

14 June 2016

The Auditor General
National Audit Office
Notre Dame Ravelin
Floriana CMR02

Dear Sir

RE: FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Reference is made to the auditor's letter dated 5th May 2016 and received on 3rd June 2016. In terms of Section P2.05B (d.02) of the Local Councils (Audit) Procedures 2005, on behalf of Local Council Sliema, we are presenting herewith the following comments.

1. Creditors

1.1. **Polidano Brothers** –Unfortunately, despite various meetings and exchange of emails with Polidano Brothers Limited on how to resolve the dispute, the contractor retracted its position and threw back the negotiations at starting point. Nevertheless, the Council does not exclude any legal action against the supplier in case the latter would not want to settle the matter amicably.

1.2. **Debit balances in creditors** – Up to year end and the date of closure of the audit, the outgoing architect still had to produce final certifications. Despite the various reminders, he still did not comply. To that effect, the Council served him with a legal letter in order to press further. In 2016, eventually and in reaction to our letter, the Architect in question has complied with the necessary certifications and since then, the account has been reconciled.

The amounts overpaid to Arms Limited were not the Council's fault. Unfortunately in two instances separate and distinct from each other, Arms Limited ask for a payment in advance on account of consumption of electricity for Xmas light decorations in the locality's streets. In another case, Arms Limited had over charged the Council on the meter reading of two of the drinking water fountains installed along the promenade. Unfortunately it is Arms Limited's policy not to set off overpaid accounts with other meter accounts in the name of the Council. In this case, the Council feels that it is not at fault.

1.3. **Overdue payables** – Most of the amounts indicated by the Council's auditors are either in dispute or need to be verified properly by the Council's architect. In view of this, it should be assured that the Council monitors its overdue payables from time to time and writes off any unpaid balances which have been on its books for over five years but never claimed.

2. Accruals

- 2.1. With respect to the accrued expenditure for €30,000 on account of architect's fees and €3,000 on account of legal fees, it is true that the Council has been chasing the respective suppliers for over five years now but these fail to comply. In both cases, the respective contracts expired and no longer service the Council. Following legal advice, the Council will write off this accrued expenditure upon the expiry of 5 years.
- 2.2 With respect to the over accrual of the electricity expenditure, the error is regretted and as the Auditors state in their report, the Council had approved their proposed audit adjustment.

3. Fixed Assets

- 3.1. **Capitalisation of projects** - The Council sees no breach of procedures when it prudently capitalises assets under construction. On the contrary, this is in line with IAS 16 – Property, plant and equipment. It is prerogative of the Council to write off any expenditure accumulated within a project which is no longer viable. The situation with the Fairy Lights Project has delved into a legal complicated matter and the Council is analysing all the options available.

4. Insurance

- 4.1. The Council monitors and reviews its policy from year to year. Despite this, auditors keep on identifying discrepancies between the cost of what is owned and the value actually insured. We shall make sure that for the next insurance policy review, the Council covers all the necessary asset values as outlined by the auditors. Nevertheless, we do not agree that the Council should insure street signs, plants, trees, tarmac, concrete and other similar items where the insurance companies find it very hard to include as part of their cover.

5. Council Meetings

- 5.1. **Attendance at meetings** – Although in terms of the law, the auditors are correct, one should underline the fact that the Councillors in question had reasonable causes to excuse themselves from the meetings. Nevertheless, we shall be informing the Minister accordingly for future similar cases.

6. Prepayments

- 6.1. The Council is sending reminders to the outgoing Mayor from time to time but it has no funds allocated to seek any further action in this respect. The Council will be discussing the matter with the Department for Local Government to consider the best way forward and settle this matter once and for all.

7. Joint Committee

- 7.1. The Lvant Joint Committee to which the auditors refer is no longer functional and no meetings are being carried out. The newly appointed Regional Committee does not want to interfere with the operations of the Joint Committee, so at this point it is extremely hard to obtain the reports referred to by the auditors. The Sliema Local Council had been requesting these reports for years but no entity or body has ever taken action against the Joint Committee. The Council therefore believes that it has done its part. In fact, in 2016, the Joint Committee finally submitted all missing reports and the Council will reflect, any adjustments pertaining to its share accordingly.
- 7.2. The Council will assess the recoverability of the Joint Committee Guarantee paid at the start of operations of the Joint Committee way back in the year 2000.

8. Accrued Income

- 8.1. **Tipping fees** - The National Budgetary Estimates for 2016 show clearly that the Department for Local Councils is obliged to compensate Local Councils for the short-fall in the financial allocation on account of tipping fees. Therefore the Council is just portraying a true and fair picture by recognising the liability on one side and recognising the potential income to compensate it on the other side.

9. Debtors

- 9.1. **Overdue receivables** - The Council makes every effort to raise appropriate assessment of its receivables and at the same time puts pressure on Council debtors to comply and settle the payment. Any errors (albeit immaterial) in the provision for doubtful debts taken up and recognised for the year, is being regretted. As the Auditors state, the Council had taken up its recommendations to adjust the provision accordingly.
- 9.2. **Water Services Corporation** - the amounts due to the Council by this Corporation are backed up by official documentation. The Corporation is cash-strapped and it would only settle these amounts by setting off against Civil Works acquired by the Council from the same Corporation. Despite this, the Council's administration will do its best to set up a meeting with the Corporation's Finance team to assess the way forward.

10. Bank Reconciliations

- 10.1. It should be assured that the Council carries out monthly reconciliations. Nevertheless, we shall see to it that it prints these monthly reconciliations and get them signed by the Executive Secretary.

11. Inventory

- 11.1. The Council will contemplate the Auditors' recommendation and decides accordingly on the recognition of these inventory items in its records.

12. Expired contracts

12.1. We do not agree with the Auditors that extension of a contract to the fourth year is prohibited. This has been the practice for years by the Department of Local Councils. The fourth year is allowed as a buffer period until the new call for tenders is published. As a matter of fact, it is hereby confirmed that there shall be three call for tenders for contracts extended to the fourth year in terms of the normal practice.

13. Financial Statements

13.1. The recommendations set out by the Auditors are duly noted and will be taken into account for the financial year ending 31 December 2016.

14. Estimates and business plan

14.1. The Business Plan for the period 2016 – 2018 is being prepared accordingly.

15. Going Concern

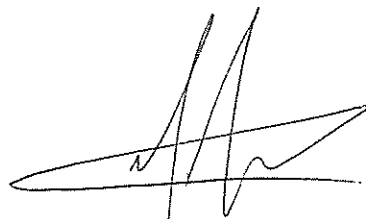
15.1. The Council continuously monitors its expenditure to be in line with the Budget. Although the auditors may have every right to express their views, it is pertinent to point out that the Council seeks to have the necessary funds prior to any spending decisions.

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 SLIEMA



Anthony Chircop
Mayor



Matthew Dimech
Executive Secretary

cc. The Director, Department of Local Government

cc. Mr. Tino Riolo, MAZARS