

KUNSILL LOKALI HAL LIJA

TRIQ ROBERT MIFSUD BONNICI

HAL LIJA

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The Director
Department for Local Government
26, Archbishop Street,
Valletta VLT 1443

13th June 2018

Ref LLC/June 01/18

Dear Mr. Galea,

REPLY TO MANAGEMENT LETTER DATED 29th APRIL 2019 FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2018.

Reference is made to the Auditor's management letter dated 29th April 2019, which was received at the council by post on the 3rd of June, 2019. In terms of Section P2.05P (d.02) of the Local Councils (Audit) Procedures 2005, on behalf of the Lija Local Council, We are presenting herewith the following comments on the raised points

As a follow-up, the Council has made sure to address all the issues raised in the management letter:

CURRENT YEAR ISSUES

2. INCOME

Annual Government Allocation

2.1 - 2.2 – As suggested in the management letter we agreed with the reclassification and actioned accordingly.

Regional Committee surplus

2.3 -2.4 – As suggested in the management letter we agreed with the reclassification and adjusted accordingly in the final set of financial statements

2.5 – The Council is aware that there are remaining funds (Euro 6,632) allocated from the Central Regional Committee to deferred income. In the coming months, the Council will surely present to the Central Region Committee, for approval, various repair works carried out around the whole village, which might include:- new equipment in play areas, signs, mirrors, sleeping policemen, bollards and road markings etc. With any remaining balance or future distributions if any, the Council is keen to account for them on the matching concept obviously keeping in mind various projects in relation to the embellishment of the whole village.

Advertising Income

2.6 - 2.7 – As suggested in the management letter we agreed with the adjustment and reflected it accordingly in the final set of financial statements.

Accrued Income

2.8 – As suggested in the management letter we agreed with the reclassification and reflected the adjustment in the final set of financial statements.

3. EXPENDITURE

Tendering process

3.1 - 3.2 – With immediate effect, the Executive Secretary, will work on implementing a system whereby the declaration of impartiality and confidentiality will be signed by all evaluators of the Evaluation Committee, including the Chairperson and Secretary.

The Executive Secretary shall make sure that the Evaluation Committee is always composed of a Chairman, a secretary and three or an odd number of evaluators.

Moreover, all members of the tender evaluation committee shall be instructed by the Executive Secretary to provide a curriculum vitae as stated in Directive 1/2016.

The remark made by the auditors with regards to the performance guarantee has been duly noted and the Executive Secretary will take adequate measures for this to not happen again.

On behalf of the Council, the Executive Secretary promises to do her utmost to ensure that Directive 1/2016 is followed to the full at all times in the future.

Insurance

3.3 – 3.4 – As the auditors remarked, the council's motor vehicle is currently insured under a third-part policy and this goes against Circular 33/2016, which requires all motor vehicles to be insured at

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their market value under a comprehensive policy. In this regard, the council made immediate contact with the insurance company so as to insure the motor vehicle as required by this circular. However, irrespective of the council's effort to be in line with this circular, the insurance company confirmed that the said vehicle can never be insured under a comprehensive policy. Reason being is that a comprehensive cover can never be offered to a motor vehicle being more than 10 years old.

Rent Contract

3.5 – Once again, this matter was also pointed out in last year's management letter and as we commented last year, here again we are repeating ourselves. The Council is aware that there was no official rental agreement during 2018. However as was noted and remarked by the auditors, the Council entered into a rental agreement effective from 1 January 2019. In the meantime, the Council is always exploring other options with regards to the renting of office space which up to current date resulted in the negative.

Budget vs actual expenditure

3.6 – 3.8 – With regards to the capital expenditure incurred during 2018, the Council would like to point out that such expenditure was not foreseen when the budget was prepared. The Council is aware that while preparing a budget, this needs to be as fair as possible. In fact we do our utmost to ensure that the yearly budget is prepared as such. One must point out that the variance in the income from the budget was generated through the allocation given by Government, which at budget stage was not yet identified. The policy of the Council is that it matches the expenditure with the income, so once income was coming in over the budgeted figure, the Council during the year tried to give priority to certain expenditure to ensure the ongoing upkeep of the village. Also one must point out that during the year, a number of tenders were issued and rewarded at lower rates than in previous years so savings in certain contracts did materialize during 2018.

Accruals and Prepayments

3.9 – 3.11 – The Council accepted the comments passed by the Auditor with regards to the accruals and prepayments and did the necessary adjustments in the financial statements accordingly. In the future, the Council will do its utmost to pay more attention to the issue of prepayment and accruals

Procurement

3.12 - 3.13 – On behalf of the local council, the Executive Secretary shall be more responsible in adhering to procurement regulations. It has been noted that the council must not renew expired contracts and should always plan ahead in issuing fresh tenders in anticipation of their termination. The Council shall try to avoid awarding provision of services by direct order especially if the service needed is not a very emergent one. The council agrees that 3 quotations should have at least been collected for the provision of services of a qualified accountant.

4. Property, plant and equipment

Fixed assets register

4.1 - 4.2 – As stated in previous management letter reply, the Council was never in a possession of a plant Register and from the information available it's very difficult to compile it. The previous Executive Secretary tried on several occasions to contact the previous accountant and try to retrieve a copy. Only once this information is retrieved, can the present accountant then update the register with 2014, 2015, 2016, 2017 and 2018 additions and make adjustments accordingly. The additions for 2015, 2016, 2017 and 2018 are all on an excel file and are easily available. One must also point out that during the mentioned years not much was invested in capital expenditure so the additions are not that much.

Additions and disposals

4.3 - 4.4 – The Council accepted the comments passed by the Auditor with regards to additions and disposal of fixed assets and did the necessary adjustments in the financial statement accordingly.

Depreciation

4.5 – 4.6 – As noted under the same heading for the year 2017, depreciation for 2018 was once again worked out manually and posted in sage via journal entries on monthly bases. In the future, the present accountant would try to calculate depreciation through the month-end facility of Sage. Once again one must point out that even though it was worked out manually, no major adjustment in the calculations was noted by the Auditors.

5. Bank and Cash

Bank reconciliations

5.1- 5.3– With regards to bank reconciliations, one must point out that the main banking activities of the Council is done through HSBC, in fact two of the accounts are reconciled on a monthly basis and the respective bank reconciliation is even printed, filed and signed with the respective bank statements. The other two HSBC accounts are made up of a fixed account which is renewed every six months and another savings account which has now been amalgamated with the other savings accounts. With regards to the BOV account, this account is not used that much, and statements are not received on a monthly basis and this explains why the reconciliation is not done monthly but whenever the statements are received. In the future, the Executive Secretary will try and ensure that the BOV statements are received on monthly basis so this would enable monthly reconciliations.

These reconciliations besides being prepared by the Accountant preferably prior to the 10th of the following month, are also printed as a hard copy, signed by the Accountant and Executive Secretary and then filed in the respective bank file.

The Council will be extra careful to make sure that this procedure is followed every month and that the policy is adhered to all bank accounts at all times during 2019.

Approval of payments

5.4 - 5.5 – The Executive Secretary confirms that cheque number 13711 was cashed by the supplier prior to the approval of the respective schedule of payments by the council. This cheque, with the sum of €6,500, was in respect of flight ticket expenses in conjunction of a youth exchange project that the council implemented during year 2018. The supplier needed to cash this cheque immediately and if this was not done in a timely manner the council would have lost the booking on the flight tickets. Even though this cheque was cashed prior to the approval of the respective schedule of payments by the council, all council members were aware of this and had no objection.

6. Trade and other payables

Deferred Income

6.1- 6.3 – With regards to the reclassification and the adjustment to the deferred income, the Council accepted the adjustments of the Auditors and reflected them as such in the financial statements. In the future, the Council will try and ensure proper accounting of the deferred income by trying to keep a separate account for each and every source of deferred income generated.

Creditors' statements

6.4 – 6.6 – Prior to effecting a payment to any one particular supplier, the Council does its utmost in requesting a statement. However, since the balances are not much long overdue, it is in very rare cases that the Council receives monthly statements from the respective suppliers. We do urge the suppliers to send us regular statements but very few do. When they do send us statements, reconciliations are done immediately and any variances are followed up.

7. Payroll

7.1 - The Council accepted the comments passed by the Auditor with regards to the cost allocation and classification of the payroll. The proposed reclassification was reflected in the final set of the financial statements.

8. Birkirkara Joint Committee

8.1 – 8.2 – As indicated under these two notes and even more as pointed out in previous management letters, it's true, that the Lija Local Council forms part of the Birkirkara Joint Committee, and even though as per the audited account as at 31st December 2015, it seems that there is an indication of retained earnings and a positive bank balance, but the Council is not in a position to determine what is its share. As a Council the utmost we can do is, to follow up through the Mayor and the Executive Secretary on the matter with the mentioned Birkirkara Joint Committee. In fact, the Council did follow up and chased for the 2016, 2017 and 2018 audited accounts but these have not yet reached us.

9. Financial Statements

9.1 – 9.4 – The Council is aware that the financial statements need to be prepared in line with the IFRSs and that's what we tried to do. In fact prior to submitting the final set of the Financial Statements, a draft version was prepared and the Council, though the accountant did communicate this draft version with the Auditor to see if further notes and adjustments need to be added with the policies listed in the financial statements, however at that time no reference was made to the points listed in 9.1 – 9.4. The Council will promise that in the coming years these points will be taken into account after consultation and discussion with our Auditors

10. Council meetings

10.1 – 10.3 – Points mentioned under this heading were noted and from now onwards councillors who miss any council meeting due to sickness will have to notify the Executive Secretary and also provide a medical certificate. A proportionate deduction shall be taken from the allowance of absent members.

10.4 - It is true that no council meeting was held during the month of August. However kindly take note that the gap between one council meeting and another never exceeded the period of 5 weeks. Even though a council meeting was not done in August, a council meeting took place at the end of July on the 31st and another followed in the beginning of September on the 3rd.

11. Appointment of new Executive Secretary

11.1 – It is true that a change in the Executive Secretary of a local council must be accompanied by an interim audit. In fact the present Executive Secretary, Ms. Georgette Borg had brought this forward to the attention of the councillors during council meeting no 79, but the interim audit was still not approved.

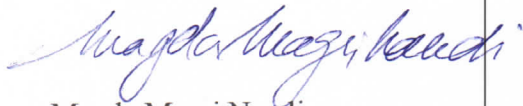
11.2 – This point has been duly noted and for future reference the council shall make it a point in in keeping information on websites up to standard.

Conclusion

As a Council we did our utmost to reply to all points mentioned in the management letter; however should there be the need to further clarifications, don't hesitate to contact us.

The Hal Lija Local Council confirms all of the content above and has discussed and approved the reply for management letter for year 2018, during council meeting no 91 dated 13th June, 2019. The council shall make necessary amendements as outlined in this reply.

Thank you and best regards,



Magda Magri Naudi
Mayor



Pamela Borg
Executive Secretary

cc Auditor General, National Audit Office

Mazars Malta