

**LOCAL GOVERNMENT AUDIT SERVICE**

**STATUTORY AUDIT REPORT**

**to the**

**LORD MAYOR AND MEMBERS**

**on**

**THE ACCOUNTS OF**

**DUBLIN CITY COUNCIL**

**FOR YEAR ENDED 31 DECEMBER 2006**



## DUBLIN CITY COUNCIL

### **1 Introduction**

1.1 I have completed the statutory audit of the accounts of Dublin City Council for the year ended 31 December 2006 and have stated my audit opinion on the Annual Financial Statement (AFS) on page 12 of the Statement.

1.2 I am issuing this report in accordance with section 120(1) of the Local Government Act 2001.

### **2 Income and Expenditure Account**

2.1 Expenditure on this Account in 2006 amounted to €788.2m while income amounted to €26.6m, giving a surplus for the year, before transfers to reserves, of €8.4m. These transfers amounted to €5.9m. The closing accumulated surplus on the account was €2.6m.

2.2 Transfers to/from reserves are shown in the Income and Expenditure Account as a separate below the line figure as required by the Code of Accounting Policies for local authorities.

The net transfers of €5.9m included €3.3m in respect of the loan repayment and the lease repayment reserve. The balance of €2.6m represented various transfers to the Capital Account to fund outstanding historical capital balances and to fund future unfunded capital projects. The more significant of these were:

Infrastructural Reserve	€6.8m
Parking meters fund	€5.4m
Insurance Claims Reserve	€2.5m
Parks Improvement	€1.5m

2.3 The outcome for the year, arising from differences between the adopted budget provisions and actual income and expenditure, is accounted for in note 17 to the AFS.

This note shows a favourable outturn for Rates of €2.5m. This arises because the budget figure (€62m) is stated net of anticipated bad debt write-offs while the income figure in the AFS (€85m) is stated at gross value. Actual bad debts amounting to €19.9m were written off to Programme 8 giving rise to the €6.6m adverse outturn on that programme.

### **3 Balance Sheet**

3.1 The balance sheet shows net assets of €1,694m at 31 December 2006, consisting of the following:

	2006	2005
	€m	€m
Fixed assets	10,332	9,867
Work in Progress etc	1,359	1,703



Long term debtors	552	590
Net current assets	<u>123</u>	<u>138</u>
	12,366	12,298
Less long-term creditors	<u>672</u>	<u>768</u>
	<u>11,694</u>	<u>11,530</u>

3.2 The above net assets are represented by various reserves and balances, including the capitalisation account, tenant purchase proceeds, development contribution levies, balances on completed capital projects and other miscellaneous balances.

3.3 **Work in progress and preliminary expenses:** The €1,359m shown under this heading represents the gross expenditure to 31 December 2006 on capital schemes uncompleted at that date. The income accrued on these schemes, €1,342m, is shown in the balance sheet as a reserve.

Balances on these and other uncompleted schemes at 31 December 2006 are shown as funded schemes, the Council regarding all capital schemes as funded. Where no other source of funding is available or can be identified, the assumption is that the funding will come from internal sources. I note the Council's Capital Programme 2007-2009 report, prepared in accordance with section 135 of the Local Government Act 2001, anticipating capital expenditure of €3,064m of which €46m (1.5% of total expenditure) represents projects where funding had still to be identified.

3.4 **Financial Position of the Council:** The Council had net cash assets of €42m at the 31 December 2006. Net current assets at that date, representing an excess of current assets over current liabilities, amounted to €123m, reflecting a liquidity ratio of 1.5.

#### 4 Capital Account

4.1 The Capital Account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council and, de-aggregated, provides the various balances for transfer into the Balance Sheet.

4.2 Expenditure in 2006 amounted to €99m while income amounted to €84m. There was a credit balance on the account at 31 December 2006 of €90m. Loans and assistance to persons housing themselves have been excluded from the Capital Account presented in Appendix 6 as these were accounted for in the Balance Sheet.

4.3 As noted in paragraph 3.3 above, the Council anticipates expenditure of €3,064m in the three years 2007 to 2009 on the capital programme to be funded from capital grants (€1,696m), loans (€785m), internal sources (€537m) and €46m from sources still to be identified.

4.4 Major expenditure cost centres in 2006, accounting for €470m (67% of total), were on the following:

Project/activity	€m
Dublin Port Tunnel	54
Ballymun Regeneration Ltd	87
Affordable Housing	110
Local Authority Construction and Improvements	93
Purchase/refurbishment of houses for letting	62
Voluntary Housing Bodies	45
Dublin Bay Project	20



## 4.5 Capital Projects

- 4.5.1 **Dublin Port Tunnel:** Cumulative expenditure to 31 December 2006 on this project was €732m, of which payments to the contractor amounted to €580m. The original budget for the project was €335m. Further payments were made in 2007.

The final cost of this project has still to be determined, as the Council has not agreed all the contractor's claims. Negotiations have taken place, and are continuing, to resolve this matter. I note the Council's provision for these claims is significantly lower than the amounts the contractor has claimed to date.

The final cost will also include the cost of (1) land and property acquisitions underestimated and (2) an extension to the project supervisors' contract to cover additional work.

The Dublin Port Tunnel commenced operations in December 2006 and provides a major link from Dublin Port to the national roads network.

- 4.5.2 **Dublin Bay Project:** Cumulative expenditure to 31 December 2006 of €364m included €243.1m on the new Treatment Works at Ringsend and €72m on the Sutton to Ringsend Submarine Pipeline.

Cumulative expenditure on the Treatment Works included €17.6m for contractor's payments and €9.2m for consultancy. The Council is in the process of agreeing the contractor's final account.

Cumulative expenditure on the Submarine Pipeline included contractor's payments of €61m and consultancy payments of €2.8m. The final account has not yet been agreed and has been referred to arbitration.

I will review progress on the resolution of all final accounts on the project at the next audit.

- 4.5.3 **Ballymun Regeneration Ltd:** Expenditure on the Ballymun Regeneration project amounted to €37.4m during the year. Cumulative costs to 31 December 2006 amounted to €61.1m. The current estimated completion cost is €1,009m leaving an estimated €448m still to be spent. I note that the Council has provided €379m in its capital budget 2007 to 2009 for this purpose.

The project is being implemented through Ballymun Regeneration Limited (BRL) which manages the project on an agency basis. This company is limited by guarantee and does not have a share capital. Dublin City Council has seven subscribers and 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 2006 were audited by KPMG, Chartered Accountants, and I have relied on their audit report on the company for that year.

KPMG signed the audit report on BRL and its subsidiaries and also issued their report setting out the key points on their audit on 25 July 2007. The report includes a reconciliation of the BRL accounts with the cost centre totals in the Council's capital account.

- 4.5.4 **Affordable Housing:** Total expenditure on affordable housing in 2006 was €110m and mainly included expenditure on Part V affordable housing of €42m, developments at Sarsfield Road, Inchicore of €8.5m and developments at Ratoath Road, Scribbles Town of €27.5m.

- 4.5.5 **Other Projects:** I reviewed a number of other projects at various stages ranging from preliminary to completed schemes and note quite a number of completed projects awaiting agreement on final accounts.

I note expenditure on the Calatrava designed Macken Street (Samuel Beckett) Bridge project in 2006 of €1.8m mainly related to design and supervision costs. The capital budget 2007-09 includes €44.4m



for this project. I will review progress on this undertaking at the next audit.

## 5 *Matters Arising*

### 5.1 **Environmental Waste Charge**

The annual accrual on this collection increased by €6.5m to €9.4m in 2006 as a result of the knock on effect of the introduction of a new system of charge in 2005 and a 5% price rate increase in 2006. Since 2005 customers have been paying a fixed standing charge and also a charge per bin lift.

Waiver claims allowed increased by €2.2m to €7.7m probably as a result of customers in arrears, and entitled under the terms of the scheme to a waiver, applying for one for the first time. The need to do so arose from the new system of collection of bins which provides for their non collection where the account is in arrears.

I note that customers in receipt of 100% waivers have no financial incentive to reduce waste. The Council should therefore consider relating the waiver to a maximum permitted tonnage in order to provide such an incentive.

The Council managed to increase the amount collected from €8.2m in 2005 to €15.6m. The total outstanding at the end of 2006 amounted to €34.9m, an increase of €7.4m on 2005. While there were no specific write-offs in 2006, I note a manager's order authorising the write-off of €2m to be implemented in the current year. The Council provided a general bad debts provision of €10.1m.

As previously reported, the Council appealed to the Supreme Court a decision of the Circuit Court in relation to charges levied in 2001 and 2002 and is awaiting the Court's findings.

### 5.2 **Governance**

5.2.1 **Internal Audit:** During 2006 the Internal Audit Unit examined a number of areas of the Council's activities. I took due cognisance of the findings of these reports.

I note a recent report which reviewed the recommendations contained in the reports issued during 2006 to ascertain the extent to which they have been implemented. There were 83 recommendations in all and the review found that 63 of these, 75%, have been implemented to date.

The Unit proposes to review all recommendations issued in reports completed in previous years, starting with 2003.

5.2.2 **Risk Management:** I note the recent establishment of a risk management unit independent of the Internal Audit Section in the Finance Department of the Council. The unit will implement a risk management strategy (1) to assist the identification and assessment of significant risks and (2) outline measures at corporate, departmental and business unit level to minimise and measure such risks

5.2.3 **Audit Efficiency Group:** This was established in 2001 and consists of members of the Council and the social partners. The terms of reference of the Group include review of the statutory annual financial statements and the external auditor's report on them, and a review of internal audit reports.

### 5.3 **Development Contributions**

5.3.1 The total amount received in respect of Planning Contributions in 2006 was €58.1m made up as follows:



Received under section 48 of the Planning and Development Act 2000 - €1.3m  
Received under section 48 of the Planning and Development Act 2000 Special - €2.2m  
Received under section 26 of the Planning and Development Act 1963 - €4.6m

5.3.2 During the audit I reviewed an indicative statement of infrastructural schemes the Council proposes to finance from section 48 general planning contributions in the six years to the end of 2009. The Council anticipates receipts of €261m from this source over that period.

5.3.3 At this and previous audits I noted shortcomings in the reporting management capacity of the database currently used by the Council and reviewed developments in the implementation of a new reporting module which Council management envisages will address these shortcomings. Council officials are currently loading outstanding balances as at 31 December 2006 into the new module and examining the feasibility of merging current activity, i.e. contributions due from the 1 January 2007, into the module.

The development contribution and bonds module will be an integral part of APAS, the system the City Council uses to manage the planning system from receipt of the application to the issue of the decision. This should ensure the timely raising of an appropriate charge in each case, where applicable, following the grant of planning permission.

It is important that Council management ensures the establishment of a link between the new module and the general ledger to facilitate the identification and accrual of these contributions as they become due.

#### 5.4 Revenue Audit

5.4.1 My reports for 2004 and 2005 noted proposals of the Revenue Commissioners, arising from the issue of a revised statement of practice, to tax certain payments including fixed car allowances, eating on site allowances and others and discussions between the interested parties then taking place.

5.4.2 I note that with effect from 1 January 2007 the Council is treating the following expenses payments as taxable emoluments:

Fixed travel car allowances  
Interview board fees  
Site supervision allowances  
Higher Review Body car allowances  
Unvouched bus fares

#### 5.5 Administration

5.5.1 **Accounting for fixed assets:** I have concerns about the Council's arrangements for accounting for fixed asset arising from the following:

- Movements on fixed assets i.e. additions, disposals, revaluations and depreciation are reflected in the general ledger, by journal adjustments, only at the year end;
- Only some of the assets are posted to the fixed assets register in the general ledger, the rest being held on various databases outside the general ledger;
- I did not receive, during the audit, an adequate reconciliation statement for the Council's housing stock.

Assets not recorded on the central register are land, building, housing, road network, water and sewerage network, playgrounds and heritage assets.



The housing fixed assets account for 50% in value of the total assets of the Council per balance sheet valuations and probably a much higher proportion in terms of actual quantity, the Council having in excess of 26,000 housing units. During the audit there were difficulties in the production of a reconciliation between the housing units recorded on Anite, the Council's new rental and property system, with those listed in the excel database which contains the Council's housing stock and which in effect is the housing fixed asset register, because of extraction problems with the Anite system.

I note proposals for the establishment of a working group to oversee the setting up of a fixed asset register on the Anite system. I also note that it is intended that appropriate reconciliation reports will be developed as standard tools within the system. This is a welcome development.

I recommended (1) that the records, to be maintained on the housing system, be reconciled to the Council's general ledger at least annually, (2) that this initiative when successfully completed be extended to other fixed assets categories. I will review progress at the next audit.

In the longer term the Council should progressively work to a situation where fixed assets movements are picked up and recorded as they arise.

5.5.2 **Payment of sick leave for class A1 salaried staff:** I am concerned that the procedures for recoupment of sick pay are not sufficiently robust to give assurance that all sick pay entitlements from the Department of Social and Family Affairs (DSFA) to the relevant staff are (1) being claimed and/or (2) being recouped in all cases. It would appear that there is a loss to funds by the Council on the operation of the sick pay scheme for this category of staff. Salaried staff recruited since 1995 are classed as A1 for PRSI purposes and it is estimated that 32% of all salaried staff belong to this category now. Obviously this is a percentage that will continue to grow. It is incumbent on Council management, therefore, to address and find a solution to this problem.

5.5.3 **Bank reconciliation procedures:** The Council's bank transactions are recorded through the Municipal Fund that incorporates two separate general ledger accounts. In addition to the Municipal Fund accounts, the Council operates a number of bank accounts that do not directly link into the general ledger. In the main they are revenue generating accounts – rates, housing loans, waste management, car parks. The lodgements to these accounts are reconciled to their respective receipting systems which then form part of the reconciliation process with the Municipal Fund.

Consequently the work needed to ensure that the correct bank figure is disclosed at the year-end can be an onerous task for the staff involved. The complexity of the balancing also increases the risk of error.

I note proposals from Finance management for revised and improved procedures which, when and if implemented, should significantly improve internal controls. The proposals

- set out the respective responsibilities of various departments in both maintaining and controlling cash and cash transactions;
- stipulate that only amounts receipted on Academy (the Council's cash receipting system) are to be transferred to the Municipal Fund;
- provide for regular reviews and reconciliations to be completed by the sections with responsibility for maintaining the various bank accounts;
- require that balances on the non general ledger accounts at year end be brought into the General Ledger as cash in transit.

In the longer term Council management should work to a situation where all significant bank accounts are represented by their own general ledger account.

5.5.4 **Housing Loans:** There was a difference in the aggregate capital balance on the Council's housing loans at 31 December 2006 between the figure recorded in the housing loans accounting system,



Cygnus, and that in the general ledger. The respective figures were €366.31m and €363.53m, a difference of €2.78m. The difference arises from incorrect journal transfers from Cygnus. During the audit Council staff worked to reconcile these differing amounts and to date have identified errors requiring adjustments to the general ledger of €2.75m. Further investigation is proceeding to locate the remaining difference. The adjustments are being made in the current year.

The Council should commence a regular monthly reconciliation between Cygnus and Oracle as soon as the current imbalance between the two systems is resolved. I will review this again at the next audit.

## **6** *City Manager's Response*

- 6.1 Section 120(4) of this Act required me, before its finalisation, to consult with the City Manager in respect of the subject matters of the report and to consider and record comments of the manager of material significance to such matters. Relevant comments of the manager are reproduced below.
- 6.2 In his reply the manager addressed a number of issues arising from the report. These are set out below with the relevant paragraph from the report.

Environmental Waste Charge – (5.1)  
Audit Committees – (5.2)  
Development Contributions – (5.3)  
Housing Stock – (5.5.1)  
Sick leave arrangements for A1 Salaried Staff – (5.5.2)  
Bank Reconciliation Procedures – (5.5.3)  
Housing Loans – (5.5.4)

- 6.3 The full text of the manager's reply is reproduced in appendix 1

## **7** *Acknowledgement*

- 7.1 I wish to acknowledge the assistance and co-operation of the City Manager and his staff at audit. I am particularly indebted to the Head of Finance and her staff.
- 7.2 I wish also to acknowledge colleagues in the Local Government Audit Service who worked with me on the audit.

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**Liam Bowe**  
**Principal Local Government Auditor**

5 September 2007



## Appendix 1

**Mr. Liam Bowe**  
**Principal Local Government Auditor**

5 September 2007

**Re: Response to Statutory Audit Report for Dublin City Council for year ended 31<sup>st</sup> December 2006**

I refer to the Statutory Audit Report for Dublin City Council for year ended 31<sup>st</sup> December 2006 and set out the response of Dublin City Council below. I set out below a summary of the main points raised by you in your report, followed by comment in relation to certain items.

### Summary

The main points of the Statutory Audit Report are:

- o The Annual Financial Statements represent fairly the financial position of Dublin City Council at 31 December 2006 and its income and expenditure for that year
- o Dublin City Council's 2006 Annual Financial Statement meets the statutory accounting requirement of the Minister for Environment, Heritage and Local Government
- o The year-end position on the Income and Expenditure account, net of transfers was €2,643,772 an increase of €2,435,156 from the opening balance.
- o Dublin City Council's net assets are valued at €11.7bn
- o The Council's year end financial position is strong
- o Dublin City Council's Capital Programme 2007 to 2009 is valued at €3.1bn

### Capital Projects: Dublin Port Tunnel

The Dublin Port Tunnel opened in December 2006 and provides a dedicated transport corridor for haulage trucks direct to the Port area. The final cost of the project is currently under negotiation.

### Environmental Waste Charge

During 2006 collection rates for the environmental waste charge improved over 2005 levels, which indeed has been the case in 2007. The waivers offered by Dublin City Council are generous and are determined by resolution of the elected members. Dublin City Council awaits the consideration by the Supreme Court of charges levied in 2001 and 2002.

### Development Contributions

Development Contributions are levied under Section 48 of the Planning and Development Act 2000 (both general and specific) and Section 26 of the Planning and Development Act 1963. Contributions levied under the 2000 Act are in respect of public infrastructure and facilities benefiting development in the area of the planning authority and that is provided, or that is intended will be provided, by or on behalf of a local authority (regardless of other sources of funding for the infrastructure and facilities). As acknowledged by you work has progressed on transfer of development contribution data to the new APAS system. The completeness and full integration of this work is a priority for Dublin City Council.

### Fixed Assets: Housing Stock

Dublin City Council introduced the Anite Housing Management System in 2007. The system is functioning well however further work is required on data extraction and report writing. As a consequence it was not possible to facilitate the reconciliation of Housing Stock held on Anite with the value of Housing stock held locally. The working group established will prioritize the production of reconciliation supports.

### Housing Loans

Dublin City Council endorses the recommendation of the Local Government Auditor to put in place improved reconciliation processes between the Cygnus Loan system and Oracle.



### **Sick leave arrangements for A1 Salaried Staff**

It is acknowledged throughout the public sector that arrangements in relation to the sick pay for this group of staff are problematic and leaves Dublin City Council and other organizations vulnerable to loss of funds. This issue will be pursued at a wider platform to encourage discussion around devising appropriate arrangements, which protect the interests of Dublin City Council.

### **Bank Reconciliation Procedures**

As reported by you, strengthened bank reconciliation procedures are now in place. These changes will improve the operation of internal controls and financial management.

### **Audit Committees**

Dublin City Council is the process of the introduction of an Audit Committee in the format prescribed by the Department of the Environment Heritage and Local Government. A key layer of the Corporate Governance framework within Dublin City Council is the strength of the internal audit function and the workings of the Audit Efficiency Group. The new Audit Committees will be a welcome and valuable layer of assurance to the full City Council and the broader community of stakeholders.

### **Conclusion**

Dublin City Council welcomes this report. The Council acknowledges the recommendations made by you and commits to working towards achieving those recommendations. I would like to commend you and your audit team for the professionalism applied to your work in Dublin City Council. In particular I would like to comment on the timeliness of the Audit, the clarity given by its output and the prompt conclusion i.e. this report. This process gives the Statutory Audit a relevance, which underpins corporate governance and accountability. Dublin City Council wishes to continue to work closely with you to facilitate and expedite this process.

Yours sincerely,

**John Tierney**  
**Dublin City Manager**