

The Mayor,
Birkikara Local Council,
Centru Civiku,
Triq Tumas Fenech,
Birkikara

25 April 2016



Financial Statement for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015, we have reviewed the accounting system and procedures operated by the council. We have also reviewed the operations of the council and how they conform to the Local Council 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. This report excludes issues that arose during the first 7 months as reported in the interim management letter and were either cleared or not repeated.

1 Previous management letter covering till 31/7/15

1.1 Income

The agreements with the Welfare of the Elderly Department have not yet been renewed (refer to note 2.1).

1.2 Expenditure

We again noted that the Council is supporting the majority of its petty cash payments by a cash register receipt (Refer to note 3.1). On the other hand, we did not come across instances of payments that exceeded the limit of EUR23.29 in the period under review.

The Mixed Collection Household waste tender was still being used and a new tender was issued towards the end of the year and awarded in 2016 (refer to note 3.4). No further work was awarded under the Contracts Manager tender and the balance of EUR542 overpaid to the contractor is under discussion. The balance due to General Cleaners is still pending at period end (refer to note 3.8).

The Council's assets are still not adequately covered by the insurance policy issued (refer to note 3.10).

The Council stopped utilising the extra skip services for an additional EUR130 per day in September 2015 (refer to note 3.13).

Our concern on the value of the credit notes received for extra charges on public convenience maintenance was still not addressed (refer to note 3.15).

An accrual for interim audit fees was once again necessary and passed by audit adjustment (refer to note 3.19).

1.3 Local Enforcement System

Although audit financial statements of the Birkirkara Joint Committee were received, these presented a qualified audit opinion (refer to note 4.1).

The council has accounted for the balance due as per LES reports.

1.4 Property, plant and equipment

The fixed assets register still lacks certain details (refer to note 5.1). We did not come across additions paid prior to council approval.

1.5 Inventories

The council has not made any assessment on the net realisable value of books held in inventory (refer to note 6.1).

1.7 Receivables

The Council still has debtors aged over one year although it increased its provision for bad debts (refer to note 7.1).

The balances on Ta' Monita Estates Limited grant and DLG co-financing projects has still not been recovered (refer to notes 7.4 & 7.6). The issue with Greent MT is still unresolved (refer to note 7.10) whereas an adequate provision was made for amounts recoverable under the expired agreement.

1.8 Creditors

The Council still has a substantial amount in overdue creditors (refer to note 8.1) and has debit balances in creditors (refer to note 8.3).

The Council has once again accounted for Tipping fees that has not yet been allocated to the Council by the Department for Local Government (refer to note 8.5).

1.9 Cash balance

The cash balance and petty cash expenses were up-to date at 31/12/15.

1.10 Financial statements

We again identified some minor departures from IFRS requirements (refer to note 9).

1.11 Estimates and business plan

The Council has yet to prepare a 3 year rolling budget (refer to note 10).

1.12 Council meetings

We again noted that some councillors were absent from meeting and these were not reported to the DLG (refer to note 11).

1.13 Liquidity position

The council is still in negative liquidity and FSI position (refer to note 12).

Current period issues

2 Income

Rental income

- 2.1 The Council has received a renewal notice from the Ministry of Social Policy to cover the period 25/2/15 – 24/2/18, and a renewal notice from the Libraries and Archives Department to cover the period 29/09/15 to 30/09/18. On the other hand, the agreement with the Welfare of the Elderly Department for the lease of parts of the Civic Centre is still expired. The council does not have a renewal notice or letter for this lease, although discussions for a new contract have commenced. Revenue generated from rental of premises to this entity for the period under review amounts to EUR 3,114.
- 2.2 We recommend that the council prepares and signs a new agreement with the lessee under the same terms and conditions of the original contract.

3 Expenditure

Petty cash payments

- 3.1 The council continues to support more petty cash payments by cash register chits. Below are a few instances which were encountered from August on-wards during the audit:

Date	Supplier	Details	Amount
			EUR
12/08/2015	Don Juan Ironmongery	Paint Hammerite Black	17.30
18/08/2015	Paloma	Bolts	21.30
01/09/2015	DNG Mini Market	Toilet Paper	14.75
14/10/2015	DNG Mini Market	Tea for Laqgha	7.60
14/10/2015	DNG Mini Market	Coffee for Laqgha	14.00
20/11/2015	Write On Stationery	Stamps	7.80
03/12/2015	Yoyo's Past & Conf	Pastizzi/Pizza	20.00
04/12/2015	Paloma	Alancini	14.40

- 3.2 The Local Councils (Financial) Procedures, 1996 specifically require that supplies are only made on the provision of a proper tax invoice which is addressed to the council. Therefore, cash register chits do not satisfy this requirement.
- 3.3 We therefore recommend that the council obtain tax invoices of fiscal receipts which are addressed to the council, whenever possible, to support petty cash payments.

Expired contracts

- 3.4 The contract agreement for the Mixed Collection Household waste which was awarded to Northern Cleaning Limited expired on 30 June 2014. It was noted that no contract extension was issued although the bank guarantee was extended. A new tender was issued towards the end of 2015, and was awarded (in 2016) to the cheapest bidder, being WM Environmental Ltd, who quoted €225,784 annually. An appointment letter was sent on 01/03/2016. An appeal was filed on 9 March 2016 to the Public Contracts Review Board, and the council legal representation responded to the appeal on 14 March 2016. There is no indication when such an appeal will be resolved. The amount invoiced by Northern Cleaning Limited for the year under review amounted to EUR 210,513.
- 3.5 We would like to remind the council that the extension of expired contracts is strictly prohibited. Memo 10/2013 issued by the department of the government department states that the council should start preparing for a new call for tenders ahead of the expiry date of existing contract.
- 3.6 We also noted that the above supplier had quoted different rates for each period of contracted term. However, we noted that over the said period, the supplier invoiced the council at the rate quoted for the first period. The amounts invoiced did not increase in line with the tender.
- 3.7 We recommend that the Council monitors the amounts invoiced by contracted suppliers to ensure that these are in line with contracted rates. We recommend that this contract is reviewed to determine whether the council should provide for an additional liability.

General Cleaners Company limited

- 3.8 In January 2013 the council received an invoice amounting to EUR2,809 from General Cleaners Company Limited for leasing of bins. As at 31 December 2015 the invoice was not yet settled. The agreement entered into in prior periods was only signed by the mayor on behalf of the council. The council believes that such an agreement is thus null and void. The new legislature decided that this payment should be withheld and in 2014 the council was also notified that the company is seeking legal action to collect the amount due from the council.
- 3.9 We recommend that all of the council's contracts are jointly signed by the mayor and the executive secretary, (after approval in council meeting) as representatives of the council and that all original copies are kept in the office at all times.

Asset Insurance

- 3.10 The Council is still covered by the insurance policy issued in 2014 and the insured covers the following amounts:

Description	Cost as per records €	Sum Insured €
Building of standard construction including firefighting equipment, air conditioners - whole building	Leased	2,329,373
Furniture, Fixtures and fittings	69,945	40,000
	480,227	2,409,373

- 3.11 The above illustrates that the council's assets are still not appropriately insured. In this regard, the council should update its insurance policy to ensure that assets held are not under/over insured, and also include new assets bought by council during the period. The lease agreement for the Civic Centre specifies that the property and furniture and fittings in common areas should be insured for EUR2,373,000. Other assets not listed above are not covered by the Insurance policy.
- 3.12 The council must comply with section LCP 1.15b.04 of the Local Councils (Financials) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage and ensure that its insurance cover is in line with the lease agreement.

Additional skip services

- 3.13 As noted in the 2014 management letter, the council instructed the contractor (Northern Cleaning Limited) to perform extra daily services instead of once a week as per tender agreement for an additional charge of EUR130 daily, and additional skip collections twice weekly EUR155 daily. Such services were still provided up to September 2015, when they were stopped by the new Executive Secretary.
- 3.14 In order to comply with the Local Councils Regulations, the above scenario should have resulted in the council making a call for tenders for this additional service to ensure that the council receives the service at the most advantageous rate.

Cleaning and maintenance public convenience

- 3.15 In the previous year management letter, we noted that the tender for cleaning and maintenance of public convenience was re-issued in 2014 and awarded to the same contractor that managed the facility under the old agreement. We also noted that the new tender was quoted at lower rates than the previous one however, the service provider continued invoicing under the old rates.
- 3.16 During 2015, the Supplier stopped invoicing at the old rates after January and issued credit notes for the amount overstated in previous months (since commencement of the new tender). Notwithstanding this, we noted that the credit notes issued did not tie in to the expected amounts. The supplier had invoiced EUR9,104 (EUR1,820.82 X 5 months) rather than EUR5,938 (EUR1,187.5 X 5). The total credit notes issued amounted to EUR2,420 rather than EUR3,166.
- 3.17 We also noted that the supplier started invoicing as quoted in his tender (global fee of EUR1,250 in 3 separate invoices), however, the amount tendered was inclusive of the 5% contract management fee and this was not deducted from his invoices. The

global fee should amount to EUR1,187.50. Over the period January to December, the supplier invoiced EUR 750 in excess of the tendered amount.

- 3.18 We recommend that the Council monitors the amounts invoiced by contracted suppliers to ensure that these are in line with contracted rates. We also recommend that this contract is reviewed to determine whether the council should claim the excess fees charged by the supplier.

Audit fees

- 3.19 The Council did not accrue for interim audit fees of EUR3,540. These were proposed as an audit adjustment which was approved by the Council and reflected in the audited financial statements.

4 Local Enforcement system

- 4.1 The Birkikara Joint Committee of which Birkikara Local Council formed part up to 31 August 2011 has recently provided the council with audited accounts for the period ending 31 December 2015. These accounts indicate retained earnings of EUR5,229 and cash at bank of EUR2,204. The audit report is also qualified since the auditor could not reconcile amount receivable to the turnover and debtors reports issued from the IT system.
- 4.2 The balance sheet of the committee does not indicate that the Council is entitled to a material share from the profits of the pooling system and the qualification presented raises doubts on the reliability of the Committee's receivables (which are fully provided for). We have qualified our audit report since the amount recoverable from the joint committee cannot be fairly determined.

5 Property, plant and equipment

Details of the fixed asset register

- 5.1 We again note that a number of assets in the fixed asset register do not include the location. In this absence of this information, the council would be unable to individually identify assets and correctly account for their existence, impairment or disposal.
- 5.2 We recommend that the council updates the fixed asset register with the location of assets.

6 Inventories

Net realisable value of inventories

- 6.1 The council's inventories comprise of books intended for resale. It was noted that the stock is slow moving, with a total movement of 23 books in the year under review. The cost of these books was EUR192, 2 of which (at a cost of EUR17) were sold and the rest given out as follows:

	Amount
Santa Tereza College prize day	2
Santa Monica School prize day	2
Volleyball prizes	7
Norway grants	5
Marie Claire Zammit	1
Department of Local Government	2
Executive Secretary	1
Manuela Zucchi	1

- 6.2 We reiterate our recommendation that the council should assess whether the books are being carried out at the lower of costs and net realisable value in the financial statements in accordance with the generally accepted accounting principles. Write offs or provision of inventories might be necessary if the books remain slow-moving or have no realisable value in accordance with IAS 2, *Inventories*. In addition, these books should be expenses if these are not held for resale.

7 Receivables

Overdue receivables

- 7.1 The council's debtors list includes receivables of EUR46,254 which have been brought forward from previous periods. These are:

Customer	Amount BF from PY €
Alberta	500
Advanced Telecommunications	932
Agius Neville	150
Comlux Malta Ltd	650
Crosscraft	200
Regjun Centru	343
Dept Of Local Councils	44
Environmental Landscapes	390
Educational Services	430
Green Mt Ltd.	9,196
Gregory & Murray Co. Ltd.	75
Gozo Region	401
Health Department	6,977
I Love Books	150
John G. Cassar	100
Ministry For Resources	746
Muscat's Universal Ltd.	500
MCA	4,310
Melita Cable Pic	800
Regjun Tramuntana	206
Public Libraries Department	9,060
Polidano Brothers Ltd.	633
Storage Systems Ltd	150
Regjun Nofinhar	603
Tctc	349
The Perfect Pet Shop	600
Urban Jungle	350
Water Services Corporation	7,409
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	46,254
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- 7.2 At the financial position date, the Council increased its provision for doubtful debts from EUR5,958 at 31 December 2014 to EUR 26,040. The provision covers the following receivables:

Debtor Name	Provision €
Advanced Telecommunications	932
Agius Neville	150
Alberta	500
Comlux Malta Ltd	650
Crosscraft	200
Environmental LC LTD.	390
Educational Services	430
Gozo Region	161
Green Mt LTD.	9,196
Gregory & Murray CO. LTD.	75
I Love Books	150
John G. Cassar	100
Malta Communications	1,677
Ministry For Resources	746
Muscat's Universal LTD.	500
Polidano Brothers LTD.	633
Public Libraries Department	1,198
Regjun Centru	303
TCTC	349
The Perfect Pet Shop	600
Urban Jungle	350
Water Services Corporation	6,750
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	26,040
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- 7.3 Whereas the Council has improved its assessment on recoverability, it still indicates a weakness in collecting amounts due. We strongly recommend that the council establishes a proper credit control system to limit its exposure to default risk. In addition, the council should chase these debtors for payment and if it recoverability remains unlikely, a write off should be considered. In doing so, the council should obtain prior approval in council meetings and document the decision taken in its minutes.

Grant receivable on Railway Track Garden

- 7.4 In 2013, the council received EUR45,161 out of the EUR130,445 grant receivable under a contract with Ta' Monita Estates Limited. This results in a balance of EUR85,284 outstanding at period end which is presented with accrued income in the financial statement.
- 7.5 The executive secretary informed us that the Council is not that confident that the remaining grant will be recovered and agreed to provide for the balance. The provision was appropriately recognised as an expense for the year, however the contra-entry was reflected in accruals. We proposed a reclassification of the balance to a provision on accrued income within current assets. The council accepted our adjustment and reflected it in the audited financial statements.

Co-financing agreement

- 7.6 The council's accrued income includes the following grant receivable from the DLG under two separate co-financing agreements.

Co-financing agreement	Outstanding agent
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EUR

Heritage	11,221
Energy Conservation	10,953
	22,174

- 7.7 Since these projects were completed and certified in 2012, we recommend that the council seeks explanations from the Department as to why these grants have not been advanced as yet. Should such queries result in the knowledge that these grants are no longer receivable, the council should adjust its accounts accordingly.

Heritage Route Grant

- 7.8 In 2015, the Council suffered from a reduction of EUR8,395 in the Heritage Route Grant. The impact of the reduction was fairly represented in the interim financial statements but it was not reflected in the year-end financial statements.
- 7.9 We proposed the necessary adjustments to reflect the impact of the withdrawal which included a reduction in deferred income of EUR5,813, a reduction of recognised grant income for the year of EUR1,936 to reverse amount recognised in income in the current and previous periods and a and adjustment to current and non-current deferred income of EUR646 . The council approved our proposed adjustment and reflected it in the financial statements.

Green MT Limited

- 7.10 As highlighted in previous management letters, on 25 November 2009, Green MT Limited agreed in writing to forward the sum of EUR30,821 to the Works Division (within the Ministry for Resources and Rural Affairs) on behalf of the council in respect of restoration works carried out on the aqueducts. The agreement stated that the amount was to be settled through monthly payment of EUR1,000 each starting from 31 December 2009.
- 7.11 The Works Division had informed the council that no payments had been received from Green MT Limited to date and thus the balance is still outstanding. The Works Division is seeking to recover the amount from the council in court.
- 7.12 In light of the above, the council resolved to record the amount of EUR30,748 claimed by the Works Department in its legal letter. On the other hand, the executive

secretary indicated that Green MT Limited is claiming that the promised amount had been forwarded directly to the council in previous periods.

- 7.13 In 2014 the Birkirkara local council received a garnishee order for the amount of EUR30,821 due to the Ministry for Resources and Rural Affairs. This was revoked in 2015.
- 7.14 We suggest that the council monitors the case closely and determines the legal position of the council on this issue. We are also of the opinion that the council should seek guidance from its legal advisors and the DLG in regards of protecting its best interests.

8 Creditors

Overdue creditors

- 8.1 The council creditors list includes balances amounting to EUR306,897 which have been brought forward from previous periods. These exclude amounts due to PPP project contractor. These are analysed below.

Description	More than 365 days
	€
3a Malta ltd	5,530
Arthur & Johns Garage	2,255
Joe Bugejja	17,832
Billboard Advertising	435
Briffa John	28
Communique Creative	714
Dun Anton	167
Enemalta	327
ELC Ltd	9,692
Gauci Charlie	13,696
General Cleaners	2,809
Lino Micallef	65
Northern Cleaning Limited	169,279
Poldiano Bros - Culvert project	940
Polidano - Bridge	5,471
Polidano Bros - ST Helena	1,691
Pirotta Manuel	200
Water Service Cor - J Borg	10,603
Water Service Corp - Civic Centre	34,416
Works Division	30,747
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	306,897

- 8.2 We recommend that the local council reviews each individual balance, and, unless the council has a legal basis for not settling these amounts, it should focus on settling these balances.

Debit balance – Creditor list

- 8.3 During our audit we noted that the debit balances in the creditors list amounted to EUR15,174. These were netted against amounts payable and hence we proposed an adjustment to reclassify the balance to receivable. The council accepted our adjustment and reflected it in the audited financial statements.

Supplier	Amount €
Allwoods & Steel Ltd	69
ARMS Ltd	650
Eco Pure Premium water	53
MC Deguara	7,511
Polidano Brothers	5,471
Synthesis Management Services	543
Water Services	877
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	15,174
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- 8.4 We recommend that the council monitors these debit balances to ensure that these are eventually recovered or matched against invoices.

Tipping fees

- 8.5 In 2014, the council accrued for additional income amounting to EUR67,352 in relation to tipping fees that were not covered by the council's allocation on the assumption that this will be settled by the Department for Local Government might eventually pay on behalf of the council. In 2015, the DLG paid EUR57,024 on behalf of the Council. In 2015, the Council accrued for an additional amount of EUR85,638 and hence carried forward accrued income of EUR95,966. In January 2016, DLG paid WasteServ the sum of EUR82,904 which is EUR13,062 short of the amount in accrued income. We recommended that this un-remitted income is recognised in the books upon receipt. The Council did not accept our adjustment since the department was allocated with a budget to settle these balances.

- 8.6 Although the DLG has settled such differences in the past, there is no indication or assurance that such settlement will be repeated in 2016. We recommend that the council continues to record tipping fees in full and reflect any further receipts from DLG when these are confirmed and remitted.

9 Financial statements

Presentation of financial statements

- 9.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).
- 9.2 The council's financial statements are not compliant with IFRSs in the following instances:

- IAS 7 *statement of cash flows* relating to disclosures on grants reflect the accrual basis movement rather than actual cash received and paid for the period. We proposed amendments to amounts disclosed for grants received in and refunded in the period. We also proposed adjustments to movements in working capital changes. These were reflected in the audited financial statements.
- The council reported a rental cost of EUR8,105 and rental income of EUR121,394. The Council also reported the acquisition of assets amounting to EUR2,518 under a finance lease arrangements. However, with the exception of the maturity of asset under finance lease obligations, the financial statements do not include the necessary disclosures required by IAS 17 *Leases*.
- The council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the council.

9.3 Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

10 Estimates and business plan

10.1 The budget for 2016 was prepared and approved but this was not yet transposed into the budget template whilst the annual administrative report was not yet prepared by the Executive Secretary. We also noted that the council has still not prepared a 3 period rolling business plan and the last plan available on the council web-site covers the period 2012 to 2014.

10.2 We recommend that the council prepares, approved and publishes its annual estimates, 3 period business plan and administrative report within the relevant time frames as required by the Local Council (Financial) Regulations.

11 Council meetings

Attendance at meetings

11.1 We noted that one of the councillors was excused for 4 meetings and declared absent from another meeting out of 18 held in 2015. A second councillor was excused from 4 meetings, and absent in 11 others. A third councillor was mark as excused in 11 meetings and a fourth councillor was absent for 5 meetings and excused in another 4. The Local Council Act states that the Executive Secretary is to inform the Minister if a councillor fails to attend four meetings or, in aggregate, more than one third of the meetings called in a six month period. Prior to informing the minister, the Executive Secretary is to inform the Mayor and the council is to discuss whether such absence is justified or not and communicate the decision to the minister.

11.2 From our review of the minutes we did not identify such items on the agenda. We remind the council that such absences are to be reported to the minister and hence, the seat is declared vacant if the council does not deem that the absence is justified.

On the other hand, we noted that proportionate deductions were made from their allowances.

12 Going concern

Liquidity position

- 12.1 At period-end, the council has a negative cash liquidity position of EUR555,248 (not including inventories, prepayments, accrued income and deferred income). This indicates that the council may encounter difficulties in meeting its obligations as they fall due.
- 12.2 The council's liquidity problems continue to create significant doubts about its ability to continue as going concern. To this end, the council should take immediate corrective measures to improve the financial position including postponing capital projects and reducing discretionary expenditure.
- 12.3 As disclosed in note 21 to the financial statements, the council has significant contingent liabilities which will lead to further deterioration of the council's financial position should they fall due.
- 12.4 As a result of the above uncertainties, we included an emphasis of matter paragraph in our auditor's report on the financial statements.

Financial situation Indicator

- 12.5 The council's financial situation Indicator (FSI) at the end of the financial period under review is negative which is lower than the minimum positive balance of ten per cent of the annual Government allocation.
- 12.6 The executive secretary is bound by section 4(1) (c) of the Local councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not fall lower than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the executive secretary must immediately notify the Director when the FSI falls below ten per cent, and explain the actions that are to be taken by the council to remedy the situation.

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 possible 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 Mr. Neil Spiteri, his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'ER', with a long horizontal line extending to the right.

Ernestino Riolo
Partner
for and on behalf of
Mazars Malta