



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dublin City Council

for the

Year Ended 31 December 2015



An Roinn Tithíochta, Pleanála, Pobail agus Rialtais Áitiúil
Department of Housing, Planning, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF DUBLIN CITY COUNCIL

1 Introduction

- 1.1 I have audited the Annual Financial Statement (AFS) of Dublin City Council for the year ended 31 December 2015, which comprise 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, Community and Local Government.

My main statutory responsibility, following the 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 2015 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 9 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 judgements 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.

- 1.2 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

The net surplus for the year amounted to €246k after transfers to reserves of €45.9m. The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS.

Significant movements in the finances of the Council in 2015 are shown below.

2.1 Long Term Debtors

There was a reduction of €63m in the total long term debtors between 2014 and 2015 and this is shown in Note 3 to the AFS. This reduction mainly relates to a fall of €24.2m in the amount of mortgage loans due to the Council and the inclusion of a provision for bad and doubtful debts of €29.7m against the principal due in respect of mortgage loans referred to at 3.3 below.

2.2 Net Current Debtors

Net current debtors decreased by €51m in 2015 and details are included in Note 5 to the AFS. Significant variances include a reduction in government debtors of €61m due to the repayment by the Department of Housing, Planning, Community and Local Government (the Department) of water services loans. There were also reductions in commercial debtors of €28m (including Rates and Irish Water balances). These reductions were partially offset by a decrease of €28m in the provision for bad and doubtful debts against current debtors.

2.3 Bank and Investment Balances

Total bank and investment balances increased by €48m in 2015 as shown in the Statement of Funds Flow in the AFS.

2.4 Creditors and Accruals

Creditors and accruals fell by €53m in 2015 mainly due to the reduction in the amount of loans payable due within one year from €95m in 2014 to €24m in 2015. These included the water related loans referred to below.

2.5 Loans Payable

There was a reduction in total loans payable (including amounts due within one year) of €112m from €733m in 2014 to €621 in 2015. The most significant reduction was in respect of water related loans (€61m) referred to in paragraph 4 below. Mortgage and rented equity loans fell by €25m in 2015.

3 Income Collection

A summary of the major collection yields and the corresponding closing debtors, with comparatives for the previous year, are as follows:

Income Source	Yield %		Debtors €m	
	2015	2014	2015	2014
Rates	88	84	51.1	62.6
Rents & Annuities	80	78	18.7	19.6
Housing Loans	59	58	15.1	15.1

3.1 Rates

While rates yield shows an increase in the year under audit, the method of calculation changed in 2015 to allow for the exclusion of specific doubtful arrears in Appendix 8 to the AFS. The yield for the previous year shown above was not restated and the yield for 2015 under the original calculation method was 86%.

A report on rates debtors at 31 December 2015, prepared for the Council's Finance Strategic Policy Committee, included the following analysis:

- €27.1m (53%) of arrears related to 2015, €9.7m (19%) related to 2014 and the balance of €14.3m (28%) related to pre 2014 rates;
- Of a total of 20,677 rate accounts the number of accounts in arrears (6,773) at the end of 2015 fell by 637 compared to 2014; and
- Court proceedings have been initiated in respect of €9.5m or 18.7% of the debtor balances.

A loss of commercial rates on the Irish Water network was offset by a grant from the Department of €14.3m in 2015 and this amount is included in the rates account for 2015.

3.2 Rents and Annuities

The yield from rents and annuities showed an increase from 78% in 2014 to 80% in 2015. In the course of audit tests carried out a number of errors were found in the rents income and arrears balances shown in Appendix 7. Recommendations to improve procedures in this area were made, including the reconciliation of the rents system with the financial management system. It is important that these recommendations are implemented as soon as possible to ensure consistency between the rents and financial management systems. The correction of any errors in the rent collection accounts in Appendix 7 should also be made in 2016.

Progress in implementing these recommendations will be reviewed at the next audit.

Chief Executive's Response

The recommendations for improvements have been implemented in 2016, and monthly reconciliations are being carried out. The correction of errors in the rent collection accounts will be shown in the 2016 AFS

3.3 Housing Loans

The yield from housing loans remained poor at 59% in 2015 (58% in 2014) and arrears of €15m were similar to the previous year. Of a total number of 2488 live accounts, there are 589 accounts in arrears for more than 12 months. Arrears on these accounts amounted to €14.5m. The provision for bad and doubtful debts in respect of current debtors was increased from €2.7m (18%) in 2014 to €4.7m (31%) in 2015.

The principal on all housing loans outstanding, including rented equity, amounted to €291m at the end of 2015 and is included in Note 3 Long Term Debtors to the AFS. In 2015 for the first time, a provision for bad and doubtful debts of €29.7m was created in respect of this long term debtor and is shown in Note 3 under the heading Other. This change in accounting policy is referred to in the Statement of Accounting Policies in the AFS.

Chief Executive's Response

At the end of September 2016, the loan book portfolio amounted to €264m. The amount of arrears is €13.1m. The number of loan accounts is 2,351 and the number of loans that are in arrears is 987. Approx 1,400 borrowers (over 57% of the total) are fully up to date with repayments as of September 2016. The accounts of just under 1,000 borrowers (42% of the total) are showing arrears ranging from one month upwards. To deal with the arrears situation on these accounts a dedicated Arrears Support Unit was established in Dublin City Council in order to assist borrowers experiencing difficulties with their mortgage repayments, including making available a range of forbearance measures to assist the borrower. The application of the above arrangements has seen arrears levels fall across our loan book

4. Transfer of Water and Sewerage Functions to Irish Water

The process of transferring responsibility for water and sewerage functions to Irish Water continued in 2015 and significant matters relating to the AFS included the following:

- HFA loans of €61m relating to water services were redeemed during 2015 from monies received from the Department. This amount had been included in short term debtors in the 2014 AFS.
- Non HFA water loans payable at the end of 2015 amounted to €15.7m and a corresponding

long term debtor is included in Note 2 to the AFS.

- The balancing statement amount of €8.2m relating to pre 2014 capital and debtor balances was received from IW in 2015.
- Income in respect of the service level agreement with IW amounted to €45.9m in 2015.
- There remains a significant number of assets for which legal title has not as yet been transferred to IW.

It is important that outstanding issues with non-HFA loans and transfer of title of assets are dealt with as soon as possible.

Chief Executive's Response

DCC have transferred the majority of its largest water services assets such as Ringsend Wastewater Treatment Plant, Ballymore Eustace Water Treatment Plant and Stillorgan Reservoirs to Irish Water in accordance with the Priority List of Assets that Irish Water have classified as either priority or critical assets for transfer to Irish Water. To date DCC have transferred 23 assets to Irish Water and work is ongoing in verifying title for the remainder of the assets (68 assets) to enable transfer to Irish Water. Despite constraints such as DCC's SLA Unit's reliance on other Non-SLA Sections within DCC work is ongoing on the asset transfer to Irish Water. Clarification is required from the DHPCLG and Irish Water on how to proceed to transfer assets which are located on lands owned by 3rd Parties and assets where existing licences and lease agreements are in place between DCC and 3rd Parties.

5. Capital Account

Capital expenditure in 2015 amounted to €251m (€178m in 2014) and total capital income, including transfers from revenue, amounted to €199m in 2015 (€159m in 2014). This resulted in deterioration in the capital account balance of €52m and a closing debit balance of €77m. The main reasons for the increase in expenditure and the debit balance were as follows:

- Expenditure on the purchase of housing stock increased by €33m to €47m in 2015; and
- Repayment of loan principal increased from €18m in 2014 to €63m in 2015.

5.1 Debit Balances re: Loan Redemptions

The repayment of loan principal from the capital account, where there is no corresponding capital income, is reflected in debit balances at the end of 2015 as follows:

- Land acquisition loan redemptions of €29.4m
- Housing loan redemptions of €24.7m

These balances will require funding from revenue account or other sources in the future.

Chief Executive's Response

The housing loan redemption of €24.7m is being funded by a revenue transfer to capital over a six year period from 2015 to 2020. The land acquisition loan redemption of €29.4m related to land which is due to be sold. On completion of the land sale the debit balance will be funded.

5.2 Other Debit Balances

A review of other capital balances described as unfunded was carried out at audit and a summary

of the most significant debit balances is as follows:

Project / Category	€m
Thermal Treatment Plant (incl. District Heating)	27
Land and Properties acquired for Housing	18
Abandoned Public Private Partnership Schemes	15
Affordable Housing Schemes	13
Fire Service Projects	7
Other Housing Projects	5
Development Management Projects	5
Ballymun Regeneration	4

It is important, where no source of funding is anticipated, that arrangements are put in place to reduce the debit balances as soon as possible.

Chief Executive's Response

The Council is constantly reviewing the funding of debit balances. A process is currently under way to identify if government funding can be applied for in relation to any of the projects. All other methods of funding are also being considered.

5.3 Unsold Affordable Housing Units

At the end of 2015 the Council had 352 unsold affordable housing units, which were utilised for social housing, RAS and other purposes. In addition to the debit balance on the capital account relating to these units referred to above, the Council's loans payable included bridging loans, on an interest only repayment basis, of €80m. While the interest payments are currently being recouped from the Department under various social housing schemes, the repayment of the principal on these loans will require funding in the future.

Chief Executive's Response

The unsold affordable units remain a concern to Housing Management, and the associated cost centres are regularly reviewed. Further representation will be made to the Department for funding.

5.4 Waste to Energy Project at Poolbeg

Under the public private partnership agreement signed in 2014, Dublin Waste to Energy Limited (DWEL) is contracted to design, build, operate, finance and maintain the 600,000 tonne per year Waste to Energy facility in Poolbeg. Work commenced on the site in October 2014 and the construction of the facility is expected to take three years.

Expenditure in 2015 was €675k. The expenditure is in line with the budget established for the construction and commissioning phase of the project and the expenditure was primarily associated with the Client Representative contract, which was awarded following a competitive tender process.

Recent updates prepared for the Council indicate the following:

- Construction remains on target for completion in the third quarter of 2017.
- Project Executive Board meetings are held on a monthly basis.

- The project team issues a monthly report on project status, programme, risk, budget and commercial issues to the Dublin local authorities.
- DWTEL are in the process of finalising contracts with waste companies for the use of the facility when operational.

The cumulative expenditure to date on the project is approximately €98m. The Council is acting on behalf of all four Dublin local authorities and the other three authorities have contributed almost €50m to date as their share of the costs. The capital account shows a debit balance on this project of €15.9m and this amount will require funding by Dublin City Council.

Chief Executive's Response

The Waste to Energy Facility is due to commence operation in Q3 2017 and under the structure of the DWtE contract it is anticipated that DCC will share in some of the facility revenues from Q3 2018. It is planned that the clearing of the capital balances will be prioritized from this income stream.

Dublin District Heating Project:

The District Heating Project is to facilitate the use of thermal energy from the Waste to Energy Project at Poolbeg to provide heating for homes in the surrounding area. The capital account shows a debit balance on this project of €10.9m and this amount will require funding by Dublin City Council.

Chief Executive's Response

DCC are currently in the process of engaging an advisory team to examine the optimum business model to progress the District Heating Project. A key element of this model will be the financial element and the development of a project delivery framework within which the current investment could be substantially recouped as soon as the project is up and running.

5.5 Ballyfermot Leisure Centre

As referred to in my previous audit report, the development of the Ballyfermot Leisure Centre was approved in September 2004 and a contract was awarded for the tender sum of €18.2m (including VAT). There were a number of delays and fundamental problems with the execution of the contract and the building was handed over to the Council in 2008.

Claims for additional costs were submitted by the contractor and an arbitration process commenced in 2011. This concluded in July 2016 and a final settlement of €13m was agreed to cover contract and legal costs. The final payment was made in 2016 bringing the total cumulative expenditure to date on this project to €45.5m.

Chief Executive's Response

The Leisure Centre was built per the tender specification, with minimal changes and handed over to the Council in 2008. The contractor then submitted their final accounts claiming €38m plus VAT and interest. This was in addition to the original contract price. This claim was based on variations, delay, disruptions and increased costs.

A conciliation process in 2010 was unsuccessful and an arbitration process commenced in 2011. The contractor reduced the claim to €27m plus VAT. The Council defended the claim and counter claimed in the amount of € 6.4m (cost of necessary remedial works to the

swimming pool and consequential loss of swimming pool and weather pitches revenue during closure). The arbitration process continued for 5 years up to June 2016, during which time the Arbitrator made a number of determinations.

Following a review of the case and assessing the opinion of our legal counsel and our expert consultants, it was decided that the most financially prudent course of action was to negotiate a settlement with the contractor. A settlement was agreed with the contractor in June 2016 in the amount of € 5m plus VAT, representing full and final settlement of their claim and €8m in relation to their costs to date. This settlement was agreed by Dublin City Council against the backdrop of an ongoing arbitration claim potentially lasting a further number of years where ever increasing costs would be incurred by both sides. The settlement represented a significant reduction in the original claim submitted by the contractor.

6 Fixed Assets and Property Register

In recent years the Council undertook a project to convert the old manual property registers and associated documents to a digital database with links to a geographical information system. This project was completed and facilitates information requests from other council departments and members of the public. It also provides a single reference point for all property transaction information. While this database provides useful information required for the maintenance of the Fixed Asset Register (FAR), there is no link or cross-reference between the two systems. The development of a comprehensive property register for all council properties should be prioritised.

Chief Executive's Response

The development of a comprehensive Corporate Property Register which would provide a link to the Fixed Asset Register in the Oracle Financial system is currently being investigated by the Transformation Unit and meetings with the various departments, including the Development and Finance departments, to progress this are ongoing. Initial exploratory system specification investigations suggest that the development of a Corporate Property Register providing the functionality to link with the current Fixed Asset Register on Oracle is a complex project and will require significant resources in terms of time to complete, financial resources and an additional staffing requirement. However this Project has now been identified as a priority of the Council.

7. Development Contributions

In order to address deficiencies identified in the existing systems for recording, monitoring and accounting for development contributions, the Council established a project board to examine possible solutions. The project board recommended the use of the file management functions of the planning system (APAS) and the accounting functions of the accounts receivable module of the financial management system (Oracle). The project is complete; however transactions are still input to both systems (APAS and Oracle).

In the course of the 2015 audit a number of the reports requested were found to lack the detailed analysis required. I have requested that the quality of reports at year-end be improved substantially for the 2016 audit.

Chief Executive's Response

The project is now complete and the new procedure utilizing Oracle is working well. Transactions are still input to both systems and this will continue until the Oracle system

upgrade project is completed and work can begin on generating a customized statement for development contributions based on plan numbers. The customized statement report is necessary to be able to generate a report based on a planning application number. Enforcement action under the planning legislation can only be taken against a debtor in relation to a particular planning permission (i.e. it cannot be taken for a number of permissions together). On completion of this report the inputting of debtor information in to APAS will cease.

The quality and number of reports on Development Contributions will be reviewed and improved prior to the 2016 audit.

8. Procurement

Dublin City Council's procurement policy is detailed in its Procurement Policy and Procedures Manual and is supported by its Corporate Procurement Plan 2015 – 2017. Responsibility for ensuring compliance with the Council's policy is devolved to local management and the Central Procurement Unit (CPU), through its advisory support role to departments in the preparation and planning of tenders and guidance in the award procedures of contracts, strengthens the procurement function within the organisation. The Council advertised 87 tenders in 2015.

The CPU also awards contracts for selected corporate goods and services or utilises the appropriate National Procurement Service contracts. Compliance with corporate contracts is monitored by the CPU. In the course of the audit a range of purchases across a number of departments were examined for compliance with procurement policy and procedures and the overall results indicated strong compliance.

9. Local Authority Companies

The Council's interest in companies is set out in Appendix 8 in the AFS. The table shows the extent of control exercised by the Council, whether or not the transactions are included in the Council's AFS and brief financial details on each company. The financial transactions of only two of the companies listed (Ballymun Regeneration Limited and Hugh Lane Gallery Trust) are included in the Council's AFS.

9.1 Temple Bar Cultural Trust Limited (TBCT)

In 2013 a decision was made to dissolve TBCT and to transfer all the responsibilities, functions and assets of the company to the Council. This company, with assets valued at almost €48m, is not consolidated in the Council's annual financial statement.

9.2 Ballymun Regeneration Limited (BRL)

Ballymun Regeneration Limited (BRL) is a wholly owned company limited by guarantee which was responsible for the management of the Ballymun regeneration project. All of the transactions of BRL are included in the accounts of Dublin City Council. The orderly wind-down of the company is in progress.

The accounts of Dublin City Council include an income accrual of €16.7m in respect of grants from the Department claimed for this project. These claims date back over a number of years and every effort should be made to resolve this matter.

9.3 Other Companies

The Dublin Docklands Development Authority (Dissolution) Act 2015 came into effect in March 2016 and provided for the dissolution of the DDDA and the transfer of functions, assets and liabilities to the Council.

Chief Executive's Response

We are awaiting the necessary legislation from the Government which will facilitate the dissolution of the Temple Bar Cultural Trust Ltd. In the meantime the orderly wind-down of the company through a Special Project Team is in progress.

We are hopeful that a final resolution of the Ballymun Regeneration Ltd. claim will be reached in the near future.

10 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place. According to the audit committee charter, the committee has an independent role to advise the Council on financial reporting processes, internal control, risk management and audit matters.

10.1 Internal audit

The Local Government (Financial and Audit Procedures) Regulations 2014 require local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit has an important role in providing the Chief Executive with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements.

The Council's internal audit function currently consists of 8 personnel (7.5 whole time equivalents); of which two have professional accounting qualifications and one is a member of the Institute of Internal Auditors. The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the audit committee and the Chief Executive in carrying out the work of the unit. The unit produced six reports during the year and I have taken account of this work where relevant.

10.2 Review of Low Value Purchase cards in the Homeless Services Section

During 2015 the Internal Audit Unit carried out a review of the use of low value purchase cards for the provision of accommodation for the homeless. The final report, which was issued in 2016, identified significant weaknesses and a lack of adequate controls in the current processes. A number of recommendations were made to address the issues identified, including a retrospective reconciliation of 2015 transactions. The recommendations made have now been accepted by Housing Management and are currently being implemented. The final report was considered by the audit committee in September 2016.

It is important that these recommendations are implemented as soon as possible, including a full reconciliation of all transactions from April 2015 to date. These matters will be reviewed at the next audit.

Chief Executive's Response

The recommendations made by DCC Internal Audit report R0516 have been accepted and are being actively implemented by DCC Housing Management. Primary among these has been the establishment of a reconciliation team to reconcile all relevant transactions related to the use of commercial facilities as emergency accommodation for persons experiencing homelessness. This team is engaged in a monthly reconciliation and discharging all outstanding reconciliations arising from the period since April 2015. The work of the team is proceeding satisfactorily.

10.3 Risk Management

The Risk Steering Group is responsible for supporting risk management within the council and reviews the corporate risk register and the various departmental risk registers. The Corporate Services Department of the Council has recently engaged independent expert advisors to carry out a review of the risk management process and to advise on any required changes. The initial focus is on the methodology for developing a new corporate risk register and a number of meetings with senior management have taken place. It is hoped that this exercise when completed will lead to the improvement of risk management processes throughout the Council.

11. 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
Local Government Auditor
24th October 2016