



Audit 2017

Reply to Management Letter

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.

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. The invoices re administrative recharge of 10% of fines collected are generated from LES v2 Workstation.

2.3 Methodology of income recording

The Council notes the recommendation of the auditor for a more precise classification of income in its financial statements.

2.4 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.

3.1 Application of proper Pay Scales

The Council notes that the particular employee referred to by the auditor with respect to the setting of salaries in line with the relevant government pay scale notches, started the year 2017 under Scale 13 Notch 7 and as from June 2017 her pay was changed to Scale 11 Notch 3. The relative pay of this Assistant Principal was worked on the basis of a 25-hour week.



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3.2 Performance Bonus of the Council's employees

The Council has noted the observations by auditor with respect to the correct calculation of performance bonuses payable to its Employees, that is, on the basis of the last basic salary paid for December 2017.

4.1 Purchase request forms and purchase order forms

The Council would like to note the observations made by the auditor in respect of the issue of purchase request forms for certain expenditure and would like to state that in some cases there were lapses due to the urgent nature of the expense however we would like to note that in many instances mentioned by the auditor in his list of such discrepancies the Council was not required to issue any purchase request forms as the expenditure was in line with the tender previously awarded to the supplier concerned. Cases in point were Dimbros & Correct Termination LTD.

4.2 Inappropriate documentation

The Council would like to reaffirm its commitment to ensure compliance with relevant tax laws, however, in some instances, despite strenuous efforts it was not possible to obtain the required VAT receipt from the supplier. Council has taken note of the recommendation by auditor that defaulting suppliers would not be considered for future procurements if they persist in such behaviour.

4.3 Contract for street lighting repairs

New contract in place for street lighting.

4.4 Jum il-Lokal 2017 Expense

The Council notes the recommendation of the auditor.

4.5 Hospitality & Social events expenses

The Council agrees with the auditor's recommendation to reduce the cost of groceries and other hospitality items which includes: the running of the office, sub-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. A note has been taken to account for cleaning materials separately, under nominal account 2220.



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5.1 Reconciliation of the Fixed Asset Register and Nominal Ledger & 5.2 The Upkeep of the Fixed Asset Register (FAR)

The Council has taken note of the recently issued direction from the Department of Local Government by way of Directive 1/2017 (Reference DLG17/2016) Section 3 Balances on Fixed Asset Register (FAR) and Section 4 Changes to the Method of Depreciation and implementing the changes imposed upon all local councils by way of the above directive, to ensure full compliance. We note that the references made in the management letter and examples given relate to additions of many years back and these matters will be tackled as per options available to Council under the same directive mentioned above.

5.3 Fixed Assets labelling

The Council notes the recommendation of the auditor.

5.4 Accounting for Government Grants

The auditor unfortunately did not provide any reasons for his disagreement with the classification of deferred income between current and non-current and therefore we are not in a position to state whether his contention is right or not. Unfortunately at the time of the preparation of the unaudited financial statements the Council did not have any communication as to the amount receivable as further grants in respect of Gnien ta' Zaghruna and it is our policy to only account for accrued income when such amounts are verifiable.

However, with regards to the general comments relating to Grants and Deferred Income, the Council would like to note that it has taken note of the recently issued direction from the Department of Local Government by way of Directive 1/2017 (Reference DLG17/2016) Section 3 Balances on Fixed Asset Register (FAR) and Section 4 Changes to the Method of Depreciation and implementing the changes imposed upon all local councils by way of the above directive, to ensure full compliance.

5.5 Capital Expenditure against Revenue Expenditure

Council takes note of the recommendation that a speed humps costing €2,188.09 should have been capitalised instead of shown as a recurrent expense during the year due to their durability and long term nature.

5.6 Categorisation of assets and depreciation thereof

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



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at year end communicated to the auditor for his review. The implementation of the relevant parts of Directive 1/2017 would go a long way towards eliminating all concerns with respect to the calculation of depreciation. The issue of such Directive is tangible proof of the fact that such issues are endemic to the vast majority of local councils and this Council is not immune to this persistent problem that accumulated over the years.

It also notes the observation by the auditor that the BOV ATM works should be classified under Property rather than Urban Improvements.

5.7 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, by the Executive Secretary prior to renewal.

6.1 Insurance on stock of books

The Council has addressed the matter during the year.

7.1 Collection of receivables and provision for doubtful debts

The Council notes the comment made by auditor with regards to the recoverability and possible legal action regarding overdue debtor balances which comprised the following at year end:

	<u>Amount</u>
	€
GreenMT	4,472.08
Gozo Region	59.33
WCS	1,042.13
Xlokk Region	50.06
SRF	70.00
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Total Provision at year end for doubtful debts (amounts outstanding for 1 year and more)	5,693.60

7.2 Accounting for Prepayments and Accrued income

The Council notes the adjustment made to accrue for grants arising from the Northern Region and from the Planning Authority in respect of road resurfacing and Gnien ta' Zagħruna respectively. It must be



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noted that the Council does not recognise such amounts unless the amounts are verifiable and known at the time of the preparation of the unaudited financial statements for the year.

With respect to the PPP agreements entered into by council during 2011-2012 with the Gharghur Football Club and the St. Bartilmew Band Club, we note that the auditor confirmed that these agreements were approved by the Ministry of Finance and the Department for Local Councils and entitle the Council to make use of sports facilities and musical services in advance for a period of 10 years and 5 years respectively.

The Council notes the comments made by the auditor under the sub-section Issues Arising in which he states that “in our opinion, the prepaid amount to be released to income and expenditure for future years, should be reclassified as a prepayment”. We would like to refer to the previous year’s management letter in which the auditor had stated in the sub-section Issues Arising under section 7.2 Prepayments, Accrued Income and PPP Agreements” in which the auditor had stated the following - in our opinion, the prepaid amount to be released to income and expenditure for future years, should be reclassified as prepaid expenditure”.

In this context, the Council would like to clarify that in this year’s financial statements such balances on the two agreements with the Gharghur Football Club and the San Bartilmew Band Club, were properly classified in the financial statements as Prepaid Expenditure in Note 14 Trade and Other Receivables, Note ii – Prepaid Expenditure of the Audited Financial Statements for the year ending 31 December 2017. For this reason, we would like to question as to why this matter was re-instated in the management letter of this year when this matter was duly settled and resolved in prior years that is in 2016. The Council therefore cannot understand the comment by the auditor that it is “treating this prepayment as a PPP Grant Made by Council” as Note 14 (ii) goes further to clarify as reproduced below:

“Includes prepaid expenditure relating to PPP grants made by council to two local organizations, Banda San Bert and Gharghur Football Club, which is being amortised over the respective periods of the agreements. This prepaid expenditure is for future use of musical and sports services and facilities. The closing balances on these PPP grants amounted to €4,100 at year end (2016: €5,300)”

The above reproduction of this Note clearly shows that this note is in line with the recommendations of the same auditor in prior years.

However, Council does take note that such prepayments should be duly discounted in line with the requirements of IAS 39.



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7.3 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.

8.1 Petty cash balance

The Council notes the recommendation of the auditor to ensure that petty cash is reconciled regularly and that the cash float is adequately topped up. The Council replies that this is being done regularly and the fact that the balance at year end in the books was zero at year end was only due to the fact that the reimbursement cheque numbered 660 for the balance was issued in early January and thus this was a temporary difference and the cash float was reinstated as soon as this cheque was duly approved, signed and cashed.

9.1 Reconciliation with supplier statements

The Accountant of the Council has confirmed that full reconciliations with main and recurrent suppliers, 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 the Accountant of the Council has made the necessary effort to ensure that as much as it is humanly possible invoices pertaining to current year are duly recorded in the same year. It must be noted that there is a logical cut-off date by which the Council has to stop posting in Sage to allow for the preparation of year end journals relating to accruals, prepayments, accrued income and other journals for the year. The instances mentioned by auditor relate to the accruals for the preceding year and it is clear from the dates of the mentioned invoices, dated February, March or April 2016 that such invoices were not in hand. However, it must be noted the Accountant and the Executive Secretary always make an exercise to try to identify as much as possible any expenses relative to the preceding and make best of judgements estimates of their quantum as far as is reasonably possible.

10.1 Chart of Accounts

The Council takes note of the recommendation to further curtail the list of accounts and this specifically to deferred income accounts. This will be done as part and parcel of the implementation of Directive 1/2017 issued by the DLG which has heralded a radically different method of accounting for deferred income as from the financial year 2018.



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 during the financial year ending December 2017. The other observation related to the issue of the petty cash reimbursement which has been adequately explained as a temporary timing matter in section 8.2 of this reply to the 2017 management letter. On the other hand the other point refers to the previously mentioning of the capitalisation of street humps under urban improvements.

10.3 Statutory documentation

The Council notes the recommendation of the auditor.

10.4 Accountancy work and related controls

The Council disagrees with the observation made by auditor that fundamental reconciliations were not carried out during the year and notes that his point is not even substantiated. The "unidentified balances" mentioned in the same observation are also not clearly specified and not alluded to in any other part of the management letter. The Council notes that the observations made by the auditor are of a routine and ordinary nature which one would not expect from a statutory audit exercise. It is also pertinent to note that this section seems to have been included again without any basis and strangely enough does not allude to the changes made by the Council's Accountants to rectify points raised in previous management letters.

10.5 Opening Balances

The Council's Accountants have assured us that the opening balances in Sage were in full agreement with the final audited figures for 2016 and therefore cannot understand why such unsubstantiated observations are made in the management letter, especially when the purpose of such letters is for the auditor to raise points for management to improve its accounting and compliance functions.

11.1 Disclosures in respect of certain IFRS

The Council notes observations made by auditor in this section and confirms that the necessary categorisation of non-current liabilities will be disclosed in future financial statements and that a proper accounting policy for intangibles will also be spelt out in the same.



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11.2 Financial Statements presentation

The Council notes the observation made by the auditor that the Council should ensure that any adjustments undertaken in the books need to be reflected in both accounts ledger and financial statements simultaneously to avoid variances arising.

All other points raised were duly reflected in the final audited financial statements for the year by the Accountant of the Council.

Giljan Aquilina
Mayor

Maria Tanti
Executive Secretary