



6 th July 2016

Dear Madam,

Reply to Management Letter – Financial Year 2015

Approved during Council meeting dated 5th July, 2016.

Reference is made to the above-mentioned letter dated 25th May 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, and 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.

2. INCOME

Custodial Receipts

The Council regularly deposits its income and also funds collected on behalf of third parties such as LES and Lands Department. This process is done twice a week. It is to be noted that the instances mentioned by the auditor were a one off and were not Council's income but funds collected on behalf of third parties.

Income from LES administration fees

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 Line 50 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. Immaterial variance noted and issue was discussed with Datatrak who informed us that this rounding difference may be the result of timing difference between the time when the monthly invoices are run and the running of the annual report.

Classification of Income

Noted and amount was reclassified in the updated financial statements.



3. PROPERTY, PLANT AND EQUIPMENT

Details in the Fixed asset register

Comment noted. The Council believes that the Fixed Asset Register of the Council is reasonably detailed and that, where relevant, the details requested are included. However, a balance has to be struck between practicality and correct use of information.

Disposal of Obsolete assets.

Matter noted and the FAR will be regularly monitored to ensure that any fixed assets which are obsolete and no longer in use by the Council will be written off in 2016. Furthermore, it is very important to note that no write off can be made if such write off is not approved in a Council Meeting.

Fixed Assets Additions

Such surveys were part of construction works on new pavement works undertaken by the Council around the locality. Stated reversal was not a reversal per se but a reversal of an opening accrual brought forward from 2014. The transaction amounting to Eur3306.80 was the last payment effected to the contractor responsible for the construction of the New Council Premises. This amount was arrived at after accounting for any retention monies pending on previous years' invoices and any deductions and extras as certified by the Council's Architect. As noted by the auditors themselves, this transaction was settled by payment issued to the contractor in the first part of 2015, documentation of which is on file.

Reconciliation to fixed asset register

As noted by the auditors themselves, the fixed asset register is agreeing to the nominal ledger. Difference noted by the auditors is actually a reclassification between the different categories of the Fixed Asset Register, mainly between Construction and Urban Improvements. Such reclassification will be investigated in 2016 and reclassified accordingly.

4. EXPENDITURE

Petty cash expenditure

Comment is noted. The Council strives to, where possible, obtains a tax invoice or a VAT receipt appropriately addressed to the council. However, since most petty cash transactions will be purchases from across the counter, the Council can only be served with a fiscal receipt from the supplier's cash register which cash register can only issue fiscal receipts with specific customer's vat number. This is not relevant to the Council since the Council does not have a vat number and thus in our opinion, the Council cannot improve his position in this case.

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Procurement procedures

Quotation for such amounts would be obtained verbally. Moreover, such amount does not exceed the Eur1,165 threshold for direct orders as provided by the Local Councils (Financial) Procedures.

Opening of tenders

Comment noted. The date of the opening of the tenders will be included in future schedule of offers.

Performance bond

Noted. Performance bond was provided as follows:

<u>Tender name</u>	<u>Letter of Acceptance</u>	<u>Performance bond</u>
IAB-17-15	14/4/15	8/5/15
RMP-17-15	5/5/15	5/6/15
SL-17-15	24/6/15	7/7/15
EUC-17-14	4/2/15	Not applicable

It is to be noted that the Council chases the Contractor to forward the Performance Bond at the earliest and within the 7 day period

Rent

Noted. Matter is currently being analysed since the Council is planning to move to the new Council Premises.

Asset insurance

As one can note from the schedule included in the management letter itself, the material difference is in the Buildings, fixtures and fittings. The auditor compared the category in the financial statements Property Held for Development to the Buildings, fixtures and fittings under the insurance policy. It is to be noted that the Council believes that they should not insure the cost of the site, its excavation and other costs associated with this capital expenses which does not pose a risk of whatever nature to the Council and thus does not have an insurable risk.



Group personal accident insurance

The Council's personal Accident policy includes a list of persons insured, which list is available for the Auditor to view at her convenience. The insurance expires on 30th June 2016 and will be updated with the recent changes in its staff complement.

5. TRADE PAYABLES

Long Outstanding creditors

Noted. These balances have been analysed prior to the audit and the Council has agreed to leave these balances as outstanding. As explained during the audit, one balance is currently pending legal litigation and the other balance is pending due to service not performed to the Council's satisfaction.

Debit balances in creditors' list

Noted. Reclassification included in the updated financial statements.

Trade creditors

The Council regularly asks for creditors' statement. However, it is to be noted that the Council does not have any undisputed long term creditors and thus the creditors as at year end were practically less than 30 days old. The Council cannot be held liable if the creditors does not send statements to the Council. Immaterial balance with Polidano noted and the creditor has been informed of this discrepancy and as the time of the audit we were awaiting an updated statement from the creditor confirming agreement with the Council's balance.

PPP creditor

Acknowledgement that the Council commenced to discount the non-current payable balance with respect to PPP to the present value as requested by IAS39 '*Financial Instruments: Recognition and Measurement*' is noted. The interest rate used is in line with that used in the industry when one takes onto consideration the long duration of such a contract and the risk associated with a fixed price contract over such a long period of time. The present value of future outflows is calculated with the principle of net present value, which require that future outflows are discounted to present values using a discounting rate. Thus, any payments which are payable in periods which are more than 12 months from the balance sheet date are discounted to present values and the discounting factor is higher with the lapse of more period from the balance sheet date of 31st December 2015. It is important to note that this is not a bank loan but a PPP long term creditor and thus the Council does not agree to the auditor's comment that the interest cost should decrease rather than increase. Any audit adjustments as proposed by the auditors were accepted by the Council and included in the approved financial statements.



Deferred Income

Any requested explanations were provided during the audit. Comment about the trees grants noted. The accountant worked with the opening balances which the Council had made available since it is important to note that the current Accountant had been appointed in the last quarter of 2015.

6. TRADE RECEIVABLES

Pre-regional LES debtors

Comment noted. As am sure all persons involved will understand, the Council is not in a position to take this matter with Loqus on its own since the software managed by Loqus is used by all Local Councils of Malta and Gozo and not only by the Fgura Local Council. Furthermore, it is very important to note that any immaterial difference noted does not have any impact of the financial statements and the finances of the Local Council since balances are more than 2 years old and thus fully written off.

Trade receivables

Noted and any balances were adjusted in the updated financial statements.

Accrued Income

Noted and reclassification was adjusted in the updated financial statements.

7. STOCK

Noted and audit adjustment included in the updated financial statements.

8. BANK AND CASH

Bank reconciliations

Noted. The Council strives to perform monthly reconciliations and to the best of our knowledge, monthly bank reconciliations were performed for all bank accounts which had transactions during that month. Any missing reconciliations were not as a result of not doing the bank reconciliation but not keeping the bank reconciliation document on file. It is to be noted that the auditor did not notice any errors with regards to the bank reconciliations and bank balances during the audit.



Petty cash balance

Noted.

9. MEETINGS

Binding of Minutes

Recommendation accepted and Council meetings minutes will be binded in due course.

Meetings

No other absenteeism was noted. Any Councillors who did not attend would have either provided verbal explanation before the Council Meeting or else by email to confirm or not their attendance prior to the Meeting.

Approval of schedules of payments

Noted and the Council will be changing its internal procedures so that the Schedule of Payments which will be approved will have record of the cheque numbers, which record will be recorded before printing the same Schedule of Payments.

10. ANNUAL BUDGET

Noted. The Council has since then approved such Budget without any changes. It is to be noted that the Coucil believes that it would be more accurate and consistent in its procedures if one is to conclude the accounting of the prior year and then finishes off the Budget of the following year.

11. OPENING BALANCES

Matter has been discussed in detail during the audit and explanations for this were given even by email on the 7th April 2016, which email remained unanswered to date. Detailed explanations were given about this comment including the reason why the difference between the opening balances in the nominal ledger and the closing balances in the financial statements of 2014, which difference did not arose by not posting the audit adjustments of 2014 but due to human error when reversing some stale cheques dated 2014. This did not have any effect on the financial statements since the closing balances in the financial statements of 2014 agree to the comparative figures in the financial statements of 2015.

12. FINANCIAL STATEMENTS



Comparative figures

Please refer to Comment 11 above.

Capital commitments

Comment noted. The reason for the discrepancy of €50,000 is because this amount will be completely funded by a specific grant from Department for Local Governance to assist the Council in the completion of the Civic Centre project. Classification amended in the updated financial statements.

Presentation of financial statements


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

13. ELECTRONIC SITE

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.

14. GROUPINGS

The Council strives to use the same groupings year after year and in fact no exceptional change in expenditure by line was noted. However, it is to appreciate that the Council have a new Accountant after a Public Tender Process. Any queries about groupings were answered during the audit.


Dr Byron Camilleri
Mayor


Kurt Scerri
Deputy Executive Secretary