LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report
to the
Members of Limerick City Council
for the
Year Ended 31 December 2009
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AUDITOR’S REPORT

TO THE MEMBERS OF LIMERICK CITY COUNCIL

1. Introduction

1.1 I have completed the statutory audit of the accounts of Limerick City Council for the year ended 31 December 2009. My audit opinion on the Annual Financial Statement (AFS) of the City Council, which is unqualified, is stated on page 6 of the AFS.

1.2 This report is issued in accordance with Section 120 of the Local Government Act, 2001.

2. Main Issues

Attention is drawn to the main issues in this report;

- The impact of the net debit balance of the Limerick Main Drainage Scheme on the day to day cash flow position of the City Council (see paragraph 5.1)

- Limerick City Regeneration Project (see paragraph 5.3)

- Revenue Collections (see paragraph 6)

- The inadequate staffing levels in Internal Audit Unit (see paragraph 7.1)

- No insurance cover on the Council’s housing stock (see paragraph 7.6).
3. Financial Performance

The Income and Expenditure Account with comparative figures from the previous year may be summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(87,319,171)</td>
<td>(85,840,311)</td>
</tr>
<tr>
<td>Income</td>
<td>90,992,609</td>
<td>89,214,060</td>
</tr>
<tr>
<td>Surplus</td>
<td>3,673,438</td>
<td>3,373,749</td>
</tr>
<tr>
<td>Transfers (to)/ from Reserve</td>
<td>(3,591,650)</td>
<td>(3,316,215)</td>
</tr>
<tr>
<td>Overall Surplus for the year</td>
<td>81,788</td>
<td>57,534</td>
</tr>
<tr>
<td>Opening Credit Balance</td>
<td>178,404</td>
<td>120,870</td>
</tr>
<tr>
<td>Closing Credit Balance</td>
<td>260,192</td>
<td>178,404</td>
</tr>
</tbody>
</table>

The difference between the adoptive budget and the actual out-turn is contained in Note 17 of the AFS.

4. Financial Standing

The Balance Sheet shows net assets of €1.017 billion at 31 December 2009, consisting of the following:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>940,536,649</td>
<td>937,437,241</td>
</tr>
<tr>
<td>Work in Progress &amp; Preliminary Expenses</td>
<td>81,115,999</td>
<td>77,288,659</td>
</tr>
<tr>
<td>Long Term Debtors</td>
<td>16,734,838</td>
<td>17,502,996</td>
</tr>
<tr>
<td>Net Current Assets</td>
<td>4,623,888</td>
<td>10,209,484</td>
</tr>
<tr>
<td>Long Term Creditors</td>
<td>(26,343,465)</td>
<td>(30,954,632)</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td><strong>1,016,667,909</strong></td>
<td><strong>1,011,483,748</strong></td>
</tr>
</tbody>
</table>

Represented by:

- Capitalisation Account 940,536,650 937,437,242
- Income WIP 79,750,894 77,621,903
- General Revenue Balance 260,192 178,404
- Other Balances (3,879,827) (3,753,801)

**1,016,667,909** **1,011,483,748**
Fixed Assets

I have recommended to management that the Council’s fixed assets should be revalued and, where necessary, any accounting adjustments should be made in next years AFS. Such accounting adjustments will not impact on the income and expenditure account.

Loans Payable

The Council’s long term borrowings amounted to €27.709m at the year end. The level of borrowing needs to be carefully monitored.

5. Capital Account

5.1 A summary of the transactions on the capital account, with comparative figures for the previous year is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure (including transfers)</td>
<td>€(66,331,177)</td>
<td>€(81,224,350)</td>
</tr>
<tr>
<td>Income (including transfers)</td>
<td>69,107,217</td>
<td>76,128,194</td>
</tr>
<tr>
<td>Outturn for the year</td>
<td>2,776,040</td>
<td>(5,096,156)</td>
</tr>
<tr>
<td>Opening Balance Favourable</td>
<td>2,680,561</td>
<td>7,776,717</td>
</tr>
<tr>
<td>Closing Balance Favourable</td>
<td>5,456,601</td>
<td>2,680,561</td>
</tr>
</tbody>
</table>

The closing credit balance increased to €5.456m at the year-end. However, included in this sum are the combined net expenditure balances of €20m on sixteen separate final contract accounts relating to the Limerick City Main Drainage Scheme. In addition the Council is also awaiting decisions on budget applications for a number of non-contract items totaling €1.95m.

These sums are being financed by way of overdraft facilities on which interest costs are not allowed to be charged against the project and are having an impact on the day to day cash flow position of the Council.

Departmental queries on eleven of the final contracts have been received by the Council. At the conclusion of the audit there were still outstanding issues with regard to three of these contracts. The sanctioned increased budget approvals allowed for the release of additional funding of €8.56m to the Council during 2010. It is noted that €15m is being withheld in respect of Water Pricing Policy. It is essential that all outstanding issues relating to these final contract accounts be dealt with as expeditiously as is possible so that funding decisions can be determined and put in place.

It is important that all of the debit and credit balances within each of the capital programmes be evaluated and appropriate financing put in place. It is imperative that all outstanding final accounts on completed projects be obtained, agreed and forwarded to the appropriate grant aiding bodies for agreement on outstanding funding.
City Manager’s response
The capital account is reviewed by management on a monthly basis. It should be noted that there has been a net improvement in the Capital Account at the end of 2009 compared to 2008 which highlights the continuing efforts made by Limerick City Council staff to ensure outstanding final accounts and grant monies are recouped. Such effort will continue during 2010.
With regards to the outstanding balances for Limerick Main Drainage (LMD), it should be noted that final determination of the Water Pricing Policy which incorporates the calculation of Marginal Capital Cost (MCC) has not been finalised/ agreed by the Department of the Environment, Heritage and Local Government. The outcome of this determination may impact on the final funding decision with regards to LMD.

5.2 Three Year Capital Programme Report
In accordance with Section 135 of the Local Government Act 2001, a report on the programme, of Capital Projects for the years 2007-2009 was approved by the Council in November, 2006. A similar report for the years 2010-2012 will be presented to the members for approval in September 2010.

City Manager’s response
I note the Auditor’s comments above, and will ensure a report on the programme of capital projects proposed for 2010-2012 will be presented to Limerick City Council for consideration in line with the above comments.

5.3 Limerick City Regeneration Project
Following the approval and publication of the Fitzgerald report by the Government in June 2007, the Limerick Northside and Southside Regeneration Agencies (LRA) were established by Ministerial Orders S.I. 275/276 of 2007. Both agencies were charged with the task of designing and implementing an integrated plan for the areas of Moyross on the northside and Southill/ Ballinacurra Weston in the southside. Subsequently, in March 2008, St. Mary’s Park was also included in the Regeneration Project. No construction work or refurbishment of houses has been undertaken to date on this project.

A memorandum of understanding agreed between the LRA and the City Council was submitted to the Department of the Environment, Heritage and Local Government. This agreement outlines how these bodies are to expend their separate allocations of central funds from 2009 onwards.

In the period June 2007 to date the City Council has demolished 285 houses and a further 342 houses are earmarked for demolition. It has also acquired 196 other private dwellings to be incorporated as part of this project. Expenditure to date on this project of €31.907m has been incurred by the City Council and has been fully recouped from central funds.

I have requested confirmation from management as to the legal ownership of the new housing units once constructed by the Regeneration Agencies.
City Manager’s response
Limerick City Council has purchased 196 No. of dwellings in support of the regeneration process to date. Ownership of these dwellings has been vested in the name of Limerick City Council and the dwellings are being managed by Limerick City Council.

The Council has no evidence to suggest that the policy in relation to the new construction proposed under the regeneration process will change from the manner in which the purchased dwellings have been handled to date.

5.4 Limerick Main Drainage Scheme

In 2009 the main item of expenditure on the above scheme was for legal costs incurred for attendance by the contractor at the Arbitration Hearing into the termination of contract 4.2 by Limerick City Council. The sum paid amounted to €7m, which was, fully recouped from state grants. The initial bill of costs amounted to €11.544m. However, following detailed negotiations a reduction of €4.745m was achieved

6. Summary of the Major Revenue Collections

The percentages collection yields on the collection accounts were as follows;

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>70%</td>
<td>80%</td>
</tr>
<tr>
<td>Housing Rents and Annuities</td>
<td>91%</td>
<td>89%</td>
</tr>
<tr>
<td>Commercial Water</td>
<td>69%</td>
<td>62%</td>
</tr>
<tr>
<td>Housing Loans</td>
<td>95%</td>
<td>96%</td>
</tr>
</tbody>
</table>

Rates Collection
The closing arrears increased by over €4.358m to €10.564m in 2009. It was noted that €8.25m by way of bad provision was made for these arrears. The collection yield of only 70% is a matter of concern. It is essential that a monthly age profile of the arrears due by revenue collectors’ districts be produced for management action and prioritisation.

Commercial Water Collection
The Council achieved an increase of 7% on the collection yield to 69% for commercial water charges. However, this level of collection is far from satisfactory. It is essential that collection procedures be improved in this area, including recourse to legal proceedings.
City Manager’s response
Management are aware of the need to collect monies due to Limerick City Council on a timely basis. Such a collection effort has become more difficult due to the impact of the economic downturn on the cash flow position of Limerick City Council’s ratepayers and other customers. This downturn has also resulted in significant vacancy of commercial properties in the Limerick City Council area. Every collection effort is being made to ensure collection percentages are maximized, which will include commencement of legal proceedings, and in certain circumstances discontinuation of service.

7 Specific Matters

7.1 Internal Audit

Internal Audit is an independent appraisal function within an organisation which operates as a service to management by reviewing and evaluating the operations of the internal control systems. There was no internal audit function in the Council from June 2009 to April 2010.

The local authority continues to lack an adequate internal audit function in order to carry out this work in an efficient and effective manner. The recommendations contained in the Value for Money Report on Internal Audit, (Number 23), issued in June 2006 would need to be reviewed by management and implemented.

I have recommend that the internal auditor should report directly to the City Manager and the Audit Committee. The Council’s Audit Committee cannot function effectively, in my opinion, without a proper internal audit process.

City Manager’s response
I can confirm that an internal auditor is now in place since April 2010 which was made possible by an internal transfer of staff. An internal staff transfer was the method used to fill this post due to the ongoing restrictions arising from the staffing moratorium in the public sector, and ongoing budgetary constraints. I can confirm that the internal auditor has full access to my office as required.

7.2 Members’ Travel Expenses

During the year combined costs of over €20,000 were incurred by the City Council with regard to the attendance of elected members at two separate conferences in County Donegal. It was noted that the requirements of Section 142(f) of the Local Government Act, 2001 were not adhered to by members. This requires that a report on the attendance at such conferences be prepared and discussed at the next available Council meeting.

In these times of economic difficulties attention should be directed to the overall costs incurred for attendance at such conferences and whether value for money is being obtained by attending such events.
City Manager’s response

The Minister for the Environment, Heritage and Local Government introduced a new regulation on 11th February 2010 which placed a maximum annual limit for 2010 and subsequent years on expenditure by local authorities under Section 142 (5) of the Local Government Act, 2001 (Circular: LG 2/2010). Under the new regulation, the annual limit for each Limerick City Councillor is €4,700. These new maximum limits have been put in place by Limerick City Council for 2010.

A new procedure has been put in place to ensure a report as required under Section 142 (f) of the Local Government Act, 2001, must accompany a travel/subsistence claim for training/conference attendance. Claims will not be processed unless they are accompanied by such a report. Such a procedure should ensure full compliance.

7.3 Development Contributions

A sum of €0.276m was raised on the above contributions in 2009. Internal transfers amounting to €3.450m were made to various capital schemes. Confirmation was received at audit that such sums credited to these projects were in accordance with the requirements of Section 135 (Report on Capital Programme) of the Local Government Act, 2001.

Arrears of €2.163m on development contributions were included as part of the overall debtors balances at the year end.

City Manager’s response

Every collection effort is being made to ensure that Development Contributions outstanding are collected on a timely basis.

7.4 Register of Interests

It was noted that nine officials and three elected members failed to file returns under section 171 of the Local Government Act 2001 for 2009.

City Manager’s response

I note the Auditor’s comments above and have reviewed the most up to date statistics with regards to the returns outstanding under Section 171 of the Local Government Act, 2001. I can report that all elected members have now submitted returns under this Section for 2009, and that only one staff member’s return is outstanding for 2009. This staff member is currently on extended certified sick leave.

7.5 Public Procurement

It is imperative that all officials involved in procurement within the local authority be sufficiently informed to ensure compliance with EU directives and other procurement guidelines in relation to the procurement of supplies and services.

The City Council should as part of good procurement practices seek tenders for its legal services. The cost of legal services amounted to €1.307m in 2009. (This sum is exclusive of the €7m incurred on the Limerick Main Drainage Scheme and referred to in paragraph 5.4 of this report).
City Manager’s response
Specialist procurement training will be provided to a number of staff during 2010 to ensure compliance with relevant guidelines/directives.

A number of service providers currently provide legal services to Limerick City Council. Limerick City Council is currently in the final stages of preparing a tender document to form a panel of legal service providers. This tender request will soon be published in line with the Public Procurement directives and published on the e-tenders website.

7.6 Housing Stock Insurance
The non-availability of insurance cover on the housing stock of the City Council has been referred to in previous audit reports. Management should address this issue.

City Manager’s response
I note comment in relation to this matter. I’m satisfied with the current arrangements in this area due to the cost of purchasing insurance cover. I will ensure this issue is kept under constant review to determine if a change in approach is required.

7.7 Non-Principal Private Residence Charge
During 2009 a fee of €200 on each Non-Principal Private Residence (NPPR) was introduced on all such properties nationally. The income generated by this charge within each local authority was retained locally, and this Council collected €1.173m from this levy in 2009.

However, houses rented under the Rental Accommodation Scheme (RAS) were exempted from this charge. At the end of 2009 this Council had 300 such properties on its books.

City Manager’s response
The NPPR levy was a very welcome introduction in 2009 due to the reduction of funding from other sources.

The impact of the exemption of Rental Accommodation Scheme (RAS) properties from this levy is significant with 399 properties registered in the RAS scheme at the end of August 2010. The exemption leads to a loss of income of €79,800 per annum based on 399 properties. It’s expected that the number of properties leased via the RAS programme will continue to increase.

7.8 Annual Financial Statement
The Annual Financial Statement (AFS) of 2009 was presented, considered and approved by members of the Council at its meeting in June, 2010. The working papers on the AFS were presented in a satisfactory manner for audit.

8 Acknowledgement
I would like to thank the City Manager, the Acting Head of Finance and staff at all levels for the co-operation and courtesy given to me at audit.

Thomas O’Callaghan
Local Government Auditor
20 September 2010