



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Dún Laoghaire-Rathdown County Council**

**for the**

**Year Ended 31 December 2013**



**Comhshaol, Pobal agus Rialtas Áitiúil**  
**Environment, 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 of Dún Laoghaire-Rathdown County Council for the year ended 31 December 2013, which comprise the Statement of Accounting Policies, Income and Expenditure Account, Balance Sheet, Funds Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is the Accounting Code of Practice for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express an opinion on the annual financial statement (AFS) of the Council as presented for audit, in accordance with the Code of Audit Practice. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, 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 opinion on the statement and to report my opinion to you. I conducted my audit in accordance with the principles and practice of Local Government Audit. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual financial statement. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the financial statement, 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error.

- 1.2. This report is issued in accordance with Section 120 of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

**2. Financial Standing**

- 2.1. The balance on the Council revenue account at 31 December 2013 was €9.6m. The Council made net transfers of €11.2m to reserves in 2013 and these are set out in note 15 in the AFS. All transfers were approved by the Members. The main variances between the adopted budget and the AFS are detailed in Note 17 of the AFS. The Members approved the over-expenditure in April 2014.
- 2.2. The balance on the Council's capital account at 31 December 2013 was €67.5m. There are unfunded balances on capital projects totalling €65.9m,

which have to be financed. Below are some examples of these projects:

- Dublin Waste to Energy Facility - €13.28m
- Enniskerry Road Housing Construction - €3.6m
- Church Road (Phase 2 and 3) - €1.87m
- Playing Fields at Hudson Road - €1.63m
- The Metals Project (Phase 1 and 2) - €5.68m

### Chief Executive's Response

A loan is to be drawn down in 2014 to fund the Dublin Waste to Energy facility as approved by the Council in April 2014 and subsequently sanctioned by the Department of the Environment, Community and Local Government (the Department) on 10 June 2014.

The housing department is continuing to request that the Department fund the debit balance on the Enniskerry Road Housing Scheme from the Social Housing Investment Programme.

An on-going review of debit balances, including Church Road, is being undertaken to determine how these debit balances will be funded. Substantial progress has been made and it is anticipated that further progress will be made before the commencement of the next audit.

The playing fields at Hudson Road and The Metals project are to be funded from the Council's capital resources on hand.

It is intended to progress the review of debit capital balances which is currently on-going with departments, subject to availability of resources.

## 3. Income Collection

3.1. The yields from the main revenue collection accounts over the last six years were as follows:

	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%
Rates	78	75	76	81	85	91
Housing Rents and Annuities	77	79	80	81	82	86
Housing Loans	64	64	73	81	88	98
Commercial Water Charges	54	50	44	41	39	31

3.2. Commercial Rates: -

The trend in the collection yield for rates for 2013 reversed, having been declining over the previous five years. An amount of €7.77m was written off in 2013.

During audit a sample representing 6% (€1.3m) of the total arrears was selected for examination. The findings established that of the sample

examined:

- 16.34% (€216k) - were in administration, receivership or liquidation
- 39.69% (€525k) - arrangements to clear the arrears were in place
- 43.97% (€577k) - still being actively pursued for the arrears

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

The collection performance in respect of commercial rates had deteriorated significantly over the last number of years coinciding with the very significant deterioration in the economic climate with collection yields in the 90% plus range having been achieved prior to the economic downturn. However, in 2012 the deterioration in collection was less than 1% in comparison to the previous year and the collection percentage achieved in 2013 of 78% represents an improvement of 3% on 2012 indicating a sustainable improvement/stabilisation in collections reflective of the improving economic climate and of the Council's efforts to maximise income collections.

The write-off figure of €7.77m in the AFS is comprised of a number of individual items; €5.23m is in respect of the strike off of rates on vacant properties. Where properties are vacant due to inability to obtain a tenant, despite reasonable efforts, or are vacant due to refurbishment, then rates are not payable on such properties. A further €0.06m of the overall write-off figure is attributable to decisions of the Valuation Tribunal in respect of valuation appeals referred to that body and €2.48m is attributable to inability of companies to meet their rates liability, either in full or in part, due in main to going into liquidation, receivership, examinership, etc. These three elements combined (€5.23m +€0.06m +€2.48m) make up the write-off figure in the AFS. It should be noted the Council made adequate provision in its 2013 budget to meet these costs.

The Council will only write-off as uncollectable any outstanding debtors where all collection efforts have been fully completed and exhausted. The Council is very conscious that where an outstanding debt is written off, that cost must be borne by the Council, which reduces funding available for service provision.

### **3.3. Housing Rents**

The Council's rents records are maintained on a system called OHMS. The figures on this system are not reconciled with those on the general ledger. At the end of 2013 the arrears balance on OHMS was €3.08m and on the general ledger it was €3.6m, which is a difference of €527k. The composition of this un-reconciled balance is not identifiable on the OHMS system. This difference should be reconciled.

During audit a sample representing 6% (€212k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 15.92% (€33k) - pending court hearings
- 30.63% (€65k) - pre legal action letters or warnings issued
- 8.62% (€18k) - cases in dispute
- 24.27% (€52k) - tenant had vacated the dwelling
- 20.57% (€44k) - currently on arrangements to pay

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

Work on the reconciliation of closing balances between the general ledger and the rents accounting systems has recently been completed as part of the 2014 rent reconciliations process. The work initially involved the checking of the application of weekly debits and adjustments and the crediting of rental income for the years 2008 (take-on of OHMS) to 2014. When it was clear that the OHMS system was operating rental income correctly, and that no omissions had occurred in the transfer of data from the previous Ingress system to OHMS, a similar examination was carried out for the years 2003 to 2008. It is not possible to carry out these checks prior to 2003 as sufficient statistics are not now available.

A detailed analysis of the available statistics shows that the difference between the two systems has remained constant since at least 2003 when debtors were first included in the balance sheet.

The reconciliation is currently being reviewed by the Finance Department with a view to aligning the balances on the two systems.

### **3.4. Commercial Water Charges**

The collection yield for water charges was 54% in 2013.

During audit a sample representing 6% (€1.74m) of the total arrears was selected for examination. The findings established that of the sample examined:

- 65.30% (€1.13m) - debtor is still being pursued
- 9.01% (€0.15m) - paying or arrangements made to pay
- 25.69% (€0.45m) - is in respect of an IDA site in Leopardstown.

The Council has prepared a schedule of debtors which is subject to due diligence by Irish Water.

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

The last five years has seen a continuous improvement in collection yields in respect of non domestic water charges with the 2012 collection showing an improvement of 6% over the 2011 collection, and 2013 showing a further 4% improvement over 2012. Furthermore, when account is taken of the amount charged back to 2013, for which invoices only issued in February 2014, and for which businesses had no opportunity to make any payment in respect of this invoiced amount in the year 2013 itself, and when this amount is excluded from the 2013 collectable figure, the 2013 collection performance increases to 66%.

The issue of outstanding water charges in respect of the IDA site is a matter that requires resolution at national level.

### 3.5. Housing Loans

The collection yield for housing loans deteriorated dramatically over the last number of years to 64% in 2013. The arrears outstanding increased a further 10% in 2013 to €761,773. The provision for bad debts in respect of housing loans should be reviewed. It has not increased in line with the increase in arrears and stands at €39k.

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

The majority of the accounts in arrears are being managed under the Mortgage Arrears Resolution Process (MARP), which was introduced in 2012. The engagement of the borrowers with the Council has resulted in a stabilisation of the arrears with many borrowers currently adhering to agreed arrangements.

While an increase of €66,035 in loan arrears in 2013 is of concern, the increase of 9.5% shows a significant stabilisation in arrears compared to the previous year-on-year differences since 2008 which have been considerably higher.

The Council is continuing to monitor and manage housing loan arrears under the Mortgage Arrears Resolution Process.

### 4. Dublin Waste to Energy Facility

The Dublin Waste to Energy project in Poolbeg is a Public Private Partnership between Dublin City Council (acting on behalf of the Dublin Area Local Authorities) and Dublin Waste to Energy Ltd to design, construct, operate, maintain and finance a waste to energy facility.

Total expenditure on the project to the end of 2013 was approximately €97.4m, of which €13.28m was reimbursed to Dublin City Council by Dún Laoghaire-Rathdown County Council. The €13.28m is included as an unfunded adverse balance in the Council's capital account. The uncertainty surrounding this project has been a matter of concern.

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

Dublin City Council, acting on behalf of the four Dublin Local Authorities (DLA's) has been pursuing the provision of The Dublin Waste to Energy Project (DWtE) following the adoption of the Dublin Region Waste Strategy by the four authorities in 1998.

Since the DWtE project was conceived in the late 1990s it has remained entirely consistent with regional, national and EU waste management policy. In addition to its importance in meeting waste management objectives for the Dublin region, its provision is crucial if the State is to meet 2016 landfill diversion targets without dependence on the export of municipal waste to overseas facilities.

The Council has discharged its financial liability over many years as a regional partner under the Dublin Regional Waste Management Plan and under the Project Agreement to cover its share of the costs associated with procurement, planning, contract and assembly of the site and an obligation to Dublin City Council to recoup the amounts incurred on the Council's behalf as they arose. As with the costs of other waste infrastructure, such as the Arthurstown Landfill and Ballymount Baling Station, the Dublin Authorities have agreed that the capital costs of waste infrastructure are to be recouped to the lead authority for each facility through an apportionment of costs in line with the population of their respective authorities. Costs have been shared by the four Dublin local authorities and to date the Council has paid €13,570,382 (16.3% share) from its own resources. Total expenditure to date on the project should be seen in the context of an anticipated investment by the Public Private Partnership Company (PPP) of circa €500m on the DWtE facility.

At its March 2014 meeting, the Council resolved that a loan in the sum of €16.34m be raised for the purpose of meeting its share of the costs.

The project has been subject to unanticipated delays due to a range of factors largely outside the control of the Dublin Local Authorities. The various obstacles to the DWtE project have now been overcome. A revised Project Agreement and related Agreements were signed by the four Dublin Local Authorities' Chief Executives and by Dublin Waste to Energy Ltd (DWTEL), the PPP partner in October 2014, under which the full cost of construction falls to DWTEL. Construction recommenced in October 2014.

The Project Agreement contains an Authority Contingent Obligation (ACO) clause under which the DLAs will provide partial revenue support for the first 15 years of operation of the DWtE plant in return for which they will share in the waste revenue stream, over a certain threshold, for 15 years. The DLAs will also share in the energy revenue stream for the 45 year life of the project above a certain threshold.

Actual returns to the DLAs will depend primarily on the development of the waste and electricity markets, although a significant element of the energy revenue is effectively guaranteed until 31 December 2030. It is likely the DLAs will recoup their investment costs to date.

## **5. Development Contributions**

Development contributions have been 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 at 31 December 2013 were €79.7m analysed as long term debtors of €40.9m and short term debtors of €38.8m in the AFS.

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

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



## **6. Procurement**

As part of the audit, purchasing procedures and controls were reviewed and tested, covering all divisions in the Council. While controls were found to be generally satisfactory, some audit test exceptions were noted and were discussed with management.

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

The Council recognises the importance of achieving value for money and the need to have robust procurement practices in place at all times. In this regard national and regional procurement contracts are utilised where possible e.g. supply of electricity, etc., and to date these have achieved value for money due to economies of scale.

A procurement manual has been developed and approval/procurement limits have been determined. These set out the procedures to be followed when acquiring goods/services which are under the threshold to tendering on e-tenders.

Further procurement training is being organised for staff involved in the procurement process.

## **7. Internal Audit Function**

The Council's internal audit function consists solely of one member of staff, who is currently assisted in this role by the provision of additional services from five professional firms. 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**

The Council is conscious of the need to have a strong Internal Audit function from a corporate governance perspective. A review of staffing levels, to supplement the work undertaken by the external firms, will be carried out in the coming weeks to identify a suitable replacement for the Internal Auditor who retired in July 2014, subject to available resources.

## **8. Risk Management**

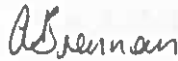
Risk management practice should be embedded in the organisation. The risk register should be continually updated and reviewed by management. The audit committee has a key role in the oversight of the Council's risk management processes. I recommend that the Council should establish a risk management committee.

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

An internal risk committee was previously established to develop the original risk register in 2011 which was subsequently updated in 2012. It is intended to re-establish this committee as part of the risk management process which will follow the review of the Corporate Plan currently underway.

### **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.



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**Local Government Auditor**  
**30 October 2014**