



## **FLORIANA LOCAL COUNCIL**

**Council's response to the  
Auditor's Report to Management  
For the financial period ended 31 December 2013**

KLF 112/14

7<sup>th</sup> June 2014

Director (Local Government Department)

The Local Government Auditor

National Audit Office

Dear Messrs,

**MANAGEMENT LETTER FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2013**

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 4<sup>th</sup> June 2014

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**

Whilst the Auditors may be correct on a number of points, as mentioned in their letter, there are a number of incorrectness in their statements, which may mislead the audience.

In fact, a number of points listed indicated as no action have been taken, were in fact completely adjusted such as point 1.1, 1.6, or else other points that if one evaluates the details, one will find valid justifications, such as items 1.18, or else a total incorrectness, such as items 1.11

Other points have been partially adjusted, and the Council will be doing its utmost to increase its efficiency, and continue to strive for improvement on such shortcoming, such as items 1.12, 1.19, 1.16, 1.4, 1.31,

The Auditors brought to the attention also on situations upon which the council has no control, since this depends on third parties, such as point number 1.14, 1.22

Item numbers 1.3, 1.24, 1.28, 1.29, 1.30, 1.33, 1.34, 1.36, 1.37 were also brought to the attention of the Council's Accountant for appropriate actions

On the Other hand, the Council is pleased that a number of the items listed were addressed immediately, namely items 1.2, 1.5, 1.7, 1.8, 1.9, 1.10, 1.13, 1.15, 1.17, 1.20, 1.21, 1.23, 1.26, 1.32, 1.35

## **2. INCOME**

### **2.1 Local Enforcement**

The Floriana Local council took note of the observation by the local auditor and reconciliations are to be done with the LES reports will be done accordingly.

### **2.2 Income from Bye Laws**

As rightly listed by the Auditors, the Council has a number of byelaws in order to generate additional income. The Auditors remarked that two instances were not covered by a bye-law. In fact, it should read that only one instance was not covered, that of the barriers. The other instance, referring to multi-sits, the supplier pays the council a yearly rental charge for the advertisement on this furniture, on not for the furniture itself, thus it is in line with the Bye-law.

If the need arises actions will be taken to rectify the remaining situation by updating the existing byelaw to cover new equipment for rent.

With regards to the classification headings, this was also adjusted accordingly, as remarked by the auditors.

### **2.3 Rental Income**

The Council has took note and adjustments were done accordingly as remarked by the auditors.

### **2.4 Income from penalties**

The Council has took note and adjustments were done accordingly as remarked by the auditors.

### **2.5 System of Council Receipting**

The Council has took note of the auditors' remarks for future actions. In addition, the Council has also considered the introduction of an Electronic Receipt System incorporated with the Accounting Software, however, after careful consideration, it resulted that the cost of implementing such as system, is a burden on the finances of the local council.

### **2.6 Donations received on behalf of Puttinu Cares**

The Council has took note of this ambiguous situation, where on one hand, the council has adopted a procedure whereby a receipt is issued for all sources of income at all times (as recommended even by the auditor in Point 2.5), whilst on the other hand, the auditors

are recommending to have the monies passed forward directly by the sponsors to the charitable institutions, and not recording the income and expenditure.

2.7 Income received in respect of New Years Eve

The Floriana Local Council took note of the observation and any schemes that will be applied and approved by the DLG will be accounted for accordingly after consulting the accountant of the Council. In fact, this system has already been implemented and no such shortcoming were noted in the year under review

### **3. PERSONAL EMOLUMENTS**

#### **3.1 Payroll statutory documentation and reconciliation with the Nominal Ledger**

The Floriana Local Council will be adopting a new policy with regards to the Payroll documentation, and reconciliation with the Nominal Ledger by introducing the reconciliation of the accounts with the Payroll reports as from the Year 2014. In view of the fact that the reply is being dated May/June 2014, the Council will affect the reconciliation retrospectively as from 1<sup>st</sup> January 2014.

#### **3.2 Payroll Disclosures**

The Council has taken a deeper look into the figures presented.

With regards to the executive secretary the amount of €28170 shown in the financial statements reflects the Gross wage of €26073 as per FS3, and the N.I. element of €2096 of the Executive Secretary, and Employer's share. Erroneously the latter amount was recorded in the Financial Statements under the Executive Secretary Salary.

With regards to the Mayor, it was noted that the discrepancy is made up of the following: Adjustment of Eur103.49 being shortage paid the previous year, tax element of €348 arising from the fact that the Mayor received an addition allowance of €800 in the months of June and December, and a difference of €81 recorded in the accounts January 2013, being mayors tax for December 2012.

With regards to the Councillors, the difference is made up of two elements. Councillors allowances for 2012 have been recorded in 2013 and there were no reversals of these amounts in the year 2012, and the various allowances given to the employees and Executive Secretary are classified under the same account in the nominal ledger.

#### **3.3 Councillors Attendance and Allowance**

As indicated by the Auditor, the Mayor had advised formally of his absence from the Meeting, which was due to work commitments, in fact a copy of the letter was forwarded to the Auditor, following the issue arising.

Referring to late councilor Anthony Brincat, the Council has deemed appropriate that, due to his medical condition, which was terminal, considers the councilor as excused.

## 4. EXPENDITURE

### 4.1 Supply of Goods not covered by tender

The transaction in question pertains to the New Years Eve Activity. This activity was originally contracted to an organizer, being Justin Attard, but 48 hours before the activity, the contractor dropped his commitment, leaving the Council with no other choice than to procure the services to hold the activity, in less than 48 hours, with no time available to gather quotes or issue tenders. Following legal advise, the Council continued with the organization of the activity. In the meantime, the Council has started legal actions (arbitration as was agreed through contractual obligations) against the contractor, which has failed to abide by the contract signed related to the activity.

### 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 whatsoever.

Referring to the expenses in relation to the Fireworks festival, the Council has paid for supplies (fireworks – *irdieden*) acquired from different fireworks factories, each with specific conditions, at a fixed price of €900.

Similarly, referring to the expenses in relation to the New Years Eve Celebration, the same applies, whereby the council procured a number of services such as performers and artists.

Therefore all transactions highlighted by the Auditors are in line with all legal requirements being fees paid to the participants for their services or supplies on the two separate activities.

With regards to the question of how to distribute the allocation, the Council considers the Community and Hospitality aspect as an integral role of the Council, (which is also one of the functions of the local council as listed in Chapter 363 of the Laws of Malta). Thus it considers activities as a responsibility in fulfilling its obligations towards the general public.

### 4.3 Inappropriate Expenditure Documentation

The Auditors have remarked three different situations, being lack of fiscal receipts, lack of purchase orders, and lack of payment vouchers, which are misleading remarks due to incorrectness.

With regards to the fiscal receipts, the Auditors have also listed that the Council does its utmost in chasing for these receipts, and on various instances, contractors not complying after that several tentative have been made, have been reported to the VAT Department,



with all the consequences that this brings with it. The cases mentioned by the Auditor are still being chased for the receipts.

With regards to the payment vouchers of both transactions, no payments have been made to the contractor, as it was done through a set-off against him as a debtor.

With regards to the lack of purchase orders, both transactions covered retention money being forwarded to the contractor, which was covered originally during the award of the tender and the certification form the architect.

#### 4.4 Goods and Services purchased by direct order

The Council has took note of the auditors recommendations which are just and fair. However it is worth noting that 3 out of 5 instances related to the New Years Eve activity for which further details can be seen in note 4.1 above

#### 4.5 Street Lighting

The Council, oppositely as described by the Auditor, has infact continued to use the services of the Street Lighting Contractor even though the contract was expired, as per memo 106/2011. In addition, the Council has also abided by Memo 34/2013, by confirming interest to join with the South Region in their issue for tender for the subject.

## **5. PROPERTY, PLANT AND EQUIPMENT**

### **5.1 The upkeep of the Fixed Asset Register (FAR)**

Re the fully automated FAR, the Council had taken care of the matter, and by the submission of this letter, the Council has finalized an automated Fixed Asset Register using the Accounting software package as mentioned by the auditor.

With regards to the variance highlighted by the Auditors, now that the automated FAR is complete, an exercise will be made to correct any differences between the FAR and the Financial Statements.

### **5.2 Insurance Coverage**

The Council has reviewed its annual policy in the year 2012, eliminating a number of assets which are not covered by the insurance policy. This was done on the basis of eliminating items which their value is less than insurance access fee. Nevertheless the Council will be reviewing its asset register now that it is automated, and if the need arises, will review its decision.

### **5.3 Intangible Assets**

The Council has taken note and will adjust accordingly.

### **5.4 Depreciation Charge**

The Council has taken note and will adjust accordingly since the assets are being capitalised in the FAR.

## **6. RECEIVABLES**

### **6.1 LES amounts receivable**

The Council has taken note and will adjust accordingly. Reports from LES will be issued frequently.

### **6.2 Accrued Income**

The Council accepted the proposed audit adjustments in view of the accrued income balance shown in the financial Statements and for the future, reconciliation of this accrued income will be performed.

### **6.3 Prepayments**

The Council accepted audit adjustment and financial statements were amended accordingly.

### **6.4 Customer Balances**

With Regards to Vodafone, the Auditors had been forwarded with a commitment letter received from Vodafone indicating a sponsorship for the New Years Eve Event, and Subsequently the correspondence with the same company in order to transfer the funds, thus the Council cannot understand why the auditors have in fact disregarded this.

With regards to the other customer, a thorough check will be made to verify.

## **7. CASH AND CASH EQUIVALENTS**

### **7.1 Unpresented Cheques and Bank reconciliation**

Bank reconciliations are done on a monthly basis, and the un-reconciled report is kept in file with the Bank Statements. With regards to issues raised by the auditors, the Council is scrutinizing the transactions and movements in the bank accounts.

### **7.2 Cheque Stubs**

The Council will take the necessary measure so as to rectify this shortcoming.

### **7.3 Approval of Cheque Payments**

The Auditors might have missed the details on the schedule, since all payments are listed in schedule of payments.

## **8. PAYABLES**

### **8.1 Accounting for Creditors**

The Council has taken note of the auditors recommendations and has taken the necessary actions to rectify the situation immediately. Besides, as rightly so indicated by the Auditors, the Councils has adhered to their recommendations, and adjusted accordingly.

### **8.2 Accrued Expenditure**

The council had already adopted the accrual concept and when invoices are received these are being accounted for accordingly. With regards to the adjustments proposed by the Auditor, the Council accepted these, and financial statements were corrected

### **8.3 Government Grant – Deferred Income**

For Future audits, the Council will prepare a detailed spreadsheet relating to the Grants and any release to the statement of Comprehensive Income.

### **8.4 Contractors guarantees**

The council has accepted the auditors recommendations, and adjusted accordingly

### **8.5 Advance Payments**

The Proposed Audit Adjustment on the Rental Income were approved and Financial Statements were amended accordingly.

## **9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS**

### **9.1 Disclosures required in respect of Financial Procedures**

All documents requested by the auditor, including the budget, was forwarded during the audit. In addition, the auditor remarked that based upon Local Councils' generally accepted reporting procedures, such reports are not included.

### **9.2 Disclosures required in respect of Certain IFRS**

With regards to IFRS 24, it is being understood that the Local Council had adjusted the note in the Final Version of the financial Statements, and the Disclosure is in line with the relevant IFRS

With Regards to the others IFRS mentioned, the Local Council took note of these observations and Financial Statements will be prepared as per requirements.

### **9.3 Comparatives**

The final version of the Financial Statements that were approved by the Local Council it is noted that note 22c was eliminated, and therefore the observations made by the auditors do not feature out.

With regards to the other comparative figures mentioned in the other observation, the figure was rectified accordingly.

## **10. GENERAL**

### **10.1 Financial Statements presentation and accounts**

The Local Council took note of the observations made in view of the compliance of the financial Statement with IFRSs and Local Councils Audit procedures and such notes were addressed before the Council approval of the Final Financial Statements.

### **10.2 Prior Year Adjustment**

The Local Council took note of the observations made by the Auditor and such issue will be addressed for future audits

## **11. INVENTORIES**

### **11.1 Stock of Books and DVDs**

Since the amount of inventory is immaterial and th movements during the year are not so frequent, the Council performs a stock take twice a year and not on a quarterly basis. Any movement in stock is recorded in the nominal ledger account.