



KUNSILL LOKALI BIRKIRKARA

Rapport Annwali Amministrattiv

Ghas-Sena ta' Hidma 2011

IL-WERREJ

- Ittra tas-Sindku

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Pagni 9 sa 34

1.0 L-Ittra tas-Sindku

Dan is-sitt Kunsill kompla bir-ritmu ta' hidma li qabad mal-kariga tieghu fl-1 ta' Lulju 2009 :-

- 1 Ingiebu aktar finanzi, fosthom mill-UIF u l-UE,
- 2 Hrigna erbatax il-sejha għall-offerti
- 3 Diversi spazji miftuha komplew jigu rrangati
- 4 Tkompla x-xogħol fuq il-*Heritage Route*
- 5 Aktar toroq godda komplew jinagħtaw it-tarmak wara pressjoni li saret mill-Kunsill,
- 6 Tkompliet il-manutenzjoni fuq t-tabelli u s-sinjali tat-traffiku. Komplew jitwawhlu wkoll numru ta' rampi tal-lastiku biex jitnaqqas il-periklu f'diversi toroq.
- 7 Komplejna bill-kuntatt kontinwu mar-residenti Karkarizi permezz tal-hargiet tal-magazine tal-Kunsill, *leaflets*, il-website u r-radju tal-Komunita' BKR Radio u
- 8 Komplejna nipromwovu permezz ta' programmi godda l-Edukazzjoni, il-Kultura, s-Saħha, Zghazagh, l-Familja, l-Isports u l-Anzjani fil-lokalita'

Nagħlaq billi niringrazzja lill-ex Kunsilliera u l-Kunsilliera prezenti kollha li b'mod volontarju kienu u għadhom qed ikunu ta' servizz kontinwu għar-residenti kollha Karkarizi. Niehu l-opportunita' sabiex niringrazzja wkoll lill-Agent Segretarju Ezekuttiv is-Sur Arthur Pizzuto li flimkien mas-sinjuri: Dorianne Pullicino, Lawrence Chetcuti, Elisa Borg, Mandy C. Farrugia, Eleonara Naudi, Mary Rose Bonello u Ruth Stivala, li mingħajr is-servizz effiċjenti tagħhom ix-xogħol tal-Kunsill ma kienx ikun possibbli.

Michael Fenech Adami
Sindku

2.0 *Il-Kunsill*

Perjodu mill-1 ta' Jannar 2011 sal-31 ta' Dicembru 2011

Kunsilliera	Partecipazzjoni fil-laqgħat (% minn tnax il-laqgħa li gew imsejha)	
Is-Sur Michael Fenech Adami	91.7%	11/12
Is-Sinjura Doris Borg	83.3%	10/12
Is-Sur Mark G. Abdilla	58.3%	07/12
Is-Sinjura Joanne Borg	83.3%	10/12
Is-Sur Emmanuel Aquilina	100%	12/12
Is- Sur Anthony Buttigieg	100%	12/12
Is-Sur Jimmy Calleja	100%	12/12
Is-Sinjura Rita Borg	91.7%	11/12
Is-Sinjinora Chirelle Sciberras	83.3%	10/12
Is-Sinjura Rose Frendo	75%	09/12
Dr. Josianne Cardona Gatt	83.3%	10/12
Dr. George Debattista	100%	12/12
Is-Sinjur John Borg	66.6%	08/12

Il-Kunsill (ikompli)

L-Impjegati

Is-Sur Arthur Pizzuto

Is-Sinjura Dorianne Pullicino

Is-Sinjinora Elisa Borg

Is-Sinjura Mandy C. Farrugia

Is-Sinjura Mary Rose Bonello

Is-Sinjura Eleonora Naudi

Is-Sinjinora Ruth Stivala

Is-Sur Lawrence Chetcuti

Kariga

Agent Segretarju Ezekuttiv

Assistent Principal (Skala 11)

Ufficial Ezekuttiv (Skala 11)

Ufficial Ezekuttiv (Skala 13)

Skrivana P/T (Skala 15)

Skrivana P/T (Skala 15)

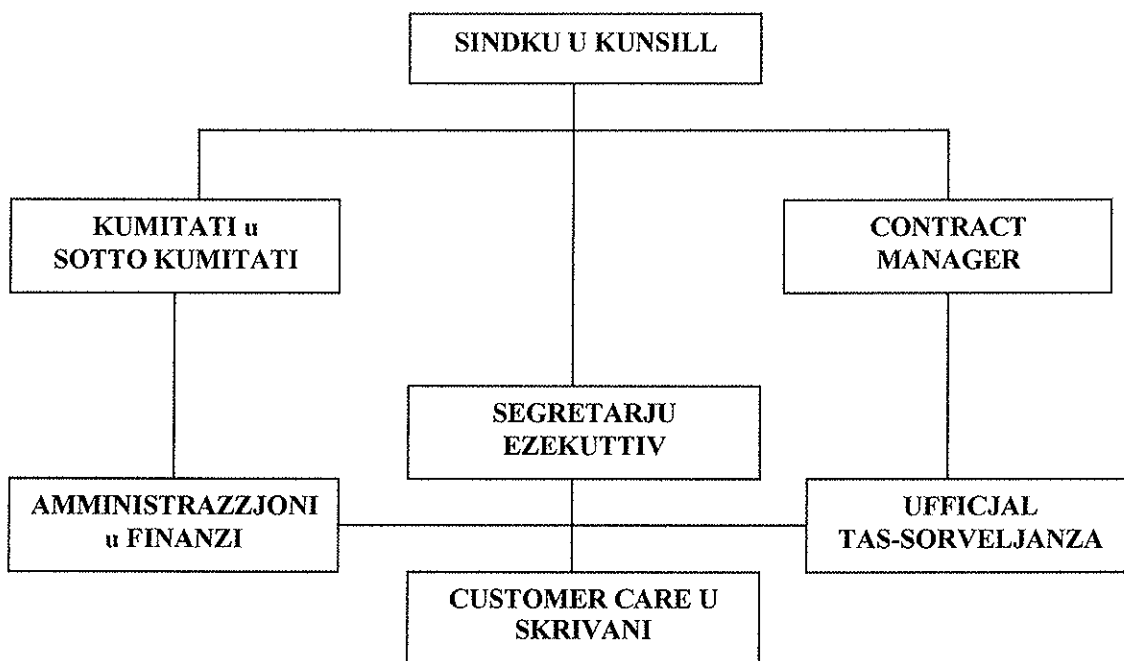
Assistent Principal (Skala 11)

Ufficial tas-Sorveljanza (Skala 11)

Notamenti:

3.0 *L-arej ta' attivita tal-Kunsill*

Organizzazzjoni: L-Istruttura organizzattiva tal-Kunsill baqghet l-istess bhas-sena l-oħra u komplet tahdem tajjeb, tiffacilita x-xogħol ta' kuljum tal-Kunsill u l-ufficju tiegħu.



L-arej ta' attivita tal-Kunsill (ikompli)

Attivitajiet Generali

Barra mix-xogholijiet infrastrutturali ta' kuljum, bhal Tindif, Gbir ta' Skart, Manutenzjoni ta' Toroq u Bankini, Latrini Pubblici, Gonna Pubblici u Sinjali u Tabelli ta' Traffiku, il-Kunsill kompla jahdem bis-shih biex ikompli jippromwovi l-Kultura, l-Edukazzjoni, l-Isports, s-Sahha u z-Zghazagh.

Il-Kunsill kompla ghaddej b'ritmu mgħaggel biex xoghol ta' tisbih fuq numru ta' sqaqien fil-*Heritage Route*, filwaqt li bil-kollaborazzjoni tal-Gvern Centrali tkompla xoghol fuq diversi toroq residenzjali godda. B'mod specjali, il-Kunsill nieda l-iskema imhabbra taht il-Public Private Partnership Scheme (PPP) fejn diversi toroq gew mhux biss miksija bit-tarnak mill-gdid imma wkoll it-tibdil tal-water house connection, bankini godda u tibdil tal-Main ta' l-Ilma.

Il-Kunsill ukoll mistenni jlesti fis-sena li gejjja it-tisbih tal-gnien wara l-Basilika ta' Santa Elena kif ukoll ir-restawr ta' nicec u upgrade tal-heritage trail ta' l-area ta' Santa Marija.

4.1 Consolidated Income and Expenditure Variations Schedule

ACCT NO.	DESCRIPTION	a	b	c	a-b/b-a	a-c/c-a
		2011 ACTUAL €	2011 BUDGET €	2010 ACTUAL €	BUDGET VAR €	ACTUAL VAR €
2	Income					
0000	Government	1,176,201.00	1,193,950.00	1,152,821.51	(17,749.00)	23,379.49
0020	Bye-laws	295,839.00	144,000.00	155,533.50	151,839.00	140,305.50
0090	Investment	176.00	-	220.84	176.00	(44.84)
0100	General	40,363.00	32,000.00	131,594.90	8,363.00	(91,231.90)
	TOTAL	1,512,579.00	1,369,950.00	1,440,170.75	142,629.00	72,408.25
1	Expenditure					
1000	Personal emoluments	107,245.00	180,728.00	171,416.90	73,483.00	64,171.90
2000	Operations and maintenance	598,305.00	916,588.00	1,093,590.99	318,283.00	495,285.99
7000	Capital Expenditure	206,818.00	239,000.00	559,048.36	32,182.00	352,230.36
	TOTAL	912,368.00	1,336,316.00	1,824,056.25	423,948.00	911,688.25
	Balance	600,211.00	33,634.00	(383,885.50)	(281,319.00)	(839,280.00)

4.2 Detailed Income Variations Schedule

ACCT NO.	DESCRIPTION	a	b	c	a-b	a-c
		2011 ACTUAL €	2011 BUDGET €	2010 ACTUAL €	BUDGET VAR €	ACTUAL VAR €
2	Income					
0000	Government					
0001	Annual	1,089,450.00	1,089,450.00	1,081,144.00		8,306.00
0002	Supplementary	86,751.00	104,500.00	71,677.51	(17,749.00)	15,073.49
0003	Special needs	-	-	-		
0004	Public/government delegations	-	-	-		
0015	Other	-	-	-		
		1,176,201.00	1,193,950.00	1,152,821.51	(17,749.00)	23,379.49
0020	Bye-Laws					
0021	Community Services	72,474.00	24,000.00	38,726.55	48,474.00	33,747.45
0036	Contravention of bye-laws	117,569.00	-	24,700.25	117,569.00	92,868.75
0056	Sponsorships	-	-	-		
0066	General	105,796.00	120,000.00	92,106.70	(14,204.00)	13,689.30
		295,839.00	144,000.00	155,533.50	151,839.00	140,305.50
0090	Investment	-	-	-		
0091	Bank interest	176.00	-	220.84	176.00	(44.84)
0096	Government securities	-	-	-		
		176.00	-	220.84	176.00	(44.84)
0100	General	-	-	-		
0110	Donations	101.00	-	264.00	101.00	(163.00)
0120	Contributions	40,262.00	32,000.00	131,330.90	8,262.00	(91,068.90)
		40,363.00	32,000.00	131,594.90	8,363.00	(91,231.90)
	TOTAL	1,512,579.00	1,369,950.00	1,440,170.75	142,629.00	72,408.25

4.3 Detailed Expenditure Variations Schedule

ACCT NO.	DESCRIPTION	a	b	c	b-a	c-a
		2011	2010 - 11	2009 - 10	BUDGET VAR	ACTUAL VAR
		ACTUAL	BUDGET	ACTUAL		
		€	€	€	€	€
1	Expenditure					
1000	Personal Emoluments					
1100	Mayor's allowance	4,500.00	28,748.00	24,846.00	24,248.00	20,346.00
1200	Employee salaries and wages	82,882.00	120,770.00	117,040.77	37,888.00	34,158.77
1300	Bonuses	1,959.00	14,177.00	1,886.44	12,218.00	(72.56)
1400	Income supplements	878.00	1,777.00	1,790.30	899.00	912.30
1500	Social Security contributions	7,740.00	10,972.00	10,669.36	3,232.00	2,929.36
1600	Allowances	5,996.00	-	8,065.27	(5,996.00)	2,069.27
1700	Overtime	3,290.00	4,284.00	7,118.76	994.00	3,828.76
		107,245.00	180,728.00	171,416.90	73,483.00	64,171.90
2000	Operations and maintenance					
2100	Utilities	50,413.00	69,000.00	82,070.67	18,587.00	31,657.67
2200	Materials and supplies	2,299.00	-	1,885.29	(2,299.00)	(413.71)
2300	Repair and upkeep	51,590.00	57,400.00	29,383.39	5,810.00	(22,206.61)
2400	Rent	5,783.00	10,840.00	7,675.49	5,057.00	1,892.49
2500	National / International memberships	-	-	12.00		12.00
2600	Office services	27,243.00	28,200.00	31,777.12	957.00	4,534.12
2700	Transport	10,597.00	14,600.00	16,060.77	4,003.00	5,463.77
2800	Travel	-	-	-		
2900	Information services	25,331.00	3,500.00	8,646.97	(21,831.00)	(16,684.03)
3000	Contractual services	331,659.00	571,564.00	625,717.49	239,905.00	294,058.49
3100	Professional services	74,448.00	137,484.00	207,481.43	63,036.00	133,033.43
3200	Training	452.00	12,000.00	1,512.61	11,548.00	1,060.61
3300	Community and hospitality	16,683.00	11,800.00	57,720.61	(4,883.00)	41,037.61
3400	Incidental expenses	1,807.00	200.00	23,647.15	(1,607.00)	21,840.15
3500	Asset disposal	-	-	-		
3600	Local enforcement system	-	-	-	-	-
		598,305.00	916,588.00	1,093,590.99	318,283.00	495,285.99
7000	Capital Expenditure					
7001	Acquisition of property	-	-	-		
7100	Construction	-	-	-		
7200	Improvements	22,279.00	25,000.00	11,719.20	2,721.00	(10,559.80)
7300	Equipment	2,440.00	5,000.00	29,177.99	2,560.00	26,737.99
7500	Special programmes	182,099.00	209,000.00	518,151.17	26,901.00	336,052.17
		206,818.00	239,000.00	559,048.36	32,182.00	352,230.36
TOTAL		912,368.00	1,336,316.00	1,824,056.25	423,948.00	911,688.25



Grant Thornton

The Mayor
Birkirkara Local Council
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Birkirkara

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Our ref ABC/scl/040812

30 April 2012

Dear Sir,

Financial statements for the year ended 31 December 2011

During the course of our audit for the year ended 31 December 2011, we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Plant register

A number of shortcomings were noted in the plant register (refer to note 2.1)

The depreciation charge for the year did not agree to the depreciation charge recalculated from the accounting records (refer to note 2.2).

1.2 Inventory items

The council took steps to implement a proper stock control system in order to safeguard and maintain accurate records of stock items.

1.3 Revenue

The share of profit from the Birkirkara Joint committee could not be confirmed in the absence of audited financial statements (refer to note 3.1).

The amounts receivable from the Local Enforcement System for sentenced cases from pre-pooling were accounted for in full in the current year.

1.4 Receivables

The council is still reporting an amount receivable that has been pending for several years (refer to note 4.1).

1.5 Payables

The closing balance of various accounts in the suppliers' list was not reconciled to supplier statements (refer to note 5.1).

The council has not accounted for amounts in dispute and has only disclosed them by way of a contingent liability (refer to note 5.7).

1.6 Expenditure and procurement procedures

We again found that the council has not adhered to procedures required by the Local Council (Financial) Regulations regulating purchases (refer to note 6.1).

Expenses were accrued for to account for the total expenses incurred for the year.

The council made use of mobile phones with a fixed contract (refer to note 6.10).

1.7 Annual budget

A significant discrepancy was found between expenses anticipated in the annual budget and actual expenditure reported in the financial statements (refer to note 7.1).

1.8 Liquidity position

The council is operating in a net current liabilities situation (refer to note 8.1).

1.9 Council meetings

The councillors' allowance was not paid in accordance with memo 89/2009 (refer to note 9.1).

Certain councillors failed to attend the required number of meetings in accordance with the Local Councils Act (refer to note 9.3).

1.10 Mayor's honorarium

The mayor's honorarium paid in excess was not refunded in the current year (refer to note 10.1).

The councillors' allowances were not taxed in accordance with memo 26/2010 (refer to note 10.3).

1.11 Insurance policies

The council's insurance policy was not amended to provide sufficient cover on all council assets (refer to note 12.1).

1.12 Presentation of financial statements

While reviewing the financial statements, we noted a number of divergences from IFRS's (refer to note 13.1).

2 Property, plant and equipment

Plant register

- 2.1 As we have noted in the previous management letter, the plant register has a number of shortcomings:
- The year end for the plant register software has remained at 31 March. This did not affect the net book value reported in the plant register. However, the report did not provide the depreciation charge for the current year;
 - Depreciation charge is calculated on an annual basis as opposed to a monthly basis as disclosed in the financial statements.
- 2.2 As a result of the above anomalies a discrepancy of € 14,000 was found between the depreciation charge calculated from the accounting records and the depreciation charge reported in the financial statements. We recommend that these deficiencies are resolved since failure to do so would result in an incorrect depreciation charge being posted when the month end procedure is run.

Tagging of assets

- 2.3 Fixed assets are not tagged in order to physically identify individual assets listed in the plant register. We recommend that the council tags all assets (where applicable) in order to verify physical existence on a regular basis.

Capitalisation

- 2.4 When reviewing assets under construction we found that assets completed were not capitalised and input in the plant register. Upon enquiry the council informed us that the total cost of these assets was not included in the plant register since their total cost is not finalised and still in dispute with the contractor. As a result of this depreciation was not charged on these assets despite the fact that the projects were completed and in use.
- 2.5 Upon request the council determined that the total value of assets to be capitalised was € 777,074 and the depreciation charge on these assets should be € 76,879. We recommended, and the council approved, to reclassify these assets from 'assets under construction' to 'urban improvements' (€ 87,463) and 'special programmes' (€ 689,611) and to increase depreciation charge on these assets by € 76,879.

3 Revenue

LES income (pre-regional committee)

- 3.1 At the time of our audit, no audited financial statements of the joint (pre-regional) committee were made available to us. Payments received were traced to the bank statements but we were unable to determine the share of profits or accrued income in the absence of audited accounts. Our audit opinion is qualified due to a limitation of scope with respect to LES income.
- 3.2 We urge the council to put more pressure on the joint committee to supply timely audited financial statements in order to ascertain that all amounts due are included in the council's financial statements.

4 Receivables

- 4.1 The council is still recognising an amount receivable of € 130,445 from Ta' Monita Estates Limited which has been pending since 2007. The council signed a contract on 18 March 2007 binding Ta' Monita Estates Limited to compensate the council, provided that certain construction works are eventually carried out on the council's property. In 2010 the council was granted permission by the Authorities for the construction of the project but no works have commenced up to audit date. The corresponding revenue for this amount receivable has already been recognised in 2007 despite the uncertainties surrounding the consideration.
- 4.2 The executive secretary confirmed that this receivable is closely monitored and has assured compliance with all contractual conditions, and will provide for amounts not receivable in the event of non-compliance. However, we did not identify any discussions in the council's minutes confirming this, and no third party documentation was provided to support the fact that Ta' Monita Estates Limited still intends to pursue the project. We have qualified our auditors' report to highlight the above matters.

Prepayments

- 4.3 When testing the prepayments' list provided by the council we found two discrepancies. A prepayment for insurance coverage (€ 5,279) was not accounted for, while the accrued income for administrative fees was overstated by € 1,097. We proposed, and the council approved, to rectify these discrepancies and these were incorporated in the final financial statements.

5 Payables

- 5.1 The council has not obtained all of the suppliers' statements as required by memos issued from time to time by the Department.
- 5.2 We again recommend that the council adheres to directives issued by the Department and requests statements from all suppliers, not only at year-end but also on a monthly basis. All statements should be reconciled on a regular basis to identify any differences between amounts claimed and the accounting records.
- 5.3 During our testing we have identified a minor variance of € 300.81 between the supplier's statement and the supplier's account for Northern Cleaning Group Limited. Upon investigation, we noted that the variance relates to a difference between the supplier's invoice and the amount certified.
- 5.4 We recommend that the council follows up this matter with the supplier so that any disputed amounts may be cleared and the account reconciled with the supplier's statement.
- 5.5 We have also identified a difference of € 10,116 (2010: € 10,013) between the balance payable in the council's account for Environmental Landscapes Consortium Limited and the supplier's statement. This balance relates to an amount in dispute that the council still claims is payable by the Ministry of Resources and Rural affairs. However, as at date of audit, no formal agreement was obtained by

the council from the above Ministry confirming which party will have to settle the liability.

- 5.6 We recommend that the council follows up this matter and considers the probability of having to settle this liability. In view of this uncertainty, the council should, as a minimum, disclose it as a contingent liability if there is any possibility that this liability will crystallise.
- 5.7 Up to audit date the council did not obtain a supplier statement from Polidano Brothers Limited. Therefore, the council did not perform a reconciliation of the supplier's nominal ledger account with the supplier's statement. Furthermore, no supporting documentation was provided during our audit for the credit entries posted in the supplier's account. Upon inquiry, the council informed us that the amounts posted in the books of account are based on estimates and not on certified valuations.
- 5.8 Moreover, the amount in dispute with the same supplier has increased to € 129,670 (2010: € 102,178). This balance is still not accounted for in the books of account and is disclosed as a contingent liability in the financial statements. Our auditors' report is qualified to highlight the above matter.
- 5.9 We recommend that, as far as possible, the council tries to obtain certification of works performed by the year end, such that the amounts recognised in the council's books will show a clear and reliable picture of the council's position as at year end.
- 5.10 We reiterate our recommendation to monitor the probability of having to settle this liability. If the amount can be estimated reliably and there are indications that payment is probable, the council should include this as a creditor and if there is a possibility of payment, include as a contingent liability in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

6 Expenditure

Purchase orders and quotations

- 6.1 When testing expenditure we again found that in certain instances the council did not prepare and issue signed purchase orders to suppliers in order to officially confirm the council's approval of purchases.
- 6.2 We reiterate that all purchase orders should be signed and issued in order to adhere to the Procedures. The invoice received should then be checked against the purchase order to ensure that the goods or services are those approved.

Procurement procedures

- 6.3 When testing council expenditure we again found payments for which no call for quotations was made:

Description	Supplier	€
Photocopier lease	Avantech Limited	1,513.99
Lease of van	Davico Car Hire	1,168.10
Car hire	Tapram Limited	2,119.75

- 6.4 We again draw your attention to the Local Councils (Financial) Procedures, 1996 and memo 1/2010 which stipulate that for purchases exceeding € 1,164.69 calls for quotations must be published on the Government Gazette and on one local newspaper. This will also ensure that the most advantageous prices will be obtained by the council.

Tenders

- 6.5 During the current year the council purchased services from APS Consult Limited costing € 5,664 for the year. Furthermore, the council has ordered poles from BMS Limited costing € 15,694 for which only three quotations were obtained.
- 6.6 We again refer to the provisions of the Local Councils (Financial) Regulations which state that purchases exceeding € 4,658 require the issue of a public call for tenders according to the Local Councils (Tendering) Regulations.

Tendering procedures

- 6.7 During the year under review, the council adjudicated the following tenders for which we identified some irregularities:

For tender number BLC 01/2011 the council did not publish the call for tender on a local newspaper and did not allow at least 30 days from the date of publication of the tender and the closing date for the submission of tender.

For tender number BLC 03/2011 the date of opening of the tenders was not indicated on the schedule of offers.

- 6.8 We recommend that the council follows the requirements of the Local Councils (Tendering) Procedures, 1996 which require that the council allows at least 30 days from the date of publication to the closing date for the submission of tender. The council should also publish the call for tenders on both the Government Gazette and a local newspaper as instructed by the DLG.
- 6.9 We also recommend that the council indicates the date of opening of the tenders on the schedule of offers. This would ensure that the date of opening of tenders matches the closing date for the submission of tenders.

Use of mobile phones

- 6.10 The council, in its reply to the management letter, dated 11 October 2011 confirmed that mobile phones are being used by IPSL workers in the performance of their duties and no bills are being paid since internal council calls were negotiated free of charge. However, when reviewing the minutes of council meetings we found that the mayor has confirmed that payments were made for mobile phones for persons working out of office. Furthermore, upon enquiry the executive secretary has informed us that a mobile phone is being used by the mayor at the expense of the council.
- 6.11 We reiterate that the council terminates all fixed contracts on mobile phones in accordance with memo 109/2010. Furthermore, the Local Councils Act and memo 89/2009 stipulates that no refund of expenses can be made for the performance of a council member's duties.

7 Annual budget

- 7.1 When comparing the actual expenses to those anticipated in the annual budget for 2011 we found that the council exceeded the budgeted expenses by € 830,054 for capital expenditure and € 459,479 for administration, and operations and maintenance expenses. This again confirms that either the annual budget has not been accurately prepared or that the council is not monitoring its expenditure against the budget.
- 7.2 We again recommend that the council regularly reviews the actual results achieved against the budgeted costs in order to justify such discrepancies and to ensure that all expenses not anticipated by the council are identified and included in future budgets. This process will enable the council to prepare more accurate annual budgets that are required to closely monitor and control all costs incurred by the council.

8 Liquidity position

- 8.1 In prior years it was noted that the council was operating in a net current liability situation which indicates that the council will not be able to meet its short-term liabilities. The statement of financial position again indicates that current liabilities (excluding deferred income) exceeded current assets by € 742,960. We have again qualified our auditors' report to highlight the council's liquidity problem.
- 8.2 In such a situation the Procedures require that the council informs the Director that the FSI is less than ten per cent of the allocation approved in terms of Article 55 of the Act and must explain the actions that are intended to be taken to remedy the situation.
- 8.3 We reiterate our recommendation that the council should curb expenditure as far as possible and adopt a cost reduction exercise until the liquidity position is improved.

9 Council meetings

- 9.1 We again found that the councillors were paid a full year's allowance even though they did not attend all council meetings held in the current year and failed to issue a letter of excuse for their absence from the meetings.
- 9.2 We again refer to memo 89/2009 which requires that valid reasons must be made in writing to be considered by the council and a copy of the letter kept within the minutes. Furthermore, the Local Councils Act stipulates that allowances must be paid in proportion to the number of meetings held in a calendar year.
- 9.3 It was again noted that certain councillors failed to attend in aggregate more than one-third of the meetings called within a period of six months. In accordance with the Local Councils Act the Minister must be informed about this fact by the executive secretary. Furthermore, the council should resolve that if the absence is due to a justifiable cause it shall also transmit to the Minister the council's recommendation not to declare the seat vacant.
- 9.4 We repeat our recommendation that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous year's minutes to be bound. The binding of minutes should be given due importance since

this provides the only permanent, unchangeable record of council meetings and discussions.

10 Mayor's honorarium

- 10.1 The council has approved the recognition of an overpayment of € 5,120 made for the mayor's honorarium. This was, however, not recovered in the current year.
- 10.2 This is not in accordance with memo 7/2011 which states that honorarium paid in excess of two thirds of the honoraria paid to members of parliament can either be offset against future honoraria or refunded. It also adds that the council may choose to wait until the matter is resolved and then recalculate the honorarium. In view of the uncertainty as to when the matter will be resolved, we recommend that the amount is either refunded or offset in the current year.

Provisional tax on mayor's honorarium

- 10.3 We reviewed the FS3's of the councillors and noted that the mayor's honorarium and some of the councillors' allowances were taxed at a rate different from 20% or were not taxed at all.
- 10.4 Memo 26/2010 and Ministry of Finance circular number MF/2/09 state that the honorarium and councillors' allowances should be taxed under the "other emoluments" method. In accordance with the memo, the council should deduct tax at a standard rate of 20% from the honorarium or allowance and if the councillor's annual income falls to be charged at a lower tax rate, then he/she should claim a refund in his/her individual tax return.

11 Petty cash expenses

- 11.1 During our audit, we identified payments out of petty cash which were not supported by a tax invoice addressed to the council but by a cash register chit. Examples are:

Details	Supplier	€	Date
Stamps	Exotica	28.50	31.01.2011
Stamps	Exotica	38.00	15.02.2011
Coke for carnival band	Joe Confectionery	32.00	27.02.2011
Present Xaghra Mayor	Landau	9.95	25.05.2011
Coffee, milk	Fawkei	19.55	15.06.2011
Pastizzi for YEC	Hotspot Pastizzeria	21.60	01.07.2011
Drinks for YEC	Smart Supermarket Ltd	9.42	07.01.2011
Cabernet Sauvignon	LIDL Malta Ltd	14.94	11.11.2011

Moreover, we noted that petty cash expenses relating to fuel were also not supported by a tax invoice addressed to the council.

We also identified that no supplier name was indicated on the fiscal receipt dated 13.10.2011 for purchase of sand and gravel amounting to € 15.00.

- 11.2 We understand that there are instances where it is more practical to obtain a cash register chit. However, this is in contravention of the Local Councils (Financial) Procedures, 1996 which specifically require that supplies are only made on the provision of a tax invoice which is addressed to the council. This ensures that only expenditure incurred in the furtherance of the council's operations is paid by the council.
- 11.3 Listed with the petty cash expenses above are payments which exceeded the limit of € 23.29 imposed by the Local Councils (Financial) Procedures, 1996. Furthermore, when reviewing petty cash expenses we identified payments totalling € 77.75 made on the same date for the purchase of letters for the Civic Centre. These together exceed the allowed limit of € 23.29.
- 11.4 We recommend that the council observes the provisions laid down in P.1.08c.06 of the Local Councils (Financial) Procedures and ensures that the petty cash expenditure limit of € 23.29 is not exceeded.

12 Administrative expenditure

Insurance policies

- 12.1 When reviewing the asset insurance policy we again found that an inventory of items insured was not provided to determine which assets in the plant register are covered by the insurance policy. The council informed us that the only building covered by the insurance was the Civic Centre and this was insured for € 2,329,373 to cover the cost of the building on a replacement basis. Discrepancies found between the insurance cover and the cost as per nominal ledger included:

	Cost as per records	Sum insured
	€	€
Buildings of standard construction including fire fighting equipment, airconditioners	Leased	2,329,373 (Replacement basis)
Child care centre	114,369	Nil
Fixtures and fittings	50,089	39,843 (Replacement basis)
Office equipment	63,948	34,941 (Replacement basis)

- 12.2 We reiterate that the council abides by Local Councils (Financial) Procedures, 1996, which require the council to regularly review the adequacy of the insurance coverage.

13 Financial statements

- 13.1 The council's financial statements comply with all IFRS's except the full disclosures required by IFRS 7.
- 13.2 We recommend that the council includes the necessary quantitative disclosures required by IFRS 7 in order to comply fully with the accounting standards.

Contingent liability

- 13.3 In reviewing the bank confirmation letter obtained by us we noted a bank guarantee amounting to € 3,800. The council failed to disclose the bank guarantee in the notes to the financial statements. We recommend the council discloses the amount as a contingent liability in accordance with IAS 37 and the specimen format financial statements.
- 13.4 Furthermore, € 3,800 in HSBC accounts has been blocked by the bank to cover the guaranteed amount. Therefore the note regarding bank balances should state that there is a restriction on this amount in accordance with IAS 7, Cash Flow Statements.
- 13.5 The council has received grants for the funding of road resurfacing for eight roads. The council informed us that only five roads were completed and it does not intend to resurface the remaining roads. We were also informed by the council that the Department has the right to reclaim funds transferred if the contract is not honoured in full.
- 13.6 We recommend that these disclosures are made in accordance with International Financial Reporting Standards and Local Councils (Financial) Procedures to ensure that full disclosure is made of the council's contingent liabilities and restrictions on funds.

Statement of cash flows

- 13.7 We reviewed the statement of cash flows prepared by the council and noted that the total grants received for the current and prior year did not agree to the grants received by the end of the reporting period. Furthermore, adjustments were not made to purchase property, plant and equipment, to allow for amounts payable to capital creditors.
- 13.8 We recommend that the cash flow statement is prepared correctly and reflects actual cash movements in accordance with IAS 7, Cash Flow Statements.

14 Donations

- 14.1 When testing expenditure we found that trophies costing € 260 were purchased for 'Infetti League'; a payment of € 106.44 was made to Civil Protection for St. Helen Feast; and the payment of € 28 for the purchase of a fruit basket for the Horticultural Society. Furthermore, the council approved to sponsor a theology course, costing € 2,000, for a council employee. We were informed by the council that authorisation was obtained from the Department for the latter sponsorship, however, no supporting documentation was provided.

- 14.2 The council should assess whether these payments are a form of donation. If there is any doubt we recommend that the council seeks advice from the Department. Donations are contrary to section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation whether in cash or in kind.

15 Management letter

- 15.1 We look forward to receiving the council's response to this management letter, confirm that the council has discussed the letter and outlining specifically what action is to be taken to remedy the above mentioned weaknesses and errors. We would like to remind the council that in accordance with memo 121/2011, the reply must be received within six weeks after receipt of the letter from the Auditor General.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank you Mr Arthur Pizzuto and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,





12 June 2012

The Auditor General
National Audit Office
Notre Dame Ravelin
Floriana CMR02

Dear Sir

RE: FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

Reference is made to the auditors' letter dated 7th May 2012. In terms of Section P2.05B (d.02) of the Local Councils (Audit) Procedures 2005, on behalf of Local Council Birkirkara, we are presenting herewith the following comments:

1. Property, plant and equipment

Plant register

The Birkirkara Local Council has completely reconstructed its fixed asset register during the financial year 2004/2005 after a thorough exercise which has been carried out by the Council's administration and since then it has been maintained in perfect condition.

While it is true that the plant register software has remained at 31 March, the respective suppliers, namely ITS Limited have failed to adjust the year end when they were asked to do so upon data conversion process when the accounting date was changed from 31 March to 31 December. For the umpteenth time, we shall ask the suppliers to get this matter sorted once and for all.

However, it is incorrect in stating that depreciation is being calculated on an annual basis. Depreciation is being actually calculated on a monthly basis and agrees with the aggregate depreciation total in the plant register. We would wish to know how the auditors are deriving the discrepancy of €14,000 which, if found to be justified, this means that local councils are using a software which is working incorrectly because the Council is using a software, namely Sage Pastel Evolution as commissioned to do so by the Department of Local Councils.

Tagging of Assets

The Council acknowledges that it still has to tag all the assets identifiable in its administrative offices. This process has been kick-started during 2011 and would hopefully be completed by the end of the financial year ending 31st December 2012.

Capitalisation

Although we agree that the assets quoted were already in use, these were not capitalised since their final value could not be established in a reliable manner, given the disputes still on the way with the contractor Polidano Bros. Limited. Despite the various efforts from the Council's end, the contractor's main interest was solely to prolong the process to the detriment of appropriate record keeping by the Council. Otherwise, the Council feels that its capitalisation process is correct.

2. Revenue

LES income (pre-regional committee)

The Birkirkara Local Council has repeatedly and relentlessly put pressure on the Joint Committee to present the actual reports and forward the share of financial surplus to the Council. Despite the various attempts, the Joint Committee has never produced any results and ignored the Council's calls.

We encourage the Department of Local Councils and the Auditor General to take action against the Authorised Officer of the Joint Committee to regularise its position accordingly.

3. Receivables

The Council is monitoring the developments on the "Ta' Monita" project and ancillary agreement. The Council has been repeatedly told that the Lands Department are making their final preparations to devolve the gardens in question to the Local Council, at which point the mentioned sum of €130,445 is expected to flow into the coffers of the Council. Unfortunately this process is proving to be a lengthy one but finally the Council should be reaping the fruits of waiting. Upon recent check of the progress on this matter, the Council was now told that the application for devolution was forwarded to Parliament for final approval.

Prepayments

The omissions found in insurance coverage prepayment and overstatement in administrative fees accrued income is regretted. In fact, the Council has immediately took action and approved the audit adjustment recommended by the auditors. One has to note that these two minor shortcomings from a long list of accruals and prepayments were the pure fruit of a genuine oversight.

4. Payables

The Council acknowledges that its payables are one of the most sensitive areas of the financial statements. It regularly reconciles its suppliers with statements provided but where amounts are in dispute these are not recognised in the Council's accounting records and are usually highlighted in a note to the financial report, termed as "Contingent Liabilities". At times, it would not be always possible to obtain statements from suppliers due to their disorganised accounting systems. However, the Council takes note of the auditors' recommendations and will insist with its suppliers to provide regular statements, at least on a quarterly basis.

With respect to the issue of E0018 (Environmental Landscapes Consortium Limited), the Council has a confirmation in writing by the Ministry of Resources and Rural Affairs that it will settle the amount outstanding. Despite various exchange of communication both with E0018 and the respective Ministry, the amount being shown as due by the Council was not shifted on to the Ministry. The Council will continue to put pressure in this respect.

The reconciliatory meeting between Polidano Bros. Limited and the Council has finally neared conclusion. All differences against the Council will be recorded as liability accordingly.

5. Expenditure

Purchase orders and quotations

As correctly highlighted by the auditors, the Council has a system of purchase orders integrated in its accounting software. Authorised officers of the Council sign the purchase orders in question and during the year under audit, the Council has made considerable efforts to see that all procedures are followed. The Council took note of the samples identified and is currently devising a system on how these purchase orders should be signed.

Procurement procedures

As soon as the contract for the services identified is brought to an end, the Council shall issue a call for quotations accordingly.

Tenders

In general, the Council abides by all tendering regulations. This shows from the high number of tenders (approximately 13) issued during the calendar year 2011 alone. In both cases, the Council had projected that the cost would not exceed the tendering thresholds. In view of this, a call for quotations had been made. Nonetheless, there was an extension to the project and even though the procedures call for the issue of a tender when a variation exceeding 20% takes place, since both services were related to EU and UIF funding applications, the service providers could not be altered from those originally submitted.

While any inconvenience is regretted, the Council will make sure that in such cases, it seeks the guidance of the legal section of the Department of Local Councils. Surely, though one cannot say that the Birkirkara Local Council is not abiding by tendering procedures.

Tendering procedures

For BLC 01/2011 the Council has issued a call for tenders on 3rd June 2011 through the Government Gazette. Article 40 of the Local Councils Act states that:

Where a Council offers for tender or for quotations any works, goods or services related to its functions or the transfer of any land it shall give notice of its intention by publishing a notice in the Gazette. In addition to this requirement a Council may also give notice of its intention by publishing a notice in the Gazette and in one daily newspaper.

Clearly, the law states **may** and not **should**. So, one cannot understand where the Council is incorrect. Furthermore, the call for this tender was published on 3rd June 2011 and closed on 27th June. This adds up to 24 days. The Local Councils Procedures (Tendering) allow for the publication of the advert and closing bidding date to be not less than 8 days if the matter is urgent. Indeed, this case was urgent because it was directly related to EU Funding and certain deadlines had to be met.

In the case of comments related to BLC 03/2011, the date of opening was indeed not indicated on the schedule of offers, but this was then clearly indicated in the Council's minutes.

Use of mobile phones

This subject was brought up on several occasions during Council meetings and mentioned in various minutes during the year 2011. It seems to be some conflict between Councillors



regarding the interpretation of Memo 109/2010. The Mayor is stressing the point that Memo 109/2010 states that no private mobile bills are to be paid by the Council. This, he states does not mean that the Council is not allowed to have any mobile phones registered in the name of the said Council. If this was the case, he asks, how would the Council contact its workmen performing works around the locality?

In the past, the Council tried to make use of radios, however, being close to Mater Dei Hospital, due to interference emitted from police and Ambulance radios, it was found to be impossible to convey a message. This resulted many times in workmen returning to our offices to check whether something urgent cropped up, leading to unnecessary loss of time and productivity.

The Council feels that we are living in 2012 and definitely the intention of Memo 109/2010 was not to abolish this means of communication completely, but to implement control and curb down abuse. Not even the man in the street can do away with mobile phones in this day and age, let alone a Local Council.

6. Annual Budget

It should be assured that the Annual Budget is prepared with due diligence and care. However, the Council experiences certain costs and obligations which unfortunately are not covered by the annual financial allocation.

In addition to that, there is no suitable comparison between the annual budget and the actual financial statements since the former is prepared on a cash basis while the latter is prepared on an accruals basis. So until this problem is addressed, this kind of analysis could not be made appropriately and reasonably.

7. Liquidity position

The Council acknowledges its negative financial situation. Unfortunately, during 2011 the Council conceded another financial blow despite its efforts to address a reduction in deficit. The PPP road-resurfacing project has cost the Council nearly twice as much the original cost, mainly attributable to the hefty cost incurred for the replacement of WSC main pipes. Unfortunately the Council was not served with additional finance to cater for this unexpected financial burden.

In the Annual Budget for 2012, the Council has allocated the sum of €300,000 to reduce further the financial deficit. This shows the Council's good will to address the problem.

8. Council meetings

According to the Council's records, where Councillors have not provided a justifiable cause for their absence, the respective Councillors' allowance was deducted accordingly. In the case of Councillors failing to attend one third of the meetings called within a period of six months, the Council has no record of such event taking place.



9. Mayor's allowance

The arrears for Mayor's Honoraria paid to Mayor will be only paid back by the latter until such time this issue is resolved in Parliament.

Provisional tax on mayor's honorarium

The Council cannot understand why the auditors are insisting on this matter. The Final Settlement System rules (S.L. 372.14) clearly indicate that through the FS4 – Payee Status Declaration form, a taxpayer should indicate the tax rates to be used for the deductions out of his/her emoluments. In this case, the mayor has chosen that his income be deducted with a tax rate of 35% in line with the FSS regulations. It should be stressed that this is not final and withholding through the part-time regulations as interpreted by the auditors.

The third part of Section D of the FS4 form clearly indicates the payee may have tax deducted out of "other emoluments" more or less than the prescribed rate of 20% as indicated in Memo 26/2010. Therefore both the Council and the mayor believe that there is no breach of procedures in this respect.

10. Petty cash receipts

It should be ensured that the Council maintains an appropriate petty cash system and is regularly reconciled with the actual receipts and payments. At this point one must highlight the fact that fiscal receipts issued by a supplier do not accommodate a standard place to write the name of the addressee. On the other hand, a fiscal receipt may accommodate the VAT number of the addressee.

Nonetheless, the Council should not be registered for VAT purposes and therefore it is not possible to have its name written on fiscal receipts. As a matter of good faith to embark on the auditors' recommendations, the Council had started to issue petty cash vouchers supporting the fiscal receipt. The petty cash vouchers clearly indicate the nature of the expense and for what this expense was utilised. Therefore the Council cannot understand how the auditors are reiterating this comment.

With respect to the transactional limits, the Council will see to it that these kind of transactions will not be repeated.

11. Insurance policies

The Council takes note of the auditors' recommendations and following a review of the fixed asset register for any obsolete equipment or furniture, it will revise its insurance cover together with the assistance of its insurers.

12. Financial statements

All valuable comments made by the auditors are noted and will be addressed accordingly for the forthcoming year ending 31st December 2012.



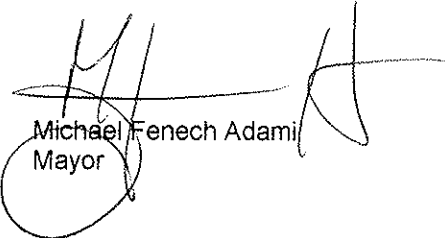
13. Donations

Both instances in question mentioned by the auditors related to an activity organised in collaboration with the Council (football tournament) and to support the locality's security during a fireworks display. The Council does not see the nature of these expenses as a donation. The purchase of fruit basket relates to the Council's participation in a cultural event organised by the Malta Horticultural Society on a nation-wide level, surely not a donation.


With respect to the sponsorship of degree course to one of its employee, the Council had been informed by the same employee that she was given clearance by the Department of Local Councils. As recommended by the auditors, the Council shall seek to obtain this clearance in writing. In the absence thereof, the employee will have to refund back the money sponsored.

We would like to thank the Auditors for their constructive and professional advice provided during the course of their audit. Where possible, the Council commits itself to implement the suggestions accordingly.

Yours faithfully,
LOCAL COUNCIL BIRKIRKARA



Michael Fenech Adami
Mayor



Arthur Pizzuto
Acting Executive Secretary