COMHAIRLE CONTAE ÁTHA CLIATH THEAS
SOUTH DUBLIN COUNTY COUNCIL



MEETING OF SOUTH DUBLIN COUNTY COUNCIL

Monday, October 17th 2016

HEADED ITEM NO. 11

**Audit Committee report to Council on its consideration of the audited financial statement and auditor’s report.**

**REPORT:**

1. **Introduction**

At the Audit Committee meeting held on 29th September, the Principal Local Government Auditor was in attendance to review and discuss her audit and audit report in respect of the Council’s Annual Financial Statement 2015.

The Auditor’s opinion was that *‘the Annual Financial Statement 2015, which was prepared in accordance with the Code of practice and Accounting regulations for local authorities, presents fairly the financial position of the Council at 31st December 2015 and its income and expenditure for the year ended.’*

The Committee noted that the Council recorded a surplus of €49.17k, while this represented a reduction of €1.27m on the previous year’s accounts the cumulative revenue balance was €12m at year end 2015.

In accordance with Section 60 of the Local Government Act 2014, I set out hereunder the Committee’s report in respect of their consideration of the audit and auditor’s report. Issues highlighted by the Auditor were discussed and considered by the Committee along with the Chief Executive’s responses to those issues raised as follows:

1. **Income Collection**

**2.1 Rates**

The auditor noted that 1,250 rates arrears cases with an approximate value of €13m were processed through the Council’s Law Department in 2015. Management reported that cases are only referred to the Law Department when all other debt recovery options have been exhausted and that the issue of debt collection has been examined nationally and revised and enhanced powers of collection are being considered for incorporation into rates legislation. Management also pointed out that circa 52% of cases processed through the Law Department were either paid or arrangements entered into for payment.

The Committee noted the significant improvement in rates arrears which was commended by the auditor and also noted that the bad debt provision in the accounts was satisfactory.

**2.2 Rents**

The Committee noted the auditor’s report that a more focused arrears management process was put in place during 2015 and that the collection yield of 74% had an improvement of 1% on the previous year’s figures and is expected to improve further in the 2016 accounts. It was also noted that the bad debt provision was deemed satisfactory by the auditor.

1. **Housing Loans**

The auditor raised concerns with the reliability of the loans system which is not integrated with the financial management system and which requires shut down of the system and manual intervention for running reports. It was also noted that adjustments were required for six repossessed houses with a value of €803k as they had been incorrectly accounted for and had impacted on a number of areas in the accounts. These adjustments were carried out prior to the close of the audit.

 The committee noted that the Council completed an independent review of its housing processes and procedures including IT systems and in particular standalone systems. One of the main recommendations from the review was a fully integrated housing system, the Council is currently preparing tender documentation for an integrated system and it is anticipated that it will go to tender in the current year.

1. **Irish Water**

The Committee noted that the transition to Irish Water is an ongoing process. While assets have been transferred issues such as wayleaves and rights of way continue to be addressed. Two remaining water related non HFA loans in the sum of €5.7m remain outstanding as well as €3m due to Irish water in respect of Boherboy water Supply Scheme. The Committee noted management’s response that dedicated resources are in place to ensure the smooth operation of the SLA with Irish Water.

1. **Capital Balances**

The Committee noted the Auditor’s comments, that although significant work had been undertaken since the last audit on capital jobs balances, that a balance of €27m remains outstanding on the housing capital accounts which requires a considerable amount of work. The Auditor stated that work requires to be balanced between work involved with the current programme and the historical balances which need to be addressed.

The Auditor considers and the Audit Committee agrees, that this work needs to be prioritised as failure to do so could have funding, accounting and mortgage registration implications for housing. The auditor recommends that additional dedicated resources be allocated to finalise the work on the capital accounts. The Audit Committee endorses the Auditor’s recommendation that dedicated resources be assigned as a priority to deal with the outstanding issues.

Management stated that some of the balances refer to legacy issues which can take time to resolve but confirmed that work is ongoing in this area and that it is being prioritised.

1. **Affordable Housing**

Bridging loans to the value of circa €33.9m in respect of the acquisition of affordable houses will expire within the next two years. These properties were acquired prior to the downturn in the housing market. Management reported that the servicing of these loans is currently being reviewed in a national context.

In addition, the fall in house prices had an adverse effect on the sale of properties which had implications for part V agreements already in place. Developers were at a loss of €4.6m from the sale of properties which the Council agreed to offset against future contributions under the part V agreement. The offset was not provided for in the accounts. Management reported that this was referred to the Department of Housing, Planning, Community and Local Government and as it is a national issue, it has been referred to a national working group to examine how best to provide for future commitments in the accounts.

The Auditor also reported that a balance of €3.7m which relates to administration charges remains outstanding. This balance relates to transfers from revenue to capital since 2009 in respect of costs carried over from the administration of the affordable housing scheme. Management reported that the Council continues to seek a direction from the Department of Housing, Planning, Community and Local Government in respect of funding this balance.

1. **Interests in Companies**

The Committee noted that one of the four associated companies that the Council has an interest in did not have their audited accounts available for review by the auditor although the draft accounts were made available. The Committee noted that this Company had a deficit of €395k. The auditor was assured by Management that the audited accounts would be available in time for next year’s audit.

1. **Compulsory Purchase Orders**

The auditor stated that more clarity is required in relation to the funding of CPOs’ for non-national roads as no provision was made in the financial statement for these acquisitions. Management reported that the liability is recognised once the expenditure has been incurred and reflected in the Council’s financial management system and that there are reserves to fund these acquisitions mainly through Development Contributions and land disposals.

1. **Procurement**

The auditor reported issues identified with contracts in relation to price overruns, additional works to the contract carried out and expiry date extended. Management reported that contracts can vary for a number of reasons including unforeseen works and in one particular case the contract was extended as a national framework for such contracts was being prepared. The procurement unit is now fully staffed, procurement co-ordinators have been established in each department and a procurement plan is in place. Good progress has been made in procurement practice across the organisation and continues to do so.

1. **Risk Management**

The auditor highlighted the importance of an organisation embedding the risk register in both the corporate and business plan as part of the governance structure in the organisations. Management confirmed that this is the current practice.

1. **Bank Reconciliation**

The Auditor outlined her concerns in relation to outstanding transactions on the bank reconciliation some of which are dating back a few years. The Committee expressed serious concerns on the associated risks that incomplete bank reconciliations can present and highly recommends that resources be allocated to address these issues as a priority to ensure fundamental controls can be relied upon.

Management reported that the majority of the transactions are historical and a focused effort will be made to address these issues before the next audit.

1. **Conclusion**

The Audit Committee acknowledges the progress made during 2016 on issues identified by the Auditor in her last audit of the AFS 2014, which the Audit Committee monitored at their quarterly meetings as part of their work programme. However, the Committee shares the Auditor’s concerns in relation to the housing capital balances and the bank reconciliation and strongly recommends that resources be allocated to these two areas as a high priority.

The Committee will continue to monitor progress on the issues raised by the Auditor as part of its work programme by receiving updates from Management on a regular basis.

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