



**LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Dublin City Council**

**for the**

**Year Ended 31 December 2014**



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

## CONTENTS

	<b>Paragraph</b>
Introduction	1
Financial Standing	2
Income Collection	3
Transfer of Water and Sewerage Functions to Irish Water	4
Loans Payable	5
Unfunded Balances on Capital Account	6
Development Contributions	7
Waste to Energy Project at Poolbeg	8
Ballyfermot Leisure Centre	9
Priory Hall	10
Pyrite Problems in Council Properties	11
Demolition of Emerald Project Units	12
Procurement	13
Local Authority Companies	14
Governance	15
Acknowledgement	16

## 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 2014, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Statement of Funds Flow and Notes on 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 the Environment, Community and Local Government.

My main statutory responsibility is to express an independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2014 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 this 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 €11.8m after transfers to reserves of €20.8m. The variances between the adopted budget and the actual outturn in the revenue account are shown in Note 17 to the AFS.

Significant movements in the finances of the Council in 2014 include the following:

- Reduction in infrastructure assets of €1.5bn
- Increase in net debtors of €43m
- Increase in creditors and accruals of €40m
- Reduction in bank and investment balances of €43m
- Reduction in reserves of €62m
- Reduction in loans payable of €110m

The reduction in fixed assets and the increases in debtors and creditors reflect the impact of the transfer of functions to Irish Water referred to in paragraph 4. The reduction in reserves, bank balances and loans payable are due to a large extent to the repayment of non-mortgage loans in 2014.

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

The surplus of €11.8m for 2014 was in line with the revised 3rd column budget for 2014 as approved by the City Council during the budgetary process for 2015. As detailed in your report, the greatest impact on the

2014 account was the transfer of Water and Waste Water functions to Irish Water and the resultant impact on the Council's Statement of Financial Position (Balance Sheet).

### 3 Income Collection

A summary of the major revenue collection yields and the corresponding closing debtors with comparisons for the previous two years are as follows:

Income Source	Yield %			Debtors €m		
	2014	2013	2012	2014	2013	2012
Rates	84	81	80	62.6	74.0	76.3
Rents & Annuities	78	78	77	19.6	20.3	20.6
Housing Loans	58	61	68	15.1	13.2	10.3

#### 3.1 Housing Loans

Collection of housing loans continued to deteriorate in 2014 resulting in a further increase in arrears as at 31 December 2014. A provision for bad and doubtful debts of €2.7m, equivalent to 18% of arrears, has been made; however given the deteriorating collection performance in this area the likelihood of collecting the principal on loans outstanding must also be considered. The total principal on all housing loans outstanding (including rented equity) amounts to €315m and is included in long term debtors in the Balance Sheet.

##### Chief Executive's Response

As at the end of June 2015 the loan portfolio consisted of 2552 loans with a value of €305.6m. A total of 1167 are in arrears to the value of €15.9m. Approximately 325 of these are deemed unsustainable. While general arrears are being dealt with using the M.A.R.P. process, unsustainable loans can only be dealt with through either Mortgage to Rent or repossessions, both options requiring significant funding at national level. Dublin City Council is currently in the second phase of its review of the housing loans portfolio and it is expected that the findings will contribute towards a resolution programme.

#### 3.2 Domestic Refuse Charges Debtors

As referred to in previous audit reports, the sale of the domestic waste collection service means that there were no domestic refuse charges raised by the Council since 2011. Under the agreement for the sale, the waste operator is responsible for the collection of the arrears outstanding from December 2011. Debtors at the end of 2014 amounted to €6.5m and in the circumstances it appears likely that the collection of these arrears will be difficult.

##### Chief Executive's Response

A project team has been set up to investigate and put forward proposals to resolve this issue. A decision on how to address the arrears will be determined by the end of 2015.

#### 3.3 Provision for Bad and Doubtful Debts

The provision for bad and doubtful debts amounted to €139m in 2014 representing 47% of gross current debtors. The level of provision reflects the collection difficulties referred to above.

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

Since 1 January 2014, Irish Water is responsible for providing and developing water services in Ireland. The Council continues to deliver services on behalf of Irish Water under a service level agreement. The impact on the accounts of Dublin City Council for 2014 is set out below.

### **4.1 Fixed Assets**

The net book value of fixed assets removed from the accounts relating to Irish Water (IW) amounted to €1,915m at 31 December 2014.

In accordance with Circular Fin 02/2015 issued by the Department on 13 February 2015, all water related infrastructure assets and other assets identified by the local authority must be removed from the Statement of Financial Position (Balance Sheet) in the 2014 AFS. The basis for the removal of water infrastructure from the local authority accounts as directed in the circular is:

- Section 7 of the Water Services (No. 2 Act) 2013 provided for the transfer of water services functions from local authorities to IW
- Section 21 provides IW with power to charge for water services
- A mutual licence between IW and each local authority exists, which allows for IW to use the water infrastructure assets (Included in Service Level Agreement) pending the ultimate statutory transfer
- The revised accounting Code of Practice, published in December 2014 stipulates that “Assets are resources controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority. An authority shall recognise as asset in the Statement of Financial Position when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

Given that the future economic benefits no longer flow to local authorities, nor do the risks and rewards associated with the assets reside with the local authorities, an assessment of substance over form and generally accepted accounting principles require that the water infrastructure assets be removed from the books of the local authorities as at 31 December 2014.

The transfer of water services assets from the local authorities is being advanced in a number of phases. The financial transfer is reflected in the local authorities' accounts for 2014 with an adjustment on their balance sheets. The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of various different categories of assets to IW. Considerable work is involved in preparing supporting material for the transfer of over-ground assets, to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred. Further Orders required will be completed over the course of 2015, subject to taking the time necessary to ensure the assets are accurately set out. These matters will be kept under audit review.

The following was also noted in the course of the audit:

- Infrastructure assets with a net book value of €456m, described as Surface Water and Combined Pipelines, remain in the accounts of the Council;
- Buildings described as water-related and with a value of €28.4m also remain in the accounts of the Council. This includes offices, stores and depots at various waterworks locations.

### **4.2 Transfer of Balances to Irish Water**

As part of a due diligence process carried out by Irish Water, a statement of relevant debtor and capital balances as at 31 December 2013 was completed and signed on behalf of Dublin City Council. Although this has been examined by consultants on behalf of Irish Water it had not, at the date of audit, been formally accepted and agreed by them.

### 4.3 Water Related Loans

The total loans payable per Note 8 in the AFS amounts to €733m, of which €78m relates to water services. Of the water related loans €61m is shown as due within one year on the basis that these loans will be repaid to the HFA in full and recouped by the Department in 2015. A corresponding debtor of €61m is included in government debtors in Note 5 and this amount was received by the Council in July 2015. The remaining water related loans are with institutions other than the HFA and no arrangements have been made to transfer or repay these loans as yet. A long term debtor of €17m due from the Department is included in Note 3 in respect of the non-HFA loans.

#### Chief Executive's Response

A meeting was held with Irish Water on the matter of the outstanding transfer of balances on 31 July 2015. Dublin City Council awaits Irish Water to make the required arrangements. Further consideration by the Department is expected on the matter of non HFA Irish Water related loans.

## 5 Loans Payable

Total loans payable as per Note 8 in the AFS amounted to €733m at the end of 2014 compared to €842m in 2013 and included the following.

### 5.1 Bridging Loans – Affordable Housing

Included in the Council's long term borrowings were bridging loans of €84.4m, on an interest only basis, in respect of 348 housing units originally acquired for resale under the affordable housing program. At the end of 2014 these have been utilised as follows:

Use	No of Units
Social Leasing Scheme	217
RAS	70
Rent-to-buy	30
Homeless services	5
Unsold stock	26

Under the Social Leasing Scheme the leases are for an initial five year period with interest costs fully recouped from the Department provided the houses are occupied by qualifying tenants. Total interest paid on these loans amounted to €1.8m in 2014.

#### Chief Executive's Response

Loans in respect of unsold units are being met by the government through social leasing. In the past the government has provided funding to repay loans, as monies become available. As the loans are repaid the numbers in this category will fall.

### 5.2 Land Acquisition Loans

Loans outstanding at the end of 2014 also includes a number of loans, where interest charges are being rolled up i.e. added to the principal outstanding, and no repayments are being made. These loans, which were drawn down for land acquisition purposes in the period 1999 to 2001 with a term of 20 years, had a balance of €11.4m at the end of 2014 (€33.1m in 2013).

## 6 **Unfunded Balances on Capital Account**

While there was a further reduction in unfunded capital balances (project and non-project) as shown in Note 11 to the AFS, there are a number of significant debit balances on the capital account where funding decisions are required. These include the following:

- Properties and sites acquired for housing development (€18m)
- Abandoned Public Private Partnership Schemes (€20m)
- Affordable Housing Schemes (€13m)
- Homeless Hostel (€3m)

It is important, where no source of funding is anticipated, that arrangements be put in place to reduce deficits over a number of years.

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

The issues referred to in paragraphs 5.2 and 6 are kept under constant review at senior management level. There is currently no funding available. While some income may arise in time through the sale of land, this will not be sufficient to address this issue.

## 7 **Development Contributions**

The systems for recording, monitoring and accounting for development contributions have given rise to concerns at previous audits. While some improvement in the monitoring and inspections procedures in place was noted, a number of weaknesses in the system including the poor quality of reports and general management information have been highlighted in the past. These deficiencies cause problems in the preparation of control accounts and reconciliation with the general ledger. It is important that these issues are dealt with as soon as possible.

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

A project team was established to identify a solution to the problems associated with the existing Financial Contributions Module in APAS.

The company which provided the original Financial Contributions Module indicated that they were not in a position to amend the module to address the issues raised by the Local Government Auditor as these would require the development of additional accounting functionality.

It was decided that a project team overseen by a Project Board should be established to identify an alternative to the existing system. Following consideration of the options the Project Board decided to retain the file management functionality of the existing APAS module and utilise the existing accounting functionality available in the Oracle Accounts Receivable which is the Corporate Financial Management system.

The Project Board decided to proceed with this so the solution would ensure that proper accounting principles would be followed in the administration of financial contributions and all management information reports would be available to the Local Government auditor. Subsequently it was agreed that implementation would require a number of steps. It was agreed that all records in the current system would be recreated in the test Oracle system and reconciled with the individual APAS accounts. Once reconciled, the data for individual records would be uploaded to the live Oracle system.

All records have now been reconciled to 31 January 2015 and uploaded to the live system and the transactions from 1 February will be input and reconciled on a month by month basis.

## **8 Waste to Energy Project at Poolbeg**

In my previous audit reports I have raised concerns regarding delays in the commencement of construction work, the uncertainty surrounding the contract and a number of corporate governance issues. A number of reports have been prepared and I have received responses from management to the issues raised in my 2013 report.

Since my last report, management have informed me that, Dublin City Council, on behalf of the four Dublin local authorities, executed the restated Waste to Energy Project Agreement in September 2014 with Dublin Waste to Energy Limited (DWEL), the PPP company, who 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.

Following a competitive tender competition, DCC selected the preferred bidder for the new client's representative contract on a fixed price lump sum basis for the 49 month construction and commissioning phases of the DWtE facility. Contract documents were signed in December 2014. During 2014 expenditure of €600k was incurred by the Council, mainly on consultants' costs.

## **9 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). The building was handed over to the Council in June 2008 in a state of partial completion due to delays and fundamental problems with the execution of the contract.

The total costs incurred on the leisure centre to 31 December 2014 were €28m. Additional claims amounting to over €24m plus VAT, over and above the amount already paid, have been submitted by the contractor. A conciliation process, which took place in 2010, proved inconclusive and an arbitrator was appointed in 2011. This process is ongoing at the date of audit.

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

This leisure centre was handed over to Dublin City Council in June 2008, two years late and not fully completed. During the contract period significant pieces of construction had to be redone because they did not meet specification. Since handover and opening of the facility, parts of the facility (the five a side pitches and the pool) had to be closed for remediation following the discovery of further substandard works. In view of the total disproportion between the sum claimed by the contractor and the original contract sum and the very large amount of money involved, defence of this claim has and will continue to be proactively and robustly managed. It is a matter of severe disappointment to say the least, that this matter has not been clarified and disposed of six years after the handover of the facility. However it does now appear that these proceedings are coming close to finalisation. Following a comprehensive replacement of tiling on the pool it is has been returned to full usage.

## **10 Priory Hall**

As referred to in my previous audit reports, the development at Priory Hall is a private development of apartments where residents have been evacuated because of the failure of the developer to satisfactorily carry out remedial works to address fire safety concerns. The High Court ruled that Dublin City Council had a responsibility for accommodating the evacuated residents. In late 2013 a resolution framework for the complex was agreed and an Implementation Oversight Group was established with representatives of the residents, the Irish Banking Federation, the Department, Dublin City Council and the Department of the Taoiseach.

The remediation of the complex is being facilitated by Dublin City Council and involves extensive renovation to bring apartments to a marketable standard. The total cost of the work to be done is estimated at €27m including VAT, design and project management fees. It is hoped that the costs will be offset in part by the sale of 65 apartments, which were acquired from the Irish Bank Resolution Corporation (IBRC) at a nominal value. Expenditure of €4.4m was incurred in 2014 and cumulative costs, including security and accommodation, to the date of audit amounted to €10.9m.

**Chief Executive's Response**

Priory Hall is a national project facilitated by Dublin City Council with oversight and approval being carried out by an Oversight Group consisting of Dublin City Council, the Department, Department of the Taoiseach and the IBF. The details are as set out in the auditor's report with all expenditure to be recouped from the Department.

**11 Pyrite Problems in Council Properties**

As referred to in previous audit reports, the Council has identified problems due to the presence of pyrite in a number of properties including social housing, affordable dwellings and senior citizens' accommodation. In some cases remediation works have commenced. With the estimated costs of remedial works required amounting to millions of euros and other costs yet to be confirmed or works quantified, it is clear that significant funding will be required to deal with this problem. Remediation work to correct the defects continued in 2014 and in some cases court actions have been instituted against developers. Expenditure to the date of audit amounted to €1.5m.

**Chief Executive's Response**

A significant programme has been put in place for remedial work associated with pyrite. While all legal avenues against developers and claims against insurers are being pursued the funding originally set aside has been exhausted. It will be necessary to allocate additional funding to complete necessary works.

**12 Demolition of Emerald Project Units**

The Emerald Project is a development of affordable and social housing units undertaken by a housing association on council land and funded by the Department. The main contractor on this project was appointed in 2009 and went into receivership in 2011. In 2014 a number of partially completed housing units i.e. twenty apartments and two houses, were demolished because of the expansion of the timber frame structures caused by defects in the flooring. The housing association have since initiated legal actions against the original design team, including the main contractor and consultants. The estimated losses incurred due to the demolition of the units amount to approximately €2.3m.

**Chief Executive's Response**

Legal action is ongoing against the original design team.

**13 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, with advice and guidance available from the Central Procurement Unit (CPU). The unit also negotiates contracts for selected goods and services or makes use of National Procurement Service contracts already negotiated. Compliance with centrally managed procurement arrangements are reviewed by the CPU.

At previous audits the procurement of legal services was raised and in June 2015, following a tender process, an order of the Chief Executive was signed appointing a number of legal firms to provide services in the following areas:

- Employment Law
- Construction Law
- Commercial Conveyancing
- Public Procurement Law

This framework agreement will be of three years duration commencing in June 2015 with an option to extend for a further year.

## **14. 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.

### **14.1 Temple Bar Cultural Trust Limited (TBCT)**

This is the most significant company in the ownership of the Council, with assets valued at almost €48m and reserves of almost €10m. This company is not consolidated in the Council's annual financial statement. As referred to in previous audit reports, significant corporate governance issues were identified in a report issued by the Internal Audit Unit of the Council and a decision was made to wind up TBCT and transfer all functions to the Council. An employee of the Council has been appointed as interim CEO to oversee the transitional arrangements. The most recent audited accounts received in respect of this company are for the year ended 31 December 2013.

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

The decision in 2013 to wind down the Trust and to transfer responsibilities and assets to Dublin City Council was progressed during 2014 by way of a transition project team consisting of City Council officials. A transition Board made up of two Assistant Chief Executives and one City Councillor is continuing to manage the legal responsibilities of the Trust until the transfer is finalised. Primary legislation is required to dissolve the Trust and the Heads of a Draft Bill were prepared towards the end of 2014 by the Department with the objective of having the legislation enacted during 2015. The activities of the Trust are now being carried out by Dublin City Council officials.

### **14.2 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 approximately €17m 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.

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

The company is being wound down and almost all staff have been redeployed back to Dublin City Council (for DCC assigned staff) or made redundant (in case of BRL contract employees). There is an outstanding balance of €17m approximately due for recoupment from the Department in respect of BRL expenditure. This matter is being pursued by the Council.

### **14.3 Other Companies**

There are also plans to bring the activities of the Dublin Docklands Development Authority and the Digital Hub Development Authority under the remit of the Council. The legislation required for dissolution of these bodies and the transfer of responsibilities has not as yet been enacted.

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

It is understood that the enactment of the Dublin Docklands Development Authority Dissolution Act is unlikely to take place until after the end of the year. The Authority will remain in place until it is dissolved but arrangements are in hand for the transfer of functions, transfer of lands and properties, transfer of rights and liabilities to the City Council and the continuation of leases, licences and permissions granted by the authority shall continue in force as if granted by the City Council.

## **15 Governance**

### **15.1 Internal Audit Function**

Regulation 9 of the Local Government (Financial and Audit Procedures) Regulations 2014 requires 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.

Local authorities are also obliged to establish audit committees in accordance with section 59 of the Local Government Reform Act, 2014. A key function of the audit committee is to "foster the development of best practice in the performance by the local authority of its internal audit function." This requires the audit committee to ensure that an internal audit function is in place that operates to professional internal audit standards. This encompasses the approval and monitoring of the annual work plan of the internal audit function and ensuring that management properly engages with internal audit, including the implementation of its recommendations. The audit committee in Dublin City Council discharges its statutory functions with the support of the internal audit function.

In 2014 the Council's internal audit function consisted of nine personnel (6.3 whole time equivalents); of which three 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, which were reviewed by the audit committee. I have placed reliance on this work where relevant; however given the reduced number of reports issued, this was limited in the 2014 audit.

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

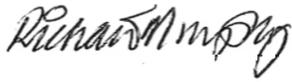
The limited output, in terms of audit reports completed was attributable to the long term absence of staff, at a senior level, in some cases for a considerable amount of time.

### **15.2 Risk Management Unit**

The Risk Steering Group is responsible for supporting risk management within the council and has recently approved the corporate risk register, which is supported by a further 27 departmental risk registers. Management intend to have an independent review of the council's level of risk management processes carried out in 2015.

**16 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.

A handwritten signature in black ink, appearing to read 'Richard Murphy', written in a cursive style.

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**Richard Murphy**  
**Local Government Auditor**  
**31 July 2015**