

5 August 2019

The Auditor General
National Audit Office
Notre Dame Ravelin
Floriana CMR02

Dear Sir

RE: FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2018

Reference is made to the auditors' letter dated 8th July 2019 but received on 23rd July 2019. 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

Accrued Income

All observations set out by the Auditors were duly noted and the proposed audited adjustments were accounted for and approved by the Council. The finance team of the Council shall do its very best to fine tune its process for accounting estimates at the end of every reporting period.

Deferred Income

While we agree with the Auditors in their observation, the amount in question is not material. In general, the Council follows the policy explained by the Auditors with respect to deferred income, however in this case there was a misinterpretation on the use of this funding. The Council had understood that it could utilise this funding for both recurrent and capital expenditure rather than exclusively for capital projects.

2. Expenditure

Expired Contracts

While the Council acknowledges the Auditors' comments regarding the tender for the Maintenance of Street Lighting, it should be pointed out that the Council had unofficial instructions from the Department for Local Councils that this particular tender had to be shifted on the responsibility of the Central Regional Committee of which the Council forms part. However, no action had been taken on this matter during the year under review, and therefore this is why the publication of this particular tender had been delayed.

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' comparative analysis is too generic and may be overlooking certain essential points. 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 and the recognised assets in the Financial Statements.

Nevertheless, the Council takes note of the auditors' recommendations and the administration will revise its insurance cover together with the assistance of its insurers to make sure that the Council is adequately covered.

Payments made prior to approval

The payments highlighted by the Auditors are all of them covered by a contract of works signed by the two parties and most of the amounts are pre-agreed on a monthly basis. Furthermore, other payments would have been made following certification from the Council's Architects and it should be assured that no payments are made to any supplier for which the good or service being provided is not pre-approved by the Council. Having said that, the administration of the Council shall make it's very best to avoid these kind of instances.

Locality Day

The comments made by the Auditors is correct but it's worth mentioning that the Council obtained specific sponsorships on account of events for the celebration of Jum Birkirkara.

Despite the above, it is pertinent to note that this event is very important for the Council, and it is a one of a kind which brings together all organisations established within the locality. The organisation of the event is a very modest one and the Council makes sure it does not spend any unnecessary costs. Furthermore, the fact that the locality day is organised on 5th December, the Council has to face challenges connected with the weather where such an open-air event would surely require a considerable shelter from stormy weather. This by itself is already a major cost, which other Councils may not incur. It is also worth noting that Birkirkara is probably the largest locality in Malta, and therefore the expenditure limit outlined in the law, cannot be comparable to a much smaller Council, where the numbers are less.

Budget vs Actual Expenditure

The Council will follow the Auditors' advice and starts adjusting the Budget on a quarterly basis.

3. Joint 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. 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. The Council deems absolutely unjust to have its report qualified for a reason on which it has no control whatsoever.



4 Property, plant and equipment

Details of the fixed asset register

Although the Council had addressed the matter following the Auditors' recommendations for the financial year ended 31 December 2015, it looks that there are still some short-comings to address. The Council shall undertake its very best efforts to address the problem.

Depreciation charge

The conversion of the Fixed Asset Register together with a change in depreciation policy was indeed a massive exercise for the Council. Despite the various tests carried out, a small range of assets succumbed to a technical error. While this error is being regretted, as the Auditors correctly point out, the Council approved an audit adjustment to sort the matter and the Fixed Asset Register was adjusted accordingly.

5 Receivables

Debtors' Confirmation Letters

It has always been a major issue to reconcile amounts due to the Council by the Water Services Corporation. Besides the fact that they never send in regular statements, any calls for meetings to reconcile the amounts keep on being ignored. The Council's administration will keep on pressing with its efforts to get the matter addressed as recommended by the Auditors.

Provision on receivables

The Council based its provision on information at its disposal by the date of approval of the financial statements in February 2019. In view of this, upon receiving updated information, the Council revised its provision accordingly in line with the recommendations of the Auditors.

Lease contracts

The Council will approach the Ministry for Social Policy to rectify the matter before the closure of the financial year ending 31 December 2019.

6 Creditors

Overdue payables

The Council is fully aware of the situation but its financial resources are what they are. For the sake of being positive, the Council has made giant steps towards addressing the problem of old debt which it inherited from the previous legislature.

Supplier Statements

As indeed highlighted by the Auditors, the Council undertakes its best efforts to ask for supplier statements on a regular basis. Yet, most suppliers are not cooperative to that effect, or else fail to have the necessary accounting system to make this request possible. In such cases, the Council's Accounts Officer often ends up reconciling its balances over the phone or through e-mail.

Tender procedures

The Council is addressing the matter with the supplier in question.



7. Bank

Reconciliations

The Council reconciles all of its bank accounts in a timely manner and on a monthly basis. Added suggested formalities duly remarked by the Auditors are being considered favourably.

8. Payroll

Annual leave

While this point is noted, it should be appreciated that these leave balances were accumulating for years, and in view of the high amount of work undertaken by the Council, these cannot be expected to be utilised in one year. Nevertheless, the Council's administration will embark on a plan so that all unutilised leave balances are brought in line with the law.

9. 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 2019.

10. Council Meetings

Attendance at meetings

This point is noted and the Council will be making its very best to adhere to it. It should be observed that the Councillors in question have not sought re-election during Council Elections held in May 2019, and therefore no longer in office.

Councillor allowances

We cannot understand how the Auditors arrived at these calculations. We have checked our own calculations and found them to be correct.

Minutes of meetings

All observations made by the Auditors are duly noted and will be implemented.

Estimates and forecasts


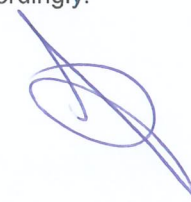
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11. Going Concern

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.

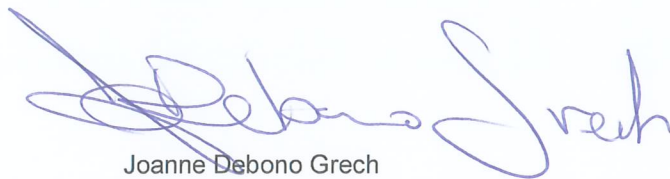
Financial Situation Indicator

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