



**Kunsill Lokali Birgu**  
*Coat of Arms*

**BIRGU LOCAL COUNCIL**  
**COUNCIL'S REPLY TO THE AUDITOR'S REPORT**  
**TO MANAGEMENT LETTER FOR THE FINANCIAL YEAR ENDING 31ST DECEMBER 2015**



## Kunsill Lokali Birgu

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14th July 2016

Director (Local Government Department)

The Local Government Auditor

National Audit Office

### **Reply to Mangement Letter for the year ending 31st December 2015**

Dear Sir/Madam,

In terms of section P2.6 (C) and (D) of the Local Councils Audit Procedures 2006, the Birgu Local Council is submitting his response of the management letter submitted by the appointed auditors – Grant Thornton.

The attached response was approved by the Council during a council meeting held on 13<sup>th</sup> July 2016.

Thanks for your attention.

Regards,

John Boxall  
Mayor

Lara Mascena

Deputy Executive Secretary

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## **2. Audit Opinion**

In 2015 the Council has still faced the same problems of last year. The Council will do it's utmost to improve the situation and together with the new accounts will try to update better the accounting system.

## **3. Books of Accounts**

The accounts of the council will be again prepared on the Sage accounting system as in previous years. All transactions will be included individually and no grouping of transactions will occur.

The council has issued a tender for accounting services and new accountants 'Parker Randall Turner' have been appointed for year 2016.

## **4.Reconciliation of books of accounts to financial statements**

As per above point. New accountants of the Council should be able to provide financial statements that agrees to the accounting system.

## **5. Income**

5.1 & 5.2 The Council with the help of the new accountants will scrutinise the liabilities written back and provide information to back up such adjustments.

5.3 In respect of Waste Serve and supplementary Government Income we will reconcile amount to creditors statement and pass all the necessary adjustments

5.6 The amount is immaterial but we still agree that no netting of income and expenditure should be done.

5.8 We agree that the council accounts should be presented on accruals basis. However if income pertaining to 2014 was not accounted for in 2014 we had no other option but to report this income in 2015.

5.10 The Council with the help of the new accountants will scrutinise the ledger and ensure that income from government scheme was included in the financial statements of 2014.

5.11 The council will take all the necessary steps to deposit income in a more timely manner.

- 5.13 The council will adopt a policy to issue a receipt for ever permit issued as required by law.
- 5.14 As recommended the council will adopt a policy whereas one receipt book is used at a time by all clerks.
- 5.16 The council will follow the procedures on deposits and cash collected and will effect deposits twice weekly.
- 5.19 The council will implement a system whereas cash collected on behalf of the Lands and LES system are reconciled.
- 5.21 The Council with the help of the new accountants will check if LES administration fees of Eur 1,398.11 pertaining to years prior to 2015 were accounted for twice or where left out in previous years.
- 5.22 The Council will implement a system whereas a monthly is issued on the monthly administration fees due to the council.
- 5.26 The council will take steps to ensure that rental income is supported by a signed rental agreement.
- 5.28 The Council with the help of the new accountants will whether all grant income have been incorporated into the accounts of the Council. Furthermore, the new accounts should be able to account for Grant income in accordance to International Financial Reporting Standards.

## **6. Payroll**

- 6.1 The council with the help of the new accountants will ensure that the amounts included in the nominal ledger will agree to FSS documentation. The Council will ensure that a signed copy of FS 5 is taken before submitting to the department.
- 6.4 The Council will take all necessary steps to inform the Inland Revenue Department of the double payment and to transfer the excess paid as a credit on the current year. The council will also ensure that once an FS 5 is paid a signed copy together with a copy of the payment is filed in the payroll file to avoid the repeat of this error.
- 6.6 From 2016 the wages and salaries are being generated from a payroll software (Shireburn payroll system) that will provide better controls on payroll, thus avoiding errors.
- 6.8 The council with the help of the new accountants will ensure that wages and salaries are correctly classified as required in the Local Council (Financial) Procedures.
- 6.11 In respect of councillors allowances and meeting attendance, the Council will implement a system of control over the attendance of Council meetings. This will include
- a) Informing all councillors on the date and time of the Council meetings
  - b) Requesting attendance confirmation by councillors.
  - c) Requesting a letter of excuse from councillors that will not attend the meeting.



d) The letter of excuse will be considered for approval by the other councillors before the starting of the Council meeting.

The council will ensure that all the above processes are documented as required by Memo 89/2000.

6.13 The Council will ensure that the Councillors and Mayor allowance are not taxed at the 15% part-time rules as requested in memo 26/2010. This has been already implemented in 2016.

6.15 The Council is facing financial constraints and for this reason the payment of FSS and NI was not done in time. The Council will do it utmost to rectify the position.

6.17 The Council will obtain a statements from the Inland Revenue Department on amounts due in respect of FSS and NI and reconcile amounts to the accounting system.

6.19 The Council will start a policy to approve overtime in council meetings

6.22 The Council will liaise with the Council accountants to ensure that performance bonus accruals are correctly reflected into the accounts.

## **7. Expenditure**

7.1 We know that this is in breach of the Local Councils (Financial) Procedures 1996, and for this reason the Council is demanding invoice from suppliers, even if paid by cash. The Council is obtaining invoices for items paid in cash from regular suppliers. However, it is difficult to obtain invoices from a one-off cash transaction.

7.2 The Council will follow the auditors' recommendations and will include the allocation of the nominal account in the petty cash sheet.

7.3 The Council will obtain approval of petty cash expenditure in Council meeting as required by law.

7.4 The Council will ensure that all petty cash sheets are duly signed. The instances encountered by the auditor where when the major was abroad and could not sign the sheets.

7.5 We agree with the recommendations of the auditors' and the Council will follow next year.

7.6 We agree that for a complete audit trail, items of petty cash should be included individually in the petty cash account. The Council will request the accountants to account for such.

7.9 The Council will obtain quotations as requested by the Local Council Financial Procedures. At times due to the urgency of the situation the Council just orders from well know suppliers but we understand that quotations are important for better controls. We understand that the Local Council need to update its internal control procedures for better controls.

7.10 The Council had problems with the previous accountants and for this reason it was not extended. A new tender was issued and a new contact has been done with the current accountants of the Council. The previous accountants were needed to close off the accounts of year 2014, which they were responsible for.

7.11 As per above point the previous accountants had performed work beyond the expiry of the contract for period they were responsible as per contract. A new tender was issued and a contract with the new accountants 'Parker Randall Turner' is in place.

7.12 We agree that Council should seek approval in Council meetings and from DLG when contracts are extended. However, we do not agree that this was the situation, since the previous accountants were engaging on works that they were responsible for as per contract.

7.13 The Council will update its internal control procedures to ensure better controls. The Council knows that its purchasing order system need to be updated in order to conform with Local Council Financial Procedures.

7.14 The Council took note of the shortcomings found and will update internal control procedures to ensure that these do not happen again.

7.16 The Council did not follow the tender process due to the lack of funds and expertise. The Council is seeking funds and expertise in order to be able to issue tenders and comply with the Local Council Financial Procedures.

7.17 In respect of the Project management services for the Ladder Contract, the Council obtained the services of Genista Research Foundation since it has the expertise in this field.

7.18 The Council works are the Auberge De France are always done by the same supplier since he always provided an excellent service. Given the importance and history value of this building the Council do not wish to change supplier.

7.19 The Council will step a procedure to follow the tender process as required by the Local Council Financial Procedures.

7.20 The Council will obtain signed contracts when missing. The Council will also set an internal control procedure were all legal documentation is reference and filled for easy reference.

7.22 The Council will set an internal control procedure were as all legal documentation, including performance bonds, is reference and filled. The Local Council understand that its internal control procedures need to be revamped for better controls.

7.24 The Council will ensure that schedule for payments will be signed by major, executive secretary and two councillors as required by the Local Council Financial Procedures.

7.26 The Local Council had a backlog of accounting data to input. For this reason, schedule of payments was being prepared before the data was being inputted in the accounting system. Therefore, it was not possible to include the Nominal Ledger Account Number.

The Local Council will try to adhere to the DLG template.

7.28 The Council will start to include cancelled cheques in the schedule of payments as required.

7.30 The Local Council will ensure that cheques are issued after approval by the Council.

7.31 The Local Council will ensure that payment vouchers are signed both by the major and executive council. The instances were these were not signed by the major where when he was abroad.

7.33 The Local Council will ensure that he will provide all documentation in relation to expenses incurred by the Council for these to be reported in the accounts and avoid situation where expenses are not accounted for.

7.35 The assets insurance will defer from the assets reported in the financial statements. The council is insuring rented property as per rental agreements. This cannot be included as assets of the Council since the Council has no legal rights on it. Furthermore, the Council has never insured road constructions, marking and other urban improvements.

7.37 We agree with the recommendations of the auditor and the Council will amend the Group personal accident insurance policy.

7.39 The Council will update its internal control procedures and will ensure that travel reports are prepared on each visit by the major, councillors and staff.

7.42 The Council will ensure that any documentation in respect of travel flights, accommodation and subsistence is acquired before these costs are paid. The Council will also set a system whereas this documentation is filled.

7.45 The Council will ensure that a claim form is prepared and approved before any reimbursements of expenses are given to the major, councillors and employees.

7.46 In respect of water and electricity, the Council had no other option but to report in the current year the bill which was not accrued in previous year.

7.48 The Council will follow the recommendations of the auditor and ensure that no costs are accounted for twice. Adjustments, if any, will be included in this year accounting system.

7.49 The Council in future years will ensure that expenditure on activities will not exceed DLG guidelines.

7.51 The Council, with the new accountants, will ensure that no netting of income is done between income and expenditure as required by IFRS.

## **8. Capital Assets**

8.2 The Council will follow auditors' recommendation and investigate the difference between the categories of assets and adjust accordingly in the accounting system.

8.3 The Council will issue a tender for the formation and implementation of a Fixed Asset Register for the Local Council.

8.6 The Council will start to calculate depreciation monthly as required by the Local Council Financial Procedures. The new accountants are already informed of this.

8.8 Assets under construction balance of Eur 87,097 is a balance resulting from previous years. Most probably in previous years no reclassification was done on assets which were completed. The Council has to perform a separate exercise to identify what consist this balance and reclassify it accordingly. A tender or quote need to obtained in respect of this.

8.11 The Council will put in place stricter rules on the use of assets purchased in order to conform with the Local Council Financial Procedures. The Council will demand that the Samsung Galaxy tablets are stored at the Local Council premises or approval is obtained by the executive secretary.

8.13 The tagging of Council assets will be done with the preparation of the fixed asset registry where ever asset is identified, tagged and reported in the registry.

8.15 The council, with its new accountants will ensure that classification of capital expenditure is correctly reflected in the financial statements.

## **9. Cash and Cash Equivalents**

9.1 The Council will obtain and reconcile all bank statements, next year including the APS savings account.

9.3 Mr Emanuel Farrugia is an ex secretary of the Council. The bank will be informed on the new legal representatives of the Birgu Local Council to update its records.

9.5 The Council will instruct the bank not to deduct tax on the HSBC savings account as recommended by the auditors.

9.7 The Council will reverse this cheque next year as recommended by the auditors.

9.11 The Council, has instructed its new accountants to ensure that petty cash transactions are included in the accounting system and reconciled to cash sheets.

9.12 The new accountants will also investigate and adjust the negative petty cash sheet.

## **10. Trade and Other Receivables**

10.1 The Council will chase the debtors identified by the auditors. Furthermore is there will be problems in the recoverability of debtors the Council will approve a provision or write off of balance as the Council may fit appropriate.

10.4 The Council will try to allocate the opening balances between the different Regional Committee accounts.

10.6 The Council will try to analyse the said balances. If no identification could be obtained the Council will have to consider passing a resolution to write off the said balances. This only after obtaining the Council approval at a Council meeting.

10.9 The Council was not provided with a list of opening accrued income from the previous accountant or auditor. We have discussed the issue with the new accountants in order for this not to repeat itself this year. Our accountants have instructed that the Council gets a list of accrued income, deferred income, accrued expenses and prepaid expenses from the auditors. In this respect we would ask the auditors to give a list that agrees to the audited financial statements, since the previous accountants did not provide us with such a list.

10.11 The Council will start to account for prepayments from next year as requested by IFRS'S

## **11. Local Enforcements System**

11.1 The Local Council will reconcile balance with the Loqus system, if possible, as suggested by the auditors.

## **12. Trade and Other Payables**

12.1 The Local Council will adjust the creditors list the accounting system to balances as per creditors' statements after performing reconciliations. This should eliminate the difference in trade payables found during the audit process

12.4 The Local Council will obtain creditors statements and perform reconciliations as noted under 12.1

12.8 The Council will reconcile the creditors statements. In respect of Wasteserv Malta Limited it can be that amounts paid directly to Waste Serve by the Maltese Government were not reflected in the accounts of the Birgu Local Council. However, amounts need to be reconciled to statement.

12.10 The Local Council will see to the matter in respect of UV Print invoice and adjust accordingly.

12.11 The Local Council will seek written confirmation as proposed by the auditor and reverse the amount.

12.13 The difference of Eur 7,000 was an error done by the previous accountant whereas a prior year adjustment has been passed in other creditors account instead of creditors control account. This will be adjusted this year.

12.15 The error by the previous accountant will be adjusted during the current year.

12.17 The invoice of € 53 not posted will be posted during 2016.

12.19 The Council, next year will give all information to the accountants, in order to be sure that accruals are correctly calculated.

12.20 The Council, did not accrue for the accountancy services invoices, since these were in dispute. The Council has now settled all balances with the previous accountant and the relevant adjustments will be performed.

12.21 The difference of Eur 47.80 in FSS will be tackled during the current year.

12.24 The Council has instructed the new auditors to report statutory creditors separately in the financial statements.

12.26 The Council will review the long outstanding debtors when performing creditors reconciliations. Any adjustments will be passed after approval by the Council.

12.28 The debit balances will be reviewed by the Local Council. Any adjustments passed will be approved by the Council.

12.32 The Local Council will report this possible liability in next year financial statements. A decision has to be taken by the Council if to report such as liability or else a contingent liability. Since the Council is appealing against the Court order, the Council most probably will report such liability as a contingent liability until the full process at law has been executed.

### **13. Grant Accounting**

13.1 The Local Council has instructed the new accountants to work out deferred income as required by the IFRS. As recommended by the auditors, there need to be an analysis of past grants.

13.5 The new accountants will ensure that opening balances in the accounts agree to audited financial statements.

13.9 The Council will adjust deferred income in order to account grants under the Capital approach. This will be tackled by the new accountants during the current year.

13.10 The Council is confident that with the amendments in the financial statements, next year the auditors would not require to qualify the report on grants and deferred income.

### **14. Opening Balances**

14.1 This will be adjusted for next year as explained under 12.13

14.3 The new accountants will provide a report to the Council of any prior year adjustments that need to be done in order to reconcile balances. This report will be discussed by the Council and any adjustments approved will be passed in the accounting system.

### **15. Financial Statements**

15.1 Next year the Local Council will try to comply with the requirements of IFRS'S.

### **16. Meetings**

16.1 The Local Council will ensure that council meetings are signed by both the major and the executive secretary.

16.2 The Schedule of payment was not signed by the major since he was abroad. However, next year the Council will ensure that all schedule of payments are signed by the major.

16.6 In respect of setting meetings and meeting time the Council will try to comply with the provisions of The Local Councils Meeting Procedures.

16.10 The council will also establish a system where each meeting minutes are numbered in sequential order.

16.12 The Council will bound the financial statements as required by the Local Council Office Procedures.

## **17. Financial Buget**

17.1 The Local Council is focusing on the above adjustments that need to be passed at the moment to reconcile amounts. The Council feel it is useless to prepare budgets based on financial data that is not accurate.

## **18. Other Reports**

18.1 The Local Council would like to tackle the adjustments in respect of previous years before preparing any financial data as explained in Point 7.1

18.3 Refer to Points 17.1 and 18.1

## **19. Electronic Site**

19.1 The Local Council will update financial data when it is approved as requested by Memo 36/2011 and 01/2014

## **20. Change in Executive Secretary**

20.1 The accounts of the Local Council were not updated on the appointment of Ms Antonia Belfiore and mid-term audits could not be performed. The situation has happened this year when Ms Antonia Belfiore was shifted and Ms Lara Mascena has been appointed instead.

## **21. Reply to Management Letter**

21.1 The Local Council is sending reply to this year management letter.

## **22. Liquidity Position**

22.3 The Local Council is not provided with adequate funds from the Local Government to run and manage a historical city like Birgu. The maintenance costs of various roads and buildings situated at Birgu cannot be compared to other non-historical localities.



### 23. Conclusion

The Birgu Local Council appreciates the work done by the appointed auditors, who had helped the Council during the auditing process. The Council would like to take this opportunity to thank the Auditors for their efforts.

John Boxall  
Mayor



Lara Mascena  
Deputy Executive Secretary



Date: 14<sup>th</sup> July 2016