



FLORIANA LOCAL COUNCIL

**Council's response to the
Auditor's Report to Management
for the financial period
January 2015 - 31 December 2015**



KUNSILL LOKALI FLORIANA

FLORIANA LOCAL COUNCIL

KLIF 063/16

9th June 2016

Director (Local Government Department)

The Local Government Auditor

National Audit Office

Dear Messrs,

MANAGEMENT LETTER FOR THE YEAR ENDED 31ST DECEMBER 2015

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 – *Grant Thornton*.

The attached response was approved by the Council during a council meeting held on the 9th June 2016

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

Svetlck Flores
Acting Executive Secretary

15, Piazza E.S. Tonna Floriana FRN 1483 Malta

Tel. No.: +356 2123 5523, 2701 3018 Fax No.: +356 2123 7723

E-mail: floriana.lc@gov.mt Website: www.florianalocalcouncil.com

www.maltagroundfireworks.com; www.maltanewyearseve.com

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1. Follow up on Previous Management Letter

The Council has noted that a number of recommendations done in the previous year have been acknowledged and thus is pleased to note that improvements in these areas were made.

On other instances, the Council does not fully agree with the Auditors, as some statements may be misleading. Details on such instances are being presented further on through this document.

On the other hand, the Council has took note of the recommendations done by the Auditors, and will strive to implement them.

2. Income

Accounting for Income

The Council noted that the auditors were correct in their recommendations related to the accrued income and thus took the necessary actions to adjust the financial statements

Omitted Income

The Council took note of the Auditors recommendations and adjusted the Financial Statements Accordingly.

Classification of Income

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

Custodial Receipts

The Council took note of the Auditors recommendations

Income from LES administration fees

This issue was similarly raised last year, and the Council had investigated. The answer from Loqus is being represented hereunder:

"...please note that the Financial Report is based on the Date Paid, whereas the Invoicing is based on the Date Transferred, hence the discrepancy."

3. Income

Wages Reconciliation

The Auditors remarks misleading. Payroll transactions are generally reconciled monthly. Moreover, all wages paid are correctly reported to the Commissioner of Inland revenue. In fact, reporting is done electronically using the payroll software package, thus no discrepancy will be present. However, due to lack of resources, having an Acting Executive Secretary, and an employee on maternity leave, the last couple of months were not reconciled accordingly, thus resulting in this discrepancy. The Council is expecting that all control mechanisms gear back once all the staff compliment is available.

Personal emoluments classification

The Council took note of the Auditors recommendations. Nevertheless, the Council has already adopted a system of separating accounts as mentioned.

Payment Of Overtime

The Auditors remarks totally incorrect. Overtime is in actual fact all approved by the Council, as can be evidenced by the approval of the wages in the Schedule of payments.

Taxation of Councillor's Allowance

Memo 26/2010 states that:

“ L-honorarium li jircievu s-Sindki u l-allowances li jircievu l-Kunsilliera (inkluż isSindki) huma taxxabbl bir-rati normali tal-individwu konċernat.”

On the same lines, the memo states:

“Il-Kunsill irid jimla l-Formola FS4 għal kull Kunsillier. Irid ukoll jaqta' t-taxxa skont ir-regolamenti tal-FSS meta jaqmel il-flasjiet ta' dawn l-allowances u honoraria bir-rata provizorja ta' 20%”

The 20% tax rate is provisional. In actual fact, one Councillor requested to have an increase in the tax deducted, thus the minimum requirements were more than satisfied.

Councillors Allowances

The Council took note of the Auditors remarks on the first issue and will be tackling it accordingly.

With regards to the second issue, it is worth noting the following list of statutory meetings held in the last 6 months of the 6th Legislature including the absences

Date	Councillors Absent
25th October 2014	
16th December 2014	
19th January 2015	
16th February 2015	
5th March 2015	Edward Torpiano
8th April 2015	Edward Torpiano
13th April 2015	
24 th April 2015	Edward Torpiano

At first glance it is evident that a Councillor failed to attend for one third of the meetings held in six months. Notwithstanding, one has to consider the timing of the meeting, and the fact that the legislature ended at the end of April. Moreover, the law states that the absence should be discussed in the next Council meeting, and the Minister should be informed with the recommendation of the Council. Once, again, due to the timing, this could have not been done as the legislature had ended.

4. Expenditure

Petty Cash Expenditure

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.**

Procurement Procedures

The Auditors are incorrect in interpreting the law, as the Council is infact in line with the Financial procedures, that state that public quotations are to be obtained for items between €1165 and €4658. It is worth noting, that before procurement, even though this is not a requirement, the Council still seeks for various quotations accordingly.

Street Lighting

The Auditors here have partly treated this issue. The Auditors failed to mention that the Council had decided to join the Region in this tender, which tender had been awarded during the year 2015 by Region Xlokk, and subsequently, signed the new contract accordingly.

Accident Insurance.

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. In Fact, during the year under review, travel abroad was done, thus it is of utmost importance of having such policy covering these instances.

Parking Permits.

The Council took note of the Auditors recommendations.

Tendering Procedures

The Council is adhering to the latest instructions regarding the issue of the Performance bond. In both instances of the FLC/T/4/15 and FLC/T/5/15, the tender value is less than 10,000 thus there is no need for the 4% performance bond.

Offsetting of income and Expenditure

The Auditors are partly incorrect with regards to the issue on GreenMT as, the Council, at that time of signing the agreement, had opted for a cash sponsorships of an environmental activity to the value of €1,000 per year, and not for excess tonnage as stated by the Auditors. In fact during 2015 GreenMT sponsored one major activity instead of three small ones, to the same consolidated value, thus offsetting the pending previous balances for the year 2012, and 2013. On the otherhand, the treatment of such transactions and the other as mentioned by the auditors, were adjusted as per auditors recommendations.

5. Property, Plant and equipment

Reconciliation of fixed asset register to Financial Statements.

The Floriana Local Council will try his best to go through the Fixed Asset Register (FAR) in order to verify and reconcile the differences in the FAR with the nominal ledger.

Street Signs and Litter bins accounting policy

The Council took note of the Auditors Recommendations

Reclassification of assets.

The Council took note of the Auditors Recommendations

Disposal of fixed assets

The Council was aware of this difference mentioned, however, since the Unaudited Financial Statements were already approved, adjustments were not made, but instead asked the Auditors to pass the relevant audit adjustment.

6. Debtors

The Council took note of the Auditors recommendations and done the relevant adjustment.

Pre-regional LES debtors.

The Council took note of the Auditors Recommendations.

Prepayments

The Council took note of the Auditors Recommendations.

Long Outstanding receivables

With regards to the issue of DJS Trading Ltd the Council had discussed this during a Council meeting, and subsequently, continued discussing this with the legal representative of the Council, thus the Auditors are partially incorrect in their statements.

The Council took note of the other recommendations were applicable.

Debit Balances in creditors' list.
The Council took note and adjusted accordingly.

7. Inventory

Stock List.
The Council took note of the Auditors Recommendations

Net Realisable value of inventory.

The Auditors are totally incorrect when stating that the books are held primarily for free distribution. This is due to the fact, that the Council has produced the Publications primarily for resale purposes, and thus the intentionally have a realisable value. However, the Council appreciates that these are slow moving, but not that have no realisable value.

8. Bank and Cash

Bank reconciliations
The Council acknowledged the Audit adjustments. In addition, the Council has performed further reconciliations and has solved this difference.

Bank Statements
The Council took note of the Auditors recommendations.

Stale Cheques.
The Council took note of the Auditors Recommendations

Cash Count
The Council took note of the Auditors Recommendations

9. Trade and other payables

Long Outstanding creditors
The Council took note of the Auditors Recommendations

Trade Creditors
The Council took note of the Auditors Recommendations

Accrued expenditure
The Council took note of the Auditors Recommendations

10. Grant Accounting

Release of grants to income

The Council took note of the Auditors recommendations

11. Financial Statements

Presentations of Financial statements

The Council took note of the Auditors recommendations

Financial disclosure requirements by Local Council Procedures

The Council took note of the Auditors recommendations

Cash Flow statements

The Council took note of the Auditors recommendations

Contingent liability

The account in question is a dormant account, and thus the Council could not have identified this issue. Upon being raised, the Executive Secretary immediately performed the necessary investigations, and it transpired that a guarneshee order going back years, had not been reversed erroneously even though the Court of Justice had ordered so following the winning of a Legal issue by the Council. Subsequently, the required action was taken and by the time of submitting this document, the matter has been solved.

Contingent asset

The Council took note of the Auditors Recommendation

Capital Commitments

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

12. Schedule of Payments

The Council took note of the Auditors recommendations.

13. Administration

Duration of meetings

Whilst appreciating that the Council took note of the Auditors recommendations, it is worth mentioning that the meeting duration was exceeding by 15 minutes.

14. Annual Administrative Report

The Council took note of the Auditors Recommendations.

15. Annual Budget

The Auditors might be misleading in their Statements. The Council has always operated according to best practices and good Government. The issue creating such a discrepancy for the Council in the Auditors working is most resulatant from the depreciation which were not included in the budget and that amount to more than €90,000. Further evaluation of the Annual budget, one can easily point out that the Council has managed to decrease its expenditure, when compared to the same budget.

16. Quarterly Financial Reports

The Council took note of the Auditors recommendation in relation to the Quarterly Financial Reports.

On the other hand, whilst appreciating the Auditors recommendation of uploading documents within three working days, it is imperative to note that the Council uploads all documentation generally within 24 hours, and thus is more than satisfying the request placed in the mentioned memo.

17. Books of accounts

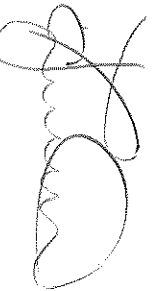
The Council took note of the Auditors recommendations.

18. Conclusion

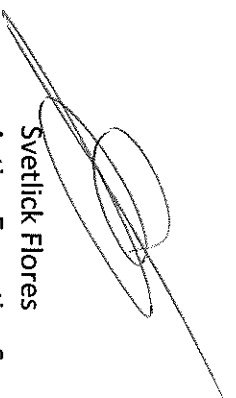
The Council appreciates the works of the Auditors, and has done the utmost to facilitate the Auditing Process, respecting the Good Governance Principles. This has resulted in having a fair report.

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

Signed:



Davina Sammut Hill
Mayor



Svetlick Flores
Acting Executive Secretary

Date: 9th June 2016