



Il-Kunsill Lokali
ta' Birkirkara

8 May 2017

The Auditor General
National Audit Office
Notre Dame Ravelin
Floriana CMR02

Dear Sir

RE: FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

Reference is made to the auditors' letter dated 24th April 2017. 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. Income

Rental Income

As correctly stated by the Auditors, this agreement was signed on 8 January 2017, and we therefore believe that this matter is now closed

Additional allocation

As stated in the Auditors' management letter, the Council has taken up their advice and adjusted this item of income accordingly in its financial statements.

2. Expenditure

Expired Contracts

The Council notes the content of these points in the management letter, however it should be noted that the Council had to abide by the rules of the Procurement Procedure. In the circumstances, it cannot take any action as the decision is now under appeal.

General Cleaners Company Limited

The Council sticks to its position that the contract in question is null and void, given that it was signed only by a previous Mayor. The Council was advised by its legal consults that the matter needs to take its legal course. Until then, there is little the Council can do other than sticking to its position.

Asset Insurance

While it agrees that certain items may be under-insured, the Auditors are failing to properly carrying out their comparative analysis because the Council only takes care of recording its financed assets in the Fixed Asset Register. Given that the Council is responsible for the insurance of the whole Civic Centre building, then it will be very difficult to match the insurance coverage with the Fixed Asset Register.

Nevertheless, the Council takes note of the auditors' recommendations. Given that it now has updated its Fixed Asset Register, the administration will revise its insurance cover together with the assistance of its insurers to make sure that the Council is adequately covered.

Il-Kunsill Lokali ta' Birkirkara - *Birkirkara Local Council*

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Cleaning and maintenance public convenience

The Council's administration and finance team will be meeting the supplier in question so as to discuss this matter accordingly and hopefully close the item.

Signs and road markings

As correctly stated by the Auditors, since the conclusion of the financial year ended 31 December 2016, the Council has published a call for tenders (in 2017) and therefore we consider this matter as closed.

E-Tendering Procedures

It is true that the Quantity Surveyor as yet did not submit his performance guarantee and we have written to him accordingly through our legal consuls. However, it should be pointed out that no payments will be done to the supplier in question until he presents the said guarantee accordingly. In his letter, the Council also reserved the right to terminate the contract if the supplier fails to comply. On the other hand, the performance guarantee by the supplier of the Train Wagon Restoration works, was received in the intermittent period.

Procedures regarding e-tendering processes are in place and the migration to this new system has been implemented.

Classification of expenses

The reclassification adjustment recommended by the Auditors has been duly approved and reflected. Any inconvenience is being regretted.

Budget vs Actual Expenditure

The comment by the Auditors leaves the impression that the Council did not abide by its Budget Estimates for 2016. It should be assured that the Council has kept up in line with the budget plan but the analysis carried out by the Auditors is not entirely correct. Although we have no information in hand, at a first glance it seems that the comparative groupings are not in synchronisation, and this would provide the Auditors with misleading results.

From a closer look, the Auditors are factoring in non-cash flow items such as depreciation or grant portions released to the Comprehensive Income Statement where such accounting items are not factored into the cash budget. On the other hand, the Auditors fail to take into account the cash injection into the Council's coffers attributed by the grants received during the year. If one had to consider all these elements, the Council would not end up in an adverse position as the Auditors imply.

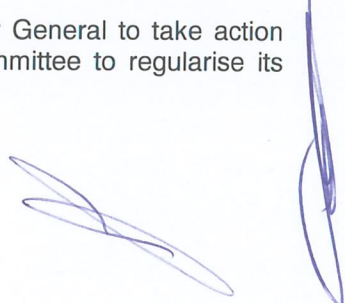
Hopefully, these deviations will be sorted out during the financial year ending 31 December 2017 because the Department for Local Government has commissioned a newly designed Budget template based on the accruals basis. Such comparisons then could be made possible.

3. Local Enforcement System

Pooling Period

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. This abuse by the Joint Committee has been ongoing for years and no action seems to have ever been taken. The Department of Local Government knows very well that the Council is *ultra vires* on this matter.

We therefore encourage the Department of Local Councils and the Auditor General to take action against the Authorised Officer, past and present (if any), of the Joint Committee to regularise its position accordingly.



4. Property, plant and equipment

Details of the fixed asset register

Following the Auditors' recommendations in their report for the financial year ended 31 December 2015, the Council had embarked on a cleaning-up/updating exercise of its physical tagging of the fixed assets. As far as to its knowledge and belief, the Council has tagged all assets accordingly.

Therefore, we would be grateful if the Council highlights any of its samples which were not tagged accordingly so that action is taken straight away.

Agreeing fixed asset register to ledger

The Auditors are correct in their statement and the inconvenience is being regretted. In the meantime, the Council has implemented and approved the respective audit adjustment.

5. Inventories

Net realisable value of inventories

While we agree that the Council will assess the net realisable value of these books, these publications were not meant to experience a high stock turnover. The Council launched these publications for information purposes to its residents and the selling price attached to each publication is merely to recover part of the publication costs rather than registering a profit.

The Council had decided to keep on recognising the books which are available for sale and any donation of books which are given as commemoration or sponsorship to students or other special guests, are being approved by the Council in line with the procedures.

Nevertheless, the matter will be raised again during one of the Council meetings in order to resolve whether to write off the inventories as per Auditors' recommendation or whether to continue recognising in the books of accounts accordingly.

6. Receivables

Overdue receivables

The Auditors' management letter confirms the Council's administrative efforts to collect the amounts due to it. Whereas the Council will continue to put utmost energy to recover debts receivable, it also considers taking legal action where the amounts are substantial. Meanwhile though, in order to avoid an untruthful and unfair picture of its finances, the Council has fully provided for these debts as "doubtful" in its financial statements.

Grant Receivable on Railway Track Garden

Since then, the Council has fully provided for this amount as the recoverability thereof has now become uncertain. The reclassification proposed by the Auditors had been taken on board and approved accordingly.

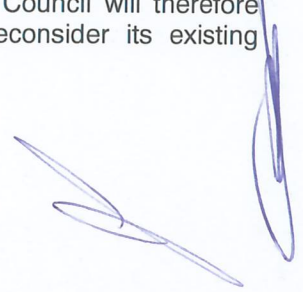
Co-Financing agreement

The Council will follow up on these amounts receivable and takes the necessary action if they are no longer recoverable. But it will insist on the Department of Local Councils to recover these amounts payable.

As correctly stated by the auditors, in 2016 the Council's efforts reaped the fruits as it managed to recover 50% of these co-financing grants receivable.

Green MT Limited

This situation is a stalemate. According to the latest audited financial statements (for 31 December 2010) filed with the Registrar of Companies, Green MT appear to be in financial difficulties and the Council is not very hopeful that it will honour its dues to the Council. The Council will therefore continue with its efforts on the possibility of seeking other avenues to reconsider its existing arrangements with Green MT.



7. Creditors

Overdue Creditors

The Council is fully aware of the situation but its financial resources are what they are.

Debit Balances – Creditor list

The Council is aware of these reconciled balances and where possible, it shall address the matter accordingly. However, it should be pointed out that in the case of two of the suppliers, the auditors are not factoring the fact that there is a situation of split balances given that the supplier in question is maintained on a "by project basis" or on a "per service meter" basis. Companies like ARMS Limited, do not set off overpaid balances with other balances, even though they are connected to the same company. The monitor shall continue monitoring the situation.

WasteServ Shortages

The Council is satisfied that after years of disagreement, the Auditors are now in consensus with the accrued income approach. Nevertheless, the Council also acknowledges the error in the calculation of such accrued income portion and has taken up the Auditors' recommended audit adjustment accordingly.

8. Bank

Reconciliations

The Councils reconciles all of its bank accounts on a timely manner. Added suggestions duly remarked by the Auditors are being favourably considered accordingly.

9. Payroll

Annual leave

This point is noted and we shall table the unutilised leave balances to be carried forward at year end for Council's approval.

Executive Secretary's bonus

The reclassification adjustment was approved by the Council and reflected in the financial statements accordingly.

10. Financial statements

Presentation of Financial Statements

All valuable comments made by the auditors are noted and will be addressed accordingly for the forthcoming year ending 31st December 2017.

11. Estimates and business plan

By the time of replying to this management letter, the Budget for 2017 and Business for the period 2017 to 2019 was being converted to the respective template so that it would be uploaded on the web-site.

12. Council Meetings

Attendance at meetings

This point is noted and we would be adhering to it.

13. Going Concern

Liquidity position



The Council inherited a substantial amount of debt from a previous legislature. Given that the Council still needs to support its ongoing operations, talks were held with the Department for Local Government to unblock the situation.

The Department asked the Council to provide a 4-year cash flow projections to demonstrate effectively that it would be able to smooth out the old debt. The Council had successfully submitted these projections and were approved by the Department accordingly.

In the cash flow forecast, it is being ensured though that while part of the old debts are being repaid and settled, any new projects are financed either from special funding or schemes launched by the Department of Local Government or other entities from time to time.

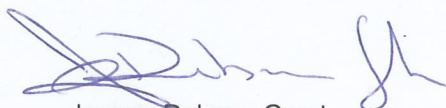
Financial Situation Indicator

As explained in the preceding paragraph, the Executive Secretary is limited on the decision control function of the Council and action by the Department of Local Government to halt the Council's march from overspending, should have been taken years ago.

In the circumstances, the Executive Secretary and the Mayor are constantly monitoring the Council's financial abilities in the day-to-day running and as the year-by-year results show, the situation is improving. Although with a slow progress, the debt problem is being addressed.

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



Joanne Debono Grech
Mayor



Neil Spiteri
Executive Secretary