



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dún Laoghaire-Rathdown County Council

for the

Year Ended 31 December 2014



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 (AFS) of Dún Laoghaire-Rathdown County Council for the year ended 31 December 2014, 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 the Environment, 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 2014 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 €51k after net transfers to reserves of €11.4m 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 17 of the AFS. The Members approved the over-expenditure in May 2015.

Significant movements in the finances of the Council in 2014 include the following:

- Net reduction in infrastructure assets of €202m
- Reduction in trade debtors of €6.7m
- Reduction in creditors and accruals of €4.3m
- Reduction in bank and investment balances of €3.3m
- Increase in loans payable €3.2m

The reduction in fixed assets and trade debtors reflect the impact of the transfer of functions to Irish Water referred to in paragraph 4.

Chief Executive's Response

The reduction in the bank and investment balances is reflected in the reduced balance on the capital account.

The increase in loans payable is as a result of the loan drawn-down in relation to the Dublin Waste to Energy facility.

3 Income Collection

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

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

3.1 Commercial Rates

The collection yield for rates for 2014 remained the same as in 2013, which is significant, as it had been declining over the years 2008 to 2012. An amount of €6.9m was written off in 2014 (€7.77m in 2013)

During audit a sample representing 14.5% (€3.2m) of the total arrears was selected for examination. The findings established that of the sample examined:

- 20.29% (€0.66m) - were paid in 2015
- 37.82% (€1.22m) - were still being actively pursued for the arrears
- 18.64% (€0.60m) - arrangements to clear the arrears were in place
- 10.83% (€0.35m) - were in administration, receivership or liquidation
- 12.42% (€0.40m) - were either struck off or vacant properties

Chief Executive's Response

While the Council is satisfied with the collection performance achieved in 2014, having regard to the prevailing economic climate and the difficulties experienced by many businesses, it will continue to strive to improve, on an incremental basis, the collection performance over the forthcoming years.

3.2 Housing Rents

The Council's rents records are maintained on a system called OHMS. At previous audits I reported that the figures on this system were not reconciled with those on the general ledger. There was an old historic difference in excess of

€500k, the composition of which was not identifiable on the OHMS system. A reconciliation was done in 2014 and the historic unidentified balance was written off.

During audit a sample representing 5.5% (€177k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 36.00% (€74k) - pre legal action letters or warnings issued
- 11.00% (€22k) - pending court hearings
- 15.00% (€30k) - tenant had vacated the dwelling
- 07.00% (€13k) - cases in dispute
- 01.14% (€36k) - tenant in dialogue with Tenant Sustainment Office.

Chief Executive's Response

While the Council is satisfied with the collection performance achieved in 2014 having regard to the prevailing economic climate, it will continue to strive to improve, on an incremental basis, the collection performance over the forthcoming years.

3.3 Housing Loans

The collection yield for housing loans deteriorated dramatically over the last number of years to 57% in 2014. The arrears outstanding increased by a further 14% in 2014 to €867,341.

During audit a sample representing 58% (€504k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 39.64% (€200k) - pre legal action letters or warnings issued
- 32.12% (€162k) - the borrower is in dialogue re payment arrangements
- 15.08% (€76k) - referred to senior management for a decision
- 11.10% (€56k) - pending court hearings
- 01.43% (€7k) - currently on a payment plan
- 00.63% (€3k) - probate issues or loan in dispute

Chief Executive's Response

While the increase in loan arrears in 2014 is of concern, the Council has continued to manage its housing loan arrears under Mortgage Arrears Resolution Process (MARP), including negotiating arrangements and resolutions of arrears with borrowers as far as possible. 93.24% of total outstanding arrears in 2014 were being dealt with under MARP. A further 2.22% were in non-MARP agreements to pay, 1.94% was in respect of expired loans and 2.6% of the arrears are outstanding for less than 90 days.

Repossessions are always the last resort but legal proceedings will be taken when all processes are exhausted and also in line with MARP guidelines. The Council pursued two cases in court in 2014.

3.4 Domestic Refuse Charges Debtors

The Council privatised its waste collection service in July 2010. Since then the arrears have reduced from €15.9m to €8.2m. A number of debtors have

agreed payment plans and €605.8k was collected in 2014. In the circumstances however, it is likely that the collection of the balance of these arrears will be difficult.

Chief Executive's Response

The Council is committed to collecting monies due using all available collection methods and will make every effort to maximise collection of the outstanding balance.

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 IW under a service level agreement made on 30 December 2013.

4.1 Fixed Assets

The net book value of fixed assets removed from the accounts relating to IW amounted to €320m at 31 December 2014.

In accordance with Circular Fin 02/2015 issued by the Department of the Environment, Community and Local Government (the Department) on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- Section 7 of the Water Services (No 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- Section 21 provides IW with power to charge for water services
- A mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (included in the Service Level Agreement) pending the ultimate statutory transfer
- The revised accounting Code of Practice, published in December 2014 stipulates that "Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise an asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably"

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in a number of phases. The financial transfer is reflected in the local authorities'

accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

Infrastructure assets under the heading water and sewerage network with a net book value of €85.7m remain in the accounts of the Council. These assets are retained for the Council's continued responsibility for flood alleviation.

4.2 Transfer of Balances to Irish Water

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 on behalf of Dún Laoghaire-Rathdown County Council. Although this has been examined by consultants on behalf of Irish Water it had not, at the date of audit been formally accepted and agreed by them. This balancing statement resulted in a net creditor due to Irish Water of €139,083 and is included in Note 6 in the AFS.

Chief Executive's Response

It is expected that the balancing statement will be signed off by Irish Water in the coming weeks.

5 Register of Lands

There is no reconciliation carried out between the figures on the financial management system (FMS) and those in the combined land registers.

The land register is a combination of an old manual register and an electronic system called Property Interest Register (PIR).

The Council first recorded lands on its financial management system in 2003, listing 53 parcels of land totalling €104m. Since then eight parcels of land have been used or disposed of and a further eight have been acquired, resulting in a total value of €147m at 31 December 2014. The Council obtained the electronic asset management system PIR in 2007, which was designed in response to an identified need in other local authorities, to chronologically record every transaction on every parcel of land owned by the authority, from acquisition, through tenure to disposal. Up to 2007 the Council's lands were recorded in a manual register, and the contents of this register have not yet been fully recorded on PIR. All land acquired since then is recorded on the PIR.

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

A reconciliation will be carried out between the asset register on the Financial Management System and the Property Interest Register. The PIR reference will be included as a relation to land assets on the financial management system to assist in future reconciliations.

6 Capital Balances

While substantial progress has been made in recent years on clearing a number of unfunded capital balances (project and non-project), there are a number of significant debit balances on the capital account where funding has not yet been identified. At the end of the year the unfunded balances on capital projects amounted to €66.7m, which have to be financed. These balances include:

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

Chief Executive's Response

The review of the Council's capital balances, both funded and unfunded, is ongoing including the balances referred to above; and it is anticipated that substantial progress will be made before the commencement of the next audit.

7 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.

Up to the end of 2014 €13.94m was reimbursed to Dublin City Council by Dún Laoghaire-Rathdown County Council in respect of this project. In my previous audit reports I reported that expenditure on the project was classed as an unfunded balance. 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, of which €14.53m was drawn down for this purpose during 2014.

Following delays in the commencement of construction work, Dublin City Council, on behalf of the four Dublin local authorities, executed the revised Waste to Energy Project Agreement in September 2014. Work commenced on the site in October 2014 and the construction of the facility is expected to take three years.

Chief Executive's Response

Since the Dublin Waste to Energy Project was conceived in the late 1990's, 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 Eastern 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.

Costs have been shared by the four Dublin local authorities (DLAs), and to the end of 2014 Dún Laoghaire-Rathdown has paid €13.94m (16.3% share of total costs). Total expenditure to date on the project should be seen in the context of an anticipated investment by the PPP company, DWTEL (Dublin Waste to Energy Limited), of circa €500m on the DWTE facility.

The full cost of construction will fall to the PPP company. Under the revised project agreement, the four DLAs 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.

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 2014 were €73.8m analysed as long term debtors of €36.6m and short term debtors of €37.2m in the AFS.
- 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 2014 records with condition amounts to the value of €1.47m 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 team which meets sporadically. It is composed of senior staff from the disciplines of quantity surveying, engineering and administration. The team updated the procurement manual, in January 2015, which sets out the procedures to be followed when acquiring goods and services, which are under the threshold to tendering on e-tenders. It also sets out the approval/procurement limits, which have been determined.

Weaknesses found in the key controls were discussed with management.

10 Payroll

The salaries and wages cost for 2014 was €48m which is 32% 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 are made to staff in the mechanical section servicing vehicles for the winter maintenance programme and is required in order to maintain these vehicles in a safe and roadworthy condition in a challenging environment.

Proposals to reorganise the management of the fleet and addressing overtime payments and the acting positions will be reviewed and resolved in the context of the workforce plan.

11 Internal Audit Function

Regulation 9 of the Local Government (Financial and Audit Procedures) Regulations 2014 requires 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.

Local authorities are also obliged to establish audit committees in accordance with section 59 of the Local Government Reform Act, 2014. A key function of the audit committee is to "foster the development of best practice in the performance of the local authority of its internal audit function". This requires the audit committee to ensure that an internal audit function is in place that operates to professional internal audit standards. This encompasses the approval and monitoring of the annual work plan of the internal audit function and ensuring that management properly engages with internal audit, including the implementation of its recommendations. The audit committee cannot discharge its statutory functions without the support of a properly resourced internal audit function.

The Council's internal audit function consists solely of one member of staff, who in 2014 was assisted in this role by the provision of additional services from a framework of five professional firms. The annual work plan for 2014 was approved by the audit committee at its meeting held on 13 March 2014, and by the Chief Executive. The head of internal audit reports directly to the Head of Finance and quarterly, or otherwise as requested, to the audit committee. In 2014 four audits were completed by three firms at a cost of €33,408. All the reports were reviewed by the audit committee. I have placed reliance on this work.

I recommend that the staffing arrangement of the internal audit function should be reviewed.

Chief Executive's Response

Staffing and other arrangements in the Internal Audit section will be reviewed in the context of the workforce plan.

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 11 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 11 of the AFS.

13 Risk Management

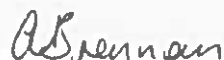
At the 2013 audit I reported that the corporate risk register should be continually updated and reviewed by management, and I recommended that the Council should establish a risk management committee. In 2014 two staff members from the Environment Department within the Council were charged with updating the corporate risk register. A draft was presented to the audit committee in May 2015. The Corporate risk register will be supported by departmental risk assessments and registers, work on which is currently being undertaken.

Chief Executive's Response

The Corporate Risk Register has been developed and approved by the management team and has been presented to the Audit Committee. The departmental risk registers need to be refreshed and arrangements to progress this process are 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.



Local Government Auditor
31 August 2015

