



Klm 58/16

1st June 2016

National Audit Office
NotreDammeRavelin
Floriana

Reply to Report to Management for the Financial Year ended 31st December 2015

1. Follow – up: Management Report – Year Ended 31st March 2014

Whilst acknowledging the positive remarks raised by the Auditors with regards to the previous year Management Letter, all sections will be answered during the course of this letter and explained in detail where issues raised are not in compliance with Auditor's views and state our case on such issues.

2. Income

2.1/2.2/2.3 Local Enforcement System Income

The Council will reconcile the income generated from administration fees with the Loqus report on a regular basis in accordance to auditors' recommendations.

2.4 General Income

The amount of money not deposited in time in three instances (Eur4.66, Eur10.00, Eur58.24) is insignificant, but the Council will try to adhere to the auditors' recommendations, although we think that with such minimal amounts Council should not be obliged by law to make deposit twice weekly. In our opinion procedure should be emended whereby deposit should be done at least once weekly.

2.5/2.6/2.7 Custodial Receipts

The Council will try to adhere to auditors' recommendations to deposit two times a week, although we think that Council should not be obliged by law to make deposit twice weekly when deposits consists of small amounts of cash.

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2.8/2.9 Accrued Income

The Council will try its utmost to recoup the Eur950 due by WSC. Such amount consists of contribution due by WSC for reinstatement trenching works carried out in 2011. Although the amount is long due, the Council still believes that there is a good probability of being received and thus no accounting adjustment in this sense is required.

3. Personal Emoluments

3.1/3.2. Payment of FSS and NI Due

The Local Council will adhere to the Auditors recommendations and FSS documentation and related payments are to be made by Council by not later than the following month in line with the statutory requirements of Legal Notice 89 of 1998.

4 Expenditure

4.1/4.2/4.3 Tender Procedures

With reference to the observations made by the Auditors on the subject in question the Council will adhere to Auditor recommendations and request at least two Council members to be present during opening of tenders in order to sign tender schedule. However, one must note that with the new Electronic Procurement System, this requirement will not be applicable anymore.

4.4/4.5 Petty Expenditure

Amounts indicated by Auditors on subject matter is of immaterial value. However it must be stated that petty cash expenditure items are paid directly from cash and so does not necessitates the need to obtain an invoice addressed to Council as recommended by Auditors so that Council satisfy requirements stipulated by Local Council (Financial) Procedures 1996. If there exists a contradiction in Procedures or need updating so that it would be more practicable, then amendments to the 1993 Law should be put forward for approval.

In addition to such amendments one must also propose whether its time to increase limit of purchase payment by petty cash to reflect today's reality rather than maintaining the equivalent of Lm 10.00 ten Maltese Liri that is €23.29, twenty three Euros and twenty nine cents.

4.6/4.7 Asset Insurance

Whilst the Council acknowledges auditors recommendations it must be stated that insurance covered Capital expenditure, Office Furniture and computer equipment amounts, at the time the insurance was renewed. The Council will amend the Insurance policy and insure its assets in accordance to asset costs as Council's accounts as recommended by the Auditor.

4.8/4.9 Personal Accident Insurance

The Council have already reviewed the insurance policy and updated it as necessary.

4.10 Health Insurance

We do not agree that an approval from DLG is required and such health insurance scheme has been procured in line with the procurement regulations. Furthermore, no exact parameters exist in this sense, except for that both Councillors and staff needs to be covered by a health insurance. Furthermore, at this stage this insurance cannot be terminated because the Local Council has a contract with the insurance company awarded with such contract in line with financial and procurement regulations.

4.12/4.14 Street Lighting

Council will adhere to Auditors recommendation, although one must state that Council opted to hold to Department of Local Council advise given prior to 2013 and to extend this Contract every quarter as on going discussions were being held on the possibility that such contract could be issued during the year under review by the Regional Committee which the Marsa Local Council forms part of. Failure to issue this tender by the Southeastern Region , which one must underline the fact that such service is the direct responsibility of the Regional Committee as delegated by Central Government, ironically resulted in auditors remarking an irregularity from Council's administrative operations part.

4.15 Travel Expenditure

Although it is true that a Councillor travelled to attend on the Council's behalf for a Conference organized by our twinned city Bridgwater, we do not agree with the auditor that a travel report was required by MF Circular 05/2015. This circular is applicable to civil servants and not to local councillor. However, the Council will present a yearly twinning report as required by Twinning regulations.

5 Fixed Assets

5.1/5.2 Fixed Asset Register

As indicated in auditors recommendations, the Council has already compiled a Fixed Assets register on excel workbooks as the auditor has commented. It is being planned that this Excel Workbook is integrated within the Sage system in the following year.

5.3/5.4 Tagging of fixed Assets

The Local Council will take the auditor's recommendation and will tag its fixed assets as required by the financial procedures.

5.5 Depreciation

Depreciation is being calculated as per rates established in the Financial Regulations through MS Excel. As mentioned in the reply to points 5.1/5.2, the Council is planning to integrate the fixed asset register within the Sage Evolution system whereby the depreciation will be worked out automatically as recommended by the Auditor.

5.6 Reclassification of fixed asset accounts

The Local Council has carried out the reclassification transaction as proposed by the Auditor and an audit adjustment was approved and implemented by the Local Council.

5.7/5.8/5.9 Existence of old assets

The Auditor mentioned two old fixed assets such as a TV and a software and doubted of their existence. Although the Local Council is hereby declaring that such fixed assets still exist, we will take up the Auditor's recommendation to update the Fixed Asset Register and write off any fixed asset which is not in a good working condition.

6. Grants

6.1/6.2

Accounts were adjusted in accordance to present auditors' recommendations.

6.3/6.4/6.5

The Local Council does not agree with the Auditor as regards to the Eur20,000 grant from WSC for works in Triq is-Sajjieda. The local council has written confirmation that such works are to be refunded by WSC, which in our opinion is enough to recognize such amount as accrued income. As regards to the capital grant of Eur50,000 for works in Triq it-Tigrija, the Council has a letter of approval from the Department of Local Government but as yet no contract has been signed. However, in our opinion there is a commitment from the government to finance such project which is enough to recognize such amount as accrued income.

7. Trade and other Receivables

7.1/7.2 Pre-Regional receivables

The report that the Council generated from the Loqus system, resulted in a different balance from report successfully issued by Auditors during the course of their Audit. Accounts were duly adjusted as per Auditors recommendation. This difference is due to the fact that the report is not generated on the same day. Unfortunately, this is a recurring problem with the Loqus system whereby when reports are generated with days or week of difference the amounts will vary.

7.3/7.4 Overdue receivables

The Local Council is in discussion with the WSC to determine the exact outstanding balance in order to update the receivable amount.

8. Financial Statements

8.1/8.2/8.3/8.4

The Council is aware of the short-comings concerning the disclosure emanating from IFRS 7. While it is understood that there are certain limitations with respect to information required for the appropriate disclosures to be made, the Council shall make every effort to provide the necessary information sources for appropriate future disclosures in the financial reports.

8.5/8.6/8.7 Capital Commitments

The budget for 2016 estimates a capital expenditure of Eur4,000 for development of website and Eur61,296.06 in road resurfacing. Since the budget is worked on a cash basis and not accrual basis one needs to make this difference. In fact, the Eur61296.06 is made up of the PPP allotment of Eur11,296.06, to be paid in 2016 and of Eur50,000 for Triq it-Tigrija. Both capital expenditure are included in the financial statements under the Liabilities (PPP) and under the Accrued Income (Triq it-Tigrija). Thus such auditor's recommendation to disclose such figures in the financial statement as future capital expenditure plan cannot be implemented as they are accounted for already.

8.8/8.9 Other shortcomings in financial statements

The Local Council noted the auditor's point.

9. Meetings

9.1/9.2 Council Minutes

The Council will surely bind one copy to be in line with Council (Office) Procedures as was the norm in previous years.

9.3/9.4 Councillors' Allowance

Councillors not attending Council meeting were in turn all excused by Council since the reason put forward by Councillors in question was considered to be a valid one. This did not necessitate the reduction of Councillors' allowance as highlighted by Auditors.

9.5/9.6 Electronic Site

Business Plan 2016-2018 was uploaded on the electronic website the day after it was approved by the Council and we could not understand Auditors observation when saying that Council did not upload it within three days after approval. The quarterly reports are always uploaded on the electronic website within three days from approval, except for the last quarterly report which was prepared and uploaded after the audited financial statements are approved.

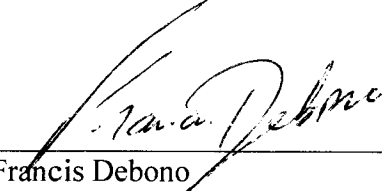

9.7/9.8

There is no legal implication that cheques listed in the schedule of payments have to be in sequence. This occurs because the schedule of payment is prepared 5 days before the Council Meeting as required by law, and there could be instances where cheques need to be issued (like salaries) in that 5 day gap which will affect the sequence of the cheque numbers.

10. Reports

Although reallocation on budget figures were not undertaken , the administration of the Council was still diligent in administering Council expenditure and infact variances arising and noted by auditors in certain income or expense categories were compensated and offset by increase / decrease in other expenditure or income items. Notable difference between actual Income raised under local council bye-laws was due to the fact that a new legal provision increased the fees for machinery permits. This was beyond Council's control.

On the other hand notable difference between actual Expenses in Operation, Maintenance and Administration resulted in different classification in accounting figures from that budgeted. In fact after investigation made it transpired that expenses incurred from embellishment projects funded by Mepa were actually classified under Maintenance Category while , these expenses were budgeted under Capital Expenses. So as one can deduce the matter in question was not a matter of underestimated expenses but rather a reclassification judgment of expenses which in monetary terms had no influence in the financial position of Council.


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