



FLORIANA LOCAL COUNCIL

**Council's response to the
Auditor's Report to Management
For the financial period ended 31 December 2012**

KLF 133/13

11th June 2013

Director (Local Government Department)

The Local Government Auditor

National Audit Office

Dear Messrs,

MANAGEMENT LETTER FOR THE YEAR ENDED 31ST DECEMBER 2012

In terms of section P2.06 (c) (d) of the Local Councils (Audit) Procedures 2006, I am submitting the Council's response of the management letter submitted by the appointed auditors – *3a Accountants*, Certified Public Accountants and Management Consultants. The attached response was approved by the Council during a council meeting held on 10th June 2013.

The Floriana Local Council would like to note that to our disappointment, some points brought up by the Auditor are incorrect and we were very surprised to read about certain shortcomings which in reality did not take place at all.

On the other hand, where it was possible, the Council took the corrective measures to address other matters immediately for any shortcoming reported in the management letter by the auditors.

In concluding this letter, the Council would like to thank the auditors for their assistance in submitting recommendations to help us maintaining our reputation of demonstrating high levels of accountability and transparency in administering public funds.

Regards

Nigel Holland
Mayor

Svetlick Flores
Executive Secretary

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1. FOLLOW UP

The first point, the Local Enforcement System - This is a recurring matter which cannot be completely abolished, however, it is envisaged that this will be demised in the coming future, due to the Introduction of the regional Committee

With Regards to Points Numbers 1.08 and 1.09 The Auditor is totally incorrect with this statement as appropriate actions were taken, and matters were in reality solved. Also as stated by the same auditor, point 1.07, was being tackled. A number of other points, were guidance was issued by the auditor, these were handled immediately and adjustments were done.

One must also notice that in a number of points such as 1.10,1.11, 1.16, 1.17, 1.18, 1.22, 1.23 the Auditors are partially correct, as evaluating the details, one will find justifications, and /or incorrectness.

The Council is pleased that a number of the items listed were addressed immediately, namely items 1.02, 1.14, 1.15, 1.21, 1.25, 1.29, whilst items 1.03, 1.05, 1.12, 1.32 were also classified that no such instances were found in the year under review.

2. INCOME

2.1 Local Enforcement

With reference to the observations and recommendations addressed by the Auditor, the Local Council confirms that invoices to the regional committee are being issued on a monthly basis, With regards to the resultant variance of € 179 and €272 mentioned by the auditors, we would like to point out that this refers to a case were erroneously contravention paid to the region was posted as an administrative fee in the LES reports which are provided by their parties

2.2 Income from Bye Laws

The comments raised by the auditors are just and fair. In fact adjustments were made. Point has been also noted for next year.

2.3 Incorrect Accounting of Income Sources

Internal checks are done monthly throughout the year. Erroneously, the double counting mentioned by the auditor was a result of issuing a customer invoice, and a cash receipt for the same amount and for the same customer was accounted for. In fact the said customer is still shown in the debtors list and a credit note will be issued to write off the amount due from him.

3. PERSONAL EMOLUMENTS

3.1 Payroll statutory documentation and reconciliation with the Nominal Ledger

This Shortcoming was emerged due to the nature of the Floriana Local Council composition, where there were movement in positions of Mayor, Vice mayor, and councilors a couple of times, together with the fact that the Mayor reimbursed the Honoraria due to the Council. The latter, together with the €541 mentioned amount to the total variance mentioned. The council has, following the auditors remarked, reverified the said amounts, all figures tally.

On the third point, it transpired that on an FS5 the period of employment year was not being shown correctly by the payroll package, however this was rectified, and a new FS5 was issued with the correct dates. All amounts remained unchanged.

3.2 Classification of Councilors' Allowance in the FSS forms

The Local Council took immediate action and amended the payroll package accordingly. In fact, the Auditors remarked and confirmed this accordingly in their report.

3.3 Overtime

The Local Council took note of the observation listed by the Auditor and will subsequently review all the payments issued, and adjust to reflect the increases of the new collective agreement.

3.4 Performance Bonus

The performance bonus was calculated on the Gross salary of each and every month. And since the increment of the Executive Secretary was due in November, and one of the employees in February, the gross salary was increased accordingly in those months only. Following the auditors recommendations, the difference will be issued to the employees accordingly.

3.5 Employee promotion to higher salary scales

The salary allocated to the employee was based upon The Human Resources regulations, Part V (miscellaneous) article 27 (c), which states:

“... Provided that if an employee is offered a contract with the same Council in a higher scale, he shall then be subject to a term of probation of three months and shall be paid two notches below the maximum of the new scale”

This clearly shows that the auditors are incorrect in their statements, since they were referring to another clause which applies in the case of a contract in a higher scale, within a different council, and not within the same council.

3.6 Allowance paid to Councilors

The below is a list of scheduled meetings together with the Councilors attendance records.

2nd April 2012, 6.00pm	1	Present	Present	Present	Excused / Present	Present
4th April 2012, 6.00pm		Present	Present	Present		Present
9th April 2012, 6.00pm		Present	Present	Present		Present
16th April 2012, 5.30pm		Present	Present	Present		Present
23rd April 2012, 5.30pm		Present	Present	Present		Present
30th April 2012, 5.30pm		Present	Present	Present		Present
7th May 2012, 5.30pm	2	Present	Present	Present	Excused	Present
11th June 2012, 6.00pm	3	Present	Present	Present	Excused	Present
2nd July 2012, 4.00pm	4	Present	Present	Present	Present	Present
30th July 2012, 4.00pm	5	Present	Present	Present	Excused / Present	Present
6th August 2012, 4.00pm		Present	Present	Present	Present	Present
13th August 2012, 4.00pm	6	Present	Present	Present	Present	Present
12th September 2012, 4.00pm	7	Present	Present	Present	Excused	Present
17th September	8	Present	Present	Present	Present	Present
10th October 2012, 5.30pm	9	Present	Present	Present	Present	Present
5th November 2012	10	Present	Present	Present	Excused	Present
26th November 2012	11	Present	Present	Present	Excused	Present
19th December 2012 at 5.30 pm	12	Present	Present	Present	Present	Present

As can be noted, only one Councilor (Mr. Anthony Brincat, today deceased) had not attended for a number of meetings, being hospitalized and receiving medical treatment. The Council had agreed, that his absence is justified. Due to this reasoning, no payment was deducted

The other councilors and meetings mentioned by the auditor do not qualify for this discussion since they relate to non-scheduled meetings.

3.7 Mayor's allowance

Regarding the first instance listed by the Auditors, one must point out that the variance noted is purely due to the fact that one of the Mayors had to reimburse the Floriana Local

Council the total Sum of €2623.47, being related to the reimbursement of Honoraria issue of the year 2011, whilst the Council had an audit adjustment of the previous year being €64 in favor of the Mayor. This result in a difference of €2559.47 in favor of the Council. This sum was deducted from the year under review's entitlement to the same mayor. From the entitlement as worked out by the Auditor of €5,749, the mayor had €2559.47 deducted, thus he should have received € 389.53. In actual fact, he was paid €3,293, an overpayment of €104. This rose to difference in days of appointment of Mayor.

On the second instance, the auditors remarked that the other mayor, was under paid €162. This is the result of the lack of payment of the 1st week of august, and the number of days in post during the Month of April.

4. EXPENDITURE

4.1 Tendering Procedures

The Local Council procedures, state that in cases of urgency, the minimum tendering period can be reduced to not less than 8 days. The Council had considered these tenders of an urgent nature, thus the Council was in line with the Local Council's Procedures (Tenders)

The information not adequately compiled in the Tender forms refers to the Reference number of the advert and the title of the tender. Although, the Council believes that such information should be compiled adequately by all tenderers, such shortcoming does not provide legal grounds to disqualify a tender. Thus, the Council has no legal control to solve such shortcoming.

4.2 Expenditure made on account of social and cultural events

Through their statements, the Auditors are misleading the audience. There have been no donations in all cases listed.

On the first note, the council deemed necessary to appreciate the contribution of employees who resign during the year under review, after having served the council for a period of time. The council considers a memento, being different from a gift, or a donation.

Referring to the expenses in relation to the Fireworks festival, the Council has paid for supplies acquired from 16 different fireworks factories, each with specific conditions, at a price, which varies between one factory and another.

Re the last point, the Council organizes activities for the community, and to keep contact with the community. A number of these are organized in conjunction with other entities, thus sharing the costs, oppositely as being misled by the auditor, that of distributing the Council's resources to organizations within locality...

4.3 Inappropriate Expenditure Documentation

With regards to the cheque 10473, kindly note that the council had issued the payment being retention money to JGC Ltd upon certification provided by the Architect dated, 7th February 2011. With regards to cheque 11048, although there is an invoice, it is not fully compliant in according to VAT ACT, however, it is supported by a fiscal receipt.

The Council has little control on documents forward by other persons. With regards to Missing fiscal receipt, all suppliers are informed formally to forward these documents,

but some of these fail to abide. With regards to the exemption form, the council does its best to request complete filling up. This is also remarked by the auditor, acknowledging the fact that we are persistent in chasing such suppliers.

On the same note, the council agrees that, as remarked by the auditors, such suppliers should not be considered for future procurements.

4.4 Twinning Project

The transaction highlighted by the Auditors was erroneously not listed in the report. In view of this, a correction on the original report was being made, indicating such expense.

4.5 Christmas Dinner

Memo 8/2011 states that the Council is allowed an expensed budget of €30 per person, being Council Members, staff, and employees of the Council. This therefore includes members of staff working at the Council, such as those assigned from IPSL and ETC Community Work Schemes. Therefore the “assumption of 9 people should have attended”, as stated by the Auditors is incorrect. In the case of Floriana Local Council, no partners and guests were invited to attend. The attendees were members of the council, the administrative staff, and staff under other scheme, with a total of 10 attendees. Thus in this regard, the expense per person is €27.64, which is line with the guidelines of Memo 8/2011

5. PROPERTY, PLANT AND EQUIPMENT

5.1 The upkeep of the Fixed Asset Register (FAR)

Re the fully automated FAR, the Council has taken note and its doing its best to settle the matter by end of May 2013. Whist with regards to the other remarks, the council has accepted the auditors' recommendation and adjustments were done accordingly

5.2 Capital Commitments

According to IAS 16 – Property, Plant and Equipment, capital commitments to be disclosed consist of “Capital expenditure authorized and contracted for at the end of the reporting period but not yet incurred”

The Council noticed that the Auditors listed the Capital plans mentioned in the Annual Estimates (Budget) for year 2012. The list of projects listed in the Annual Estimates does not reflect the capital commitments authorized or contracted but not yet incurred for during the year under review but it reflects the Council's plans for the following year. A project to be authorized or contracted must have a council's decision to issue a call for tenders which is consequently awarded.

The amount of €21,260 which is included in the budget and part of €112860, is already included as a creditor in the Financial Statements for the year ended 31st December 2012, and therefore it should not be disclosed as capital commitments in the notes to the financial Statements. With regards to the all the rest, except for the €25,000 were committed but not contracted.

5.3 Insurance Coverage

The Council have reviewed its annual policy in the year 2012, eliminating a number of assets which are not covered by the insurance. This was done on the basis of eliminated items which their value exceeds the insurance access fee. Nevertheless the Council will review its decision.

5.4 Capital Expenditure against revenue Expenditure

The Council has taken note and adjusted accordingly, although in principle these lamps bought to be as a replacement for existing light bulbs in St Anne Street, which have a 100% depreciation.

5.5 Intangible Assets

The Council does not agree with the management point issued by the auditors as the financial statements distinguish between the intangible assets and tangible assets. Moreover, in the notes to the financial statement statements, the Council has also accounted for the accounting policy of intangible assets according to IAS 38 and therefore the Council is recognising the fact that intangible assets is different from tangible assets therefore difference between IAS 16 and IAS 38 is recognised. With regards to the disclosure in the FAR, the Council will have a new category of intangible asset.

6. INVENTORIES

6.1 Stock of Books and DVDs

The Auditors are incorrect in part of their statements. The Council performs physical stock checks at least on quarterly basis, and a stock take at year end, and all is recorded accordingly. All items have been fully costed, and were discrepancies were found, actions were taken to correct. Moreover, the stock list is compiled on an Excel sheet, whereby movements in stocks are being recorded on a daily basis.

On the other remarks, the council took the necessary actions to correct.

7. RECEIVABLES

7.1 LES amounts receivable

The Local Council accepted the qualification on the audit reports and is doing his best to collect as much as possible from the outstanding due to the council.

This issue for future audit will be minimized due to the fact that as from 1st September 2011 Regional Committees were established, and the Local Council is charging 10% on amount collected at the Local Council to the respective Regional Committee.

7.2 Other Receivables

The Council would like to remark that this was not an invoice, but a third and last payment (remaining balance) on an order of flooring material., and it was affected on the 31st January 2013

7.3 Accrued Income

The Auditors are totally incorrect in their statement. The Council does not estimate its accrued income, unless contracts, documents or physical evidence is present. No values are misleading in the financial statements provided. Example mentioned by the auditors of the Street Furniture, is fixed and immovable property, and amount listed is for the year 2012, thus backdated, with no chance of being an assumption, but of factual usage. With regards to the €900, this pertain to KMS Scheme.

8. CASH AND CASH EQUIVALENTS

8.1 Unpresented and Stale Cheques

The Council will take the necessary measure so as to write off the stale cheques accordingly

8.2 Bank Statements and Reconciliations

The Council will take the necessary measure so as to improve the mentioned.

8.3 Petty Cash

The Council has taken note of the auditors comments and will be adopting a new system in order to be more efficient.

9. PAYABLES

9.1 Accounting for Creditors

The Council has taken note of the auditors recommendations, and will be introducing a Creditors Reconciliation exercise on a monthly basis.

9.2 Accrued Expenditure

The council has taken note and accruals are going to be rectified accordingly

9.3 Unsupported Documentation for other recognized liabilities

Re point 3, This related to an agreement of rental of kiosk, which covers the period from the 26th May till the 25th may of the following year.

Re the other points, the council has taken note and will do all the adjustments this year.

9.4 Government Grant – Deferred Income

The council has taken the recommendations listed by the Auditor, and the figures representing the difference were adjusted accordingly through the proposed audit adjustments

9.5 Contractors guarantees

Point raised by auditors was taken into consideration and the council confirms that the outstanding balance as at year end, was €1165

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1 Disclosures required in respect of Financial Procedures

All documents requested by the auditor, including the budget, was forwarded during the audit. None the less, the Council will be annexing the official budget document with the financial statements

10.2 Disclosures concerning Contingent Assets and Liabilities

The Financial Statements were amended to be in line with the international Financial reporting Standards

10.3 Disclosures required in respect of Certain IFRS

The Council has taken note, and will abide with the disclosures required

11. General

11.1 Financial Statements presentation and accounts

The Council has taken note, and will abide by the IFRS

11.2 Prior Year Adjustment

The Council will follow the requirements if IAS8 in order to report the correct treatment of the recognition and measurement of any prior year adjustment.

11.3 Councilors'' Attendance

The Floriana Local Council during the year under review, had 12 Scheduled meetings as per below schedule:

2nd April 2012, 6.00pm	1*	P
4th April 2012, 6.00pm		
9th April 2012, 6.00pm		
16th April 2012, 5.30pm		
23rd April 2012, 5.30pm		
30th April 2012, 5.30pm		
7th May 2012, 5.30pm	2	E
11th June 2012, 6.00pm	3	E
2nd July 2012, 4.00pm	4	P
30th July 2012, 4.00pm	5**	P
6th august 2012, 4.00pm		
13th August 2012, 4.00pm	6	P
12th September 2012, 4.00pm	7	E
17th September	8	P
10th October 2012, 5.30pm	9	P
5th November 2012	10	E
26th November 2012	11	E
19th December 2012 at 5.30 pm	12	P

* 1 Scheduled meeting spread on 6 sessions being internal Mayor/Vice Mayor Elections

** 1 Scheduled meeting spread on 2 sessions being internal Mayor/Vice Mayor Elections

And 8 urgent meetings as per below schedule

9th April 2012, 6.30pm
30th April 2012, 6.15pm
30th July 2012, 3.00pm
30th August 2012, 3.00pm
3rd October 2012, 5.45pm
22nd October 2012, 4.00pm
9th November 2012, 5.20pm
30th December 2012, 3.00pm

The attendance of the councilor in scrutiny under this heading has been indicated in the first schedule, being the list of the scheduled meetings. As can be noted, there wasn't any 4 consecutive meeting of being absent, not more than 1/3 of the meetings. Thus there was not the need for the executive secretary to do any particular processes.