



## **KUNSILL LOKALI HAL LIJA**

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**HAL LIJA**

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Director of Audit  
Audit Office  
Notre Dame Ravelin  
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13 July 2016

Ref LLC/July 01/16

Dear Sir,

### **REPLY TO MANAGEMENT LETTER DATED 12<sup>th</sup> MAY 2016 FOR THE FINANCIAL YEAR ENDED 31<sup>st</sup> DECEMBER 2015.**

Reference is made to the Auditor's management letter dated 12<sup>th</sup> May 2016. 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 (that is Euro 8,753) the Council approved a number of projects to be carried out during 2016. These include: - road markings, traffic mirrors, enhancement to the Council Website including uploading of new photos, patching of Hal Mann area, repair to street lighting in Transfiguration Avenue and zebra crossing lights in the same Avenue.

### **Income from LES administration fee**

2.3, 2.4-2.5 - Once again, the points/adjustments suggest by the Auditors prior to the issue of the final set of financial statements were actioned. With regards to debtors balances we would like to point out that the Finance Committee meets on regular bases and debtors' balances are analysed and discussed accordingly.

### **Tipping Fees**

2.6-2.7 - Following the recommendation of the Auditors and even after clearer explanation of the accounting treatment re the tipping fees, the Council will during 2016 change the accounting treatment re this matter. In fact based on the 2016 allocation, tipping fees amount to Euro1,203 per month and the difference between the amount billed by Waste Serv and this figure will be treated on a monthly base as accrued income.

### **Live streaming**

2.8-2.9 - As indicated in the Management letter, the proposed audit adjustment was affected and actioned in the final set of financial statements.

### **Government subvention**

2.10–2.11 - The adjustment was rectified and adjusted accordingly. During 2016, the Government Subvention is posted in Sage, gross. In fact when the subvention is received this is reconciled with the respective bank statements and posted accordingly if any deductions are affected from the Government side these are recorded in the respective expense account.

## **3. PAYROLL**

### **Councillor allowances**

3.1 - 3.2 – With regards to the deductions done in the councillor allowance for 2015 relating to the missed meetings of 2014, the Council will through the present accountant, work out these deductions to confirm what is stated in note 3.1. Once these workings are reconciled, they would then be presented for approval and actioned during the Council Meeting. Based on the decision of the Council Meeting, if need be any over deduction would be reimbursed back and included as a separate note in the respective councilors' payslip of 2016.

### **Allocation of salaries**

3.3 - 3.4 - The reclassification and adjustments proposed were actioned and noted. During 2016 we will try as much as possible to allocate the monthly salaries and allowances in line with the Auditors reclassify to avoid reconciliation differences.

## **4. EXPENDITURE**

### **Petty cash expenditure**

4.1 - 4.2 - Petty Cash expenditure – The comment passed by the Auditors with regards to petty cash chits is an ongoing issue which the Council is facing every year. The Council tries it's best to ensure that petty cash expenses are supported by tax invoices or fiscal VAT receipts as much as possible; however, most of the times this is beyond the Council's control since the respective supplier normally opt to issue a cash register chit to back up the expense.

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

4.3 - 4.4 - The comment by the Auditor is noted. With regards to the petty cash payment, the procedure in place is now as follows: all petty cash payments are included in the payment schedule and the itemized list is also presented to all councilors during every Council Meeting. The Executive Secretary will also include a meeting minute to cover petty cash payment and will also start uploading the approved petty cash payments together with the minutes and other schedules on the respective site.

### **Missing Tender File**

4.5- 4.6- With regards to this matter, the Council had filed a police report and action is being taken accordingly. Also the Councillors, and council staff are well aware that council documents and files cannot be released from the Council premises.

### **Tender – Cleaning and upkeep of public convenience – LLCT02/2015**

4.7- 4.8- With regards to this note, the Council is quite well aware that once a tender is awarded by the Council, a guarantee need to be obtained in accordance with the Local Councils (tendering) Procedures. In fact with regards to the Tender awarded to Carmel Desira for the cleaning and upkeeping of public convenience, mentioned under this heading – the Council through the Executive Secretary is chasing Mr Desira to present the mentioned guarantee in fact a deadline till the end of July was given to Mr Desira to present the mentioned guarantee.

### **Insurance**

**4.9-4.10-4.11** – Following the comments made under this heading, the council members has met with Insurance Brokers to find ways how to rectify the situation and ensure that the Council's assets are appropriately insured. The Insurance Brokers guaranteed that they would send the Council quotes to update the present insurance policies. It was also agreed with the broker that every year prior to renewing the respective insurance policies a periodical review is carried out to assess the adequacy of the Council's Insurance coverage

## **Expired Contracts**

4.12 - 4.13 – The comment under point 4.12 is correct and yes during the audit field work, the Council was still using the services of JF Mallia for street lighting repairs and Environmental Landscape Consortium for landscaping in public gardens. However during the same period too, the Council, the commenced the process to issue calls for new tenders for these two activities. In fact during 2016 tenders were issued for Street lighting repairs and for the landscaping of public gardens. These tenders were later awarded to J.F. Mallia for Street lighting repairs and WM Environmental Ltd. for the landscaping of public gardens. We like to point out that the Council is aware of memo 34/2014 and memo 10/2013 and tried to always to adhere to them as much as possible.

## **Rent Contract**

4.14 - 4.15 - Regarding the rent of the Council's premises, the Council is aware that no official rental agreement exist. Infact members of the Council tried to resolve this situation by meeting up with the lessor to present an official contract. As at today, what the Council has in hand a draft contract presented by the lessor, however still the Council has some issue regarding the third party clause. The Council is also aware that if this contract is to be agreed upon it has to follow the procurement procedure too. In the mean time too, the Council is exploring other options with regards to the renting of office space – one of which is the issue of an Expression of Interest on the subject.

## **Waste disposal and refuse collection expenses**

4.16 – The misallocation was noted and adjusted accordingly as per the auditors recommendation such adjustment was reflected in the final set of financial statements.

## **5. Fixed Assets**

### **Fixed asset register**

5.1 - 5.2 – As stated in the auditor's comment, the Council was not in a possession for a plant register however following receipt of the management letter, a meeting was set up with Council's auditors, that is Mazars and the latter provided the Council with a copy of what they had in their audit file of the 2013 plant register. The Executive Secretary will try and contract the previous accountant may be assistance could be retrieved re the matter. From the present information in hand, that is the plant register of 2013, the present accountant would try to update the register with the 2014 and 2015 additions and adjustment accordingly

### **Depreciation**

5.3 – 5.4 – As noted under this heading for the year 2015, depreciation was worked out manually and posted in sage via journal entries. In the future, the present accountant would try and calculate depreciation through the month-end facility of Sage.

## **Grants on non-current assets**

5.5 - 5.6 - 5.7 – The audit adjustment proposed by the auditors during the audit field work under point 5.5 and 5.6 respectively, were reflected in the final set of financial statements. And the Council is committed that in the future any grant received is accounted for under the income approach. The Council will also try and ensure that elements of cost and capitalized grant are kept separate for audit trial purposes and that the appropriate amortization of grants is applied in line with the depreciation charge applied to the related capital expenditure.

## **6. Bank and Cash**

### **Bank reconciliations**

6.1- 6.2- With regards to bank reconciliations, one must point out that the main banking activities of the Council is done through HSBC, infact these accounts are reconciled on a monthly basis and the respective bank reconciliation even printed and filed with the respective bank statements. With regards to the BOV account, this account is not used that much, infact the reconciling items listed under point 6.1 relate to the unpresented cheques as at year end. As indicated under note 6.1, the year end reconciliation of the mentioned account was prepared and presented while the auditors were doing the audit field work.

During 2016, the Council changed its internal system regarding bank reconciliations. Infact these reconciliation beside being prepared by the Accountant preferably prior to the 10<sup>th</sup> of the following month, they are also printed as a hard copy, signed by the Accountant and Executive Secretary and then filed in the respective bank file.

### **Bank signatories**

6.3- 6.4 – Based on the note 6.3 it seems that the Council has a BOV Savings account which is inactive and idle with nil balance, however this account still has previous Mayor and Executive Secretary and its signatories. The present Executive Secretary is bound to inform the Council Members during the next Council Meeting in order to have Council approval to close off this account, so the problem is solved once for all.

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

### **Supplier statements**

7.1- 7.2- The Council does ask for regular monthly statement for its various suppliers however not all suppliers responded to our request. Whenever monthly statements are received regular creditors' reconciliations are carried out, and following ups are done on unreconciled transactions. During 2016, the Council is committed to take this matter more seriously.

## **WasteServ Account**

7.3 – 7.4 - The auditors comments with regards to point 7.3 and 7.4 are noted. However one most point out that the WasteServ Account due to the issue of the tipping fee is one of the difficult account to reconcile. Infact the Council is committed that beside asking for monthly statements, every quarter the council will also request from Wasteserv the transaction history of the respective account to ensure that the postings are done correctly.

## **Long outstanding trade payables**

7.5 - 7.6 - With regards to note 7.5, the Council is sure that these balances and not due to the mentioned supplier, and is committed to look further into the matter. The Executive Secretary would ask for the Council's approval to reverse the balances as listed under note 7.5 of Bitmac (Works) Ltd , Enemalta Corporation and the Other Suppliers to the original expenses where it was debited for. In this way this issue would be solved and the overdue creditors would no longer show on the creditors ageing.

## **Deferred Income**

7.7- 7.8 - The adjustment proposed by the auditors with regards to deferred income was reflected in the final set of financial statements. As suggested by the Auditors, the Council is committed to keep a separate record of all deferred income received and the respective amortization schedule

## **8 Birkirkara Joint Committee**

8.1 – 8.2 – As indicated under these two notes, 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, as a Council we cannot commit what our share would be. 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.

## **9 Inventory**

9.1 – 9.2 – 9.3 – 9.4 – As indicated by the comments of the auditor on the matter, the issue of the books as inventory points out a lot of deficiencies in the way the Council handled the matter. In the mean time the Council tried to solve the issue and collected all the books that Mr Sammut had in his possession. Infact whatever stock Mr Sammut had was returned back to the Council, but still it seems that there are other books in the possession of third parties (whom the council is not aware who they are). The Council, through the Executive Secretary should seek approval and speak to Mr Sammut and ask him to bring back at his expense all other books which are out in circulation The Council should have full control of the stock situation and all book inventories should be under one roof. Once all books are within full control of the council a proper stock take is carried out, the inventory value in the balance sheet is adjusted to reflect this stock take and from then onward any sale of books is properly recording as income and if the council decide to give any books as donation a record sheet to this effect is kept and supported by Council approval.

## **10 Financial Statements**

### **Presentation of financial statements**

10.1 – 10.2 – 10.3 – As indicated by the Auditors note under heading 10.1, 10.2 and 10.3, the Council did its upmost to present the financial statements in accordance with International Financial Reporting Standards (IFRSs) in fact in the first set of accounts IAS 8, IFRS 7, IAS 16, IAS 7 were not included however then after recommendations of the Auditors, these were reflected in the final set of financial statements.

With regards of IAS 17, it's true that the Council is reporting a rental cost of Euro 8,850 however during 2015 this rental cost was not supported by an agreement and this explains why IAS 17 was not disclosed, however in the future the Council is committed to solve this issue and will disclose IAS 17, if not still the Council would state that it has a one year current commitment as rental cost equivalent to Euro 8,850

With regards to IAS 39 Financial Instruments: it's true that the Council has a non-current, interest free creditor arising from the PPP project however if such financial liabilities had to be accounted for using the amortization cost approach, the Council would have to seek advice from either the Department or else from external auditors re the working method to be used to calculate such financial liability.

With regards to IAS 37, Provisions, Contingent Liabilities and Contingent Assets : in the financial statements the Council did point out that it has 4 possibly 5 claims which could be treated as contingent liabilities, in the future, the Council commit to elaborate more by giving more details. However in brief these claims related to damages done on vehicles as a result of pit holes etc...

## **11 Liquidity position**

### **Going concern**

11.1 - 11.2 - 11.3- The Council is aware of it's liquidity situation however improvements were registered when one compared 2015 with 2014. The council will continue to commit itself to take immediate corrective measure to improve it's liquidity position by postponing capital projects and ensure that the extraordinary expenditure do not happen. Also the Council is putting pressure to ensure that the suggested bylaw are approved and once approved be introduced as soon as possible.

### **Financial Situation Indicator**

11.4 – 11.5 - The Council is aware that the FSI at the end of the financial year 2015 was negative and even lower than the minimum positive balance of ten per cent of the annual Government allocation, but once again the negative FSI is as a result of overall negative liquidity position that the Council had been facing over the last couple of years. On this matter too, the Council received a letter from the Monitoring Officer within the Department for Local Government and is waiting for a meeting to discuss the way forward. The only way how the FSI of the Council can improve and turn positive is when the long term liability arising from the PPP is settled, that is after 2020.

## 12 Business Plan

12.1-12.2 – The Council as at the time of audit did not have in hand a 3 period rolling business plan, but it did have the 2016 operational budget. The Council did not commit to a 3 year business plan knowing the liquidity situation the Council is in and the fact that the Council cannot commit to any capital expenditure and cannot participate in any shared EU funding projects. Following the comments on the management letter, the Council commit itself to prepare a 3 year rolling business plan covering the period 2017 – 2019, and this plan will focus on how the Council can improve its liquidity and financial situation but once again excluding any Capital Projects.

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.

Thank you and best regards,



Magda Magri Naudi

Mayor



Georgette Borg

Executive Secretary