



FLORIANA
Borgo Vilhena

FLORIANA LOCAL COUNCIL

**Council's response to the
Auditor's Report to Management
for the financial period
January 2014 - 31 December 2014**



FLORIANA
Borgo Villena

KUNSILL LOKALI FLORIANA

FLORIANA LOCAL COUNCIL

KLF 097/15

11th June 2015

Director (Local Government Department)

The Local Government Auditor

National Audit Office

Dear Messrs,

MANAGEMENT LETTER FOR THE YEAR ENDED 31ST DECEMBER 2014

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 2015

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

Davina Sammut
Mayor

Svetlick Flores
Executive Secretary

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1. Follow up on Previous Management Letter

1.1 Income

We are pleased to note that the Auditors noted that a lot of shortcomings from the previous year were tackled, and thus appreciating the enhancements done in the operations of the Council.

1.2 Personal Emoluments

The Council is pleased to note that Auditors appreciated the improvement in this area too. The Council took note of the error done with regards to the wages reconciliation, which unfortunately was a missed reversal of Accrual.

1.3 Expenditure

The Statements done by the Auditors might mislead the Audience. Further analysis of each point, which can be found in the next part of this document, will review the true intentions and reasons of the councils, which are just and fair. In Short, No form of donations were done, all efforts were done to ensure the obtaining of fiscal invoices and receipts, all purchase had a purchase order, there were no instances requiring a call for quotations, and the tender mentioned pertaining to the Street Lighting was issued by the Region

1.4 Property, Plant and Equipment

As Stated by the Auditors, the Council followed the Auditors Recommendations of the Previous management letter, and addressed most of the shortcomings. With regards to missing details in the FAR, one must take into consideration, that the items in question go back to the Inception of the Councils, thus it is very difficult to obtain such information.

1.5 Receivable

The matter is explained in the next sections of this document

1.6 Cash and Cash equivalents

The Council is pleased to note that all aspects of the previous year were tackled, and no similar instances were noted this year

1.7 Payables

The Council is pleased to note that most instances were tackled, and will take note to improve on the others remaining.

1.8 Other Disclosures in the financial statements

The council took note of the matter

1.9 General

The Council is pleased to note that actions were taken to improve in this area, and some of the items were successfully treated. Nevertheless, the Council will strive to improve in some other areas.

1.10 Inventories

The Council took note, however is not in agreement with the Auditors recommendations, as explained further on.

2. Income

Classification of Other Supplementary Government Income

(Points 2.1 / 2.2)

The Council noted that the auditors were correct and thus took the necessary actions to adjust the financial statements

General Income

(Points 2.3 / 2.4)

The Council took note of the Auditors recommendations

Custodial receipts

(Points 2.5 / 2.6)

The Council took note of the Auditors recommendations

Income from Regional Committees

(Points 2.7 / 2.8)

The Council, as advised by the auditor investigated on the matter, which is beyond our control, since the report is issued by software supplied by LOQUS. In fact in a reply dated 17/04/2015 at 17:44hours, to the investigation raised by the Executive Secretary on the 17 April 2015, 14:44hrs LOQUS stated the below:

"...please note that the Financial Report is based on the Date Paid, whereas the Invoicing is based on the Date Transferred, hence the discrepancy. We've encountered this query already from auditors and we've explained it to them"

Reversal of opening deferred rent income

(Points 2.9 / 2.10)

The Council took note of the Auditors recommendations and adjusted accordingly

Rent Income

(Points 2.11 / 2.12)

The Council took note of the Auditors recommendations and adjusted accordingly.

3. Payroll

Wages reconciliation

(Points 3.1 / 3.2)

The Council took note of the Auditors recommendations and adjusted accordingly, by adjusting the relevant accrual.

Councillor's Allowance

(Points 3.3 / 3.4)

The Council took note and will set up separate accounts so as to facilitate extraction of data

4. Expenditure

Petty Cash Expenditure

(Points 4.1 / 4.2 / 4.3)

Although the Auditors are correct when stating that some petty cash transactions were supported by the cash register chits, one must point out that these are regulated by the VAT Department, and thus are official Vat receipts. A number of petty cash transactions are done with small corner shops, which do not offer a different type of receipting, except for that issued by the official cash register approved by the VAT department. If one had to eliminate these shops from the list of suppliers of the council, due to this petty matter, this will create unfair competition. So here the council raises the question whether the Local Council Financial Procedures of the year 1996 are to be updated so as to be in line with modern technology.

We also agree to the auditors recommendation to, **where possible** obtain a valid tax invoice or a VAT receipts addressed to the Council, **a system which the Council already adopts.**

With regards to the reconciliation of the petty cash reconciliation, this is reconciled informally every week, thus going beyond what the auditors are recommending. A formal reconciliation is done on every €100. However, the Council will be changing this system and abide by the Auditors recommendations of reconciling on a monthly basis.

Procurement Procedures

(Points 4.4 / 4.5 / 4.6 / 4.7)

The Council are incorrect when remarking lack of purchase orders. It might be that the Auditors missed these during their fieldwork. Evidence of this can be seen in Annex 1 - Copies of Purchase Orders

S. Tonna,		Purchase Order	
		Date	17/03/2014
		Page	1
		Document No	PO101082
MACMED Ltd. B24, Bulobel Industrial Est. Zeylun ZTN 3000		Deliver to	
Account	Your Reference	Tax Exempt	Tax Reference
MAC001		N	
		Sales Code	Delivery
			17/03/2014 Exclusive
Code	Description	Quantity	Unit
2314000	4x 20ltr White paint		
2314000	1x 20ltr Yellow paint		
		Unit Price	Disc%
		Tax	Nett Price
		0.00%	€355.20
		0.00%	€88.60
Received in good order		Sub Total	
Signed _____		€444.00	
Date _____		Discount @ 0.00%	
© Seffline (Pty) Ltd		€0.00	
		Amount Excl Tax	
		€444.00	
		Tax	
		€0.00	
		Total	
		€444.00	

With regards to

the procurement from Yorrick Mallia covering electricity consumption, the Floriana Local Council rented an electrical meter (free of charge) from the mentioned supplier, and pays only for the units consumed, at the rate prescribed by Enemalta. The payment done covered only such charge. Under such circumstances, it is irrelevant to obtain quotation since the electricity consumption rate is fixed. Copy of the invoice detailing the consumption can be found in

Annex 2 – Invoice of Yorrick Mallia.

It is worth noting that the Council adhered to the financial regulations thorough all the year under review, and as such no instances going against such obbligation were found by the Auditor during the course of the work

Donations

(Point 4.8 and 4.9)

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). Acknowledging the work done by others, by awarding a mementos is no way is considered by the council as a form of donation, but it is a form of appreciation.

Tax Invoice or Fiscal receipts

(Points 4.10 and 4.11)

The Auditors might be misleading in their statement.

The Council does its utmost in obtained proper invoices and fiscal receipts, however, the fact that some small contractors are not fully inline with the legal requirements can go beyond the Councils Control.

The example raised covering and instance of a travel Agencies, one assumes that the auditors are aware that they fall under a special scheme and are to be treated differently from normal suppliers. Similarly, applies to a band club, being an NGO

Expired Contracts

(Points 4.12, 4.13, and 4.14)

The Auditors raised the issue of the Council making use of an expired contract, that of Street Lightning.

It is imperative to note that the Council had instructed and showed interest to join the Xlokk region in the issuing a corporate tender as soon as the instructions by DLG were Issued. Nevertheless the Region mentioned failed to complete the process on time, and thus affecting adversely the Florian Local Council. This was something beyond the Council's control.

Asset Insurance

(Points 4.15 and 4.16)

The Council took note of the auditor's remarks. It is worth noting that the Council updates the Insurance on a yearly basis, if the need arises.

Group Personal Accident

(Points 4.17 and 4.18)

The Council disagrees with the auditors recommendation for the simple reasons that the council has international twinning, and during the term of the contract, the Council has also other projects involving travelling abroad, such as the Project under the Norwegian Grant related to Performance Management in Local Government, thus it is of utmost importance of having such policy covering these instances.

Travelling Expenses

(Points 4.19, 4.20, 4.21, 4.22)

The Council took note of the auditor's remarks. Even though, one must point out that substance was only given to the Mayor following approval from the Department of Local Government

5. Property Plant and Equipment

Reconciliation of fixed asset register to accounts

(Points 5.1 5.2, 5.3 and 5.4)

The Council is very pleased that the Auditors acknowledged the efforts done by the Council in digitizing the fixed assets register. And took note of the Auditors recommendations on the other points raised

Depreciation

(Points 5.5 and 5.6)

The Council noted the Auditors remarks however, it is to note that the depreciation is now calculated through the computerised Fixed Asset Register. Moreover, as stated by the Auditors, it is an accounting estimate.

Upkeep of the Fixed Assets register

(Points 5.7 and 5.8)

One must also point out that the Council is in line with the auditor's remarks of carrying a physical inspections, since this is done on a frequent basis. Absolute items or unusable items are grouped quarterly and are struck off from the register through a Council decision.

Details of Fixed Assets register

(Points 5.9, 5.10, 5.11)

The auditors remarks are just and fair with regards to the details required in a fixed asset register. The Council still would like to point out that all the items procured during the recent years contain such data, and missing data only exists for items procured long time ago going back to the date of inception of the Local Councils.

In addition, where possible, items have been appropriately tagged and referenced with a code number.

Street Signs

(Points 5.12 and 5.13)

The Council took note of the Auditors recommendations and adjusted accordingly

6. Debtors

Pre-regional LES Debtors

(Points 6.1, 6.2, 6.3)

The council took note, however, this matter is a yearly incident, on which the Council has no control. This casts doubt on the integrity of the LOQUS IT system.

Provision on pre-regional LES Debtors

(Points 6.4 and 6.5)

The Council took note on the auditors recommendations and adjusted accordingly

Accrued income

(Points 6.6, 6.7, 6.8, 6.9)

The Council took note of the auditors recommendations and adjusted accordingly.

Receivable balance in dispute (DJS Trading)

(Points 6.10, 6.11, 6.12)

The Council took note and will discuss the matter following a legal advise.

Long Outstanding receivables

(Points 6.13, 6.14, 6.15)

The Council has followed up the matter in both instances mentioned, and has taken the appropriate actions. By the submission of this reply, 50% of the items were solved.

Debtors' Testing

(Points 6.16, 6.17, 6.18)

The Council reiterates that that the debtors mentioned are correct. It would be wise to primarily check and the other end's accounts. In fact the Council confirms the mentioned debtors and is not willing to write off such debts

7. Inventories

Net Realisable value of inventory

Points (7.1, 7.2, 7.3)

The Council confirms that stock is held for resale and compromised of different books, and other audio and visual material. Nevertheless, the council distributes a number of these as complimentary along the course of the year. This number depends on distinguished guests that visit the Council from time to time. Thus it is not possible to expense such sticks beforehand, as primarily such stocks are intended for resale

8. Bank and Cash

(Points 8.1 and 8.2)

The Council had in fact obtained bank statement from BOV in order to perform the necessary reconciliation. Most probably the Auditors missed such documents.

9. Trade and other payables

Trade Creditors Reconciliations

(Points 9.1 to 9.5)

The council took note of the auditors recommendations. With regards to different statements, these are requested on frequent basis, and reconciled, however not all suppliers provide such statements. With regards to the difference in the creditor balance of Smart Office, it transpired that the supplier had a mistake in his accounts, which was rectified, and Auditors were informed accordingly, however, such information forwarded was not processed. With regards to WasteServ Ltd, mispostings were noted, and were rectified.

Accrued Expenditure

(Points 9.6 and 9.7)

The Council Took note of the auditors recommendations.

10. Grant Accounting

Release of Grants to income

(Points 10.1 to 10.5)

The Council took note of the Auditors recommendations, and adjusted the financial statements accordingly

Reclassification of Current and Non-current Portion of deferred income

(Points 10.6 to 10.7)

The Council took note of the Auditors recommendations, and adjusted the financial statements accordingly

11. Opening Balances

(Points 11.1 to 11.4)

The Council took note of the Auditors recommendations, and adjusted the financial statements accordingly

12. Financial Statements

Presentation of Financial Statements

(Points 12.1 to 12.4)

THE Floriana Local Council took note of the points mentioned in the management letter with regards to the disclosures as per IFRS 7. With regards to the amendments, according to our knowledge the necessary amendments and which effect the Local Council were listed in the notes to the Financial Statements.

Budgeted Figures for 2014

(Points 12.5 and 12.6)

The Floriana Local Council would like to point out that the budgeted figures were never inserted in the audited financial statements in the past and therefore not included in this year's financial statements. However the Council took note of the Auditors recommendations

Capital Commitments

(Points 12.7 and 12.8)

Capital commitments vary – Contracted and not contracted, thus the matter should be segregated. With Regards to the Auditors recommendations of indicating how these will be funded, the annual budget clearly indicates such derivation of the income, thus such information is available

13. Annual Budget

(Point 13.1)

The Council provided an unsigned copy as this was sent as a softcopy of the document. Should the auditors have asked for a signed copy, this would have been easily photocopied and forwarded.

(Point 13.2)

The Council took note of the auditors remarks.

14. Quarterly Reports

(Point 14.1 and 14.2)

The Council took note of the auditors remarks.

15. Administration

Binding of Minutes

(Points 15.1 and 15.2)

The Council took note of the Auditors recommendations. However, it must be stressed that all the minutes are kept in appropriate files, securely kept at the Executive Secretary's Office, knowing that they are the only permanent and unchangeable record of the council meetings and decision taken.

Nonetheless, the necessary arrangements will be done so that these will be hard bounded

Duration of Minutes

(Points 15.3 and 15.4)

The Auditors were right that the meetings listed lasted more than 3 hours, however, the auditors might have missed the minuted unanimous decision, for an extension of time.

16. Electronic Site

The Council would like to point that procedures adopted up to meeting 35 were in line with both memos 36/2011 and 2/2014. However, the council was proactive in meeting the auditors recent recommendation, and had started uploading only signed documents as from Meeting number 36.

17. Conclusion

The Council appreciates the works of the Auditors, and has done the utmost to facilitate the Auditing Process, respecting the Good Governance Principles. This has resulted in having a fair report.

The Council and The Executive Secretary would like to take this opportunity to thank the Auditors for their efforts.

Annexes

Annex 1 - Copies of Purchase Orders

<p>S. Tonna,</p> <p>MACMED Ltd. B24, Bulebel Industrial Est. Zejlun ZTN 3000</p>		Purchase Order															
		Date 17/03/2014															
		Page 1															
		Document No PQ101082															
		Deliver to															
Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	Delivery												
MAC001		N			17/03/2014 Exclusive												
Code	Description	Quantity	Unit	Unit Price	Disc%	Tax	Nett Price										
2314000	4x 20ltr White paint					0.00%	€355.20										
2314000	1x 20ltr Yellow paint					0.00%	€88.60										
Received in good order Signed _____ Date _____ © Sofiline (Pty) Ltd				<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Sub Total</td> <td style="width: 40%; text-align: right;">€444.00</td> </tr> <tr> <td>Discount @ 0.00%</td> <td style="text-align: right;">€0.00</td> </tr> <tr> <td>Amount Excl Tax</td> <td style="text-align: right;">€444.00</td> </tr> <tr> <td>Tax</td> <td style="text-align: right;">€0.00</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">€444.00</td> </tr> </table>				Sub Total	€444.00	Discount @ 0.00%	€0.00	Amount Excl Tax	€444.00	Tax	€0.00	Total	€444.00
Sub Total	€444.00																
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<p>S. Tonna,</p> <p>MACMED Ltd. B24, Bulebel Industrial Est. Zejton ZTN 3000</p>		Purchase Order					
		Date	17/03/2014				
		Page	1				
		Document No	PQ101082				
		Deliver to					
Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	Delivery		
MAC001		N			17/03/2014 Exclusive		
Code	Description	Quantity	Unit	Unit Price	Disc%	Tax	Nett Price
2314000	4x 20ltr White paint					0.00%	€355.20
2314000	1x 20ltr Yellow paint					0.00%	€88.60
Received in good order		Signed _____		Date _____			
© Softline (Pty) Ltd							

Sub Total	€444.00
Discount @ 0.00%	€0.00
Amount Excl Tax	€444.00
Tax	€0.00
Total	€444.00

Florana Local Council
15 Piazza Emanuel S. Tonna,
Floriana
FRN 1483

Horace Enterprises
17 Vjal il-Torri
Gudja GDJ1703

Date 01/08/2014

Page 1

Document No PO101332

Deliver to

Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	Delivery	Exclusive
HOR001		N			01/08/2014	

Code	Description	Quantity	Unit	Unit Price	Disc%	Tax	Nett Price
3380000	Trophies & Tokens for Floriana Ajax even					0.00%	€300.00

Received in good order

Signed _____

Date _____

© Sage South Africa (Pty) Ltd 2013

Sub Total	€300.00
Discount @ 0.00%	€0.00
Amount Excl Tax	€300.00
Tax	€0.00
Total	€300.00

Floriana Local Council Piazza Emanuel S. Tonna, Floriana FRN 1483		Purchase Order															
		Date	17/04/2014														
		Page	1														
		Document No	PO101184														
VILHENA BAND CLUB 28 ST. ANNE STREET FLORIANA		Deliver to															
Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	Delivery	Exclusive											
LBC0		N			17/04/2014												
Code	Description	Quantity	Unit	Unit Price	Disc%	Tax	Nett Price										
3375000	Band March Floriana Day					0.00%	€932.00										
Received in good order Signed _____ Date _____						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Sub Total</td> <td style="text-align: right; padding: 2px;">€932.00</td> </tr> <tr> <td style="padding: 2px;">Discount @ 0.00%</td> <td style="text-align: right; padding: 2px;">€0.00</td> </tr> <tr> <td style="padding: 2px;">Amount Excl Tax</td> <td style="text-align: right; padding: 2px;">€932.00</td> </tr> <tr> <td style="padding: 2px;">Tax</td> <td style="text-align: right; padding: 2px;">€0.00</td> </tr> <tr> <td style="padding: 2px;">Total</td> <td style="text-align: right; padding: 2px;">€932.00</td> </tr> </table>		Sub Total	€932.00	Discount @ 0.00%	€0.00	Amount Excl Tax	€932.00	Tax	€0.00	Total	€932.00
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Discount @ 0.00%	€0.00																
Amount Excl Tax	€932.00																
Tax	€0.00																
Total	€932.00																

Fiorana Local Council 15, Piazza Emanuel S. Tonna, Fiorana FRN 1483	Purchase Order	
	Date	22/04/2014
	Page	1
	Document No	PO101166

Horace Enterprises 17 Vjal It-Torri Gudja GDJ1703	Deliver to
---	------------

Account	Your Reference	Tax Exempt	Tax Reference	Sales Code	Delivery
HOR001		N			22/04/2014 Exclusive

Code	Description	Quantity	Unit	Unit Price	Disc%	Tax	Nett Price
3375000	6x Mementos (Plaques)					0.00%	€212.40
3371000	4x Category Winners					0.00%	€141.60
3371000	4x Jury's Mementos					0.00%	€56.64
3371000	1x Overall Winner's Memento					0.00%	€70.80
3375000	1x Shield					0.00%	€88.50

Received in good order	
Signed _____	Date _____

© Softline (Pty) Ltd

Sub Total	€589.94
Discount @ 0.00%	€0.00
Amount Excl Tax	€589.94
Tax	€0.00
Total	€589.94

Annex 2 – Invoice of Yorrick Mallia

INVOICE

Name:	Yorrick Mallia
Address:	Triq Annunziata Tarxien
ID no.	
Vat No. *	1666-3511
Mob No.	7992 5574
Inv No.	PLC 01/2014


To: Floriana Local Council
15, Pjazza Emanuel S.Tomma
Floriana FRN 1483

Date: 10/01/2014

RE: Details:	Amount Due:
Meter ta' Sant Anna Minn 4999-9945	Total 4946units@ €0.19/unit € 939.74
Meter ta' Balzunetta Minn 9448-10760	Total 1312units@ €0.19/unit € 249.28

Total Units 6258

Net Amount (incl.VAT): € 1189.02

Signed by: 
Yorrick Mallia

PAYMENT APPROVED	
Ref. _____	
001768	
Signature _____	Date _____