



31st May 2017

National Audit Office
Notre Dame Ravelin
Floriana

Dear Sir/Madam,

REPLY TO MANAGEMENT LETTER YEAR ENDING 31 DECEMBER 2016

1. Previous Management Letter

- 1.1 Income
Please refer to reply 2.1 below.
- 1.2 Payroll
Please refer to reply 3.1 below.
- 1.3 Expenditure
Please refer to reply 4.1, 4.6, 4.8, 4.10, 4.12 and 2.5 below.
- 1.4 Property, plant and equipment
Please refer to reply 5.1, 5.4, and 5.9 below.
- 1.5 Debtors
Please refer to reply 6.1, 6.5, 6.8 and 6.11 below.
- 1.6 Inventories
Please refer to reply 7.1 below.
- 1.7 Bank and Cash
Please refer to reply 8.1 and 8.3 below.
- 1.8 Trade Payables
Please refer to reply 9.1, 9.3, 9.4 and 9.6 below
- 1.9 Financial Statements
Please refer to reply 10.1 and 10.3 below.
- 1.10 Annual Budget
Issue resolved.
- 1.11 Council meetings and minutes
Please refer to reply 12.1 and 12.3 below.
- 1.12 Other matters
Please refer to reply 13 below.

2. Income

Income from LES administration fees

2.1 – 2.2 The Council will investigate the difference found between the Les income in the accounts and the Logus system of €48 and adjust the accounts accordingly.

Joint Committee Contraventions

2.3 – 2.4 The Council has supporting documentation in respect of the income received relating to the Joint Committee. During the audit, the Auditors should have asked for the supporting documents and we would have settled it out immediately.

Income from Gal Xlokk

2.5 – 2.8 The Council will follow recommendation.

3. Payroll

Reconciliation of wages between FSSs and books of accounts

3.1-3.3 The Council will start to perform monthly reconciliations of payroll costs to FSS forms as recommended by the auditors.

4. Expenditure

Petty cash expenditure

4.1-4.2 The examples referred to in the management letter had a proper fiscal receipt. It is not always possible to obtain chits addressed to the Council.

4.3-4.5 The Council is aware that no cash transactions are to be made for items of expenditure costing more than €23.29. In fact in the examples mentioned in the management letter no transactions exceeded the amount of €23.29. Furthermore, these items were bought from different suppliers and were of different nature.

Procurement procedures

4.6 – 4.7 Although there were instances when a purchase order was not issued due to the nature and urgency of work it is a normal practice for the Council to issue purchase orders. The Council always requests a quote for every purchase made. In the examples mentioned in the management letter no purchase exceeded €1,165, therefore there was no need to issue a call for quotation and no need to publish an advert on the Government Gazette and another local newspaper.

Guarantees

4.8 – 4.9 The Council will be looking into the category and ensure that all performance bonds are provided within seven days from the date of the letter of acceptance.

Group personal accident insurance

4.10 – 4.11 The Council will be looking into the category and make the necessary adjustment.

Rent agreement

4.12 – 4.13 As regards to the rent of the Council premises and the public garden, these are both government property devolved to the Local Council perpetually. The Council is paying the rent of the office premises and the public garden as per invoices issued by the Lands Department.

Travelling Expenses

4.14 – 4.15 The Council will follow the recommendation.

5. Fixed Assets

Reconciliation of financial statements with accounting records

5.1 – 5.3 As identified by the auditors the difference of € 197 represents a purchase of a tree which were expensed to the Income and Expenditure account in the financial statements. This will be adjusted accordingly in the nominal ledger, in order for the ledger to agree to the financial statements.

Details of Fixed Register

5.4 – 5.5 Every possible effort is made to update the fixed asset register. Although, the location has always been recorded, it is not always possible to record all details of exact location.

5.6 – 5.8 The Council will investigate the difference with the software provider of the Fixed Asset Register. During the year the Council has scrapped a number of items from the accounts and consequently from the fixed register. The Council will check the casting errors identified by the auditors since reports are all issued from the software program.

Reconciliation to fixed asset register

5.9 – 5.10 As already pointed out the Council will contact the software provider in relation to the discrepancies found. The Council will investigate these differences and adjust accordingly.

Disposals

5.11 – 5.12 Since the Council approved the issuing of tender for the reconstruction, replacing and carting away of all playing field construction material and equipment (ZLC 7/2015 and ZLC 1/2016) it was understood that the previous playing field construction material and equipment had to be disposed.

6. Trade and other receivables

Receivable balances

6.1 – 6.2 The balances provided by the Council are correct.

6.3 – 6.4 The Council is still insisting to collect the money owed by Water Services Corporation. Furthermore, the Council will take the suggestion made by the auditor in respect of financial and legal obligations.

Unidentified deposits

6.5- 6.7 The Council has never recorded any deposits without matching them to the appropriate fines. The reason that €4,966.93 are still recorded as unidentified deposits is due to the fact that unidentified deposits cannot be identified without proper documentation. Deposits cannot be allocated to the appropriate receivable account and this explanation has already been given to the auditors during their fieldwork. Furthermore the Council cannot resolve this issue on its own.

Pre-regional LES debtors

6.8 – 6.10 The Council will refer the difference identified by the auditors to Loqus in order to be reconciled to the reports issued from the Loqus system.

Provision for LES debtors

6.11 – 6.12 The Council has accepted the adjustment proposed by the auditors in respect of the LES provision. As suggested by the auditors, LES debtors older than two years will be fully provided for.

7. Inventories

Net realisable value of inventories

7.1 – 7.3 Zabbar A Living History books are still held for resale and books are only donated during Council activities. Since the nature and content of the book is still informative, the Council is not of the opinion that the cost of books are reduced further.

8. Bank and cash

'Stale' cheques

8.1 – 8.2 The Council has contacted ITS Company, the contractor responsible for Sage Pastel support to remove the mentioned 'stale' cheques in the management letter. ITS informed the Council that these 'stale' cheques could not be removed from the system because they were not of the same financial year.

Final withholding tax

8.3 – 8.4 The Council has already followed the auditors' recommendation and instructed the bank not to deduct final withholding tax on interest.

9. Trade and other payables

Trade payables

9.1 – 9.2 The Council has obtained creditors' statements from the main suppliers. The Council will do its utmost to obtain statements from all suppliers. However, due to constraints and petty amounts due, this is not always possible.

Long outstanding trade payables

9.3 – 9.5 The Council will be looking into the category and will make the necessary adjustments in the case where it is found that amounts are not due to the Council. The amount of €632 claimed by Wasteserv is included in the contingent liabilities.

Accrued expenditure

9.6 – 9.8 The Council is not agreeing with the auditors on the reversal of an accrual of € 15,000 in respect of pavement works. The pavement works were performed in 2016 and the Council considers that the expense should be accounted for in 2016. This is in conformity to International Financial Reporting Standards which requires that financial statements are presented using the accrual basis of accounting (I.A.S. 1 Para 27). The Council can obtain representation from the architect William Lewis on these works.

The adjustment on the water and electricity accrual was agreed and provided for.

PPP Creditor

9.9 – 9.14 The Council will reconcile the difference of € 356 found by the auditors and will adjust the ledger accordingly.

Furthermore, the Council will ensure that the short and long term portion on the PPP creditor is calculated correctly.

Deferred income

9.15 – 9.16 The Council will ensure that for future audits the short and long term portion on Deferred Income is calculated correctly.

10. Financial Statements

Presentation of financial statements

10.1 – 10.2 Two of the shortcomings identified by the auditors were amended in the financial statements. The difference of €197 in property, plant and equipment has been transferred to profit and loss in the financial statements. This will be adjusted in the nominal ledger in 2017 to agree to the financial statements.

Restricted cash

10.3 – 10.4 The Council has instructed HSBC bank and the blocked funds mentioned in the management letter have been released.

11. Capital Commitments

11.1 – 11.3 As correctly stated by the auditors the financial statements included and amount of €132,573 was wrongly disclosed and such amount was revised in the audited financial statements. The remaining difference between the budget and the audited financial statements is the result that € 87,679 are expected to be incurred in 2018 and therefore were not included in the budget of 2017.

12. Council meetings and minutes

Meeting regulations

12.1 – 12.2 There has always been an agreement between the Mayor and Councillors about the next Council meeting. The Council has always set a date at the end of every Council meeting.

Schedule of payments

12.3 – 12.4 The omitted cheques listed in the management letter were all cancelled cheques and it is not a normal practice to include cancelled cheques in the schedule of payments. All schedule of payments were complete, accurate and jointly signed by the Mayor, Executive Secretary and Councillors as stipulated in the Local Councils (Financial) Procedures.

13. Electronic site

13.1 – 13.2 The Council will follow the auditors' recommendations.

14. Change in executive secretary

14.1 – 14.3 The Council took note of the auditor's recommendation but as per Memo 14/2014 this is a clear case of an exception as the previous Executive Secretary resigned on the 6th March after the Council meeting number 473 of the 21st February 2017.

SIGNED

Marc Vella Bonnici
Mayor

SIGNED

Ranier Busuttil
Agent Executive Secretary