



**Rialtas na hÉireann**  
Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Fingal County Council**

**for the**

**Year Ended 31 December 2019**

Department of Housing, Local Government and Heritage

[housing.gov.ie](http://housing.gov.ie)

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# AUDITOR'S REPORT TO THE MEMBERS OF FINGAL COUNTY COUNCIL

## 1 Introduction

I have audited the Annual Financial Statement (AFS) of Fingal County Council for the year ended 31 December 2019, 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, Local Government and Heritage.

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 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 3 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 Non – adjusting post balance sheet event – COVID-19

In accordance with Circular Fin 05/2020, the local authority has included a note in their Annual Financial Statements (see note 23) in relation to COVID-19. This note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities post year-end. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cashflow of the local authority and the ability to deliver services.

The local authority has taken a number of steps to address these issues both at local and national level including:

- Applying the 6 month commercial rates waiver to qualified ratepayer accounts and claiming the credit in lieu from the government fund (see note 4.2)
- Attempting to quantify the loss of income from parking, events and various other income streams
- Attempting to quantify both the increased level of expenditure due to the pandemic and also the savings due to decreased level of activity and events funding requirements
- Preparing the 2021 budget with the focus on ensuring key services are not affected
- Providing a €5m COVID-19 reserve in the capital account from a revenue account transfer approved by Council members in June 2020.

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

The Council's overall objective for the 2021 budget will be to maintain the delivery of key services while being cognisant of the financial challenges due to the COVID-19 pandemic. A key element of this will be clarity on the level of supports to be put in place for Local Authorities in 2021 by the Government. Engagement with members will continue through the Corporate Policy Group process with regards to the formation of the 2021 budget.

## **3 Financial Standing**

### **3.1 Statement of Comprehensive Income**

The Council recorded a surplus of €1k for the year after making net transfers of €44.2m to reserves. The Members approved over expenditure at their June 2020 meeting. There is a cumulative revenue surplus at the year-end of €16m. The impact of the COVID-19 pandemic on the revenue account in future years has yet to be quantified.

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

As outlined above the Council's overall objective for the 2021 budget will be to maintain the delivery of key services while being cognisant of the financial challenges due to the COVID-19 pandemic.

### **3.2 Financial Position**

The Statement of Financial Position (Balance Sheet) shows the Council is in a strong financial position. However there are loans payable amounting to €316m and large future capital commitments (see note 7.1). The full financial impact of the COVID-19 pandemic on the Council's financial position has yet to be determined.

## Chief Executive's Response

The financial position reflects the prudent financial management of the Council and it needs to be viewed in the context of the infrastructural deficits and the future capital expenditure plans of the Council. The financial challenges arising from the COVID-19 pandemic will continued to be monitored and reflected in the 2021 budget.

## 4 Income Collection

### 4.1 Summary of Income Collection

Income Source	Yield	Yield	Debtors	Debtors
	% 2019	% 2018	31.12.19 €m	31.12.18 €m
Rates	98%	96%	4.8	6.1
Rents	84%	86%	4.3	3.5
Housing Loans	98%	102%	0.4	(0.2)

The Finance Department are responsible for rates while the Housing Department are responsible for rents and loans. Cash from all income streams is automatically receipted through the Council's financial management system (Agresso). Rates invoices are accounted for in Agresso, however the rent and loan charges are accounted for in the rental system (OHMS) and loans system (Cygnus) respectively. As reported last year, these systems are not fully integrated with Agresso and consequently an adjusting journal is required at year-end to amend the cash receipts amount to the invoiced amount.

I acknowledge the Council's implementation of last year's audit recommendation to conduct monthly control accounts that increase both the control and monitoring of housing loans and rent income. However, the continued use of both the OHMS and Cygnus systems as currently configured represents a risk to the Council.

## Chief Executive's Response

Debt control management in relation to commercial rates, housing loans and rent is a high priority of the Council. The COVID-19 pandemic will undoubtedly give rise to additional challenges in this regard. The replacement of the current loans management system is currently under review.

### 4.2 Rates

There was a very strong performance in rates during 2019 with the yield increasing by 2% to 98% and the arrears decreasing by €1.3m. The following events will however impact the collection of rates over the next number of years:

- As part of a national rates revaluation process, all the Council's rateable properties were revalued, with the new valuations list being effective from 1<sup>st</sup> January 2020. 44% of the rateable valuation in Fingal is under appeal and if successful, these appeals will have a significant impact on the Council's finances.

- The Department of Housing, Local Government and Heritage (the Department) has announced a 6 month commercial rates waiver up to 27 September 2020 for eligible businesses. This will take the form of a credit in lieu of rates and there is a national allocation of €600m to fund the cost of this 6 month waiver. It is not yet known whether this waiver will be extended after this date and how the COVID-19 pandemic will impact the Council's rate book in the years ahead.

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

Fingal County Council has historically a strong record with regard to rate collection. The financial challenges raised by the high level of valuation appeals arising out of the countywide revaluation, effective from January 2020, are significant. This potential issue was recognised a number of years ago and the Council has been making a level of financial provision to mitigate possible losses in income arising from successful appeals. In the run up to the 2020 budget, following the finalisation of the valuations and conclusion of the appeals period, a considerable level of engagement was undertaken with members to explain this issue, outline the risks and the financial mitigations being put in place.

The rates waiver scheme has been a significant support to both businesses in Fingal and to the Council itself with the value of the waiver estimated at €50m. It has the dual effect of supporting both business and local authorities and we await details with regard to its possible extension.

## **4.3 Rents**

Rent arrears increased during the year by 23% to €4.3m in 2019. There were 807 accounts with arrears over 26 weeks old at year-end but only 20 of these accounts had a tenancy warning served in 2019. Arrears are expected to increase significantly again this year with collections decreasing due to the COVID-19 pandemic.

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

The collection of rents continues to be a high priority for the Council. The housing team continue to work with our legal representatives to increase the number of tenancy warnings issued.

## **4.4 Housing Loans**

Housing loans net arrears increased by €609k during the year, reflecting the capitalisation of some customers' credit balances, where overpayments were recorded for a number of years. There is still €1m of credit balances arising from overpayments included in the year-end revenue arrears of €367k. The Council, has to date, agreed 104 COVID-19 related reduced pay arrangements however it is expected revenue arrears will increase significantly due to the COVID-19 pandemic.

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

The Housing Department continue to proactively engage with borrowers with collection rates continuing to be monitored closely.

## 4.5 Bad Debt Provision

It was recommended last year that a detailed bad debt policy on the Council's major income streams be implemented. Currently, the Council's policy is still to simply review arrears and decide an amount they consider adequate. A detailed bad debt provision policy is required to ensure debtor accounts are assigned into different bands whether on a specific or general basis. This detailed analysis would provide for a more accurate measurement of the required provision. While the COVID-19 pandemic has created major difficulties in assessing adequate levels of bad debt provision, it is now essential that a policy be implemented.

### Chief Executive's Response

We note the auditor's comments and will review our current process taking them into consideration. The Council's current bad debt provisions are reviewed annually for each income stream in light of the closing debtors and annual turnover. The COVID-19 pandemic is likely to require an enhanced level of bad debt provision in the future.

## 5 Fixed Assets

As previously reported the Council has not reconciled the Property Interest Register (PIR) to the Fixed Asset Register (FAR). This reconciliation is important to ensure that the Council has recorded full ownership of all its land. The Council engaged external consultants to review this reconciliation process but there has been no action taken to complete this process.

The Council acquired 6 acres of land in 2006 and 2008 in Balbriggan in respect of a road scheme. A final €2m settlement at that stage was agreed to be offset against any development contributions on future planning permissions by the landowners in the area. The offset has only been included in the Councils' offset register this year. All agreed offsets on actual or future contributions need to be recorded in the offset register. The lands are still not included in the Councils fixed asset register because of land registry issues.

### Chief Executive's Response

We note the auditor's comments with regard to the fixed asset register reconciliation. While we have engaged third party consultants to undertake this work, it will require an allocation of resources internally to close out on this work. We will look at possible strategies in this regard.

We acknowledge the auditor's comments in respect of the land offset in Balbriggan and we will look to regularise this as soon as possible.

## 6 Transfer of Water and Sewerage Function to Irish Water (IW)

The responsibility for water and sewerage functions was transferred to Irish Water (IW) in 2014 and the Council delivers services on behalf of the company under a service level agreement. The Council continues to liaise with IW's National Special Projects Office (NSPO) in relation to the transfer of assets however, no assets were transferred to IW during 2019. The Council has a capital balance of €11.6m as a contingency fund for expenditure on water services.

### Chief Executive's Response

All fixed assets have been removed from our balance sheet. We are continuing to work on transferring the legal title of the remaining assets over to Irish Water.

## 7 Capital Account

### 7.1 General

In October 2019 the 2020-2022 capital programme was presented to the members in accordance with Section 135 of the Local Government Act 2001. The programme identifies 236 individual projects with an estimated spend of €620m over 3 years. It is not possible at this stage to assess how the effects of the COVID-19 pandemic will affect the Council's ability to finance these projects. It is essential that capital projects classified as funded in the capital account have clear identified capital funding.

### Chief Executive's Response

We note the auditor's comments on the effects of the COVID-19 pandemic on our capital programme. It is the Council policy not to allow a project to commence or be included on the capital programme unless the projects funding sources have been fully covered by a relevant income stream.

### 7.2 Unsold Affordable Dwellings

The Council has 437 unsold affordable dwellings in the fixed asset register that are being managed on the following basis:

- 275 unsold affordable units are leased to Approved Housing Bodies under the Social Leasing Scheme to address social housing needs
- 162 unsold affordable units at the Parnell Estate are managed by a property company on the Council's behalf (see note 7.3).

Bridging loans of €54.3m remain outstanding on an interest only basis, in respect of the total 437 unsold affordable housing units. In addition to the bridging loans, the Council has €11.5m of unfunded capital balances at the year-end in relation to these unsold affordable units. However, there is a €29.1m contingency fund to cover potential costs associated with these unsold affordable projects and also a leasing reserve of €6.4m.



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

The Department has established an internal working group to consider a long-term strategy for unsold affordable properties. Fingal County Council is a member of this group.

### **7.3 Unsold Affordable Apartments - Parnell Estate**

As reported in the previous audit, the 162 Council owned apartments in the Parnell Estate, Mulhuddart are leased by a property company to private tenants. I acknowledge the efforts by the Council to regularise this situation by entering into a caretaker agreement with an Approved Housing Body to house social tenants from any vacated tenancies. The Council need to ensure that funding is provided for these vacated properties to cover the capital costs of the apartments.

The Council has also regularised their position with the property company through a contract for services for all the units. While the provision of these services is not consistent with procurement procedures it does however provide continuity of services for the existing tenants.

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

With regards to this property, the AHB involved and the Council will making a joint proposal to the Department in relation to the funding of social units.

### **7.4 Road Construction Projects**

The Donabate Distributor Road was opened in March 2020. The total cost of the project is expected to be €25.4m. This cost includes contractor payments of €14.8m exc. VAT (representing a 49% increase on the initial contract amount). The Council received funding under the Local Infrastructure Housing Activation Fund (LIHAF) initiative of €10.6m and have already transferred internal development contribution funds of €7.7m. The Council will have to fund the remaining costs from internal sources.

The Rathbeale Road upgrade was opened in March 2020. The total cost of the project is expected to be €7.57m. This cost includes contractor payments of €5.6m exc. VAT (representing a 43% increase on the initial contract amount). The Council has been allocated funding of €4.05m under the LIHAF initiative. The Council will have to fund the costs in excess of the LIHAF funding from internal sources. The Council appointed the consultants for this project through a non-competitive process for an agreed fee of €389k, which has subsequently increased to €481k.

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

The costs increases have been appropriately documented and incurred in line with the provisions of the contract.

The relevant Chief Executive's Order for the appointment of the engineering consultant through a non-competitive procedure sets out the rationale and value for money reasons justifying the use of Regulation 32 procedure that was deemed to apply in this instance. This outlines the benefits to the Council in terms of value for money, programme and intellectual property rights.

## 7.5 Swords Cultural Quarter Development

In August 2019, the Council procured project management consultants for this project and are in the process of procuring an architect led design team. The Council has reviewed the scale of this project to reflect the projects budgetary demands on the Council's finances. The Council is both the approving and sponsoring authority for this project and are completing the various stages as outlined in the Public Spending Code. Before the award of the construction contract, the Council will need to complete the final business case to reassess the ongoing validity of continuing with this project.

### Chief Executive's Response

The Swords Cultural Quarter is a flagship project for the Council and a significant financial investment. As outlined, the business case for this project will be reviewed prior to construction commencing.

## 8 Development Contributions

### 8.1 Development Contributions Financial Systems

As reported last year, the planning management system (APAS) operated by the Council is not integrated with the Council's financial management system (Agresso). Another separate Contributions Bonds System (CBS) is used to generate invoices and control the financial element of the planning permissions. None of the systems operates a credit control function, this is performed manually. The use of these systems as currently configured represents a continued risk to the Council.

The Council has a service contract with the CBS providers up to 31 December 2020, however the service providers indicated they are reluctant to extend this service contract. In light of this, it is essential that the Council complete their progress on replacing the CBS system.

### Chief Executive's Response

The Planning and Strategic Infrastructure Department are currently working on a project with the Council's Information Technology Department and the Finance Department to replace CBS with an integrated APAS and Agresso solution. Agreement has been reached with the current CBS provider to extend their level of support for a further year to December 2021.

### 8.2 Development Contribution Debtors

Development contribution debtors amount to €65.5m, a decrease of €31.4m compared to last year. The decrease is mainly due to an exercise conducted by the Council, as recommended at last year's audit, to remove invoiced income on the larger residential developments where there were multiple planning permissions on the same site and for units not yet started.

It is recommended next year that due to the construction uncertainty in the commercial area because of the COVID-19 pandemic, the amounts outstanding on the larger commercial sites should be reviewed to further reduce the debtor balance where necessary.

## **Chief Executive's Response**

The procedure to reduce the debtors amount on residential sites will continue and will expand to examine what options may be available to reduce commercial debtors.

## **9 Procurement**

In February 2019 a centralised procurement unit (CPU) was established, This unit is responsible for the strategic and operational procurement policy and compliance across the organisation to deliver on the Council's corporate procurement plan. This included managing strategic spend for goods, services and works. This was implemented on a phased basis during 2019 and is now fully rolled out across the organisation.

The CPU manages key procurement processes for all departments facilitating improved procurement compliance however there remains levels of non-compliance particularly in the extension of contract services over the date or value of the initial contract. The Council should ensure that it always follows its own procurement procedures and policies in this regard.

## **Chief Executive's Response**

The development of the centralised procurement is aimed to enhance strategic and operational procurement and compliance within the Council. We note the auditor's comments, and this will be reviewed periodically to ensure these objectives are being met.

## **10 Governance and Propriety**

### **10.1 Audit Committee**

The Audit Committee met 4 times during 2019. At the January 2020 Council meeting, the Audit Committee's report on the 2018 audited AFS and statutory audit report was presented. At the March 2020 Council meeting, the 2019 annual report of the Audit Committee and its 2020 annual work programme was presented. The Audit Committee delivers on its key legislative and governance functions by improving the effectiveness of risk management, control and governance processes within the Council. The Committee met as scheduled in March 2020 and the committee received an update in June 2020 on the financial effects of the COVID-19 pandemic.

## **Chief Executive's Response**

The Audit Committee is an extremely important part of the governance structures in place at the Council and the committee has significant responsibility in this regard.

## 10.2 Internal Audit Function

The staff of the Internal Audit Unit report directly to the Director of Corporate Affairs and Governance. The Head of the Internal Audit Unit has direct access to the Chief Executive and interacts directly with the Audit Committee. The internal audit function with the assistance of external consultants completed 11 audit reports and carried out quality assurance work on the Public Spending Code, which I have taken into consideration as part of the audit process. During the COVID-19 pandemic, staff in the Internal Audit Unit at different times, have been temporarily transferred to assist in other sections of the Council.

### Chief Executive's Response

The Internal Audit Unit and the work they undertake is a significant part of the overall corporate governance architecture in place at the Council.

## 10.3 Risk Management Process

The Council has continued to maintain a comprehensive central risk management process based on strategic, departmental and operational registers. The Council implemented, a new risk assessment approach and matrix on a pilot basis. This new approach will provide a more useful risk register across the organisation once it has been fully rolled out to all departments. It will also create a more appropriate strategic risk register for ongoing management team approval and consideration by the Audit Committee.

### Chief Executive's Response

The development and ongoing review of risk registers are an important part of the process of risk management and mitigation within the Council.

## 10.4 Local Authority Companies

The Council listed the 2018 results for all of the Council's 23 associated companies in the Council's draft 2019 AFS. The Council is not adhering to the Accounting Code of Practice through the omission of the 2019 results of these companies in the Council's AFS. The Council need to inform company directors again of the importance of ensuring the company's accounts are audited in a timely manner.

### Chief Executive's Response

All accounts used in Appendix 8 were audited and sourced from the Company Registration Office (CRO). It is the responsibility of the directors of these companies to ensure that the accounts are completed and filed with the CRO in order that they meet statutory requirements. It has previously been requested that the annual accounts for subsidiary and associate companies are ready for our year end process but it has not proven possible to meet this tight deadline.

## Acknowledgement

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



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Daragh Mc Mahon

Local Government Auditor

12 October 2020

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