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Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dún Laoghaire–Rathdown County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF DÚN LAOGHAIRE–RATHDOWN COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Dún Laoghaire–Rathdown County Council for the year ended 31 December 2018, which comprises 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 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 2018 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 judgments 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

2.1 Statement of Comprehensive Income (Income and Expenditure Account)

The Council recorded a surplus of €15,816 (2017: surplus €7,629) for the year ended 31 December 2018 which increased the accumulated surplus to €9.8m at that date.

The elected members, at the first meeting of the new Council held in June 2019, approved (by resolution in accordance with section 104(2) of the Local Government Act, 2001) the expenditure incurred in 2018 that was in excess of the adopted budget for the year. The details of the divisional variances are outlined at note 16 to the AFS.

The surplus recorded for 2018 confirms that the Council once again adhered, in overall terms, to the strict budgetary requirements for the year.

2.2 Dún Laoghaire Harbour Co Ltd - transfer of balances

The Harbours Act 2015 (the Act) provides for the transfer by way of Ministerial Order of 5 named ports, one of which is the Dún Laoghaire Harbour.

The Minister for Transport, Tourism and Sport in exercise of the powers conferred on him by section 28 of the Act (Statutory Instrument no.391 of 2018 refers) and with the consent of both the Ministers for Housing, Planning & Local Government and for Public Expenditure & Reform ordered that the transfer date for Dún Laoghaire Harbour was 3 October 2018.

The Order provided for the dissolution (without winding up) of the Dún Laoghaire Harbour Company and for the transfer of the harbour to the Council.

In accordance with the provisions of the Act, all of the company's staff transferred to the Council on dissolution date. The Act further provides for the Council taking responsibility, following consultation at Ministerial level, for the superannuation schemes of the transferred staff. It is noted that professional advice is currently being provided to the Council to assist in both clarifying its future obligations and quantifying the potential financial liabilities with regard to the new members of staff that have been transferred from the former harbour company.

Section 33 of the Act stipulates that the final accounts of the dissolved company are required to be prepared within 6 months of the dissolution date. However, despite the efforts of Council management, the recent completion of a final statement of affairs for the company was not prepared by the required statutory date. It is also noted that the last annual audited accounts for the company, prior to dissolution, was in respect of the year ended 31 December 2016. Consequently, an examination of the transactions posted between the period 1 January 2017 and the dissolution date of 2 October 2018 formed part of the work that was undertaken by the private accountancy firm retained by the Council to prepare the statement of affairs.

Council management has informed me that there are no significant adverse findings and that there are no areas of concern being reported following the completion of the recent review of the company's accounts.

Following Department of Housing, Planning & Local Government (the Department) approval to allow for a departure from the requirements of the local authorities accounting code of practice in this matter, the Council's 2018 AFS does not include any of the balances relating to the harbour company's assets and liabilities that were in existence at the dissolution date. Furthermore, the 2018 AFS does not include any of the transactions, specific to harbour related activities, arising during the period 3 October 2018 to 31 December 2018. While the responsibility for these transactions rests solely with the Council, their exclusion from the AFS does comply with the approval received from the Department. Accordingly, an examination of the relevant transactions did not form part of the current audit.

The Council's 2019 AFS should therefore include both the agreed valuations of the company's assets and liabilities at the dissolution date (duly depreciated in accordance with the local authorities' code of accounting practice) and the harbour related financial transactions arising between 3 October 2018 and 31 December 2019.

2.3 Local Property Tax

The current funding model for the distribution of the Local Property Tax (LPT) was first introduced in 2015.

As provided for in legislation, the Council again passed a resolution to vary the basic rate of LPT downwards by 15% for 2018, thereby reducing the provisional allocation for the year to €33.7m. The impact of this was to reduce the original 2018 allocation by €7.8m.

Because of the Council's LPT surplus (calculated on the basis of anticipated 2018 receipts compared to the original baseline position established from the General Purpose Grant Allocations of 2014) there is a requirement, similar to other large local authorities, to self-fund some services provided during 2018 by the Housing and Roads directorates.

In October 2017, the Department confirmed the allocations that the Council was required to apply for 2018, as follows:

- Housing - revenue and capital €19.3m
- Roads - revenue € 3.5m.

Of the self-funded LPT that was allocated to the housing directorate, €10.25m was utilised to fund the common infrastructure costs associated with the Cherrywood development (see paragraph 5.2).

2.4 Statement of Financial Position (Balance Sheet)

The Council's net assets increased to €3.47bn at 31 December 2018 with fixed assets balances (increased from €3.30bn at the end of 2017 to €3.34bn at the end of 2018) being the main contributor to the year-on-year increase.

The net cash position improved significantly during the year increasing to €198m at 31 December 2018, a year-on-year increase of €18m.

As outlined in the Council's capital programme report (recently issued in respect of the period 2019 - 2021) this significant cash balance is required to fund the following:

- Amounts ring-fenced for specific purposes in compliance with the underlying provisions of the legislation in respect of which they were originally collected (such as Part V planning receipts, the Rental Accommodation Scheme, planning securities and refundable deposits etc.)
- Government grants on hand at the 2018 year-end to fund specific capital works and;
- Other amounts that were designated in previous years as sinking funds against known liabilities that have yet to materialise.

2.5 Fixed Assets - Land and Property registers

It was reported at previous audits that reconciliations between the amounts recorded in the Agresso FMS (the Council′s financial management system) and those contained in the land and property registers had not been completed. While the work is still not complete, the progress made since the last audit is acknowledged. The housing register is now substantially reconciled to the fixed assets register with just a small element still remaining to be reviewed.

A senior staff appointment has recently been made to the newly established Corporate Estates Management unit, whose main responsibilities include the development and maintenance of a corporate land and property register.

Future plans for the unit were discussed during the audit. The proposals to extend the remit of the unit to the examination of the condition of the non-housing land and properties for the purpose of assigning budgets for ongoing refurbishments and upgrades should, if implemented, improve the overall governance of this area. As the work programme and initial plans for the new unit are extensive, consideration should be given to assigning additional staff resources when funding permits.

The establishment of the new unit should facilitate the full implementation of the recommendations contained in the Local Government Audit Service Value For Money report no. 30 Corporate Estate Management and Maintenance in Local Authorities (January 2017).

One area where improvements are still required is the need to adequately record information on Council owned land and properties that are currently under lease or rental agreements with third parties.

Overall, I am satisfied that the recommendations made in this area at the previous audit are now being addressed. It is a requirement of the Accounting Code of Practice for local authorities that assets registers should be maintained.

Chief Executive's Response

The reconciliation of the housing register to the fixed asset register is nearing completion and will be finalised before the next audit.

The recently appointed Senior Estates Officer has conducted a gap analysis and has identified a central property management database which will centralise all property related information including lease and rental agreements.

2.6 Work in Progress

Accumulated expenditure on the work in progress and preliminary expenses account amounted to €32.4m at 31 December 2018 (2017: €32.8m).

Total expenditure of approximately €32m, in respect of schemes completed during 2018, was transferred to the Council's fixed assets register. These recently completed assets included the redevelopment works at Rosemount Court, the Leopardstown Link Road and the modular housing scheme at George's Place.

The 2018 year-end balance included the accumulated expenditure on the following main schemes that are currently being developed:

Work in Progress	Cumulative Spend at 31 December 2018 €m
New N11 Junction at Cherrywood	10.6
Housing development at Fitzgerald Park, Lr. Mounttown	8.3
Glenamuck distributor Road / Kilternan by-pass	7.3

The above three schemes are currently fully funded.

2.7 Development Contributions

Included in trade debtors and prepayments at 31 December 2018 was €14.2m (2017: €19.6m) in respect of development contributions owed to the Council (see note 5 to the AFS).

A provision for bad debts of €2.8m (representing approximately 20% of the development contributions debt book) has been made and is included in the overall 2018 year-end bad debts provision of €23.4m. The provision made should be kept under regular review to ensure that it remains adequate with regard to the aged debt status of the debtors being carried.

Chief Executive's Response

The Council will continue to monitor development contributions owed and related provisions to ensure adequacy.

2.8 Loans Payable

The Council owed €124m at 31 December 2018 (2017: €130m) in the form of medium to long term loans.

The balance at the end of 2018 included €36.8m that was owed to the Housing Finance Agency (HFA) on loans that were taken out more than ten years ago to acquire land for housing development that has not yet commenced, the details of which are as follows:

Sites acquired for development	Balance of Loan at 31 December 2018 €m
Old Connaught Avenue	20.2
Ballyman Road	10.4
Lehaunstown	6.2

The total interest incurred and paid on the above loans in 2018 amounted to €0.5m. Management has advised me that there is currently no expectation of any developments commencing on these sites in the short term. The development or possible other alternative use of these sites should remain a priority matter for management as the values of the loans are significant.

As the Council is not currently repaying the principal element on any of the above loans, management will need to identify sources of funding to reduce and eventually remove the liabilities from the balance sheet.

Chief Executive's Response

These sites are not serviced and cannot currently be developed. The management of the sites will continue to be kept under review.

2.9 Refundable Deposits

The amounts held by the Council as refundable deposits at 31 December 2018, totalling €33.8m (2017: €23.6m) are outlined at note 8 to the AFS.

The previous audit report highlighted the inadequacy of the supporting documentation with regard to the amount recorded as being on hand at 31 December 2017. While acknowledging that the current transactions continue to be accurately recorded, the documentation available to adequately confirm the amounts collected in previous years, is still not adequate. It is again recommended that additional resources should be assigned to this area to ensure that the amount recorded as being owed to the Council at the year-end is accurate.

The required review should be completed prior to the preparation of the 2019 AFS.

Chief Executive's Response

This will be prioritised by Planning, Municipal & Finance departments and resources will be allocated where required.

3 Income Collection

3.1 Main revenue income collections

A summary of the collection performances showing the 31 December 2018 arrears position in respect of the main income categories with the comparative figures for the previous year are as follows:

Income Source	Debtors €m		Yield %	
	2018	2017	2018	2017
Rates	15.0	16.3	88	86
Rents & Annuities	4.1	4.1	79	78
Housing Loans	0.7	0.9	63	57

The annual yields in respect of the three main collection accounts improved in 2018, with the returns on housing loans improving by 6%. The total amount collected (across the three income categories) increased from €92.1m (2017) to €96.3m (2018), a year-on-year increase of €4.2m with the overall level of indebtedness at 31 December 2018 reducing by approximately €1.5m when compared to the previous year.

3.2 Rates

As stated above, this income category recorded an improved collection performance in 2018. The collection yield for the year was again higher than the 2017 local authority sector national average, notwithstanding the significant level of debt that continues to be carried.

The status of the accounts in arrears at 31 December 2018 is summarised as follows:

Category	Number of customers	Amount owed €m	% of total arrears
Accounts in an agreed payment plan	513	5.2	34%
Legal proceedings commenced	217	3.9	26%
Vacant property applications awaited	471	3.6	24%
Accounts that are actively being pursued	841	1.6	11%
Customers in liquidations, receivership and / or administration	41	0.6	4%
Other (including bankruptcy, occupier vacated property and whereabouts unknown)	26	0.1	1%

While the current arrears remain significant, I am satisfied that adequate resources continue to be assigned to the collection of this important income category. It is noted that 217 of the accounts in arrears (representing approximately 26% of the total amounts owed to the Council at the 2018 year-end) were referred to the Council's legal department which is indicative of the Council's continuing commitment to debt collection.

3.3 Housing Rents and Annuities

The amount collected in this category of income in 2018 was at a similar level to the previous year with arrears reducing by just €58k to €4.06m.

The arrears remain significant and should continue to be pursued.

3.4 Housing Loans

The percentage collection yield in this category of income increased by 6% when compared to the returns recorded for 2017. Arrears reduced by approximately €115k year on year with €0.74m outstanding at 31 December 2018.

The current resources assigned to this area should remain in place to facilitate further increases in yield performances.

Chief Executive's Response

The Council will continue to make every effort to maximise income collection and to pursue outstanding arrears over the coming years.

4 Payroll

4.1 Payments of staff overtime

Recent audit reports (the previous Local Government Audit report and a report issued from the Council's internal audit unit refer) highlighted some significant weaknesses in the administration of staff overtime payments and the related internal control procedures.

Another review carried out during the current audit, has again identified similar weaknesses to those that were reported at the previous audit. While the core elements of salary and wages costs are generally well controlled with the majority of payments being made in an accurate and efficient manner, the main areas of concern relate to the weak internal control environment currently being adopted with regard to the administration of overtime payments.

The overtime charges continue to be significant with total costs in 2018 amounting to €1.5m (2017: €1.2m).

The specific matters raised with management during the audit are outlined below:

- A review during the current audit of a sample of the 2018 overtime claims that were approved for payment identified a high level of errors. The absence of adequate internal controls results in uncertainty as to the quantity of overtime hours worked and when the additional work was actually undertaken.

  The current procedures do not facilitate an efficient claims processing system.

- It was again noted, specifically in respect of the overtime claims processed for outdoor based staff, that the general level of information provided to support the need and purpose of the overtime work was not adequate. Different claim forms continue to be accepted for the processing of overtime hours that were undertaken despite the acceptance by management for the need to introduce a standard form. The different types of forms that continue to be used do not provide the level of information needed to adequately support the claims being processed and subsequently paid.

- Documentation to support the substantial payments made in respect of 3 overtime claims reviewed could not be located. Similar findings were reported at the previous audit.

- In three cases significant delays were noted (up to 7 months) between the dates that the relevant overtime was undertaken and the subsequent claim for the additional payments. Delays of this duration should no longer be accepted.

- An overtime procedures policy document was prepared in 2018 but has not yet been adopted as a formal internal control procedure. This draft policy should be adopted and implemented without further delay.

The internal controls currently being applied to the administration of the overtime claims and payments are not satisfactory. As this audit has again identified a number of significant errors and weaknesses, management have been requested to undertake a full review of the current working practices and procedures to ensure that the requirements for the additional work are sufficiently documented.

The reconciliation of payroll costs between the payroll system and the FMS, requested at the previous audit, was again not prepared. The completion of this reconciliation should be regarded as an important internal control procedure that is prepared regularly, and at a minimum annually, to ensure that the payroll costs are correctly recorded in the financial statements.

Chief Executive's Response

Work has commenced on the implementation of the audit recommendations. A review of work practices is being carried out and a cross departmental group has been established with a view to progressing the recommendations.

4.2 Acting up allowances

The continuing reliance on the Council to pay unsanctioned acting up allowances to some staff was highlighted at the previous audit.

While acknowledging management's efforts to regularise the situation with respect to indoor based staff there remained a significant number of outdoor based staff who continue to receive acting up pay allowances for periods in excess of 6 months.

In accordance with national protocols, acting up pay allowances for periods in excess of 6 months require Departmental approval to permit their continuing payment.

Chief Executive's Response

Whilst efforts continue to regularise 'acting up' appointments they remain necessary for the effective management of the organisation.

At year end December 2018 there were 17 indoor based acting appointments that were over 6 months. However 5 have since ceased as the vacancies have been filled, reducing the number to 12.

Consequently, the significant reduction in acting appointments between 2016 and 2017 has been maintained during 2018. The remaining appointments exist in order to manage workload challenges resulting from a combination of vacancies & consequential actings, maternity and long term sick leave.

Acting arrangements in relation to outdoor based staff are on a week to week basis to cover absences for annual / sick leave etc.

The recruitment schedule should in time address the issue of long term acting up allowances.

5 Capital Account

5.1 Capital Account overview

The capital account recorded a net credit balance of €130m at 31 December 2018, an increase on the previous year of €8.5m. The year-on-year increase is mainly attributable to the net additional development contributions received during the year of €7.4m.

The internal review that was undertaken since the previous audit, by senior staff in the finance directorate, is acknowledged. Sources of funding were identified that eliminated the deficits arising in some schemes and reduced the adverse balances in others. Some of the individual balances were previously carried forward for a considerable period.

The work completed to date has improved the quality of the reporting on capital projects to the senior management team.

The oversight of capital projects has also improved considerably following the establishment (in late 2018) of the capital project governance board whose main tasks include the initial evaluation of proposals for new capital schemes and the subsequent on-going monitoring of the approved project expenditure against their agreed budgets.

The establishment of this new board should contribute to significantly improved governance arrangements in this important area and is particularly timely given the quantum of expenditure outlined in the capital programme report for the period 2019 - 2021. This latest iteration of the capital programme is a comprehensive document that outlines clearly the expenditure to be incurred together with the related funding mechanisms on schemes being progressed by each directorate.

The larger schemes for development that are outlined in the report include the Glenamuck Distributor Road (expected spend of €68m over the three year period of the programme) and the common infrastructural works associated with the developments within the Cherrywood Strategic Development Zone (€54m - see paragraph 5.2).

Chief Executive's Response

Review work will continue towards eliminating the remaining balances within the capital account and identifying a funding plan for outstanding debit balances.

5.2 Cherrywood Strategic Development Zone (SDZ)

Statutory Instrument no. 535 of 2010 designated Cherrywood, Co. Dublin as a Strategic Development Zone with the Council being the specified Development Agency as provided for under section 165 of the Planning and Development Act, 2000.

In recognition of the size and complexity of the scheme, Council management established a development agency project team, comprising staff with a multi-disciplinary range of experience and expertise. In addition, a steering group has also been established that is chaired by the Chief Executive and comprises members of the senior management team.

This level of governance and oversight is commendable and should facilitate, in respect of the elements of the scheme within management's areas of responsibility, the timely progression of this significant infrastructural development.

The most recent iteration of the capital programme report outlines the background and funding mechanism being put in place to construct the "common infrastructure" element of the wider Cherrywood development. While the majority of the funding is expected to be derived from development contributions, financing will also be made available from the LPT, the Local Infrastructure Housing Activation Fund (LIHAF) and from the Urban Regeneration and Development Fund (URDF).

It is noted however that the capital programme report has highlighted a significant estimated shortfall of approximately €62m, based on the current funding model. Following discussions during the audit, management has advised me that the revised estimated total costs of the construction of the common infrastructure have increased (as at the audit report date) to approximately €200m with the funding shortfall now increased to an estimated €75m.

It is essential that all of the relevant stakeholders work proactively together with a view to bridging this significant funding gap. Delays in progressing the common infrastructural works should be avoided where possible. Failure to meet the agreed milestones is likely to have an adverse impact on the overall costs to the Council with a consequential impact, based on the current funding model, on the estimated funding gap.

Chief Executive's Response

The programme of delivery of the LIHAF and URDF projects is progressing.

In the delivery of the Common Infrastructure of the Cherrywood SDZ, the Council continues to work with all stakeholders to bring forward key projects and funding resources in order to facilitate timely and successful implementation in support of the Planning Scheme.

5.3 Deficit balances

Notwithstanding the overall credit balance on the capital account at 31 December 2018 and the impact of the review internal exercise that was recently undertaken, there still remained some large deficits on individual schemes that require a funding source, the more material of which are outlined below:

Capital schemes with deficit balances	Deficit at 31 December 2018 €m
Site at Shanganagh Castle	9.0
Ballyogan Depot	8.1
Unit 3 B Corrib Road, Sandyford Ind Estate	5.2
Enniskerry Road Housing scheme	3.6
Glenamuck TAU	2.7
Ballyogan Recycling	2.0

While the above balances remain substantial and an action plan for funding is still required, the reductions recorded in the overall deficits on the schemes identified above from approximately €65m (at the 2017 year-end) to €30.6m is acknowledged.

Chief Executive’s Response

These balances will be reviewed in the context of the overall review of the capital account currently underway.

5.4 DLR Properties Limited

As outlined at the previous audit, the capital account continues to record the financial transactions in respect of the loans that were advanced in previous years to DLR Properties Ltd. (the Council's wholly owned subsidiary company - see paragraph 9.2).

The manner of accounting for the relevant transactions through the capital account was the subject of discussions, at the time of the original loan advances, with the Department's General Accounts Working Group.

6 Irish Water

6.1 Transfer of water and sewerage functions to Irish Water

The Council continues to deliver services on behalf of Irish Water (IW) under a service level agreement. Section 12 of the Water Services (no.2) Act 2013 provided for the transfer to IW of all underground water services previously vested in the Council. The statutory transfers of the above ground water related assets to IW are given legal effect by Ministerial Order that are issued by the Department in consultation with the Council and IW.

To date there have been two transfers of assets (providing for the transfers of 8 assets) made by Ministerial Order. I have been advised that two assets, both located at Ballyedmonduff, are ready for transfer with further work still required to be done internally within the Council before the remaining 24 assets can be included in a transfer order.

Additional staff resources are required to be assigned to this area to enable a more efficient transfer process to the utility company.

Chief Executive's Response

Additional staff resources have been assigned to the asset transfer area and Water Service and Legal Services will progress the transfers.

7 Non Pay Expenditure

7.1 Purchasing and Invoice payments

The timely raising of purchase orders to record and register, on the financial management system, the Council's commitment to acquire goods and services is one of the corner stones of an organisation's budgetary and internal control.

The previous audit report highlighted sustained improvements during 2017 that were carried forward to the early part of 2018. A review of the 2018 purchasing and payments procedures carried out during the current audit, has again indicated that the important internal control of raising purchase orders at the appropriate time (to formally register the commitment to acquire the relevant goods and services) are generally being applied by all sections of the Council.

Compliance levels in excess of 90% have again been recorded for 2018 and is acknowledged. All relevant staff should be reminded of their obligations to comply, in all circumstances, with the Council's purchasing procedures.

Chief Executive's Response

Regular reminders will continue to issue to staff regarding the requirement to comply with purchasing procedures.

8 Procurement

8.1 Results of compliance checks

Non-compliance with national procurement guidelines and regulations were noted at previous audits. Despite the progress that continues to be made by some sections, there remain a number of areas where a review of work practices is still required.

The main areas of concern noted during the current audit and which specifically referred to the revenue account in respect of payments made in 2018, were as follows:

- The contracts awarded in respect of some housing refurbishment works (cumulative spend in this area was in excess of €1.4m in 2018) were not tendered in accordance with the national regulations and guidelines. It is acknowledged that the housing directorate is currently undertaking a comprehensive review of the purchasing needs of the division and it is noted that framework agreements are currently being established. The current resources assigned to this area need to remain in place until the current work is completed.
- As highlighted at the previous audit, the contract for the provision of legal services in respect of parking enforcement matters continues to be awarded to a firm on a "roll-over" basis, a situation that has been in place since 2010.
- Some contracts were awarded by the Council without recourse to compliant procurement procedures because the services required were deemed to be emergency in nature. As recommended at the previous audit, in such circumstances framework agreements should be established from which suitable firms can be selected at short notice on predetermined costs terms.

- As highlighted at the previous audit, the contract for the collection of parking income continues to be awarded to a firm on a "roll-over" basis, a situation that has been in place now for approximately 3 years. It is acknowledged that a formal tendering process is currently being progressed in an effort to regularise the non-compliant position.

The recent allocation of additional staff resources that have been assigned to the central procurement unit is a welcome development that should contribute to both improving the Council's understanding of the various national guidelines and regulations as well as improving compliance levels across the various administrative divisions.

As a public organisation, the Council (including its subsidiary and related companies) is required to comply, in all respects, with both the national and where relevant the EU procurement regulations and directives.

Chief Executive's Response

The Housing Department is currently in the process of setting up three frameworks - Heating & Plumbing, Minor Building Works and Electrical Works. These three frameworks will cover the vast majority of works required under housing refurbishment.

The procurement of a new pay parking enforcement contract, including legal services, is concluding, and it is expected that a new contract will be awarded shortly. The procurement was conducted using the Office of Government Procurement (OGP) framework.

8.2 Public Spending Code

In compliance with the requirements of the Public Spending Code (PSC), the internal audit unit recently completed a report on its review of the 2018 financial transactions incurred in the following areas of Council activities:

- Capital Account — George's Place housing scheme; Rosemount Court housing scheme
- Revenue Account — Street Cleaning costs

The findings and recommendations contained in the PSC report were taken into account as part of this audit.

9 Local Authority Companies

9.1 AFS Appendix 8 disclosures

The Council has an interest in a number of connected companies, the details of which, together with the relevant 2018 trading results, are disclosed at appendix 8 to the AFS.

All of the companies, listed therein, are audited by private firms of auditors having been appointed by the respective board of directors to undertake the annual audits. The companies' board of directors (whose primary functions under the Companies Act, 2014 is to manage the businesses on behalf of the shareholders - the Council is the sole shareholder of DLR Properties Ltd.) include representatives of the Council's senior management team and also the elected members who act in ex-officio capacities.

9.2 DLR Properties Limited

As outlined in the DLR Properties Limited (DLRP) Directors' report to the 2018 audited AFS, this company is involved in acquiring, developing, holding, managing, leasing and disposing of land and buildings located at Cherrywood, Co. Dublin. All of the company's issued shares remain in the beneficial ownership of the Council. Company management were met during the course of the current audit to obtain an overview of the current trading performances and future plans for the company.

The company's audited accounts for the year ended 31 December 2018 recorded a surplus for the year of €3m (2017: surplus €9.3m). The surplus was achieved following a further uplift in the market valuation of the development properties that are currently in the company's ownership, all of which are located at Cherrywood.

The Council's interest in the company was valued on 31 December 2018 at €5.2m (2017: €2.1m), the calculation of which was based on the company's net assets valuation at the balance sheet date.

Following the annual professional valuation undertaken by the company, the development properties were valued at €70.5m at 31 December 2018. This most recent valuation puts the market value of the properties in excess of the cash value of the loans (€69.1m) that were advanced by the Council to the company. As outlined in the previous audit report, the loans comprise of term loan facilities that are subject to a 13 month repayment notice period and were issued to fund the company's acquisition of its rights, interests and entitlements over the land and property at Cherrywood. An additional loan facility of €1m was advanced by the Council to the company in 2018.

In accordance with the loan agreements, interest was charged in 2018 on a portion of the total loan book. Total interest paid to the Council in respect of 2018 was €0.57m which is expected, in accordance with the conditions of the loan agreements, to increase to €0.67m in 2019 and to €0.89m by 2021. As outlined in the previous audit report, a portion of the loan book (mainly comprising the loans advanced for the purchase of the land at Cherrywood) was issued to the company on an interest free basis. The total interest paid to date, following approval received from the elected members, has been transferred to the Council's capital account to fund some of the substantial debit balances arising.

Council management has advised me that it is not anticipated that the company will be required to commence repaying the principal element of the loans (currently €69.1m) in the near future.

There are also two management companies, incorporated as Artoka CLG and Glenleah CLG that are related to DLRP. These two companies share common directors and secretary with DLRP and are currently audited by the same audit firm that undertakes the annual audit of DLRP. The principal activities of the two management companies, as outlined in the respective directors' reports to the 2018 AFS', is the management (on a fee income basis) of the buildings owned by DLRP.

The 2018 audit reports for the three companies together with the related audit letter that were forwarded to me, did not contain any significant matters of concern arising from the annual audits process.

DLRP has recently informed the Council that it has entered into legally binding contracts with a property developer company to dispose of the 13.9 acre site known as TC3. The company stated that, under the terms of the agreement, it will exchange the TC3 site for a yet to be constructed 145,000 sq. ft. Grade A commercial building. On completion, the company plans to use the building as part of its expanded property rental portfolio. It is noted that the building is required to be delivered by the property development company to DLRP by February 2023.

As the recent agreement will significantly increase the company's commercial property portfolio, I have recommended to Council management to maintain a prudent approach in respect of its long-term strategy to ensure that the significant public funds invested in the company continue to be safeguarded.

Chief Executive’s Response

This agreement, and the further increase in the valuation of properties, will have positive results in terms of protecting the investment made.

9.3 Dún Laoghaire Rathdown Leisure Services CLG

This company oversees the day-to-day management of the two municipal golf courses situated at Stepaside and Marlay Park (this course remains closed) and the four leisure centres located at Meadowbrook, Monkstown, Loughlinstown and Ballyogan and other ancillary activities. It is a company limited by guarantee and not having a share capital. Its board of directors include representatives of the Council's senior management team and the elected members.

The Company's audited AFS for the year ended 31 December 2018 recorded a surplus for the year of €133.5k (2017: surplus €162k) thereby increasing the shareholders' funds at that date to €3.1m approximately. As outlined in the previous audit report, the company continues to carry significant cash reserves.

The review of historical records that was requested at the previous audit, has now been completed. Due to the absence of documentation, company management have not been able to obtain sufficient evidence to clearly establish the specific purpose for which the substantial funds are being carried forward.

The company's board of directors agreed (at the meeting convened in March 2019) that the specified funds would not be available for operational purposes but instead would be ring-fenced for future capital projects. Consequently, a capital reserve should now be created equal to the amount being ring-fenced that should be transferred out of the current revenue reserve balance.

Company management were met during the course of the audit and it would appear that the various business activities continue to be managed effectively and that determined efforts are being made to maintain the current trading performance level.

Chief Executive’s Response

Arrangements are being made to create a capital reserve which will be reflected in the company’s 2019 accounts.

9.4 The Pavilion Theatre Management Company CLG

This company oversees the day-to-day management of the Pavilion Theatre. It is a company limited by guarantee and not having a share capital. Its board of directors include representatives of the Council's senior management team and the elected members.

The company's audited AFS for the year ended 31 December 2018 recorded a surplus for the year of €77k (2017: surplus €77k) thereby increasing the shareholders' funds at that date to approximately €0.6m.

The recent issue of the new lease agreement between the Council and the company is acknowledged. This should now provide the necessary legal protection for the Council in respect of the company's continuing use of the theatre building. The previous lease had lapsed some years ago.

10 Governance and Propriety

10.1 Governance overview

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, her management team and the Council's elected members all have a role in ensuring there are sound systems of financial management and internal controls in place.

10.2 Risk management

An effective risk management framework provides the executive management and the elected members with assurances that major organisational risks are both identified and appropriately managed.

While most of the Council's divisional risk registers continue to be reviewed and updated on a regular basis in compliance with the formally adopted internal controls, some registers have not yet been reviewed during 2019.

The relevant division management should ensure the registers are reviewed and updated without delay.

Chief Executive's Response

The review and updating of registers are monitored and reminders issued to relevant departments where items are outstanding.

10.3 Internal Audit

There are currently two staff assigned to the internal audit unit. As reported at the previous audit, a significant portion of the work output from this unit is contracted to private auditing firms that are selected from a framework agreement for the supply of accounting and auditing services established by the Department of Justice and Equality.

As recommended at the previous audit, it would be preferable to increase the staff complement working within the unit, thereby reducing the reliance that is currently placed on outsourcing elements of the annual audit work plan. Some of the studies undertaken by internal audit require a knowledge of the regulatory framework, systems and procedures that are specific to the local government sector and consequently some reviews may not be suitable for outsourcing.

It is a critical element of good corporate governance that the internal audit function of an organisation the size and complexity of the Council is adequately resourced with professionally trained staff.

Chief Executive's Response

It is intended that Internal Audit staff, when fully trained, will have the capacity to carry out more audits.

10.4 Audit Committee

The Council's audit committee met on six occasions during 2018 and issued its annual report for that year in April 2019.

I commend the work of the committee which continues to make significant contributions to the independent oversight of corporate governance within the Council.

10.5 Annual Declarations of Interest

Part 15 of the Local Government Act, 2001 (as amended) imposes obligations, on all Council members and staff of a certain grade or assigned certain duties, to make annual declarations to the Council's designated Ethics Registrar.

At the previous audit instances of non-compliance, by both the elected members and certain grades of staff, were highlighted. A review of the returns submitted in respect of the period ended 28 February 2019 was undertaken during the current audit, which resulted in improved levels of compliance being noted.

However, there were still some returns that were not submitted by the prescribed deadline date and others that were not complete.

All elected members and relevant staff grades should be reminded of their statutory obligations in respect of the necessity to furnish appropriate declarations by the annual deadline date. The forms, when submitted, should be completed in full.

Chief Executive's Response

An active process is in place to ensure that all Annual Declarations of Interest are returned by the prescribed dates and are fully complete. Returns have been received from all existing Councillors

Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to audit by the management and staff of the Council.

Eamonn Daly

Eamonn Daly
Local Government Auditor
27 August 2019.

Department of Housing, Planning and Local Government

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