in accordance with the response of the Department to the workforce plan. Given the rise in recruitment activity the HR Department is continuing to resolve the remaining posts with further competitions, mainly in relation to the outdoor supervisory grades and waged posts.

Recruitment is continuing into the current year and it is expected that all long terms actings will be resolved. All overtime continues to be monitored and reviewed by management on an on-going basis.

10. Prepayments

The prepayments are not always captured and appropriately accounted for in the AFS. This is inconsistent with the Accounting Policy on Accruals in the AFS which, states “The revenue and capital accounts have been prepared on an accrual basis in accordance with the Code of Practice”.

The prepayments data capture procedures should be revised to ensure that all prepayments are captured and properly reflected in the AFS.

Chief Executive’s Response

Controls will be re-examined to ensure prepayments are recorded more accurately in future years.

11. Procurement

DLRCC does not have a central procurement section and hence management of the procurement process is fragmented. Each division is engaged in purchasing and procurement decisions without the benefit of a centralised coordinated monitoring, control and oversight function. This leads to weaknesses in compliance with EU and National Procurement Regulations. A central procurement section is critical to the effective and efficient functioning of the procurement process.

Our review of expenditure exposed a number of instances where retrospective approval was received for purchase orders after the goods/services were received.

Chief Executive’s Response

A working group has been set up to examine the establishment of a central procurement unit. A range of options are being considered from a central unit to monitor compliance with procurement requirements through to a unit directly responsible for all procurement.

12. Local Authority Companies

The Council has recorded its interest in two subsidiary companies in Appendix 8 to the AFS, DLR Properties Limited and DLR Leisure Services Company Limited by Guarantee. Neither company is consolidated on the grounds that the income or expenditure represents less than 5% of the income or expenditure of the Council, which is in compliance with paragraph 10.3 of Section B of the Code of Practice and Accounting Regulations.

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. The value of DLR Properties Ltd assets at the end of 2016 was €61.77m of which €58.18m relates to land and buildings, up from €57.73m in 2015.

Chief Executive's Response

The continuing uplift in the value of DLR Properties Ltd's assets is encouraging as is the occupation of the majority of the blocks. The company will continue to market the unoccupied portion of block G2.

13. Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive, her management team and the elected members to ensure that effective systems of financial management and control are in place to mitigate risk.

13.1 Internal Audit

The staff compliment in the Council's internal audit function increased to two members of staff in 2016, who were 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. Six areas were approved by the audit committee from the 2016 audit plan; three were commenced and finished within the year while the other three were finalised in early 2017.

The head of internal audit reported directly to the Director of Corporate, Communications and Governance; and quarterly or otherwise as requested to the audit committee.

The enhancement in the internal audit function is to be commended. 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

There is a comprehensive and thorough audit plan, which has been developed through risk management, in conjunction with the Audit Committee and departmental management. The internal audit function is a key part of the Council's organisational governance and will be fully resourced and assisted by external service providers in delivering this important function.

13.2 Data Protection Policy

Under the Data Protection Acts 1988 and 2003 DLRCC is responsible for the fair processing of personal data.

The lack of a comprehensive Data Protection Policy detailing guidelines and controls was highlighted by the internal auditors in their report titled 'Data Protection Audit 2015 – Housing Revenue, Environment Department, CRM Section' which was finalised in May 2016.

In response, two corporate documents the 'Data Protection Handbook for Staff' and the 'Data Protection Code of Practice' were produced, approved by the management team and communicated to all staff.

The General Data Protection Regulation (GDPR) will come into force on 25 May 2018, replacing the existing data protection framework under the EU Data Protection Directive. The

Council should ensure that its preparations take account of all actions required to bring them into compliance with the new law.

Chief Executive's Response

The Council is in compliance with the requirements of current data protection legislation and will be in compliance with GDPR when it comes into effect in May 2018. GDPR is similar to the requirements of current legislation and many of the main concepts and principles of GDPR are similar to those in the current Data Protection Acts 1988 and 2003.

The Local Government Management Agency and the Office of the Data Protection Commissioner are co-ordinating a series of seminars and information sessions for local authorities over the coming months.

The Office of Government Procurement Interdepartmental Committee on Data is currently working to develop a framework for training on data protection and for data protection officers, and the committee has requested local authorities not to source training in the area to allow for a co-ordinated approach.

13.3 Corporate Risk Register

The DLRCC Corporate Risk Register was reviewed and updated in 2015 and work on reviewing and updating the departmental based risk registers was completed in 2016. As part of the Council's strategy to ensure the adequacy, efficiency and effectiveness of the risk management processes the registers are submitted to the Council's Audit Committee for its consideration and review.

Chief Executive's Response

Risk was included as an item on the agenda of all Audit Committee Meetings in 2016 with updates on preparation of risk registers, and completed registers, submitted to meetings of the committee for their consideration. In addition the Council adopted a risk management policy which was also submitted to the February 2017 Meeting of the Committee for its consideration.

A review of risk registers will commence in 2017 to ensure new and emerging risks are included on the registers and to further ensure that the registers accurately reflect the risks to which the Council is currently exposed. The review will commence with the corporate risk register.

13.4 Register of Charges

The Council does not have a Register of Charges. Title deeds held as security for loans advanced by the Council and relevant records in relation to the storage of the deeds are retained in the legal department.

Chief Executive's Response

A register of judgment mortgages is maintained in the Rates Section while details of Capital Assistance Scheme and house purchase loans are maintained in registers in the Housing

department. The format of the registers will be reviewed to meet the requirements of the Account Code of Practice.

13.5 Audit Committee

The statutory basis, functions and role of the Audit Committee is provided for under the Local Government Act, 2001 (Section 122), as amended by the Local Government (Business Improvement Districts) Act, 2006 (Section 5), as amended by the Local Government Reform Act, 2014. The committee is composed of seven members, three of whom are Councillors. The Deputy Chief Executive and Director of Corporate, Communications and Governance is the Secretary.

The audit committee met on six occasions during 2016 and the overall attendance rate of members was 83%. The Activity Report of the Audit Committee for the year ended 31 December 2016 was presented to the Council at their meeting of 3 July 2017.

The Audit Committee is very effective and its work is to be commended as it continues to contribute to the independent oversight of corporate governance within the Council.

Chief Executive's Response

The Council has an independent and professional audit committee in place, fully supported and assisted by senior management and internal audit. It provides independent oversight through a comprehensive programme of meetings, reviews and reports. The committee has complied with all statutory requirements and reports and continues with its full work programme.

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.



Nano Brennan
Local Government Auditor
27 July 2017