



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Dublin City Council**

**for the**

**Year Ended 31 December 2016**



**An Roinn Títhíochta, Pleanála agus Rialtais Áitiúil**  
Department of Housing, Planning 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 2016, 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, Planning 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 2016 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 deficit for the year amounted to €2.5m after transfers to reserves of €44.6m. The variances between the adopted budget and actual outturn are shown in Note 16 to the AFS. The approval of the members, as required by S.104 of the Local Government Act, 2001, was obtained.

Significant movements in the finances of the Council in 2016 are shown below.

#### **2.1 Fixed Assets**

There was a fall in the net book value of Heritage Assets by €206m which was due to a historic cost adjustment made in 2016 in respect of assets which are subject to a 12 year loan agreement. These had been included as assets of the council in previous years. (See 6.2 below)

#### **2.2 Loans Payable**

There was a reduction in total loans payable (including amounts due within one year) of €65m from €621m in 2015 to €556m in 2016. The most significant reduction was in respect of mortgage and rented equity loans which fell by €46m in 2016.

## 2.3 Long Term Debtors

Long term debtors decreased by €55m from €501m in 2015 to €446m in 2016. Significant reductions include:

- Mortgage and rented equity debtors (€40m), which was due mainly to the early redemption of loans by borrowers in 2016 (€36m) and
- Development levy debtors (€20m), which are no longer disclosed in Note 3 but offset against deferred income.

## 2.4 Trade Debtors and Prepayments

There was an increase in trade debtors and prepayments of €27m from €109m in 2015 to €136m in 2016, including an increase in government debtors of €17m.

## 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	
	2016	2015	2016	2015
Rates	90	88	41.0	51.1
Rents & Annuities	78	80	22.5	18.7
Housing Loans	66	59	12.4	15.1

### 3.1 Rates

The improvement in the percentage collected is reflected in a decrease in debtors at the end of 2016 compared to 2015.

An analysis of debtors relating to 2016 carried out at the end of June 2017 showed that almost €27m of these arrears remained outstanding, of which €15.7m related to 2015 and previous years. Specific doubtful arrears, as shown in Appendix 7 of the AFS, amounted to €5.6m at the end of 2016 compared to €7.1m in 2015.

#### Chief Executive's Response

Commercial rates accounts for 40% of revenue income in 2016 and therefore is a critical source of funding for services. The Rates Office staff are focused and proactive in maximising the collection and reducing the level of outstanding arrears.

### 3.2 Rents and Annuities

While the yield in 2016 fell slightly and the debtors increased when compared to 2015, this is in part due to the inclusion of miscellaneous rents in the 2016 figures. These were shown separately in 2015 and are not included in the above.

The need for improvements in procedures relating to the reconciliation of the rents and financial management systems were recommended at the last audit and these were implemented in 2016. At the current audit, the importance of having up to date and reliable tenant income information, in order to avoid inaccurate rent assessment, was highlighted. Incorrect assessments often give rise to significant retrospective adjustments and consequent arrears difficulties.

## **Chief Executive's Response**

To enable up to date rent assessments, and thus avoiding arrears situations as a result of retrospective debits, there is a dependence on compliance by tenants to submit details of any changes in income/employment status or household composition. The tenant is responsible by the terms of the Tenancy Agreement to furnish us with these details. Tenants are frequently reminded by letter, telephone and in person at the public counter, of the importance of submitting correct income details and verifying household occupants. A reminder of this is also issued with every quarterly statement to all tenants. Due to failure by some tenants to furnish us with the relevant information, it is not possible to accurately calculate the correct weekly rent charge.

Dublin City Council has direct access to the Department of Social Protection's (DSP) INFOSYS system in obtaining verification of all social welfare payments. Staff do not have direct access to employment income. Employment income details are obtained monthly by email from the DSP and then accounts are updated by rent assessment staff. To improve the efficiency of rent assessment, discussions have taken place with the DSP with a view to facilitating rent assessment staff in gaining direct access to all remuneration details. The INFOSYS system is being replaced and consideration will be given to allowing the Rents Section staff elevated access to the new system. It is anticipated that this will happen in the second half of 2018 and would greatly enhance the Rent Assessment Process and eliminate the need for assumed incomes being applied in determining correct rent charges.

### **3.3 Housing Loans**

There was some improvement in the collection of housing loans in 2016 when compared to 2015 resulting in a reduction in arrears from €15.1m to €12.4m. The yield remains relatively low at 66% compared to 59% in 2015.

The principal on all housing loans outstanding, including rented equity, decreased from €291m in 2015 to €252m in 2016 and is included in Note 3 Long Term Debtors to the AFS. The provision for bad and doubtful debts of €29.7m, which was created in 2015 in respect of this long term debtor, remains the same and is shown in Note 3 under the heading Other.

## **Chief Executive's Response**

Housing loans arrears while reducing is still challenging for mortgagees in long term arrears. A number of forbearance measures are in place to assist persons in arrears. The Mortgage to Rent Process (MARP) has assisted borrowers and reduced loan arrears and along with improved employment opportunities, this should result in loan arrears continuing to reduce.

### **4. Transfer of Water and Sewerage Functions to Irish Water**

The responsibility for water and sewerage functions was transferred to Irish Water in 2014 and related matters arising in the course of the 2016 audit included the following:

- The Council had completed the transfer of 28 of the largest water-related assets to Irish Water by June 2017. However there remains a significant number of assets that have not as yet been legally transferred due to problems with the confirmation or registration of title. There are also a number of assets on lands not owned by the Council where lease arrangements have to be clarified.
- In the course of the audit, recommendations were made for the improvement of the operation of the suspense account, which was set up to facilitate the control and reconciliation of transactions with Irish Water.

## **Chief Executive's Response**

The transfer of assets is an ongoing process. Irish Water has, in 2017, put together an in-house team to assist the Local Authorities in this transfer.

In relation to the suspense account and the control and reconciliation of transactions with Irish Water your recommendations have been agreed and will be implemented.

## **5. Capital Account**

Capital expenditure in 2016 amounted to €233m (€251m in 2015) and total capital income, including transfers from revenue, amounted to €275m in 2016 (€199m in 2015). This resulted in improvement in the capital account balance of €42m and a closing debit balance of €35m. The main reasons for the increase in income and the decrease in expenditure in 2016 were:

- Increases in expenditure on purchases of houses (€23m) and payments to contractors (€20m) offset by reduction in repayments of loan principal (€63m).
- Increase in income including miscellaneous income (€19.2m), Toll Bridge (€6.6m) and Section 89 Licences (€5.9m).

## **Chief Executive's Response**

With regard to Miscellaneous Income (€19.2m), the majority of the increase is due to Dublin City Council's move from self-insurance to ground up cover for insurance. Funds of €15.2m held as an insurance reserve through successive annual contributions were moved to the Capital Account to fund insurance claims outstanding.

The increase in expenditure on house purchases is due to the Rebuilding Ireland Action Plan for Housing and Homeless which required DCC to increase the number of house purchases in 2016. The cost involved is recouped from the Department.

## **5.1 Debit Balances re: Loan Redemptions**

The repayment of loan principal from the capital account in previous years, where there was no corresponding capital income, is reflected in debit balances at the end of 2016 as follows:

- Land acquisition loan redemptions of €29.4m (2015 €29.4m)
- Housing loan redemptions of €19.6m (2015 €24.7m)

The housing loan balance was reduced in 2016 as a result of transfers from the revenue account of €5.1m. The land acquisition balance will require future funding from the revenue account or other sources.

## **Chief Executive's Response**

The revenue to capital transfer of €5.1m has been budgeted for in 2017, and will continue until 2020 when the debit balance will be eliminated. It is proposed to clear the land acquisition balance from the sale of the relevant lands.

## 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 and District Heating	27
Land and Properties acquired for Housing	14
Abandoned Public Private Partnership Schemes	17
Affordable Housing Schemes	13

The Thermal Treatment Plant and District Heating projects are referred to below (5.4 and 5.5).

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

Debit balances on live regeneration / land initiative schemes will be subject to on-going recoupment of sunken costs (debit balances). Historic unfunded balances on Public Private Partnership Projects are being reviewed with a view to consolidating them into one cost centre. Credit balances in the Balance Sheet will be used to offset these balances in 2017.

## 5.3 Unsold Affordable Housing Units

At the end of 2016 the Council had 334 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, the Council has bridging loans payable on an interest only basis of €74m. 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

A review of market values of the unsold affordable housing is on-going and, where appropriate and feasible, properties will be sold and the proceeds of sale/recoupment will be used to address the outstanding loan balances.

## 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 and commissioning phase of the project is expected to be completed by October 2017.

Expenditure in 2016 on Phase 2 of the project was €850k, bringing cumulative expenditure on this phase to €1.5m of a budget of €4.4m. The expenditure in 2016 related mainly to the Client Representative contract.

The Council is acting on behalf of all Dublin local authorities and the other three local authorities contribute approximately 58% of the costs incurred on the project. The capital account relating to

Phase 1 of the project, which is now complete, shows a debit balance of €15.9m which will require funding by the Council.

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

Under the structure of the Dublin Waste to Energy contract, Dublin City Council will receive some of the facility revenues post the commencement of commercial operation, which is expected to be October 2017. The clearing of the capital balances will be prioritised from this income stream.

### **5.5 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 areas. There remains a debit balance of €10.9m on the capital account in respect of this project and this will require funding by the Council.

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

The Council is keen to see this project proceed given the significant investment undertaken to date and the environmental benefits it will deliver. The City of Dublin Energy Management Agency (CODEMA) has recently completed a detailed financial appraisal of the project and is working on a market research report. Arrangements are also being made to have an examination carried out of different business models to progress the project. Finally, the Council is actively seeking to identify sources for the capital funding that will be required to finance the development of the project.

## **6 Fixed Assets**

### **6.1 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 comprehensive database of 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 with links to the FAR should be prioritised.

The Transformation Unit of the Council has had extensive consultation with all relevant departments and divisions to determine their specific roles in property related issues and their broad requirements in relation to a single corporate property register. Details of existing systems used to manage property-related information have been gathered and a draft requirements document has been drawn up. Every effort should be made to advance this project at the earliest possible date.

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

A project governance and management structure is currently being specified and resource requirements identified. Core requirements as well as links and interdependencies between necessary systems are to be defined. An analysis of existing systems is to be carried out to assess whether they can be developed to meet requirements. Upon completion of the analysis and assessment, a solution will be identified and implemented.

## **6.2 Heritage Assets**

During 2016 a historic cost adjustment of €206m was made to the value of Heritage Assets in Note 1 in the AFS. This was due to the fact that these assets were held on loan by agreement for a number of years and, although included in assets in previous years, were not the property of the Council.

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

The adjustment made reflects a legal ownership of the assets and does not impact on the arrangements for their beneficial use.

## **7. Development Contributions**

A project board established by the Council recommended the use of the file management functions of the planning system (APAS) and the accounts receivable module of the financial management system (Oracle) to record, monitor and account for development contributions. To facilitate customer enquiries and arrears management, financial transactions are still input to both systems (APAS and Oracle).

In the course of the 2016 audit, I have recommended that a system of periodic checks and balances be put in place to ensure, and to provide evidence of, the integrity of the data in both systems. The improvement in the quality of some of the Oracle reports should also facilitate the operation of these controls.

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

The APAS and Oracle systems will be checked to ensure the data is input correctly in both systems. A reconciliation report will be run on a monthly basis to facilitate the operation of this control.

## **8. Homeless Services**

Council expenditure on Homeless Services in 2016 amounted to almost €102m compared to an original budgeted amount of €95m resulting in over-expenditure of €7m on the Revenue Account. Income for the year, consisting of funding from the Department and contributions from the other Dublin local authorities, amounted to €81m. The cost of these services places an ever increasing burden on the finances of the Council.

### **8.1 Services provided by Voluntary Bodies**

Accommodation for the homeless is generally provided by voluntary bodies under service level agreements and it was noted at audit that the Council did not have up to date agreements in place with a number of these bodies. The Council appointed a firm of accountants to review the systems and controls in place within some of these bodies and the results from this review are currently being examined and followed up.

### **8.2 Low Value Purchase Cards**

Significant weaknesses and the lack of adequate controls over the use of low value purchase cards for the provision of accommodation for the homeless were originally highlighted in an internal audit report issued in 2016. In the course of the current audit a review of the transactions

for 2016 was carried out, including the progress made in the reconciliation of transactions retrospectively. The Council has assigned additional resources to the reconciliation task and, despite having made significant progress, a full reconciliation for 2016 was not possible.

Improved daily reconciliation procedures and controls have been put in place for current transactions and the significant weaknesses identified in previous years have been addressed.

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

The Dublin Region Homeless Executive will continue to monitor the Low Value Purchase Card expenditure to ensure 100% reconciliation in 2017, and that the appropriate control environment is maintained.

### **9. 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. 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 96 tenders in 2016. In the course of the audit, I have recommended that the Council update the Policy and Procedures Manual to reflect the EU Directives transposed into Irish Law on a timely basis and also that the procedures for publishing award notices should be improved.

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 a number of instances of non-compliance was noted and referred to the relevant Council Departments for action.

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

##### Policy and Procedures Manual

The Corporate Procurement Plan and the Dublin City Council Policy and Procedures Manual are scheduled to be reviewed and updated in 2018. This review and update will ensure that the new Public Procurement EU Directives transposed into Irish Law in 2016 are reflected as recommended. This will allow the CPU to continue to provide its advisory support role to departments in the preparation and planning of tenders and guidance in the award procedures of contracts and strengthen the procurement function within the organisation with the appropriate up to date information. In the interim all template tender documentation available in the CPU Procurement Advisory Information Pack has been updated to reflect the EU Directives changes.

##### Procedures for publishing award notices

While it is the responsibility of tendering departments to ensure that contract award notices are completed for all contracts awarded within the specified timeframe stated in Article 50 DIRECTIVE 2014/24/EU (30 days from the award of contract) the CPU will continue to rigorously endeavour to ensure that contract notices are published by the tendering departments as required.

#### Instances of non-compliance with established contracts / framework

The CPU have a procedure to communicate all corporate contracts and national frameworks for which the Council is eligible to utilise to all departments. Communicated details include contacted supplier details, pricing schedules and ordering procedure. It is the responsibility of the department raising a purchase order to ensure that the appropriate contracted supplier is used to supply goods or services. The CPU contract managers monitor all purchase orders raised through the Oracle Financial Management System for the contracts/frameworks for which they are responsible. These reports are conducted on a weekly and monthly basis. All purchases made to suppliers other than the contracted supplier are investigated.

### **10. 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.

#### **10.1 Dublin Docklands Development Authority (DDDA)**

The Dublin Docklands Development Authority (Dissolution) Act 2015 came into effect on 29<sup>th</sup> February 2016 and provided for the dissolution of the DDDA and the transfer of functions, assets and liabilities to the Council. The Final Annual Report and Financial Statements were prepared for the period from 1<sup>st</sup> January 2015 to 29<sup>th</sup> February 2016 and audited by the Comptroller and Auditor General.

Dublin City Council's AFS for the year ended 31 December 2016 does not include the assets and liabilities transferred from the dissolved authority. Transactions from the dissolution date to the end of 2016 are not recorded in the accounts of DCC. It is vital that all financial activities and transactions are brought within the council's accounting systems and that the appropriate governance procedures are adhered to at the earliest possible date.

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

The Docklands Office has been working since the date of Dissolution of the Dublin Docklands Development Authority (DDDA) to transfer the functions, assets and liabilities of the DDDA to the various City Council departments. The DDDA's Dissolution accounts were produced up to the end of February 2016. The account were audited and signed off by the Comptroller and Auditor General on 23<sup>rd</sup> of December 2016 and then sent to the Minister for Housing, Planning and Local Government. This process was not completed in time for the closing Balance Sheet of the company to be included in the City Council's AFS for 2016. The DDDA's Dissolution accounts will be included in the City Council's AFS for the year ended 31 December 2017. The Docklands Office is now working to move all remaining financial activities of the DDDA to the City Council's Financial Accounting System and it is anticipated that this transfer will occur by the end of October 2017. The Docklands Office will ensure that all appropriate governance procedures relating to the activities of the DDDA that the City Council are now responsible for are put in place without further delay.

#### **10.2 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 €57m, is not consolidated in the Council's annual financial statement. The most recent audited accounts received in respect of this company are for the year ended 31 December 2016.

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

We are still awaiting the necessary legislation from Government which will allow for the dissolution of the Temple Bar Cultural Trust. In the meantime the orderly transition to DCC continues and all Company regulations etc. are being complied with.

### **10.3 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.

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

The orderly transition of Ballymun Regeneration Limited into Dublin City Council is also continuing.

## **11 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.

### **11.1 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, of which two have professional accounting qualifications and one is a member of the Institute of Internal Auditors. The actual whole time equivalent staff numbers available at the end of 2016 was 5.5. 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, with an additional report being outsourced, and I have taken account of this work where relevant. A significant proportion of the reports produced related to the Council's obligations under The Public Spending Code and, given the limited resources available, this has had an impact on the effectiveness of the Unit in its wider governance remit.

## **Chief Executive's Response**

Whilst the Public Spending Code (PSC) obligations place some restriction on how the IA Unit approaches its governance remit, the PSC is an important part of the overall Governance Framework for Local Authorities.

### **11.2 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 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 was on the methodology for developing the new corporate risk register, which was completed by the end of 2016. The next stage is the review of departmental risk registers in each department. It is hoped that this exercise when completed will lead to the improvement of risk management processes throughout the Council.

### **12. 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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**Richard Murphy**  
**Principal Local Government Auditor**  
**31<sup>st</sup> August 2017**