



New Signio Eolies Rucis

31st May 2018

Management Letter – Financial Year – 2017

Reference is made to the above-mentioned letter dated 27th April 2018, received at the Council offices on the 17th May 2018 concerning the systems and controls used by the Council to safeguard the Council's assets in line with prevailing legislation dealing with local councils.

The contents of the Draft Management Letter were read and discussed, where it was deemed appropriate to forward the following comments:

1. FOLLOW-UP: MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2017

The Council has addressed to the best of its capabilities a number of matters which were mentioned in last year's management report, other than those, which are outside the control of the Council. The Council will strive to continue to improve its operations during the coming year.

2. INCOME

2.1 - Local Enforcement System

The Birkirkara Joint Committee is in the process of being wound up. This wounding up process started in 2011 and was expected to be finalised by 2014. From enquiries carried out with the Executive Secretary of the Regional Committee, which succeeded the Joint Committee, it transpired that the audited annual report of the Joint Committee for the year ending 31st December 2017 were still not available.

The Council has made persistent representations calling for the production of such a report within the respective time frame. There are no further actions to be taken other than those already taken. In view of this, while the Council will continue to exert pressure on the Regional Committee, it should be pointed out that such an issue calls for intervention by the Department for Local Government, rather than being mentioned in the management letters of affiliated Local Councils, year after year. Furthermore, any financial evidence could have been obtained through obtaining confirmation certificates directly from the Birkirkara joint committee.

2.2 - Local Enforcement System Post-Regional

We have assessed the difference of Eur109 against the definition as prescribed in *IAS 1 Presentation of Financial Statements* as not material since it does not influence the economic decision of users. Furthermore, bearing in mind the level of income generated from the said revenue stream, an annual reconciliation would be more reasonable.

2.3 – System of Council Income Receipting

This system, although as rightly pointed out by the auditor would provide more checks and balances is costly to install and maintain. The Council believes that the present system has proven to be a good balance between practicality and traceability. Invoices for the administration fees on LES contraventions to the Regions will be processed through the debtors' ledger after being issued from the LES Loqus system.



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2.4 – Supplementary Government Income

Noted with recommendation to be taken into consideration.

2.5 – Other Income short-comings

During 2017, the local council made some amendments to its chart of accounts. This resulted in a misallocation of income which nonetheless did not have any impact on the results for the year. Furthermore, the net impact of the audit adjustments proposed by the auditor on the income statement amount to Eur260. We have assessed the difference of Eur260 against the definition as prescribed in *IAS 1 Presentation of Financial Statements* as not material since it does not influence the economic decision of users. Nonetheless, we have taken your recommendation into consideration. Furthermore, please note that some of these minor shortcomings were due to lack of clerical staff, which was addressed in October 2017 by increasing staff complement.

2.6 – Annual financial allocation

Noted with recommendation to be taken into consideration. Nonetheless, the net impact on the income statement amounting to Eur501 was assessed as not material.

3. PAYROLL

3.1 – FSS statutory documentation

Noted with recommendation to be taken into consideration.

4. EXPENDITURE

4.1 – Approval of payments

Noted with recommendation to be taken into consideration for Dominic Camenzuli. However, please note that payments made to MCCF have to be made before the council meeting, thus effectively this payment was approved.

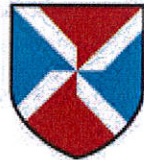
4.2 – Expired contracts

A recent memo states that the responsibility of the street lighting falls under the respective Regional Committees. In our case, we have delegated this responsibility to the Regional Committee. A cooperation agreement has been signed with Regjun Tramuntana on the 9th of January 2018. In the meantime, the Council had no other option other than to continue serving the locality by using the services of the current contractor.

5. PROPERTY, PLANT AND EQUIPMENT

5.1 – The Upkeep of the Fixed Asset Register

It is appreciated that the auditors noted that the Council has prepared the Fixed Asset Register and that it is regularly keeping the FAR updated. The Council has created the FAR with the details available and to the best of one's capabilities.



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5.2 – Reconciliation of asset categories in fixed asset register to nominal ledger

As explained under 5.1, we have updated the FAR with the details available and to the best of one's ability from 2014 onwards. Regrettably we are currently unable to perform same procedure for assets acquired prior to 2014 resulting in differences between etb and FAR. We will however endeavor to obtain more information to update accurately as much as possible the FAR with pre 2014 information.

5.3 – Depreciation

SL363.12 L.C.P. 2/96 states that depreciation of fixed assets is accounted for through the month end procedure on a monthly basis. The Council is abiding with this procedure and calculating the depreciation on a monthly basis accordingly. For efficiency, the Council is passing one accounting journal to cover 3 individual month periods. Effectively there is nothing to rectify since the overall depreciation is correctly computed on a monthly basis both in accordance with SL363.12 and accounting policy stated in financial statements and in fact, no audit adjustments were proposed. In this respect, an explanation of why an audit qualification stating that amendments to net book value and depreciation was included would be appreciated.

5.4 – Insurance Coverage

The total value of uninsured assets is Eur24,193 equivalent to 5% of total assets. The costs with respect to insured fixed assets will be updated according to those disclosed in the financial statements at the expiry of the next insurance period. However, the Council is of the opinion to not insure the assets which do not have any insurable risk.

5.5 – Tagging of Fixed Assets

Noted with recommendation to be taken into consideration.

5.6 – Capital commitments

Noted with recommendation to be taken into consideration.

5.7 – Capital expenditure vs Revenue expenditure

The Local Council informed the auditor that the Wood tables, Shelves, tablets and chairs were given to a Library which does not form part of the Local Council. As indicated clearly back then, these are not assets belonging to the Local Council, hence why these payments were expensed rather than capitalised. The Local Council does not have any title to such assets and therefore the decision to expense was in line with the requirements of *IAS 16, Property, plant and equipment*. The auditor incorrectly still passed audit adjustments to capitalize these amounts for a total impact on the income statement of Eur2,677.

6. RECEIVABLES

6.1 – Debtors' balances reconciliations

Noted.



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6.2 – Accrued income and prepaid expenditure

Noted. The Council does its utmost to calculate the accrued income and prepayments correctly. Proposed audit adjustments having a net impact on income statement of Eur124 were processed in the audited financial statements.

7. CASH AND CASH EQUIVALENTS

7.1 – Bank reconciliation

I make reference to the requirement of IAS 1:

“Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

The Eur8.99 is not material and has no impact on the financial statements.

7.2 – Stale Cheques

The Council reverses any stale cheques when applicable. Mentioned cheque amounting to Eur190.80 was not reversed since matter is still being disputed through legal advice. The Council is cautious to reverse cheques in case of any legal repercussions.

7.3 – Bank Representative

SL 363.01 states that bank cheques shall bear the signature of the Major and Secretary but the Secretary shall make all arrangements as necessary with the approval of the Council. Bank of Valletta has made a request for an additional bank representative of the Local Council. In accordance with SL363.01 para 6 (2) and following approval by local council, the vice major was appointed as a third representative. It is also worth noting that all bank transactions are authorised by the Council before payment is made, with bank reconciliations performed on a monthly basis. In addition any payment needs to be signed by two representatives. The risk of any unauthorised transactions is deemed to be remote.

8. PAYABLES

8.1 – Creditors - Balances

Noted with recommendation to be taken into consideration.

8.2 – Cut-off errors

The total impact of cut off errors amounted to Eur848 which difference was adjusted in the final etb. Recommendation has been taken into consideration.



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8.3 – Long term payable to supplier of road resurfacing works

We agree that the liability should have been split between the current and non-current portion and accordingly this has been rectified through a reclassification. We also understand that the auditor has qualified the audit opinion because no discounting was carried out in accordance with *IAS 39, Financial Instruments*. We are fully aware of these requirements. We would like to point out that the long term portion amounts to Eur22,468. The Local Council cost of capital can only include cost of debt, as it is not a company and has no equity. Since the Local Council has not outstanding debt, we could use the 10 year Government as a proxy for the cost of debt. Currently, the yield on the 10 year Malta Bond amounts to roughly 1.36%. When consideration is taken of the discount rate to be used and the duration on which discounting is to be applied, the impact on the financial statements is deemed to be immaterial as per *IAS 1*. In this respect, an explanation of why an audit qualification was included would be appreciated.

8.4 – Deferred Income

Noted. Mentioned issues were explained to the auditor during the course of the audit. Any documentation requested was forwarded to the best of our capabilities. The Council had a number of meetings with the Paying Agency and the FPD during 2017 and the projects were closed and settled.

9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

9.1 – Disclosures required in respect of IFRS

Noted with recommendation to be taken into consideration.

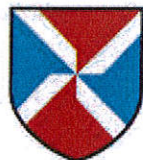
9.2 – Financial Statements presentation

The disclosures which were mentioned in the comments to the financial statement were updated in the revised financial statements.

10. GENERAL

10.1 – Records of Minutes and Schedules of Payments

The DLG has issued instructions to all Councils to upload PDF documents which have been converted to PDF rather than uploading scanned copies of printed documents. This to make the process to search the contents in uploaded documents much more easier and user friendly. Payments to contractors who are covered by a contract will not have a PO number.



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In addition, please note that during Council meetings 13/K8/2017 and 15/K8/2017 no payments were approved and therefore no schedule of payments was uploaded.

10.2 – Preparation of Annual Budget

The budget was based on information available at the time of preparation. Budgeted figures will never agree to actual figures due to the number of assumptions taken at the beginning of the year when actual invoices are not yet available.

10.3 – Membership in Majjistrat Action Group

Noted. The membership in this Action Group was approved by the Local Council and we are informed that all Local Councils in this Region are members in the Action Group. We are of the opinion that the benefits from this membership exceed the membership cost.

Sandro Azzopardi
Mayor

Shawn Tanti
Executive Secretary