



## **KUNSILL LOKALI HAL LIJA**

**TRIQ ROBERT MIFSUD BONNICI**

**HAL LIJA**

**TEL NO : 21416111 FAX : 21416941**

Director of Audit  
Audit Office  
Notre Dame Revelin  
Floriana

12th June 2018

Ref LLC/June 01/18

Dear Sir,

### **REPLY TO MANAGEMENT LETTER DATED 26<sup>th</sup> APRIL 2017 FOR THE FINANCIAL YEAR ENDED 31<sup>st</sup> DECEMBER 2017.**

Reference is made to the Auditor's management letter dated 26<sup>th</sup> April 2018. 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**

##### **Regional Committee surplus**

2.1 - 2.2 - As suggested in the management letter we agreed with the adjustment and actioned accordingly. With the remaining funds (i.e. €16,256) in the coming months, the Council will present to the Central Regional Committee, for approval, various works carried out around the whole village, mainly:- signs, mirrors, sleeping policemen, bollards and road markings. With any remaining balance

or future distribution 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 of Lija village.

### **Tipping Fees**

2.3 - 2.4 - 2.6 - As suggested in the management letter we agreed with the adjustment and actioned accordingly. The Council is on the continuous look out to reconcile the accounts between Wasteserve and the balance as per the books of the Council. Infact regular statements are requested from Wasteserve to ensure that all payments are allocated as indicated in the remittance and that the yearly tipping fee is showing and accounted for as should be.

To recover the whole amount overpaid, the Council has resumed in paying any 2018 invoices until the whole amount is recovered.

### **Accrued Income**

2.7 – Regarding UIF funds – It seems that during the 2017 Audit process there has been a change in the accounting treatment with regards to UIF Funds. Infact prior to 2017 UIF funds used to be accounted for as deferred income even though they were not tied to any specific project. During the 2017, the Auditors suggested not to account for UIF funds as deferred income and hence we agreed with the adjustment and actioned accordingly. Still the Local will keep a close monitoring of the accumulated balance with regards to the UIF Funds until enough funds are available to be tied to a specific project to enhance the Village. Once this is done, we would then account for the UIF funds on the matching concept.

## **3. EXPENDITURE**

### **Approval of petty cash expenditure**

3.1 - 3.2 – The comment passed by the Auditors with regards to petty cash schedules was taken note of and with immediate effect the Council is uploading the approved schedule of petty cash expenditure as PDF version with 'IFFIRMATA' instead of including the original signatures in line with Memo 10/2016

### **Tendering process**

3.3 - 3.4 – With regards to this note, the Executive Secretary with immediate effect will definitely implement a system whereby the declaration of impartiality and confidentiality will be signed by the Evaluators, Chairperson and the Secretary of the Evaluation Committee.

The Executive Secretary on behalf of the Council, promises that she will do her utmost to ensure that Directive 1/2016 is followed at all time in the future.

### **Insurance**

3.5 – 3.6 – At the moment the Council is without a motor vehicle, the auditors note regarding the insurance policy coverage will be taken note in the future. However one must also point out that in

certain cases, there are minimum levels below which any Insurance Company will not insure and these facts need also to be taken care off once finalizing insurance coverage.

### **Rent Contract**

3.7 – 3.8 – Once again, this matter was also pointed out in last year management letter and as we commented last year, here again we are repeating ourselves. The Council is aware that no official rental agreement exist however as at today, the Council has in hand is a draft contract presented by the lessor. The Council is also aware that if this contract is to be agreed upon it has to follow the procurement procedure too. In the meantime, the Council is still exploring other options with regards to the renting of office space which up till to date resulted in the negative.

### **Budget vs actual expenditure**

3.9 – 3.11 – With regards to the capital expenditure incurred during 2017, the Council would like to point out that such expenditure was incurred since the office printer needed replaced and such expenses was not foreseen when the budget was effect. The Council, is aware that while preparing a budget, this needs to be as fair as possible. Infact 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 the Government. Which at budget stage was not yet identified. The policy of the Council is that it matching expenditure with income so once income was coming in over the budgeted figure, the Council during the year tried to giving priority to certain expenditure to ensure the ongoing upkeep of the Village. Also one must point that during the year a number of tenders where issued and rewarded at a prior lower than in previous year so savings in certain contracts did materialize as such too.

### **Other Expenses**

3.12 – 3.14 - With regards to these two notes and adjustments, the Executive Secretary will adopt more controlling procedures to ensure that Suppliers' invoice are proper done in line with the tender documents' offer and prices. And that each and every invoice reflect the services rendered and no extra charged are incurred unless authorized.

The Council was able to negotiate a repayment schedule with both Suppliers so the over payments effected will be deducted from the 2018 invoices. The Executive Secretary will do her upmost to sure that such error will not happen again.

### **Accruals and Prepayments**

3.15 – 3.17 – The Council accepted the comments passed by the Auditor with regards to the accrual and prepayment and did the necessary adjustments in the financial statements accordingly even though the net effect to the bottom line was very minimal. In the future more attention would be given to the issue of prepayments and accruals.



#### **4. Fixed Assets**

##### **Fixed asset register**

4.1 - 4.2 – As stated in the previous management letter reply, the Council was never in a possession of a plant Register. The Executive Secretary tried on several occasions to contact the previous accountant maybe a copy is retrieved. Once this information is retrieved, the present accountant would then update the register with the 2014, 2015, 2016 and 2017 additions and adjustment accordingly. The additions for 2015, 2016 and 2017 are all on an excel file and easily available. One must also point out that during the mentioned years not much was invested in capital expenditure so the additions are not much.

##### **Depreciation**

4.3 – 4.4 – As noted under the same heading for the year 2016, depreciation for 2017 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.

##### **Impairment**

4.5 – 4.6 – This point is noted by the Council who will commit itself to assess all its assets on an annual basis to ensure that all value of assets is in order. However one must point out that in the case of the Motor Vehicles, when the first draft of the financial statements were issued the Council was not yet aware that the mentioned Motor Vehicles was beyond repair and the decision to scrape the vehicles was taken in 2018 after the first draft of the financials were issued.

#### **5. Bank and Cash**

##### **Bank reconciliations**

5.1- 5.2– With regards to bank reconciliations, one must point out that the main banking activities of the Council is done through HSBC, infact two of the accounts are reconciled on a monthly basis and the respective bank reconciliation 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 other savings account which has now been amalgamated with the other savings account. 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 bases so this would enable monthly reconciliations.

These reconciliations besides being prepared by the Accountant preferably prior to the 10<sup>th</sup> 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 2018.

## **7. Trade and other payables**

### **Deferred Income**

6.1- 6.4 – 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**

6.5 – 6.6 – The Council as much as possible tries that prior to effecting a payment to any one particular supplier, they request a statement, however since the balance are not much long overdue in very rare cases do the Council receive 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 do immediately and any variances followed up.

### **Debit balances in payables**

6.7 – 6.8 – The adjustment on this matter proposed by the Auditors was accept by the Council and reflect in the final version of the financial statements. In the future, the Council will try and monitor better the list of Suppliers to ensure that non will show a debit balance.

## **7. Birkirkara Joint Committee**

7.1 – 7.2 – As indicated under these two notes and even more as pointed out in previous management letter, 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 31<sup>st</sup> 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 and 2017 audited accounts but these have not yet reached us.

## **8. Financial Statements**

8.1 – 8.3 – The Council is aware that the financial statements need to be prepared in line with the IFRSs and that's what it tried to do. Infact prior to submitted the financial draft of the financial statement, the Council did communicate with the Auditor to see if further note need to be added with the policies listed in the financial statements and at that time no reference was made to the fact that IAS 7, IAS 8 and IAS 39 was not included so it was a surprise to the Council how these are not being feathered in the management letter. However the Council will promise that in the coming years these will be taken into account after consultation and discussion with our Auditors.

## **9. Budget and business plan**

9.1 – 9.2 – The reason why in the budget there is no mention to any capital expenditure is due to the fact that as much as possible the Council intend to spend the Government Grant and income from

permits for the day to day operation of the Council and the normal up keeping of the Village. If then extra funds are made available then yes these would be used for Capital Expenditure purposes.

#### **10 Council meetings**

**10.1 – 10.2** – The point mentioned under this heading was noted and from now onwards any council meeting missed due to sickness will have to be supported with a medical certificate. The comment pointed out re the deduction of €100 would be taken into consideration and if need be rectified during 2018

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 doesn't hesitate to contact us.

Thank you and best regards,



Magda Magri Naudi

Mayor



Georgette Borg

Executive Secretary