

## **Audit 2015**

### **Reply to Management Letter**

#### **Section 2.1 Local Enforcement System**

The Gharghur local council has no control over the North Joint Committee and cannot be held remotely responsible for the lack of audited accounts by them. It is important to note that the Committee is headed by a president and an executive secretary who are responsible for such documents. The responsibility falls fully on DLG to ensure compliance by the committee, as it would have, had the council failed to comply to this requirement.

#### **Section 2.2 System of invoicing**

The Council would like to clarify that with effect from the year 2014 it had started to issue invoices on credit via its Sage Line 50 accounting software and it has by and large done the same in the year under review. We also regretfully note that there were some rare occasions when there was an unfortunate departure from procedure, which we will try to avoid a repetition thereof.

#### **Section 2.3 Applications for Permits**

It has been positively noted that all permits are registered in a log of records, assigned a unique reference number and issued with an official receipt. The council agrees to recommendations that the reference number is quoted on receipt. It is also positively noted that, despite the possibility of human error in the issuing of such permits, none were found in the audited sample. The council has in the past considered a software package for the issuing of such permit, however due to the small size of the council and the relatively small number of permit, this would be highly uneconomical due to economies of scale.

#### **2.4 Methodology of Income Recording**

We have taken note of the recommendation by auditor and will ensure that next year we will avoid the aggregation of multiple nominal ledger accounts in one "general income" heading in the Statement of Income and Expenditure.

#### **2.5 Administrative reimbursement for LES fines collected**

Council takes note of the importance of printing LES report 483 every quarter and reconcile the resultant figure with the books and also report any unusual variances or discrepancies to Loqus agents.

## 2.6 Income from Cultural Events

The council does organize cultural and social activities as is permitted by the local council act. No activity has been organized which has left a surplus for the council. Notwithstanding, the council agrees to recommendation that a financial report is prepared after every event organized.

## 2.7 Income from sale of tender documents

Council takes note of the recommendation by auditor to reconcile the income from sale of tender documents (nominal ledger account 0067) with the schedule of bids receive.

## 3 Personal Emoluments

During 2015 the council at any given time had 2 full time employees, 1 part time executive secretary, 1 mayor and 4 other council members who are remunerated once every 6 months. This hardly justifies the expenses to maintain a payroll system. Human / input errors are possible in a payroll system and also in manually drawn payroll.

With regards to the performance bonus paid for 2015 the following applies:

Clerk was awarded a 5% performance bonus on basic income of 2015

Executive Officer was awarded a 6% performance bonus on basic income of 2015

Executive Secretary was awarded a 10% performance bonus on basic income of 2015

A variance of 1088 between the amount declared to CIR as per FS5's and the entries in the general ledger could be either that a mathematical mistake in the FS5 documents workings or a mathematical mistake that resulted in a lower payment to a salaried employee. This is being investigated.

## 4 Hospitality Expenses

The only comment that I can make here is that any cleaning material that is identified as such is already being posted to nominal ledger account no 2220 whereas groceries and other hospitality is being appropriately shown under nominal ledger account no 3310.

### 4.1 Purchase request forms and purchase order forms

Occasionally, due to the urgent nature of some procurement, a Purchase Order can be overlooked. Purchases such as the Christmas staff party and the Christmas decorations, a Purchase order beforehand is virtually impossible. It has also been noted that out of the 18 list cases where no purchase order was issued, 7 cases were actually issued with a purchase order.

### 4.2 Inappropriate documentation

It is favourably noted in the Management Letter that "the Council's administration was very persistent in chasing VAT receipts". We will continue doing so.

#### **4.3 Direct Orders**

The council acknowledges the purchase of 1260 euro worth of ironmongery goods for the year 2015. As also correctly stated, councils cannot procure, on a direct order, in excess to 1165 euro within a 4 month period. It is important to point out that the amount of 1260 euro was procured over a period of 12 months, and in those 12 months there was never a period of 4 months where the amount of 1165 was exceed.

#### **4.4 Tendering procedures**

Measures will be taken to replace still valid bid bond with performance bond. Measures will also be taken regarding signing of contract.

#### **4.5 Contract for street lighting repairs**

The council presently procures its street lighting requirement through the Street lighting joint committee which is responsible for the issuing of tenders.

#### **4.6 Invoices not agreeing with Bill of Quantities submitted with Tender Documents**

Measures have been taken to recap amounts erroneously over paid by Council.

#### **4.7 Expense claim forms**

Expense claim forms are claims associated with expenses incurred by council member during the execution of their duties. This had not occurred during 2015. The claims mentioned in management letter refer to purchases done by council member on behalf of council and approved by council from vendors that do not accept payment by invoice. These amounts would exceed 23.29 euro limit for petty cash, so such re imbursement of expenses would be listed in the schedule of payments. The number of such claims is very limited as most expenditure pertaining to cultural events is very much well planned out beforehand.

#### **4.8 Quantity Surveying**

The council has the services of an architect which is engaged on a period contract basis. As already referred to in point 4.6 the total bill for ironmongery supplies totaled 1260 for 2015. The cost required to engage quantity surveying would in most probability exceed the actual cost of the material purchased. Random checks are conducted by council personnel to ensure that material delivered on site tally with invoice by supplier. The council has also adopted a system of purchase orders for ironmongery purchases.

#### **4.9 Hospitality expenses**

The council acknowledges the expenditure of 184 euro for hospitality per month. A separate 2220 nominal account is kept for cleaning materials, however given that most of this material is purchased along with actual hospitality supplies, the global amount is attributed to nominal account 3310.

It is important to note that this hospitality cost includes: The running of the office, including 3 internal social committees, and a substantial amount of cleaning cost. The council does not sub contract any cleaning works to third parties, so material required, is purchased directly by council. As correctly pointed out, the council does its best to keep its cost to a low minimum. It does however have its reservations on the statement that "it refrains from hiring certain important services".

It is also misleading to compare the hospitality cost as a percentage to the overall budget of the council. The cost associated with the running of an office of a small council varies very little with that of a large council. A council with a budget 4 times that of Gharghur would not have 4 times the cost.

## 5 Property, Plant & Equipment

### 5.1 Reconciliation of the Fixed Asset Register and Nominal Ledger

This would require a massive job which will have to go back from the council's inception. The same applies to point 5.2

### 5.3 Capitalisation of Projects

The Council takes note of the recommendation that for future long term projects expenditure should be transferred to a specific "asset under construction" account and then transferred to its proper fixed asset account – whilst being backed up by a spreadsheet showing the items of expenditure duly being transferred and recorded.

### 5.4 Accounting for Government Grants

With regards to the issue relating to the accounting for the grant receivable in respect of comfort chairs and also the resurfacing of Sqaq il-Mahruq, which were the subject of an audit adjustment by the auditor and accepted by the Council, we have sought an explanation from the Council's Accountant who explained that this arose due to a human misunderstanding that occurred with regards to the receipt or not of such grants, with the Executive Secretary during the course of finalizing the accounts.

With regards to the second issue arising under this section wherein the auditor states that "unfortunately, for an unknown reason, the Council's Accountant did not follow our proposed audit adjustments but addressed.....funds", the Council notes that the Accountant has opined that he feels that such statement is highly unethical and does not reflect reality. In fact he stated that the auditors' adjustments with regards to grants were accepted by him and the Council and that he duly amended the accounts. This objection of the Accountant is supported by the following trail of emails that he forwarded to the Council which show that:

26/05/16 – Auditor sent to the Council an email with regards to changes to the amount released re grants to Income Statement

27/05/16 – Accountant replies that he is of the opinion that as a result of these adjustments further adjustments should be made

28/05/16 – Auditor recommends that any further journals/adjustments suggested by Accountant are kept separate from audit adjustments

31/05/16 – Auditor confirms that no further adjustments are to be made and he will be re-applying the tests on grants

03/06/16 – Auditor confirms that no further adjustments are to be made

Therefore at NO STAGE did the auditor reject the further adjustments which the Accountant sent to him for his review. He accepted them and then presumably re-applied some tests, disagreed with the (all or some!??) suggestions by the councils' accountant and unilaterally decided to include such disagreement in the management letter!!! To add insult to injury, he interpreted the errors made in the accounts, which he correctly identified and amended via his audit adjustments, as a fundamental error and leapt to the conclusion that this was due to the fact that "the Council is adopting a hybrid approach between the Capital Approach and the Income Approach of IAS21". This is clearly an exaggeration and the fact that the Council accepted all changes proposed by the auditor, there is definitely no room for any audit qualification in this regard.

Furthermore, the Council also notes that the auditor in his management letter mentions a variance to note 15 of €19,069 and stated that this "variance could not be explained". The Council feels that such comments in the management letter could have been avoided altogether if the auditor had corresponded with and asked pertinent questions to the Accountant. Such communication was totally lacking and therefore the Council's Accountant was not aware of such findings and could not answer in any way.

Finally, we would like to note that we confirm that the same auditor in his management report for the financial year ended 31/12/2013 had provided the Accountant with a Schedule of Grants, which schedule was kept in use by the Accountant for the years 2014 and 2015. The Council feels that the role of the auditor is very much appreciated especially when he puts his knowledge and expertise to put forward positive criticism and dialogues with the Council's Accountant to improve the situation rather than resorting to comments in the management letter only.

#### 5.5 Capital Expenditure against Revenue Expenditure

Council takes note of the capitalisation of a number of items of expenditure, however, it disagrees that the perviously capitalisaed christmas tree for council, costing €135, should have been reversed to income statement on the basis that this has a useful economic life exceeding one year and its value is in excess of €100.

#### 5.6 Capital Commitments

Unfortunately this mistake arose due to the fact that DConsulta was not involved in the preparation of the council budget as previously done and this led to the exclusion of capital commitments and to the use of an inappropriate template for the compilation of the Budget. The Council's accountants have now

transposed the agreed budget figures in the appropriate format which can now be properly uploaded on the Council's website.

#### 5.7 Depreciation Rates & 5.8 Impairment of property, plant and equipment items

The Council takes note of the points raised by the auditor however it would like to clarify that the depreciation workings that are reflected in the final accounts of the council are not being prepared on the basis of the Fixed Asset Register but are worked on a spreadsheet kept by the Council's Accountant that is at year end communicated to the auditor for his review.

#### 5.9 Certification of projects and EU Funding claims

A statement from ELC Ltd will be requested to determine if this amount is pending or not.

#### 5.10 EU Funding under Measure 125

Estimate at funding application stage was done by the Council's architect. Due to the competitive nature of the market, the actual tendered price was well below the architect's estimate. All efforts were taken to make use of the pending balance unfortunately there was no sufficient time.

#### 5.11 Insurance Coverage

The Council would like to point out that the insurance coverage under Traders Combined Policy will be updated yearly based on the previous year's values.

#### 6.1 Stock of books

Books stock are taken at the end of each year and all sales of books are recorded. During 2015 no purchase of books was done.

#### 7.1 Collection of receivables and provision for doubtful debts

Council has taken note of the recommendation to test the impairment of receivables for doubtful debts on a periodic and systematic basis.

#### 7.3 Amounts due from the Local Enforcement System

Noted

#### 8.2 Petty Cash Transactions

The Council takes note of the recommendation to reconcile the petty cash more frequently and also not to exceed the set threshold for single payments from petty cash box. It would seem that amount of 192.92 was erroneous not attributed to any particular reimbursement account on SAGE. Given that claims for petty cash and cheques for reimbursement tally, the 192.92 was entered under repairs and upkeep.

#### 9.1 Reconciliation with Suppliers

The Accountant of the Council has confirmed that full reconciliations with main and recurrent suppliers, such as WasteServ, GO and others, was duly carried out at year end. It is unfortunate that many suppliers do not have a proper system of issuing statement of account thus making the recommended periodic reconciliations quite difficult to identify. However, it has to be noted that the Council is a relatively prompt payer and as such any problems or discrepancies can be easily identified by the supplier himself upon receipt of payment.

#### 9.2 Accrued Expenditure

The Council notes that there were a number of invoices which were not included in the list of accruals at the time of compilation of the accounts in January and February 2016 and this due to the fact that these were not yet available or received by council. We also note that given that the audit process was commenced much later more invoices were received and made available to the auditor, thus leading to the necessary audit adjustments.

#### 10.1 Chart of Accounts

A process of "closing" a number of nominal ledger accounts was carried out during 2014 and thus the current Chart of Accounts is a significantly curtailed version of the previous one used in the accounts for year ending 31 December 2013.

Whilst noting the persistence of the auditor to further curtail the chart of accounts, the Accountant of the Council is hampered by lack of specificity in this advice which leaves him no option but to continue using the same nominal codes used so far. It is most unfortunate that the auditor has in his audit adjustments used nominal codes that are no longer in use by the council necessitating that these adjustments are posted to the respective one currently in use.

#### 10.2 Posting Errors

The Council's Accountant has confirmed that the postings to nominal ledger are regularly and attentively scrutinised by him during the process of the quarterly financial report preparation phase and notes that the analytical review carried out by the auditor only two discrepancies were noted and this out of approximately some 1,200 entries in the books during the financial year 2015.

#### 10.3 Statutory Documentation

The Council's accountants have now transposed the agreed budget figures in the appropriate format which can now be properly uploaded on the Council's website.

#### 10.4 Approval of minutes

During Council 6, minutes 5 were approved. During Council 7, minutes 6 were approved but inadvertently listed as minutes 5 as can be noticed in minutes 7, 07/03 Punti imtella mill-minuti 6, this was evidently a misprint. The Council notes the meticulous attention given by the Auditor.

#### 10.5 Disclosure of Contingent Liability

The letter from outgoing executive secretary unfortunately was not disclosed to our Accountant at any stage of the preparation of the financial accounts.

#### 10.6 Accountancy work and ancillary contractual obligations

The Council notes observations.

#### 10.7 Disclosures required in respect of certain IFRS

It is normal practice that auditors update the list of IASs underpinning the accounts and inform the council's accountants of any further changes in the notes for us to effect such changes and thus avoid any qualification at all on this ground. Auditors from big or medium firms are always fully au courant with such matters and typically work hand in hand with accountants on such minor details thus avoiding qualifications. I feel that this recourse by the auditor was taken due to the fact that he wanted to rush the finalisation of his work which started very late for reasons which were not connected to or the responsibility of the Council's officials, staff or accountant.

#### 10.8 Financial Statements presentation

The Council notes observations.



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Mayor



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