



**Kunsill Lokali Birgu**  
*Citta Vittoriosa*

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**BIRGU LOCAL COUNCIL**

**COUNCIL'S REPLY TO THE AUDITOR'S REPORT**

**TO MANAGEMENT LETTER FOR THE FINANCIAL YEAR ENDING 31ST DECEMBER 2016**



Kunsill Lokali Birgu  
*Città Vittoriosa*

Birgu Local Council

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15th June 2017

Director (Local Government Department)

The Local Government Auditor

National Audit Office

**Reply to Mangement Letter for the year ending 31st December 2016**

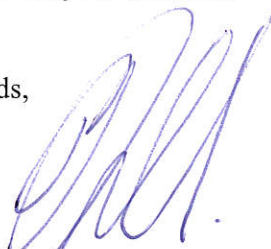
Dear Sir/Madam,


In terms of section P2.6 (C) and (D) of the Local Councils Audit Procedures 2006, the Birgu Local Council is sumitting his repsonse 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 14th June 2017

Thanks for your attention.

Regards,

  
John Boxall  
Mayor

  
Lara Mascena  
Executive Secretary

- 1.1 Noted.
- 1.2 Dealt under Point 11.
- 1.3 Noted the improvement.
- 1.4 Dealt under Point
- 1.5 Dealt under Point 4.
- 1.6 Dealt under Point 5
- 1.7 Dealt under Point 6.
- 1.8 Dealt under Point 7.
- 1.9 Dealt under Point 8.
- 1.10 Dealt under Point 9.
- 1.11 Dealt under Point 10.
- 1.12 Dealt under Point 11.
- 1.13 Dealt under Point 12.
- 1.14 Dealt under Point 13.
- 1.15 Dealt under Point 14.
- 1.16 Dealt under Point 15.
- 1.17 Dealt under Point 16.

## **2. Audit Opinion**

The council has improved its accounting system during 2016, however the Council is aware that there are still amounts in the financial statements that need to be determined to their accuracy. During 2016 the council tackled the issue of its accounting system and creditors and debtors. During 2017 the council will tackle the issues in relation to deferred and accrued income together with non-current assets and the plant registry.

## **3. Income**

3.1 & 3.2 – The € 709 related to additional income that was given to the Local Council. This was included in other government income and not with the Government allocation to distinguish it from the yearly allocation.

3.3 & 3.4 – The Council agrees that the € 2,000 should have been accounted in 2015. However, this was not accounted for in 2015 and had to be accounted for in 2016.

3.5, 3.6 & 3.7 – The Council accounted for the grants received during the year as income for the year. The EU projects will be concluded in 2017. The accountants of the Council have already informed the Council that an exercise will be done on accrued and deferred income in 2017 to determine what amounts have already been included in the income statement. Furthermore, on the balance sheet there is a receivable amounting to € 14,994 in related to refundable expenses that also need to be analysed.

3.8 & 3.9. The Council will ensure that we that meets up with the procedure of depositing regularly in the bank.

3.10, 3.11 & 3.12. The council will take action in order to adhere to the Procedure and deposit such custodial receipt at least twice weekly.

3.13 & 3.14. The Council agrees that it is important that cash reconciliations of custodial receipts are done each day to ensure that monies pertaining to other Government Agencies/ Departments are always recorded and forwarded to the respective agencies. The Council will implement a stringent cash control system with the help of the Council accountants.

3.15 & 3.16 – The Council will follow the auditors' recommendation and enter in a lease agreement in respect of the leasing of the garage.

3.17 & 3.18 – The difference of € 136.68 identified by the auditors related to 2015 income not accounted for last year.

#### **4. Payroll**

4.1 & 4.2 – The Council will investigate the difference of € 159.21 found by the auditors between the FS 5 and FS 7.

4.3 & 4.4 – The receipts of April and May 2016 were misplaced by the Council when there was the changeover in the executive secretary. In 2017 the Council has set up a system whereas all payslips, FSS documents and FSS receipt are filed in a payroll file.

4.5 & 4.6 – The Council will ensure that letter of excuse by Councillors are kept, filled and included in minutes. Furthermore, the Council will deduct from the allowance any unjustifiable absence in accordance to Circular 17/2016. 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.

4.7 & 4.8 – The Council has given instructions to the accountants to start to deduct 20% as tax from the councillors' allowances.

4.9 & 4.10 – The Council will implement a system whereas overtime is approved by both the major and the executive secretary. Furthermore, the monitors will also monitor overtime, since the amount of € 2,994.99 paid in 2016 is excessive.

## **5. Expenditure**

5.1 & 5.2 The Council 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.

5.3 & 5.4 The Council has noted the breach by the Local Council in respect of Local Council (Financial) Procedures and will ensure that such instances will not repeat in 2017.

5.5, 5.6 & 5.7 The Council will implement a system of control over cash. From 2017 the Council will maintain a manual cash book separate from the accounting system. At the end of the day, cash will be counted and reconciled to the manual cashbook.

5.8 & 5.9 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.

5.10 As recommended by the auditor, the Council will start to maintain a purchase log book of each purchase order issued.

5.11 & 5.12. 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.

5.13 & 5.14 –A new tender was issued at the end of the year 2016. Unfortunately since the Council has an outstanding balance of around 70K, it will be very difficult for the Council to pay the ongoing contractor and to start off with a new one. That is why the tender is not yet completed.

5.13 & 5.15 – Nexia BT were responsible for the accounts up to 31 December 2015. The payment of € 5,864.61 done to Nexia BT in 2016 is the final payment on the balance due to Nexia. Due to the problems in relation to the accounts of 2015, Parker Randall Turner started to work 2016 accounts in Mid-June 2016.

5.16 - The Council will ensure that contracts are signed by all relevant parties and that they include all the conditions stipulated in the Local Councils (Tendering) Procedures.

5.17 & 5.18 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. In 2017 the Council will ensure that schedule of payments includes all the details required by memo 37/2011.

5.19 & 5.20 - The Local Council will ensure that cheques are issued after the approval by the Council.

5.21 & 5.22 - The Council in 2017 will update its fixed asset registry in will be in a position to determine the value of its assets. This will also be the basis to update its insurance policy to reflect the fair value of the Council assets.

5.23 & 5.24 – The Council will adopt the auditors recommendation in relation to group personal accident insurance.

5.25, 5.26, 5.27 & 5.28 - 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. This 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. Furthermore, 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.

## **6. Fixed Assets**

6.1 & 6.2 The Council has given instructions to the accountants Parker Randall Turner to implement a plant asset registry in the Birgu Local Council. The difference in the category of assets will be reconciled during this process.

6.3, 6.4 & 6.5. The Council agrees that the Local Council needs to have a plant registry in place and as explained above is in the process of implementing the plant asset registry. This exercise will also includes the review and determination and accrued and deferred income and grants.

6.6 , 6.7 & 6.8 – The assets under construction issue will also be tackled in the implantation of the plant registry.

6.9 – The Council will ensure that all invoices will be in the name of the Local Council.

6.10 - The issue will be checked when implementing the plant registry.

6.11 & 6.12 – The Council will ensure that a purchase order/ quotation or obtained on fixed assets additions in accordance to Local Council (Financial) Procedures.

6.13 & 6.14 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.

## **7. Cash and Cash equivalents**

7.1 7.2 & 7.3 The Council will obtain and reconcile all bank statements, next year including the APS savings account.

7.4 & 7.5 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.

7.6, 7.7 & 7.8 The Council accountants will reverse any stale cheques against the respect creditor. Furthermore, at the end of December the Executive Secretary had prepared cheques that were approved and dated by the Council in January 2017. These were included by the accountant. Such matters will not repeat in 2017.

7.9 , 7.10 & 7.11 - The Council will start to deposit amount in the bank at least once a week.

7.12 & 7.13 – The Council has noted the auditor recommendation and will stop the pre-signing of cheques.

7.14, 7.15 & 7.16 – The Council will start to implement the Imprest system as recommended by the auditors.

## **8. Trade and other receivables.**

8.1 & 8.2 – The difference of € 36.08 is in respect of previous years and will be adjusted in 2017.

8.3 , 8.4 & 8.5 – The Council after confirming the balances, will discuss the debtors identified by the auditors and will decide what action need to be taken in order to recover the amounts due. If the balance are not recoverable a provision will be included.

8.6 & 8.7 – The Council will establish the amounts due from each Regional committee and segregate the balance.

8.8 to 8.11 – The Council is going to check about Green MT sponsorship income and how this was reported in the financial statements of 2015. The balance of € 1,439.51 will be with reported as income or else deducted from accrued income if it is found that was already provided for in 2015.

8.12 & 8.13 – The Council will check if respect of the provision for bad debts on Green MT balance and perform the necessary adjustments.

8.14 & 8.15 – The Council agrees with the auditors that a breakdown of other debtors and Recoverable expenses need to be determined. The Council has already instructed its accountants on this issue.

8.16 & 8.17 – The Council will investigate the difference between the Pre-Regional funds included in the financial statements and the Loqus system and perform a reconciliation.

8.18 & 8.19 – The Council has already instructed the accountants to identify the breakdown of accrued income. This will be done in conjunction with deferred grants and the plant registry. The Council will then decide accordingly.

8.20 to 8.23 – The Council will give a copy of the agreement to the accountants to reflect the grant received on the Auberge d'Angleterre in the accounts.

8.23 & 8.24 – The Council was not accounting for prepayments in previous years. The Council will from 2017 start to account for accruals as suggested by the auditors.

## **9. Trade Creditors**

9.1 – The Council has performed a detailed exercise on its trade creditors in October 2016. This resulted in adjustments on trade creditors passed during the year. Creditors' statements were obtained when performing this test. The Council is confident that the creditors reported in the financial statements are complete and accurate.

9.2 – The Council, agrees with the auditors that trade creditors need to be reconciled to suppliers' statements to ensure that the creditors' list is always complete and accurate.

9.3 – This issued has been corrected at once when it was identified by the auditors.



9.4 & 9.5 – The Council has performed reconciliations on the discrepancies found by the auditors. The difference in respect of Koperativ u Tabelli is a timing difference, while the Council will discuss the Lornit difference.

9.6 to 9.8 – The Council will ensure that the expenses not reported as accruals, will be included next year.

9.9 & 9.10 – The accrual of December has been accrued in the financial statements and is included with the National insurance contributions outstanding which are shown separately from accruals.

9.11 & 9.12 – The Council is aware of the long-term liabilities and of the liquidity problems. The Council is determined to improve its current working capital and the management accounts of the first quarter of 2017 shown a net improvement in the working capital ratios of the Local Council.

9.13 & 9.14 – The Council from October 2016 is respecting the repayment program agreed with Inland Revenue Department as will continue to honour its commitments.

## **10. Grant Accounting**

10.1 to 10.4 – The Council agrees with the recommendation of the auditors and have instructed the accountants to build up again deferred grants by reference to past agreements. The exercise will be done in conjunction to the plant register and accrued income. The Council will decide on any possible adjustments once the reports are available.

10.5 & 10.6 – The accountants Parker Randall Turner has already informed the Council on this issue. The accountant explained that a prior year adjustment was needed in the accounts to reverse the error done by the previous accountants in the financial statements on 2015. However, since the Council does not have a detailed list of deferred grants it was decided not to pass any adjustments in the financial statements of 2016 and wait for the final reports as explained above. Any adjustments will then be passed once the Council has the full list of deferred grants.

10.7 & 10.8 – The Council agrees with the auditors. As explained an exercise is being performed to determine the deferred grants.

## **11. Opening balances**

The opening balances has been adjusted to agree to the audited financial statements of 2015. During the year, the Local Council has also changed its accounting package. The trial balance as at 1 January 2016 has been obtained from the old accounting package, whilst the adjustment on opening balance was passed in the new accounting package.

## **12. Financial Statements**

The issues identified by the auditors in the financial statements have been addressed and adjusted in the audited financial statements.

## **13. Meetings**

13.5 & 13.6 – The Local Council will take note of this observation and do the necessary actions.



13.9 -13.13 - During these two local council meetings no 12 and 13 I wasn't yet appointed as an Executive Secretary of the Council, so I cannot give my feedback on these issues.

#### **14.Financial Budget**

14.1 & 14.2 – The auditors in the management letter and the auditors' report had identified several shortcomings in the financial statements on 2015. This shortcoming were not only on balance brought forwards from precious years but were in relation to the income and expenditure included for the year. The Local Council preferred not to prepare budgets until an overhaul in its accounting system.

14.3 & 14.4 - The income identified by the auditors of € 72,228 is incorrect. This included € 32,228 as the final income from the Ladder project. This is a revenue grant. The other € 40,000 is the income that the council is expected to generate from the Birgu Fest.

Furthermore, the capital commitment note in the financial statements amounts to € 20,000 in respect of commitments in the Auberge d'Angleterre that will be financed by a grant.

#### **15. Electronic site**

The Local Council will start to upload on its site all the financial reports prepared

#### **16. Changes in executive secretary**

The local Council is aware that by law a mid-term audit should be made where there is a change in the executive secretary of the Local Council. However, because of the accounting system problems already explained, the Local Council was not in a position to present the accounts as at June 2016.

#### **17. Liquidity position**

17.1 & 17.2 - The Council is aware of the liquidity problems. The Council is determined to improve its current working capital and the management accounts of the first quarter of 2017 shown a net improvement in the working capital ratios of the Local Council. The Local Council was granted an additional increase in subvention of € 35,000 in 2017 and this was used to settle past creditors. Furthermore, the Council has issued tenders for the collection of waste and street cleaning, and the pay-out is expected to be lower than the current tenders.

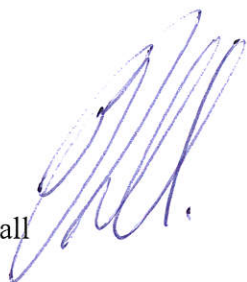
17.3 & 17.4 – The actions that the Local Council intends to take are the following

- 1) Increase in Government Subvention granted.
- 2) Reduction in Waste Collection and Street cleaning costs, in view of new tenders issued.
- 3) The Local will not do any capital expenditure unless it is funded in full by Government or EU Grants.
- 4) The Council intends also to lower its administration expenses, particularly in relation to travelling and materials and supplies.
- 5) The Local Council is committed to continue to honour its commitments with the Inland Revenue Department.

## 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 effort.

John Boxall  
Mayor

A handwritten signature in blue ink, appearing to be 'J. Boxall', written over a faint circular stamp.

Lara Mascena  
Executive Secretary

A handwritten signature in blue ink, appearing to be 'Lara Mascena', written over a faint circular stamp.

Date: 14th June 2017