



STATUTORY AUDIT REPORT

to the

LORD MAYOR AND MEMBERS

on

THE ACCOUNTS OF

DUBLIN CITY COUNCIL

FOR YEAR ENDED 31 DECEMBER 2007

JNCIL



Comhshaol, Oidhreachta agus Rialtas Áitiúil
Environment, Heritage and Local Government

I have completed the statutory audit of the accounts of Dublin City Council for the year ended 31 December 2007 and have stated my audit opinion on the Annual Financial Statement (AFS) on page 8 of the Statement. I am issuing this report in accordance with section 120(1) of the Local Government Act 2001.

Under Section 120(4) of this Act, I have considered the responses of the City Manager, to the matters raised in this report, and have recorded his responses after the relevant paragraphs.

2. Income and Expenditure Account

Expenditure on this Account in 2007 amounted to €861.6m while income amounted to €889.1m, giving a surplus for the year, before transfers to reserves, of €27.5m. These transfers amounted to €22.4m in 2007, leaving an overall surplus for the year of €5.1m. The accumulated surplus on the account was €7.7m.

Transfers to/from reserves are shown separately in the Income and Expenditure Account as required by the Accounting Code of Practice for local authorities. The net transfers of €22.4m included €5.6m in respect of the loan repayment and the lease repayment reserve. The net balance of €16.8m represented various transfers to and from the Capital Account to fund historical capital balances and future unfunded capital projects. I have recommended that, in accordance with the Accounting Code of Practice, all transfers to reserves, not specifically provided for in the budget, should be referred to the Council members for their approval.

The surplus for the year of €5.1m is explained in terms of variations between the adopted budget provisions and actual income and expenditure in Note 17 to the AFS.

Manager's response

"In accordance with the Accounting Code of Practice, all transfers to reserves are referred to Council members for approval. Based on your audit recommendation a detailed analysis will, in future, be provided for transfers not specifically provided for in the budget."

3. Balance Sheet

The balance sheet shows net assets of €12,317m at 31 December 2007, consisting of the following:

	2007	2006
	€m	€m
Fixed Assets	11,420	10,332
Work in Progress etc	912	1,359
Long Term Debtors	740	552
Net Current Assets	<u>173</u>	<u>123</u>
	13,245	12,366
Less Long-Term Creditors	<u>928</u>	<u>672</u>
	<u>12,317</u>	<u>11,694</u>

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. The substantial increase in Fixed Assets and the decrease in Work in Progress and Preliminary Expenses reflect the completion of a number of major capital projects in 2007.

The €912m shown under Work in Progress and Preliminary Expenses represents the gross expenditure to 31 December 2007 on capital schemes uncompleted at that date. The income accrued on these schemes, €913m, is shown in the balance sheet as a reserve. The Council regard all such schemes as funded on the basis that, if no other funding is available, these schemes will be funded from internal resources. I note that the Council's Capital Programme 2008-2010 report, prepared in accordance with section 135 of the Local Government Act 2001, anticipates capital expenditure of €2,191m of which €29m (1.3% of total expenditure) represents projects where funding has still to be identified.

The Council had net cash assets of €14m at the 31 December 2007, compared to €42m in 2006. Net current assets at that date,

representing an excess of current assets over current liabilities, amounted to €173m, compared to €123m in 2006, reflecting the inclusion of Development Contributions debtors in the Annual Financial Statement for the first time.

4. 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 Annual Financial Statement. 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.

Expenditure in 2007 amounted to €996m (2006 - €696m), while income amounted to €1,063m. The substantial increase in expenditure reflects the higher number of houses purchased by the Council as well as construction costs on the Ballymun regeneration project. There was a credit balance of €157m on the account at 31 December 2007.

Major expenditure cost centres in 2007, accounting for €743m (75% of total), were as follows:

Project / Activity	€m
Affordable Housing	204
Purchase/refurbishment of houses for letting	170
Ballymun Regeneration Ltd	114
Voluntary Housing Bodies	95
Dublin Bay Project	68
Local Authority Construction and Improvements	65
Dublin Port Tunnel	27

5. Capital Projects

5.1 Dublin Port Tunnel

Cumulative expenditure to 31 December 2007 on this project was €758.9m, of which payments to the contractor amounted to €591.6m. The original budget for the project was €535m. Cumulative expenditure also includes the cost of (i) increased land and property acquisition costs and (ii) an extension to the project supervisors' contract to cover additional works. Further payments were made in 2008.

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 and that this project is fully funded by the National Roads Authority,

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

Manager's response

"The final cost of this dedicated transport corridor, the Dublin Port Tunnel direct to Dublin Port, is under negotiation."

5.2 Dublin Bay Project

Cumulative expenditure to 31 December 2007 of €431.7m included €285.4m on the new Treatment Works at Ringsend and €96.8m on the Sutton to Ringsend Submarine Pipeline.

Cumulative expenditure on the Treatment Works included €258.9m for contractor's payments and €19.8m for consultancy. Agreement has been reached with the contractor on the final account and this will result in further payments in 2008.

Cumulative expenditure on the Submarine Pipeline included contractor's payments of €84.6m and consultancy payments and legal costs of €9.8m. The contractor's final account which had a number of disputes referred to arbitration, has now been agreed and the contractor's payments include the final cost of the contract and their legal and arbitration costs.

5.3 Ballymun Regeneration Ltd

Expenditure on the Ballymun Regeneration project amounted to €114.5m during the year. Cumulative costs to 31 December 2007 amounted to €675.6m. The current estimated completion cost is €958.3m leaving an estimated €282.7m still to be spent. I note that the Council has provided for this amount in its capital budget 2008 to 2010.

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 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 2007 were audited by KPMG, Chartered Accountants, and I have relied on their audit report on the company for that year.

KPMG issued their audit report, on BRL and its subsidiaries, and also their report to the board that sets out the key points of their audit. The report includes a reconciliation of the BRL accounts with the cost centre totals in the Council's capital account.

5.4 Affordable Housing

Total expenditure on affordable housing in 2007 was €204.1m and included expenditure on Part V affordable housing of €37.9m, developments at Kilshane Road, Finglas of €13.4m and developments at Prospect Hill of €13.4m.

5.5 Macken Street (Samuel Beckett) Bridge

Construction on the Macken Street (Samuel Beckett) Bridge commenced in 2007 and the cumulative expenditure to 31 December 2007 amounted to €11.6m. The balance of the total project cost of €48.9m is provided for in the capital budget 2008-10.

6. Capital Income

Total capital income in 2007 amounted to €1,062.6m and consisted mainly of grants (€346.2m), non-mortgage loans (€263.1m), development contributions (€67.6m), income from property disposals (€115m) and income accrual (mainly grants) of €129.5m.

7. Matters Arising

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 Public Private Partnerships (McNamara Companies)

At various times since 2005, the Council entered into agreements with the McNamara group of companies to carry out public private partnership projects in the five (5) locations below. During 2008, after protracted negotiations, it became clear that the projects would not go ahead as planned and the developer indicated that, in the current economic climate, these projects were no longer viable. The expenditure incurred by the Council to date (June 2008), on each of the projects, is shown below.

Project	€m
Sean McDermott Street	5.1
St. Michael's Estate	3.3
O'Devaney Gardens	3.4
Dominick Street	1.5
Infirmity Road	0.6

The amount shown above for St Michael's Estate excludes expenditure incurred before PPP negotiations began. The value of retained assets on these projects is approximately €8.6m in total.

The Council has obtained legal advice as to their options in relation to these projects. Signed contracts were in place in the case of three of the projects i.e. Infirmity Road, O'Devaney Gardens and Sean Mc Dermott Street. The Council entered into a mediation process, in respect of these projects, which has concluded with a signed agreement giving the Council full unencumbered sites, intellectual property license and a contribution of €1.5m towards expenditure incurred. With regard to the projects without signed contracts i.e. St. Michael's Estate and Dominick Street, the Council has proceeded to negotiate with the next bidder. The outcome of negotiations with the second bidder, on these two projects, has not yet concluded. A special Housing Task Force, comprising of

architectural, planning and valuation expertise has been established and are working on alternative proposals for the delivery of the regeneration of St. Michael's Estate, O'Devaney Gardens and Dominick Street areas.

While the outcome on all five (5) projects is unclear, management have undertaken to seek advice as to how tender evaluation procedures can be improved to avoid over-exposure to one bidder and also to carry out a risk assessment of all PPP projects, which will include delays in finalising contracts. Progress in relation to these matters will be reviewed at the next audit.

7.2 Development Contributions

As in previous years, the main issue in this area is the lack of a proper accounting system. The introduction of the new APAS / Oracle system is long overdue and I am assured that, with the establishment of a new project team, this system will go live by the end of 2008. Difficulties experienced in arriving at a debtors figure as at 31 December 2007 are indicative of the inadequacies of the current database system. This system does not provide adequate controls over procedures for invoicing and credit adjustments. The accounting requirements for the 2008 AFS are more onerous and will be dependent on the new system being implemented and populated with reliable data.

Manager's response

"The main issues identified and the proposed actions, which are currently being implemented, in relation to Development Contributions, are as follows:

- The Project Team has met and is in the process of agreeing the extent of the project;
- In relation to controls, new systems have been introduced relating to invoice numbering and a review of procedures in place for dealing with development contributions is in process.
- Queries in the current database have been reviewed to check their reliability and discrepancies that were identified have been checked.
- A review of planning permissions, with conditions relating to development contributions (since January 2004) has been completed and status of payments identified. This is now being checked and will establish a reliable and comprehensive dataset relating to the various development contributions schemes and individual debtors therein.
- In addition, the resources of the Enforcement Section are being directed to pursuing outstanding debts arising from non-receipt of development contributions. Approximately fifty warning letters and twenty enforcement notices have been served on applicants where payments have not been received to date."

7.3 Procurement

An updated version of the Council's Procurement Policy and Procedures Manual was issued in April 2008 and, in order to ensure full compliance with the stated policies, I have recommended that the Council review practices throughout the organization. The proposed centralization of the payment function in each department should also be of assistance in this regard.

Manager's response.

" In view of the current economic climate, the central Procurement Unit has embarked upon a programme to review the spend of each department, in order to determine where a targeted cost reduction programme might prove more effective in delivering better value for money. Work on the programme has commenced with Community, Recreation and Amenity department. This programme has the added benefit of providing an overview of procurement compliance with regulations."

7.4 Bank Accounts

As in previous years, a number of issues arose in relation to bank accounts. These are mainly due to the fact that a number of bank accounts operate outside of the general ledger and are controlled in sections other than the Finance Department. The integration of all bank accounts into the general ledger was considered but not deemed feasible at present. The current arrangement requires close monitoring, by the Finance Department, of reconciliation procedures in each of the other departments in order to ensure that all bank accounts are correctly reflected in the general ledger and the AFS. I have recommended a review of all bank reconciliation procedures, including the main bank accounts in the Finance Department, with a view to clarifying and streamlining procedures.

7.5 General Ledger Reconciliations

Many of the Council's departments operate subsidiary systems outside of the general ledger. These include all the main income sources of the Council i.e. Housing Rents, Housing Loans, Rates, Refuse Charges and Tenant Purchase Annuities. There are also a large number of smaller debtors and income systems operating in various Council departments. I have recommended improvements in the year-end procedures to ensure that all transactions and balances on these systems are accurately reflected in the general ledger and the AFS.

Manager's response (7.4 and 7.5).

"As reported in previous reports, strengthened bank reconciliation procedures have been in place for some time. Dublin City Council operates many discrete services, which are supported by specific business software. This requires that controlled reconciliation procedures apply when consolidating individual service systems to the corporate account. Dublin City Council places priority on effective reconciliation of service systems and will continue to review its procedures in this regard, the reconciliation environment applies to discrete service bank accounts as well as discrete service software."

7.6 Debtors

In addition to the reconciliation of subsidiary income systems with the general ledger, referred to above, a number of other issues relating to debtors were raised at audit. These included errors in amounts accrued at year-end, disputed accounts and uncollectible amounts not written off. I have recommended that the Finance Department closely monitor performance of the accountable officers for the collection of income and the accuracy of the financial records in each case. The recent introduction of monthly reporting on debtors to the Senior Management Co-ordination Group should also be of assistance in this process. I have also recommended a review of the levels of bad and doubtful debts provision in all major income areas.

Manager's response

"The management and control of debtors is a key issue, which is under scrutiny on a continuous basis. Dublin City Council pursues its debtors vigorously and only moves to write off debts when such amounts are clearly uncollectible."

7.7 Assets

Most of the issues raised in the area of assets related to the valuation policy used for certain assets or the accounting treatment of acquisitions and disposals. A number of improvements in relation to communications between the various Council departments have been agreed and this should improve year-end procedures. While there have been major improvements in control over assets in recent years, further improvements are required in order to ensure the completeness and accuracy of the Fixed Asset Register and the asset accounts in the AFS.

7.8 Financial Regulations

Many of the procedures and responsibilities referred to above are clearly set out in the Council's Financial Regulations and I have recommended that compliance with these regulations is monitored and evidenced by the Finance Department. Year-end procedures in particular need to be improved to include the sign-off of all the relevant supporting documentation. This should help to reduce the likelihood of error or misstatement in the AFS.

Manager's response

"The development and strengthening of financial literacy is a key objective of the Finance Business Plans. Good financial literacy throughout Dublin City Council, through management and staff alike, contributes to a greater awareness and appreciation of financial matters. During 2007, the Finance Department published a number of guidelines and resource packs to assist in maintaining a strong control environment and in achieving good resource management.."

8. Governance**8.1 Internal Audit**

The Internal Audit Unit prepare an annual audit plan that includes the allocation of resources to assurance reviews, EU assignments and unplanned assignments each year. The plan also makes provision for management of the Unit as well as training and strategic development. During 2007 a number of reviews were carried out and the reports on these were reviewed and taken account of during the statutory audit. In 2008 the Unit carried out a review of the implementation of the recommendations made in its 2007 reports and found that eighty-four per cent (84%) had been acted upon. The Unit is also in the process of implementing a system of automated working papers.

During the audit period, the Internal Audit Unit was operating with a number of staff vacancies and this had an impact on the workload of the Unit. The establishment of the Council's Audit Committee (see below) will further impact on the demands placed on the limited resources available.

8.2 Risk Management

The Council established a Risk Management Unit in 2007 and has recently produced a Corporate Risk Register in consultation with senior managers. Department level reviews are currently in progress and it is hoped to complete Departmental Risk Registers by the end of 2008. Procedures have also been put in place to train Council managers and to review and monitor risks identified. The next stage will be the assessment of risks, including the preparation of risk registers,

at business unit level. A preliminary risk assessment exercise was also carried out as part of the statutory audit and this has been made available to the Risk Management Unit. I hope to compare this with the business unit assessments when they are available at future audits.

8.3 Audit Committee

The Council, at a recent meeting, elected members for the establishment of an audit committee, under the Local Government (BIDs) Act 2006. External members of the committee have also been nominated and it is intended to hold the first meeting in the near future. This will replace the well-established Audit Efficiency Group and will be a useful addition to the governance framework of the Council.

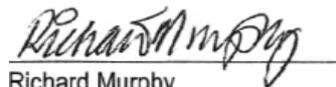
Manager's response.

"I note your comments around governance arrangements, as evidenced by the work of the Internal Audit Unit, the Risk Management Unit and the forthcoming establishment of the Audit Committee.

Dublin City Council welcomes this statutory audit report. The Council acknowledges the recommendations made by you and commits towards achieving those recommendations."

9. Acknowledgement

I wish to acknowledge the co-operation and assistance of the City Manager and his staff at audit and, in particular the Head of Finance and her staff for their prompt attention to audit requirements. I also wish to acknowledge the assistance from my colleagues in the Local Government Audit Service who worked with me on the audit.



Richard Murphy
Principal Local Government Auditor

30 September 2008

City Manager's Department,
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Principal Local Government Auditor,
Department of the Environment,
Heritage and Local Government,
Custom House,
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22nd September, 2008

**Re: Response to the Statutory Audit Report for Dublin City Council
for year ended 31st December 2007**

I refer to the Statutory Audit Report for Dublin City Council for year ended 31st December 2007 and set out the response of Dublin City Council. A summary of the main points raised in the report is provided, followed by comment in relation to certain items:

Summary:

The main points of the Statutory Audit Report are:

- The Annual Financial Statements represent fairly the financial position of Dublin City Council at 31st December 2007 and the Council's income and expenditure for that year.
- Dublin City Council's 2007 Annual Financial Statement meets the statutory accounting requirement of the Minister for Environment, Heritage and Local Government.
- The year-end position at 31st December 2007 on the income and expenditure account net transfers was €5.1m an increase of €2.5m from the opening balance at 1st January 2007.
- Dublin City Council's net assets are valued at €12.3bn.
- Dublin City Council's Capital Programme 2008 to 2010 is valued at €2.2bn.
- Net cash assets at 31st December were €14m, reduced from previous years closing balances.

Income and Expenditure Account

In accordance with the Accounting Code of Practice, all transfers to reserves are referred to Council members for approval. Based on your audit recommendation a detailed analysis will in future be provided for transfers not specifically provided for in the budget.

Capital Projects:

Dublin Port Tunnel

The final cost of this dedicated transport corridor the Dublin Port Tunnel direct to Dublin Port is under negotiation.

Dublin Bay Project

The Final Account has been concluded on this project for the provision of the new treatment works at Ringsend and the Sutton to Ringsend submarine pipeline.

Public Private Partnerships

The two main issues in relation to Public Private Partnerships are:

- The over exposure to one main bidder across many projects arising from a selection process under National and EU legislation.
- The delay in signing contracts for two of the PPP projects.

Management have sought legal advice on how tender evaluation procedures can be improved to avoid over-exposure to one bidder and have also completed a risk assessment of all PPP projects. Progress in relation to these matters and in the delivery of the projects will be reviewed at the next audit.

Development Contributions

The main issues identified and the proposed actions, which are currently being implemented in relation to Development Contributions, are as follows:

- *Oracle/APAS Project*
The Project Team on this project has met and is in the process of agreeing the extent of the project.
- In relation to controls, new systems have been introduced relating to invoice numbering and a review of procedures in place for dealing with development contributions is in process.
- *Reliability of current database*
Queries in the current database have been reviewed to check their reliability and discrepancies that were identified have been checked.
- *Reliable dataset of outstanding debtors*
A review of planning permissions with conditions relating to development contributions (since January 2004) has been completed and status of payments identified. This is now being checked and will establish a reliable and comprehensive dataset relating to the various development contribution schemes and individual debtors therein.
- In addition, the resources of the Enforcement Section are being directed to pursuing outstanding debts arising from non-receipt of development contributions. Approximately 50 warning letters and 20 enforcement notices have been served on applicants where payments have not been received to date.

Procurement

Since the Corporate Procurement Review in 2005, the Central Procurement Unit has identified suitable training courses for staff members. Such training includes the EU Procurement Rules and the new Construction Procurement Reforms. In addition, the Central Procurement Unit has organised seminars and workshops for staff on various topics including the new Remedies Directive. There are a number of organisations specialising in public sector training and when they organise training/workshops/seminars, these are brought to the attention of all Heads of Department for information purposes.

The Central Procurement Unit has provided training for its own staff with a view to developing best-practice procurement methodologies. A number of corporate contracts have been created by Unit and have proved very successful. The knowledge gained is disseminated to other departments by way of advice to departmental staff when requested and at the advertising stage on www.etenders.gov.ie.

The development of Dublin City Council's Procurement Policy and Procedures has provided staff with a comprehensive guide to the procurement rules and procedures. This document has been widely circulated to staff and is also available electronically to facilitate any updates required. It was presented to the Finance Strategic Policy Committee Meeting in September 2007.

In view of the current economic climate, the Central procurement Unit has embarked upon a programme to review the spend of each department in order to determine where a targeted cost reduction programme might prove more effective in delivering better value for money. Work on this programme has commenced with the Community, Recreation and Amenity Department. This programme has the added benefit of providing an overview of procurement compliance with regulations.

Bank and General Ledger Reconciliation

As reported in previous reports, strengthened bank reconciliation procedures have been in place for some time. Dublin City Council operates many discrete services, which are supported by specific business software. This requires that controlled reconciliation procedures apply when consolidating individual service systems to the corporate account. Dublin City Council places priority on effective reconciliation of service systems and will continue to review its procedures in this regard. The reconciliation environment applies to discrete service bank accounts as well as discrete service software.

Debtor Management

The management and control of debtors is a key issue, which is under scrutiny on a continuous basis. Dublin City Council pursues its debtors vigorously and only moves to write off debts when such amounts are clearly uncollectable.

Financial Regulations

The development and strengthening of financial literacy is a key objective of the Finance Business Plans. Good Financial Literacy throughout Dublin City Council through management and staff alike contributes to a greater awareness and appreciation of financial matters. During 2007 the Finance Department published a number of guidelines and resource packs to assist in maintaining a strong control environment and in achieving good resource management these publications were:

- Dublin City Council's Financial Regulation
- Finance Leadership and Development
- Dublin City Council's Procurement Policy and Procedural Manual

In 2008 further publications have been:

- You and Your Money (in partnership with Dubco Credit Union) and
- Corporate Governance

Governance

I note your comments around Governance arrangements as evident by the work of the Internal Audit Unit, the Risk Management Unit and the forth-coming establishment of the Audit Committee (replacing the Audit Efficiency Group).

Conclusion

Dublin City Council welcomes this Statutory Audit Report. The Council acknowledges the recommendations made by you and commits towards achieving those recommendations. I would like to commend you and your audit team for the professionalism applied to your work. 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. The 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