



Ref. ABC/mf/41217

20th June 2017

The Director,
Department for Local Government
26, Archbishop Street,
Valletta

Dear Sir,

Management Letter – Financial Year – 2016

Reference is made to the above-mentioned letter dated 2nd May 2017, received at the Council's Office on the 4th May 2017 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 2015**

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. It is important also to note that the objective of the Council is that of depositing the funds twice weekly but that of offering the best service to the locality and thus if on a particular deposit date, an employee would be on vacation or sick leave, the Council prioritize and continues to give the best service to the locality with limited resources.

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.

3. EXPENDITURE

Petty cash expenditure

Noted. The Council strives to, where possible, obtain 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.

A petty cash voucher is prepared for each chit with details of the expense, which payment voucher is also signed by the Executive Secretary and the Council Clerk who is responsible for the Petty Cash.

Procurement procedures

Mentioned quotation was provided to the auditors.

Capital expenditure

Noted and such adjustment was incorporated in the updated financial statements.

Performance bond

Kindly note the below

<u>Tender name</u>	<u>Letter of Acceptance</u>	<u>Performance bond</u>
P&P-17-16	10/08/2016	26/08/2016 The Council had to do further checks to be able to confirm the Contract Value to quantify the amount of the Performance Guarante.



CM-ARCH-17-16	24/5/2016	02/06/2016 The Council received the performance guarantee two days late.
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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

Expired Contracts

Noted. Matter is currently being analysed since the Council is planning to move to the new Council Premises. The agreement with the Commissioner of Lands for the Patri Redent Gauci Garden is a devolved property.

Asset insurance policy

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.

4. FIXED ASSETS

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 is regularly monitored to ensure that any fixed assets which are obsolete and no longer in use by the Council. Such exercise took place in February 2017 after being approved in the Council Meeting and its effect will be reflected in the financial statements of 2017. 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.

Reconciliation to fixed asset register

This immaterial difference was noted and reconciled.



Depreciation of fixed assets

Depreciation is calculated through the FAR module in Sage Line 50 software and posted directly through the software.

5. 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 debtors

Noted and Council is in discussions with Water Services Corporation to receive payment, part payment has been already received.

Prepayments

Noted and adjustment was included in the updated financial statements.

Grants receivable

Noted and reclassification was adjusted in the updated financial statements.

6. BANK AND CASH

Bank reconciliations

Noted. The Council strives to perform monthly reconciliations and to the best of our knowledge, montly bank reconciliations were performed for all bank accounts which had transactions during that month. Mentioned cheques were posted as dated 2016 since they related to 2016 and needed to be posted in sage prior to the running of the year end procedure.



7. 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.

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

Noted and the Council will discount this liability to present value as from next year.

8. MEETINGS

Meetings

The Council did inform the Minister for Justice, Culture and Local Government as required by Chapter 363 of the Laws of Malta, by means of a letter dated 14th of October, 2016. Moreover, such letter was replied to on the 2nd of November, 2016.

Binding of Minutes

Recommendation accepted and Council meetings minutes are now binded.

Approval of schedules of payments

This matter has been dealt with.

9. 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.

10. FINANCIAL STATEMENTS

Comparative figures

Noted. Reclassification posted 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.

11. CHANGE IN EXECUTIVE SECRETARY

The Council abided by the requirements of Subsidiary Legislation 363.02., whereby the office of the Auditor General was informed about the change of Executive Secretary, by the Mayor, by means of a letter dated 20th September 2016. Thus, it was ultimately the Auditor General's office discretion not to carry a mid-term audit, as the Council duly informed the Office of the Auditor General about the change of Executive Secretary in terms of Subsidiary Legislation 363.02 Local Councils (Audit) Regulations.

IFFIRMATA

Pierre Dalli
Mayor

IFFIRMATA

Beverly Saliba
Executive Secretary