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Your Ref. :
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30th July 2015

Ministeru għall-Gustizzja, Kultura u Gvern Lokali
Seg. Parlamentari għall-Gvern Lokali
House of Catalunya
Triq Marsamxett
Valletta.

Att : L-Onor. Seg. Par. Dr. Stefan Buontempo (Email: stefan.buontempo@gov.mt)

Management Letter Financial Year 2014

Reference is made to the above-mentioned letter dated 8th May 2015, 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 DEC 2013

The Council has addressed to the best of its capabilities all 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. It is imperative to note that during 2014 the Council had only the services of an Acting Executive Secretary who although did his utmost in the circumstances, can only allocate limited time to the Dingli Local Council.

2. INCOME

2.1 - Local Enforcement System

The North Joint Committee is in the process of being wound up. Process has begun in 2011 and was expected to be finished in 2013. 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 2014 was still not available.

The Council has made persistent representations calling for the production of such a report within the respective time frame. Notwithstanding that the Council is not happy with the qualification in its audit report, 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, one should point out that such an issue calls for Department for Local Government intervention, rather than being mentioned in the management letters of affiliated Local Councils, year after year.

2.2 – System of Council Income Receipting and Invoicing

This system, although as rightly pointed out by the auditor would provide more checks and balances is costly to install and maintain. Comment about issuance of invoices noted and the Council strives to issue invoices when the amounts fall due. It is to be noted that to the best of our knowledge, invoices were issued although these occasions were very limited in quantity. The Council believes that the present system has proven to be a good balance between practicality and traceability. The income which was mentioned by the auditor for which no receipt was issued was income received from the Government and thus was definitely correctly accounted for as any income not included would be noticed at bank reconciliation stage. Invoices for the administration fees on LES contraventions to the Regions was processed through the debtors' ledger.

2.3 – LES Post Regional 10% Commission

Our procedure is to issue invoices from the LES system at the end of the month. It is imperative to note that this is obligatory since the LES system requires that invoices are issued from this system. The invoices are then posted into Sage Pastel by crediting the income account and debiting the respective Region's debtor account. Upon receipt of funds, a receipt is issued and funds deposited in the Council's bank account. Payment is posted in Sage Pastel and a bank reconciliation is performed at the end of the month and as far as we know, no inconsistencies were noted in the bank reconciliation.

2.4 – Income Recognition

Noted. Necessary reclassifications and audit adjustments were posted in the updated financial statements.

2.5 – Income from Bye-Laws

Noted. Bye Law legislation will be discussed with the new Council and will act accordingly.

3. PAYROLL

3.1 – FSS statutory documentation

Noted. It is to be noted that no discrepancy was noted between the FS7 and the respective individual FS3s and also that the discrepancy noted by the auditors between the monthly FS5 and the annual FS7 referred to the gross emoluments and thus the National Insurance contributions and tax deductions were deducted, paid and reported correctly.

3.2 – Final Settlement System (FSS) payments

Noted. Unfortunately the Council strived with cash flow problems during 2014. However, it is to be noted that necessary accruals were provided for as at year end and payments were affected as soon as funds were available upon receipt of the allocation.

3.3 – Other Payroll Shortcomings

Noted. Will rectify at the earliest

3.4 – Personal Tax Deductions

Mayor's honoraria and the Councillors' Allowance are taxed at the provisional rate of 20% in line with Government instructions about this matter. It is to be noted that both the Mayor and the Councillors are not full timers with the Council and may have other income from their full time employment and thus it will be impossible to calculate the effective net tax rate on the Council's income. This also applies to persons who sit on Government appointed boards. One should also remark that this is in line also with FSS regulations and such option is also clearly available on the FS4.

3.5 – Councillors' Allowance

Noted however one has to point out that any absence was excused verbally at the last minute and thus deduction in the allowance was not applicable.

4. EXPENDITURE

Item 4.1 – Purchase request and order forms

Noted. The Council will strive to follow diligently all procurement procedures in line with the respective Local Councils Procedures (1996) and Memos as the case may be.

Item 4.2 – Inappropriate Expenditure Documentation

Noted. The Council will take the Auditors' advice to ensure that a valid tax invoice as required by the respective procedures is obtained for all the expenditure incurred by the Local Council prior to payment is done.

Item 4.3 – Payment Vouchers

Noted. The Council will ensure that its payment vouchers are in accordance with the requirements of Local Council Procedures (1996 – Finance) K.L.P. 1/96, P1.11. c and d.

Item 4.4 – Tendering Procedures

Noted. The Council will take the Auditors' advice to comply with the tendering procedures in all instances and to ensure that all procedures are in compliance with the Local Councils Procedures (1996 – Tenders).

Item 4.5 – Renewal of contracts and expired contracts

Noted. The Council will take the Auditors' advice to comply with the tendering procedures.

Item 4.6 – Quotations Procedures

Noted. The Council will take the Auditors' advice to issue a call for quotation or a tender offer for the provision of any service of supply exceeding €1,165 and therefore abides with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering).

Item 4.7 – Expenditure for Jum Had-Dingli

Noted. The Council will keep this threshold in mind when organizing such events in order not to exceed the amount stipulated in Memo 122/10.

5. PROPERTY, PLANT AND EQUIPMENT

5.1 – The Upkeep of the Fixed Asset Register

The Council acknowledges that at the moment the Fixed Asset Register is not existent. As already discussed in previous years' Management Letters, the Council had experienced a computer failure in previous years and the respective data was lost because no backup was kept. Attempts have been made in the past to compile a new Fixed Asset Register but data was not available and thus these attempts were unsuccessful. Once the Fixed Asset Register will be created, the auditor's recommendations will be implemented.

5.2 – Depreciation

Since the FAR is inexistent, depreciation is being calculated in Excel and posted in Sage through a journal entry. It is to be noted that depreciation is calculated monthly on the Net Book Value and depreciation starts to be calculated in the month of purchase where there are additions to the Fixed Asset. Comment about depreciation rate noted and will be rectified in 2015.

5.3 – Assets not yet capitalised

Comment noted but since no Fixed Asset Register and/or Assets Not Yet Capitalised were made available to the present Administration of the Council, nothing could be done to clarify the situation during the audit. It is being proposed that during the 2015 an exercise will be undertaken with the Architect of the Council to verify what are the Assets still under Construction and capitalize the balance of this account. Any information from the Fixed Asset Register would prove very helpful at this stage. Proposed audit adjustments have been processed in the updated financial statements.

5.4 – Insurance Coverage

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.

5.5 – Capital Commitments

It is to be noted that it is difficult to predict exactly what will be the capital commitments of the Council since some projects would still be in the discussion process with the Projects Managers. Furthermore, please note that the capital commitments included in the financial statements represents only capital commitments from the Council's own funds. This is to avoid giving a situation of the Council's financial situation which is not true and fair view since the Council will be receiving funds from EU grants and thus the effect on the cash flow will be nil.

5.6 – Physical Tagging of Tangible Assets

Noted. To be implemented once the FAR is created.

5.7 – Assets no longer used by the Council

Noted. Matter will be discussed with the new Council and will act accordingly.

6. RECEIVABLES

6.1 – Collection of Local Enforcement fines outstanding

Noted. However, one must point out that the date range in the criteria of the "Pendings Payments Report" covers the period during which the contraventions were being handled by the North Joint Committee (as per 2.1 above). Thus, contraventions issued during that period would not show under the receivables of the Dingli Local Council but in the accounts of the North Joint Committee. Furthermore, as remarked by the Auditors, the net effect of this transaction is nil since amounts are to be fully provided for since amounts are long overdue.

6.2 – Accrued income

Noted. The Council does its utmost to calculate the accrued income. Proposed audit adjustments have been posted in the updated financial statements. Mentioned previous years' accrued income was included in these financial statements since funds were not received in 2014 and were included in the audited financial statements of 2013. It is imperative to note that the previous accountant did not forward the working papers for her workings of accrued income for the 2013 financial statements.

7. CASH AND CASH EQUIVALENTS

7.1 – Cash Deposits

Noted and the Council will do its utmost to increase the frequency of banking deposits. However, one has to appreciate that the Council never keeps large amounts in cash or cheques at the Council Premises. Kindly also note that the Council keeps these funds at a Safe at the Council Premises.

7.2 – Bank reconciliation

Noted. Audit adjustments posted in the updated financial statements.

7.3 – Details of the bank statements

Noted. The Council will liaise with the bank to effect the necessary changes.

8. PAYABLES

8.1 – Supplier Statements

Noted. The Council regularly requests statements to the suppliers and reconciles received statements to the Council's accounting system.

8.2 – Creditors' Balances and Cut-offs

Noted. Audit adjustments posted in the updated financial statements. However, it is to be noted that invoice mentioned by the Auditors referred to a capital project which was financed by a capital grant, which invoice was included with the grant claim without being included in the creditors file. Human error is regretted, however, one have to note that no other cut-offs issues were noticed by the auditors.

8.3 – Accrued Expenses

Immaterial reclassification noted and adjusted in the updated financial statements.

8.4 – Long term payable to supplier of road resurfacing works

It is to be noted that to the best of our knowledge that amounts due to the supplier of road resurfacing works (second supplier – Eur90,394) were short term and were thus included with the short term payables. Amounts will be reclassified for 2015 financial statements.

8.5 – Deferred Income

Noted. Available information was forwarded to the Auditors. It is to be noted that auditors were requesting information for projects which started and also finished a considerable number of years ago during which the present administration of the Council was not involved. Proposed audit adjustments were posted in the updated financial statements.

9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

9.1 – Disclosures required in respect of Financial Procedures

The Council has no control over this matter, on grounds that the budgets and financial statements are not comparable, in view of their different basis of accounting preparation. The Annual Budget has been prepared on a cash basis as indicated in the Local Council Procedures.

Mayor : Sandro Azzopardi

Deputy Mayor : Raymond Schembri

Councillors : David Vassallo, Rachel Powell & Paul Mamo

Acting Executive Secretary : Kevin Borg

9.2 – Disclosures required in respect of IFRS

The disclosures which were mentioned in the draft management letter were updated in the revised financial statements.

9.3 – Financial Statements presentation

The disclosures which were mentioned in the draft management letter were updated in the revised financial statements.

10. GENERAL

10.1 – Council Meetings and Minutes

The Local Council will take the Auditors' advice as stated in Memo 68/2009 and section 43(3) of the Local Council Act (Cap. 363)..

10.2 – Council Minutes and Schedules of Payments

The Local Council will take the Auditors' advice as stated in Memo 29/2014 for a template of the Schedule of Payments.

10.3 – Council Reports

The Local Council will take the Auditors' advice for the approval of the budgets, which budgets will be prepared in accordance with the specimen provided in the Local Councils (Financial) Procedures, 1996.

10.4 – Quarterly Reports

The Local Council will take the Auditors' advice for the preparation and submission of quarterly reports to the DLG.

10.5 – Council's Accounting Data

Data is regularly backed up and stored in a safe environment. The Council has full continuous access to accounting data. Any reports requested to the Accountant are forwarded at the earliest to the Council. Pastel Sage accounting software will be installed at the Local Council premises in due course.

10.6 – Twinning Project

The Local Council will take the Auditors' advice to abide by Legal Notice 144 of 2009.

11. FINANCIAL POSITION

11.1 – Liquidity of the Council

This year the Council registered a small profit while the financial year of 2013 was closed with a loss of €9000. This shows that the Council is doing its utmost to improve the situation of the Council.

The Council is focusing its energy to control expenditure, both by compiling the annual budget and also by preparing quarterly reports with the necessary comparison between the budgets and the quarterly report.

The Council believes that the financial situation indicator will improve in 2015 if the right controls are implemented.

Yours faithfully,



S Azzopardi
Mayor



Kevin Borg
Acting Executive Secretary

Copy : **Director, Department for Local Government**
 Ministry for Justice, Culture & Local Government – Dr. Owen Bonnici
 Auditor General, NAO
 Ministry for Finance – Prof. Edward Scicluna
 Local Auditors – PKF