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21st May 2016

Ministry for Justice, Culture & Local Government
Local Government Department
26
Archbishop Street
Valletta.

Att : Is-Sur Adrian Mifsud (Email: adrian.mifsud@gov.mt)

Management Letter 2015

Reference is made to the above-mentioned letter dated 22nd April 2016, 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 2014

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 2015 the Council had the services of an Acting Executive Secretary who can only allocate limited time to the Dingli Local Council. Furthermore, during 2015, a total of three Executive Secretaries served at the Dingli Local Council due to resignations with the appointment of the current Acting Executive Secretary in July 2015.

2. INCOME

2.1 - Local Enforcement System

The Birkirkara Joint Committee is in the process of being wound up. Process has begun in 2011 and was expected to be finished in 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 2015 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 - Local Enforcement System Post-Regional

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 issued from LES IT system are then posted into Sage Line 50 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. This Local Enforcement System is a system run by Datatrak and the council does not have any control on the running of this system. The Council is not allowed to modify such invoice template and thus we kindly ask the auditors to direct this comment to LESA. Immaterial variance noted.

2.3 – 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. Invoices for the administration fees on LES contraventions to the Regions will be processed through the debtors' ledger.

2.4 – Supplementary Government Income

Whilst acknowledging the accruals concept, it is to be noted that such payment was received by the Local Council after the Financial Statements were approved by the Local Council, since the financial statements were approved on the 19th January 2016 and thus the Council could not accurately calculate the amount of this accrued income. It is also important to note that the Council is not aware of any concrete commitment in writing that such payment will be effected by DLG to Wasteserv. As correctly noted by the auditors, the Council accounted

correctly for the income which was received in 2015 and processed the audit adjustment as recommended by the auditors.

2.5 – Other Income short-comings

Noted. Separate nominal codes have been created as from 2016. It was deemed more appropriate to create the new separate nominal codes as from start of 2016 to avoid causing inconsistencies with comparatives. Any recommended audit adjustments and reclassifications were included in the updated financial statements.

3. PAYROLL

3.1 – FSS statutory documentation

Noted. It is to be noted that no discrepancy was noted between the FS7 and the total individual FS3s. Furthermore, no discrepancy was noted in the payroll reconciliation between the FS7 and the accounting system. Mentioned discrepancy were related to the first 6 months of the year and the present administration of the Council did not have any control on how the previous two Executive Secretaries declared the emoluments of the first set of FS5s.

3.2 – Final Settlement System (FSS) payments

Noted. Mentioned FS5s related to the period January to June were not submitted in time because the Council did not have an appointed Executive Secretary and thus it was not possible to issue any payments. As from July onwards, FS5s were submitted on time with the relevant due payment.

3.3 – Councillors' Allowance

Present Mayor states that he had sent a written declaration to the Council but unfortunately, no records were found for the period covering January to June 2016.

3.4 – Unutilised vacation leave

The Council does not agree to the Auditors' comment about this matter and this shows lack of knowledge about this topic. This due to the fact that the Local Councils' Human Resources Regulation stipulates that any unutilised vacation leave can only be carried forward from one year to another up to two consecutive years after Council approval. In this case, no approval was sought for unutilised vacation leave for 2013 and 2014. An illegal resolution was passed during a Council Meeting to convert unutilised vacation leave 2013, 2014 and 2015 into time off.

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It was due to this resolution that the Council asked for guidance from DLG since we are of the opinion that said resolution was in breach of the Local Councils' Regulations and therefore there are no pending dues to the said employees.

3.5 – Personal Tax Deductions

During an internal verification exercise, the present Acting Executive Secretary noted in 2016 that such forms were not submitted to Inland Revenue Department and forms were prepared, signed and submitted in 2016.

4. EXPENDITURE

Item 4.1 – Purchase request and order forms

Open skips transaction is covered by a tender for monthly service. In the case of the street lighting comment, it is impossible to determine cost before the repairs are carried out.

Item 4.2 – Inappropriate Expenditure Documentation

Fiscal invoices were available at the Council premises for the mentioned transactions even though such transactions related to services or supplies of the previous administration. The Council still holds the payment of Dingli Swallows Football Club at the Council's safe awaiting the receipt of the fiscal receipt for such cost and the Council will only release payment upon receipt of the fiscal receipt. Since July 2015, no payments were issued without relevant fiscal invoices and payment vouchers were always signed by the Mayor and the Acting Executive Secretary.

Item 4.3 – Payment Vouchers and Schedule of Payments

Noted and in fact such procedure was adhered as from July 2015 onwards.

Item 4.4 – Approval of Cheque Payments

The Council does not agree to this comment since the guidelines as issued from the Monitoring Unit from DLG requests that any payments issued prior to the approval of the Council Meeting are included in the next Schedule of Payments and the respective cheque number be written down indicating that the payment has already been done.

Item 4.5 – Tendering Procedures

Noted and action will be taken for future calls.

Item 4.6 – Donation and organisation of charitable events

The Council does not agree to this comment from the auditor because in the opinion of the Council, the Council did not effect any donations, both in kind or in cash. The Council only organised events and it was stated up front that any proceeds from these events will be donated to the Malta Community Chest Fund.

Item 4.7 – 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. However, the Region have not yet issued the Regional tender and thus the Council have no under option to continue serving the locality by using the services of the current contractor.

Item 4.8 – Quotations

Noted and in fact, during 2015 a number of quotations were issued to rectify the Council's position.

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 (both hardcopy and softcopy) 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 Pastel 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.

5.3 – Assets not yet capitalised

A list of Assets not yet capitalised was provided during the audit and works were not fully completed by 2015. This was further confirmed by the architect's certificate which was dated 10th March 2016. Since assets were not yet capitalised, no depreciation was provided on these fixed assets. This is in line with IAS – Property, Plant and Equipment. It is also to be noted that mentioned discrepancy between the amount of the Assets Not Yet Capitalised and the actual invoice is due to the fact that as at year end, only an Accrual could be made and the invoice was received in 2016 after the financial statements were prepared.

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. 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. As already stated before, since FAR is inexistent, it is practically impossible to tag the Fixed Assets.

5.6 – Assets no longer used by the Council

Noted. Matter will be discussed in line with the updating of the FAR.

5.7 – Penalties incurred on EU Funding 313 & 323

Comment noted but the Council believed that since this expenditure was a penalty and not a claim back of part of the allocated grant, the disclosure of such payment would be more appropriate if shown as an expense under the Administration expenditure rather than as an adjustment against the deferred income in the Statement of Financial Position.

6. INVENTORIES

6.1 – Stock of books

Stock was written off in previous years because the books were deemed unsaleable. In fact, during 2015 only €12 were generated from the sale of these books.

7. RECEIVABLES

7.1 – Debtors' balances reconciliations

Noted. The Council does its utmost to keep correct debtors records and statements are sent from time to time to the Regions. Feedback, if any, is noted and reconciled. Balance with MICAMED is receivable for a sponsorship awarded in previous years but never paid.

7.2 – Doubtful receivables

Noted. Immaterial amount adjusted through an audit adjustment in the updated financial statements.

7.3 – Accrued income and prepaid expenditure

Noted. The Council does its utmost to calculate the accrued income and prepayments correctly. Mentioned immaterial prepayment on motor vehicle licence adjusted through an audit adjustment. Mentioned previous years' accrued income were included in these financial statements since funds were not received in 2014 and 2015 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. Proposed audit adjustments were processed in the audited financial statements.

8. CASH AND CASH EQUIVALENTS

8.1 – Cash Deposits

This situation has improved substantially as from August 2015 when the present Active Executive Secretary took over the situation and the Clerk started to deposit the funds regularly. As from 2016, the Executive Secretary is doing its utmost that the Clerk deposits the funds twice a week. It is to be noted that the funds are kept in the safe at the Council premises until the funds are deposited.

9. PAYABLES

9.1 – Supplier Statements

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

9.2 – Cut-off errors

Noted. Indicated transactions were not included in the accruals of 2015 because the Council became aware of these transactions after the financial statements of 2015 were prepared and approved. Rent of garage in Triq il-Buskett was accrued for in the financial statements of 2014 and accrual for the bulky refuse collection invoices of 2012 and 2013 were not accrued for in the 2014 financial statements since these invoices were not included in the list of accruals of the previous accountant covering January to December 2013. The list of accruals was provided to the auditors upon request and was tested in detail and no issues were commented on.

9.3 – Accrued Expenses

At the time of preparation of the financial statements, invoice from Asfaltar Construction Limited has not yet been received by the Council and thus an accrual was included in the financial statements as explained during the audit.

9.4 – 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 were short term since the legal public private agreement was not abided to and the contractor was claiming payment of all amount and were thus included with the short term payables. An informal agreement with the contractor was reached to pay in annual instalments.

9.5 – Deferred Income

Mentioned variance was the amounts of grants as at 31st December 2014 which were received on assets not yet capitalised and thus in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance were not released to the income statement. Available information was forwarded to the Auditors. As explained during the audit, the Council had already received substantial funds on the mentioned Measure 313s projects which payments passed through the specifically opened bank account measured by the Paying Agency. Thus, although these projects started to be released to income statement in 2015 (as they were finished in 2015), the grants released during 2015 was less. (Please also refer to previous explanation in same sentence.

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10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1 – 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.

10.2 – Disclosures required in respect of IFRS

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

10.3 – Financial Statements presentation

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

10.4 – Prior-year adjustment

No such comment was mentioned in the comments to the financial statement and thus no change was applied in the revised financial statements.

11. GENERAL

11.1 – Approval of Council Minutes

Noted

11.2 – Records of Minutes and Schedules of Payments

As from July 2015 all Minutes and Schedules of Payments were approved and uploaded on DLG website.

11.3 – Council Meetings

No Council meetings were held between the indicated period because no Executive Secretary was appointed and from July 2015 the Council Meetings were held regularly.

11.4 – Quarterly Reports

Quarterly reports were all approved in the Council Meetings as can be confirmed with the relevant Council Minutes and thus all reports were approved.

11.5 – Comparison with the Annual Budget

As per our records, the budget for 2015 amounted to Eur250,700 and not Eur212,980 as stated in the management letter. The majority of the increase in expenditure over budget was as a result of a provision for doubtful debts, bad debts, accounting for a one off penalty payment on EU Funding Measure 313 & 323 and the accounting for previously unaccounted balances relating to 2012 and 2013 with the bulky refuse collection contractor and the refuse collection contractor.

11.6 – Council's Accounting Data

Data is regularly backed up and stored in a safe environment. The fact that the accountant is from Gozo does not impinge in any way on his availability to present any data to the Council in a timely manner. Furthermore, the Council has awarded a quotation during the last quarter of 2015 for the purchase of a Sage Line 50 accounting software and the data has now been restored on the Council's computer which is at the Council premises.

11.7 – Accountancy work and ancillary contractual obligations

The Council is not aware that such tender was not provided to the Auditor and does not have any problem to reforward such document again to the auditors upon request. The Accountant was appointed after a public call for tenders. The previous accountant did not forward the accounting data and thus any accounting data before 2014 is not available. Unfortunately, this has left the Council with some unexplained opening balances. The present accountant is doing its utmost to reconcile these balances and unexplained balances have been gradually written off. No other unexplained comments noted on reconciliations performed by the accountant.

11.8 – Mid-term audit

The Council does not believe that a mid-term audit is obligatory when an Acting Executive Secretary is appointed. Furthermore, it is important to note that the previous Executive Secretary did not report to work upon the appointment of the new Mayor and the new Councillors after the last election and thus it was practically impossible to hold any interim mid-term audit.

12. FINANCIAL POSITION

12.1 – Liquidity of the Council

The Council recognized an audited profit for the year during 2015 of Eur41,109 which compare to a profit of Eur772 for 2014. 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 2016 if the positive trend which has been established in the third quarter of 2015 continues during the coming yea



Sandro Azzopardi
Mayor



Kevin Borg
Acting Executive Secretary

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