



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dublin City Council

for the

Year Ended 31 December 2010



Comhshaol, Pobal agus Rialtas Áitiúil
Environment, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF DUBLIN CITY COUNCIL

1. Introduction

I have completed the statutory audit of the accounts of Dublin City Council for the year ended 31 December 2010. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 9 of the AFS. This report is issued in accordance with Section 120 of the Local Government Act, 2001.

2. Main Issues

Attention is drawn to the following main issues in this report:

- The continued delay in the commencement of the contract works on the Thermal Treatment Plant at Poolbeg is a cause for concern. With expenditure to 31 December 2010 on this project and related public consultation amounting to €68m; and additional expenditure of €10m on advance works for district heating, the termination of this project could have serious financial implications for the Council. (Paragraph 5.7)
- The collection performance in the area of Commercial Water Charges was highlighted in previous audit reports and shows only a slight improvement in 2010. The arrears of €22m at the close of 2010 are a matter of concern. (Paragraph 6.1)
- In a number of areas the level of bad debt provision appears to be inadequate. I have recommended that the bad debt provisions in respect of all debtor balances should be examined and appropriate provisions put in place. (Paragraph 6.5)
- A number of issues had been raised in previous audit reports relating to Housing Capital Accounts, including the identification of individual scheme balances and the inadequate matching of loan finance to related projects. Significant progress has been made in this regard since my last audit report. However, the work done to date has highlighted a number of further issues requiring attention, including the funding of significant debit balances, and the repayment of loan balances to the Housing Finance Agency. (Paragraph 7.1)
- Substantial payments by way of grants / contributions are made to a range of bodies including voluntary housing and homeless voluntary bodies. It was found that the level of monitoring, checking and review of this expenditure varied and I have recommended that the Council carry out a comprehensive review of its internal control procedures in this area. (Paragraph 7.5)

3. Financial Performance

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

	2010	2009
	€m	€m
Expenditure	860.0	876.3
Income	<u>896.2</u>	<u>914.3</u>
Surplus /(Deficit) for Year before Transfers	36.2	38.0
Transfers from / (to) Reserves	<u>30.6</u>	<u>32.6</u>
Overall Surplus /(Deficit) for Year	5.6	5.4
Opening Balance at 1 st January	<u>9.8</u>	<u>4.3</u>
Closing Balance at 31 st December	<u>15.4</u>	<u>9.7</u>

As can be seen from the above, revenue expenditure and revenue income decreased by a further 2% on the previous year. This is the second year in which revenue expenditure fell from its peak in 2008.

4. Financial Standing

The Balance Sheet shows net assets of €12,637m at 31 December 2010, consisting of the following:

	2010	2009
	€m	€m
Fixed Assets	11,851	11,536
Work In Progress and Preliminary Expenses	899	837
Long Term Debtors	831	868
Net Current Assets/(Liabilities)	45	36
Long Term Creditors	<u>(989)</u>	<u>(1,060)</u>
Net Assets	<u>12,637</u>	<u>12,217</u>
Financed by:		
Capitalisation Account	11,851	11,536
Income WIP	834	768
General Revenue Balance	15	10
Other Balances	<u>(63)</u>	<u>(97)</u>
	<u>12,637</u>	<u>12,217</u>

4.1 Fixed Assets

The net book value of fixed assets increased from €11,536m in 2009 to €11,851m in 2010. This increase in the value of completed assets is mainly due to transfers of assets from Work in Progress (€151m) and a historical cost adjustment (€167m). The historical cost adjustment was made to update the construction costs of Ballymun Regeneration assets and the Port Tunnel. All

assets constructed since 2004 are shown at historical cost in the annual financial statements.

The €899m shown under Work in Progress and Preliminary Expenses represents expenditure on capital schemes uncompleted at that date. The income accrued on these schemes of €834m is shown in the Balance Sheet as income work-in-progress.

4.2 Other Balances

Included in other balances are project and non-project balances, which are split between funded and unfunded for the first time in 2010, tenant purchase annuities, development levies and other reserves and provisions for future liabilities. During 2010, the net position on these accounts improved by €34m.

4.3 Development Contributions Debtors

The Development Contributions system records balances outstanding of €138m at the close of 2010. These balances are reflected in the Annual Financial Statement as follows:

Short Term Debtors (Note 5)	€m <u>34</u>
Long Term Debtors	104
Less Phased Debtors Bad Debt Provision	<u>31</u>
Total Long Term Debtors (Note 3)	<u>73</u>
Long Term Creditors – Deferred Income	64
Creditors & Accruals – Deferred Income	<u>9</u>
Total Deferred Income	<u>73</u>

The amount included in short-term debtors (€34m) represents amounts now due that have been accrued as income. The long-term balance of €73m (€104m - €31m) represents phased payments due in future periods that have not been accrued as income to date. The corresponding balance at the end of 2009 stood at €116m; the reduction of €43m being due to a reduction in phased debtors (€12m) and the introduction of a bad debts provision in respect of phased development contributions (€31m).

5. Capital Account

The Capital Account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council. A breakdown of the Capital Account balance into the relevant Balance Sheet headings is shown in Note 12 to the AFS. Note 12 includes a summary of movements on the Capital Account for the year with further detail in Appendix 5 and 6. Loans and assistance to persons housing themselves are excluded from the Capital Account as these are accounted for in the Balance Sheet.

A summary of the transactions on the capital account, with comparative figures for 2009 is as follows:

	2010	2009
	€m	€m
Expenditure (Including Transfers)	334.8	555.4
Income (Including Transfers)	<u>320.6</u>	<u>541.2</u>
Outturn for the year	(14.2)	(14.2)
Opening Balance	<u>14.9</u>	<u>29.1</u>
Closing Balance	<u>0.7</u>	<u>14.9</u>

5.1 Capital Programme 2011 – 2013

A report on proposed capital projects for the period 2011 to 2013 was prepared under section 135 of the Local Government Act, 2001. The level of investment at €1,041m over these three years shows an increase of 16% compared to previous years (€893m for 2010 – 2012).

5.2 Unfunded Capital Balances

Included in the Capital balances at 31 December 2010 are deficits on schemes (both project and non-project) totalling €200m approximately. This includes balances on completed schemes, affordable housing schemes in which units are unlikely to be sold, preliminary works on housing schemes and Public Private Partnership projects unlikely to proceed.

In accordance with the Accounting Code of Practice balances, where specific funding has not been identified, should be classified as unfunded in the AFS. I have requested that the Council review these and other balances that may require funding in future years.

Manager's response

A review of debit balances on capital projects has commenced with a view to developing a strategy to reduce these balances. On the Housing Capital account, a number of balances have been reduced e.g. PPP and housing redistribution account. It is anticipated that funds from the sale of housing stock under the two sales schemes will further reduce these balances.

5.3 Capital Projects

Expenditure on the major capital projects was as follows:

Project / Activity	€m
Voluntary Housing Bodies	60.6
Affordable Housing	36.6
Dublin Port Tunnel	36.1
Ballymun Regeneration Ltd	33.1
Local Authority Housing Construction and Improvement	25.3
RAS Housing	20.6
Purchase of Second Hand Houses	20.3

5.4 Affordable Housing

Total expenditure on affordable housing in 2010 amounted to almost €37m (a significant reduction on previous years) and included the purchase of housing units under Part V of the Planning and Development Act, 2000.

There are currently 420 unsold units that have temporarily been transferred to the social leasing and RAS schemes. Loans to the value of €95m taken out with the HFA are currently outstanding on these units and the Department of Environment, Community and Local Government (the Department) is funding the relevant interest charges.

Manager's response

All of the unsold affordable housing stock has now been utilised for alternative housing purposes. Funding to service the relevant interest charges has been identified. Unsold affordable housing transferred to social leasing and RAS are funded by the Department for the next 5 years. Unsold affordable homes transferred to "Rent to Buy" scheme are occupied and funding for the interest will come from the rental income for the next 3 years.

5.5 Ballymun Regeneration Limited (BRL)

Expenditure on the regeneration scheme amounted to €33m during 2010, bringing the total cumulative project costs to €841m. I have been advised that the revised targeted completion date, based on the current funding levels, is 2014 with estimated costs to completion of €157m, most of which is funded by the Department.

The project is being implemented through Ballymun Regeneration Limited (BRL), which manages the project on an agency basis. The company is limited by guarantee and does not have a share capital. Dublin City Council has three members on the Board of Directors. The transactions of the company are included in the capital account of Dublin City Council. The company's accounts for the year ended 31 December 2010 have been audited by a firm of accountants, and I have relied on their audit report on the company for that year.

One section of the redevelopment, consisting of the construction of 124 new dwellings remains suspended due to the discovery of pyrite. The units are approximately 85% complete but it is expected that extensive remedial works will now be required. Management has advised me that BRL are in the final stages of negotiations to agree the necessary legal framework, comparative costs and programme of remedial works. This will involve the removal and replacement of the affected hardcore and will take approximately 24 months to complete.

5.6 Dublin Port Tunnel

Following the National Roads Authority approval of the Council's recommendation for acceptance of the final account in respect of the Dublin Port Tunnel, the contractor was paid €31.4m plus VAT in early 2010, representing a

full and final settlement of the contract, inclusive of all claims and counter claims. The total scheme expenditure to the end of 2010 amounted to €804m.

5.7 Thermal Treatment Plant at Poolbeg

The project is being developed as a Public Private Partnership on the basis of Design, Build, Finance and Operate. The main contract in this project is the agreement entered into between the Council and Dublin Waste to Energy Limited, the public-private partnership company. This contract was the subject of a report of an authorised officer requested by the Minister for the Environment, Community and Local Government, under Section 224 of the Local Government Act 2001. The scope of this report covers the nature and the extent of the financial and related risks and consequences that may be faced by the City Council in connection with its participation in, and performance of the agreement, in a changing policy, legal and economic environment. At the date of audit a redacted copy of this report had been published.

Expenditure to 31 December 2010 on this project amounted to €62m with additional expenditure of €6m on Waste Management Public Consultation and €10m on the District Heating Project.

The original target date (September 2010) for commencement of this project has passed and, consequently, the Council cannot compel the contractor to commence work on the project immediately. Proposals from the contractor for the financing of the project need to be finalised. The decision date for the contract has been extended twice and is currently 30 November 2011. If no further extensions are obtained or work does not commence by that date, then the contract is terminated. Obviously such a termination would have serious financial implications.

Manager's response

Discussions are continuing with the contractor with a view to reaching a mutually acceptable solution and the re-commencement of work on site. These discussions are taking place with a view to the changing legislative framework nationally and the requirements imposed on the Country by the recent transposition of the EU Landfill Directive.

5.8 Property Register

The Development Department of the Council is currently engaged in a major project to replace its manual property registers with a comprehensive database of records, documents and maps for all Council land and buildings. This project is scheduled to be completed by the end of 2011 and should provide the definitive record of all Council property (excluding housing).

5.9 Land Aggregation Scheme

The Land Aggregation Scheme, introduced by the Department, allows local authorities to apply to transfer ownership of housing lands to Housing and Sustainable Communities Limited. In return funds are made available to repay the related Housing Finance Agency loans. At a meeting in November 2010, the Council approved the application to transfer three parcels of lands, with outstanding loans of approx €31m, under this scheme. The Council is currently awaiting a response from the Department on this matter.

6. Summary of Major Revenue Collections

The percentage yields from the main revenue collection accounts were as follows:

	2010	2009
Rates	82%	87%
Housing Rents and Annuities	79%	79%
Housing Loans	77%	84%
Domestic Refuse	50%	47%
Commercial Water Charges	51%	49%

It is acknowledged that the financial climate is difficult, particularly in parts of the commercial sector; however the following issues need to be addressed

6.1 Commercial Water Charges

The collection performance in this area was highlighted in previous audit reports and shows only a slight improvement in 2010. The arrears of €22m at the close of 2010 are a matter of concern and the bad debt provision needs to be increased.

Manager's response

The cash collection for commercial water in 2010 was up €2.8m on 2009, an improvement of 14%. The arrears of €22m includes an accrual of €6.2m at year end and some historical balances and duplicate accounts which were identified following an examination of aged debtors. These historical balances / duplicate accounts will be written off in 2011/12.

6.2 Rates

There was deterioration in the collection of rates in 2010 compared to 2009, resulting in a significant increase in arrears from €44m to €63m.

6.3 Domestic Refuse Charges

There was an improvement in domestic refuse charges collection performance in 2010, bringing the arrears at the year-end to €17m, compared to €19m in 2009. At audit an analysis of arrears was carried out and it showed that some balances dated back a number of years. This aged analysis should be reviewed and an appropriate bad debt provision made against this balance.

6.4 Housing loans

The collection of housing loans deteriorated from 84% in 2009 to 77% in 2010, with arrears increasing from €4.3m in 2009 to €6.5m at the end of the 2010. The Council has made significant efforts to deal with this problem. A specific bad debt provision should be created for these debtors.

6.5 Debtors and Bad Debt Provisions

As shown above, there is generally an insufficient level of bad debt provision provided in the accounts. This was also found to be the case in respect of other large debtor balances; with budgetary factors often determining the level of

provisions made. The level of bad debt provision in respect of all debtor balances should be examined and specific provisions made where required. The Manager has undertaken to review bad debt provision as part of the 2012 budget process.

7. Specific Matters

A number of other specific matters, arising at audit, have been detailed in a management letter issued at the close of the audit. These matters included the following.

7.1 Housing Capital Accounts

Expenditure on housing capital projects accounts for over 60% of all capital expenditure in 2010. A number of issues had been raised in previous audit reports relating to the identification of individual scheme balances and the inadequate matching of loan finance to related projects. Significant progress has been made in this regard since my last audit report.

However, the work done to date has highlighted a number of further issues as follows:

- There are significant debit balances being carried on a number of accounts (see 5.2 above) for which sources of funding will have to be identified.
- There are also significant loan balances payable to the Housing Finance Agency, mainly in respect of affordable housing schemes.
- While significant progress has been made in the accounting for housing capital schemes, I have emphasised the need for management to receive regular financial reports on all projects.

Manager's response

Funding to reduce loan balances to the Housing Finance Agency for affordable housing has been identified. Additional funding from the sale of rent to buy properties, Part V contributions and an annual contribution from housing revenue over the next number of years will further reduce outstanding balances to the HFA.

Housing senior management team review and monitor capital balances on all housing projects on a monthly basis.

7.2. Development Contributions

The new contributions module of APAS went live during 2009 and, although not integrated with the Oracle financial system, represents a major improvement in the accounting for development contributions when compared to previous years. However, in the course of the current audit, further recommendations were highlighted and some progress has been achieved in this regard in the year to date. Areas identified included the following:

- Review of debtors and bad debts provision estimation;

- Progress reporting on major developments;
- Reconciliation of income with Finance Department;
- Format and retention of Invoices; and
- Use of additional modules.

Manager's response

A review of all debtor accounts is ongoing at present and this will establish what, if any, change is required to the bad debt provision provided. In accordance with the Value for Money Audit Report, it is intended to carry out inspections of major developments at least once annually, resources permitting. A system of monthly reconciliation of income and receipts between the Contributions Module and General Ledger has been implemented and the format and retention of Invoices, as recommended by the Auditor, will be implemented. The Building Control Module of APAS will be implemented during 2011 and will enable immediate cross-referencing between commenced developments and contributions data. A system of cross-referencing with the Enforcement Module of APAS has been established using reference numbers and reporting on enforcements will be further refined during the coming year.

7.3 Procurement

The central procurement unit of the Council has, as set out in the corporate procurement plan, carried out an extensive review of expenditure across a number of departments. The unit has made recommendations to departments in order to achieve better value for money through tender advertising and increased contract-based purchasing.

In the course of the audit, I reviewed procurement procedures in a number of Council departments and, while generally it was found that procurement procedures were followed, a small number of instances of non-compliance were found. Where such instances were identified, these have been referred to the relevant departments for review.

At the previous audit, it was agreed that steps would be taken to introduce new procedures to procure selected legal services from outside providers. To this end the Council has prepared an invitation to tender and the Law Agent advises that the tender will be advertised in the last quarter of 2011. The expenditure in this area is substantial and every effort should be made to improve procedures as soon as possible.

7.4 Mortgage Funding Gap

The mortgage-funding gap, as shown in Note 13 to the AFS for 2010, amounted to €6m, compared to €59m in 2009. This represents the difference between the amounts due by borrowers to the Council and the corresponding amount due by the Council to financial institutions. Steps were taken during 2010 to address the significant shortfall referred to in the previous audit report

7.5 Grants and Contributions

In the course of the audit, a number of grant and contribution payments to voluntary and other bodies were examined. These payments originated in a

number of Council departments and were made to a range of bodies including voluntary housing bodies, homeless voluntary bodies, as well as grants and contributions to other bodies. It was found that the level of monitoring, checking and review of this expenditure varied and I have recommended that the Council carry out a comprehensive review of its internal control procedures in this area.

Manager's response

The Housing Department has commenced a comprehensive review of procedures in relation to grants and contributions as recommended by the Local Government Auditor.

7.9 Accounting and Control Issues

In the course of the audit a number of accounting and control issues were identified. Where errors were material, they have been corrected in the audited AFS for 2010. In other cases adjustments to the 2011 accounts have been agreed with management. Other issues have been discussed and, where further action is required, this has been highlighted and agreed with management.

Manager's response

Dublin City Council places high importance on the compliance with the regulatory accounting framework of Local Government and continuously works to improve the processes around the preparation and finalising of Annual Financial Statements. Policies and procedures are regularly reviewed and updated. Recommendations made as part of the statutory audit are implemented and monitored through out the year. All material amendments identified during audit were reflected in the audited AFS.

8. Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Manager and the elected members to ensure that sound systems of financial management and internal control put in place.

8.1 Value for Money

The Value for Money Unit of the Local Government Audit Service issued Report No. 24 – “Financial Management Reporting in Local Authorities” in September 2007. The report contained a number of recommendations, which drew on best practice in terms of the nature, content and frequency of financial reporting, to be implemented by local authorities. A review of the actions taken by local authority management in implementing the recommendations contained in this report was carried out since, and were summarised in Progress Report No. 2 (March 2011). It showed that Dublin City County implemented the majority of the relevant recommendations made in this report. Where recommendations were not implemented, valid reasons were given or alternative arrangements put in place.

8.2 Risk Management

The Risk Management Unit of the Council co-ordinates the review and update

of the Corporate Risk Register on an annual basis and conducts a mid-year review of Action Plans each June. Departmental risk registers are in place in all seventeen (17) departments / areas. In addition sixty (60) risk registers are in place at business unit level across the organisation. A Corporate Risk Management Policy has been approved by the City Manager and a Risk Management User Guide is in place for staff training purposes. The Risk Management Steering Group monitor progress in relation to risk management issues in the Council.

8.2 Internal Audit

The Internal Audit Unit completed eight (8) reports in 2010 and six (6) to date in 2011. A review of recommendations, made in reports produced during 2010, carried out in 2011 found that ninety percent (90%) of these had been implemented by May of this year. Ninety five percent (95%) of recommendations made in the years (2007 – 2010) had also been implemented. The Institute of Public Administration carried out an evaluation of internal audit audit plan for 2011 and provided assurance that all material risks and factors were considered in the formation of the plan.

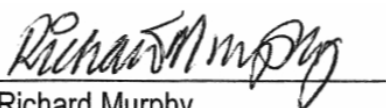
In the course of my audit, I placed reliance on the work carried out by the Council's Internal Audit Unit.

8.3 Audit Committee

The Council's audit committee met on six occasions in 2010 and issued its second annual report in June 2011.

9. 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.



Richard Murphy

Principal Local Government Auditor
31 August 2011