



Kunsill Lokali

NAXXAR

Local Council

Our ref: NLC/201/00

3rd August, 2016

238/16/0

Director,
Local Government Department
Triq l-Arcisqof,
Valletta CMR 02

Sir,

REPLY TO MANAGEMENT LETTER – FINANCIAL STATEMENTS FOR THE YEAR 2015

In terms of the Local Council (Audit) procedures I hereby attach a copy of the management letter by the Local Government Auditors whilst including hereunder Council's comments on observations made. This management letter was discussed during Council meeting of 2nd August 2016 and the following comments were approved.

In general the Council notes that there was a marked improvement from the previous management letters which proves Council's commitments to manage its accounts/funds as professionally as possible to be fully in line with the Financial Regulations. As a matter of fact the Auditors did indicate that many issues from previous management letter have been addressed.

2.1 Local enforcement

As stated by the Auditors, the Local Council has no control but will continue to put pressure on the Joint Committee through the Northern Region.

2.2 Income from Bye-Laws

Even though the income derived from the 'renting' of the hall is minimal and barely covers the cost, the Council will be presenting a Bye Law in September 2016.

2.3 Classification of income

Point taken. Will do our utmost to limit such mistakes as much as possible.

2.4 Revenue recognition

Point taken. Issue has been discussed with accountant and accounts clerk to to avoid such issues.

2.5 Supplementary Government Income

Although all Local Councils expect and, to a certain extent, assume that the DLG will be effecting the relative payment to Wasteserv, there has never been an actual official confirmation that the DLG will continue to pay the amounts due. Hence the reason for not being accrued for.

3.1 Payroll reconciliation

Point taken. Action will be taken to minimise such errors.

3.2 Performance bonus of the Council employees

We do not agree with Auditors' conclusions since we have re-confirmed that the performance bonus was correctly calculated on the basic salary of each employee as at December 2015. We suspect it may have been an oversight since we can confirm that information given matches the correct figures and no discrepancy exists.

4.1 Tendering procedures

Point taken for the future. This issue will be discussed with the officer in charge and the Finance Committee so as to eliminate such instances. However we have to point out that, now that the epps has been introduced to LC's and will be used across the board, such instances should be automatically eliminated.

4.2 Inappropriate documentation

We are pleased to note that the Auditors acknowledged the fact that the Local Council always asks for a proper invoice and fiscal receipt. In fact it also holds payments of non-complying suppliers when they are regular ones. As part of the on-going efforts to curb this short-coming on the part of the suppliers, throughout the year an administrative decision has been taken not to issue any purchase orders unless it is confirmed that the supplier is properly VAT registered. This way it will make it possible to report any supplier not in compliance.

4.3 Procurement for maintenance of street lighting

The Local Council does not agree that it has to abide by the mentioned DLG Memo since memos cannot be binding as they are not law. The Council suggests that this issue is addressed properly by the DLG due to its anomaly. On the one hand Local Councils are not responsible for street lighting (Regional Committees are), and on the other hand Local Councils are allocated funds for this by DLG. We believe it was wrong for the DLG to leave it up to the Local Councils to choose whether to issue a tender on their own or jointly when it is clear that the responsibility, according to law, lies with the Regional Committees. Presently the Northern Joint Committee is in the process of issuing the relative tender.

4.4 Quotations

The Local Council takes all measures necessary to ensure compliance with the Financial Regulations. We have to point out however that we do not agree with what the Auditors are implying in their

observation when they stated that the ...the Council has procured or paiditems of the same nature and from the same supplier within a consecutive four-month period....”.

The financial regulations state:

24 (4)(a) orders, contracts, agreements or items not exceeding one thousand and one hundred and sixty-four euro and sixty-nine cents (1,164.69) shall be authorised by the Council according to order 32(1) of the Standing Orders contained in the Sixth Schedule to the Act, provided that items of the same nature are not purchased within a consecutive four-month period;

Therefore this regulation does not bar the Local Council from purchasing items from same supplier but items of the same nature during the four-month period. It also does not refer to the actual payment and hence the Council takes into consideration when orders (and not payments) are effected.

On the mentioned instance we thus comment as follows:

BDL (purchase of books for the value of €1200) – we confirm that purchase was done without having issued a call for quotations. However we have to point out that this was part of a scheme for libraries where the Local Council is asked to purchase books from selected book sellers, including BDL. The Council relies on the expert advice of the librarian when selecting books and hence it would not be possible to purchase all required books from all the seller. Furthermore, the Council was pressed for time since it had to submit the invoice for the re-imbursement from the DLG of 50% of the expense and hence, for a mere €35 it would have been irresponsible to hold on the order and lose €600 re-imbursement.

Leo Paramount (Transport services) – We confirm that this was covered by a call for quotations.

Peace Band Club (Cultural Social Activities) – We can confirm that purchase order was effected in periods exceeding four months and hence we believe that we are in accordance with the regulations. However, although we did pay for the whole amount on the same date with one cheque, we still believe that this is in order (refer to above’s explanation).

TCTC (Computer courses) – Unfortunately this was an oversight from our end since only three months had passed from the order to do the first course. We will do our utmost to avoid similar instances.

Victoria Band Club (Social activities) – The mentioned figure was for two distinct and unrelated services, one being for the amount of €1000 and one for €600. Hence the Council believes that this is in accordance with the regulations.

5.1 The upkeep of the FAR

Although we note the Auditors’ recommendations, we have to state that there has been a marked improvement in the way the FAR is kept. We will continue to do our utmost to be fully in line with the regulations.

5.2 Reconciliation of Asset Categories in FAR to Nominal Ledger

The Council took note of it and will discuss further with the Accountant to solve the issue.

5.3 Depreciation

Action will be taken to rectify this issue.

5.4 Accounting for intangible assets

Point taken and in fact action was taken as stated by the Auditors.

5.5 Insurance policy

The Council believes that this issue needs to be addressed by the DLG and that clear direction be given to Local Councils. Insurance policies are tackled differently than accounting. For example the assets in accounting are held at their net book value whereas same assets are insured at a new-for-old principle. Hence their value can never match. Furthermore we don't believe we have to insure items such as construction except when policy relates to third parties.

5.6 Capital commitments

We took note of the recommendation and will try to devise a system where the Accountant will be able to know in advance of any possible commitments.

5.7 Physical tagging of tangible assets

The Council confirms that it doing its utmost to continue to improve the existing system to be more in line with the regulations. Hence action is already being taken.

6.1 Stock of books

We took note of the Auditors' recommendations. We will also take the recommendation to refer to a Council meeting when books are given away as gifts. However we have to state the following:

Books on Naxxar walks – Unfortunately the Auditors failed to clarify that there was a genuine mistake in the counting. In fact the officer in charge was assuming that each full box contained 150 books when in fact it contained 160. Therefore, part of the discrepancy relates to this (70 more books). Furthermore it was noted that a number of damaged books which had previously been put aside might have been mixed with the good ones and hence the reason for having more than what should actually have.

Viva I-Vitorja – Unfortunately (a shortcoming from our side) we failed to register 91 books given away as gifts as follows:

March 2015 – Authentic Europe Network project (Greece): 15 books

June 2015 - Authentic Europe Network project (Malta visit): 40 books

July 2015 - Authentic Europe Network project (Bulgaria): 6 books

September 2015 - Authentic Europe Network project (Burgos-Spain): 20 books

September 2015 – Focus Project (Greece): 10 books

7.1 LES Debtors

Action will be taken to issue the requested reports on time.

7.2 Trade Receivables

Action taken as per Auditors' recommendations. Council will also consider legal action as the Lawyer may recommend.

8.1 Stale cheques

Point taken and discussed with Accountant to try to eliminate this issue.

9.1 Creditors Reconciliation

Point taken – discussed with Accountant and officer in charge to ensure correctness of balances.

9.2 Accrued Expenditure

Point taken – discussed with Accountant and officer in charge to ensure correctness of financial reporting.

9.3 Deferred Income

Point taken – discussed with Accountant and officer in charge to ensure correctness of financial reporting.

9.4 Deposits refundable on crane and machinery permits

Action is already being taken to reconcile more frequently.

9.5 Contingent Liabilities Disclosure

To solve this issue the Administration will be keeping the Accountant informed and copied with related claims so that accounting records will be kept up to date.

10.1 Disclosures required in respect of Financial Procedures

Point taken and action will be taken accordingly.

10.2 Disclosures required in respect of certain IFRS

Point taken – discussed with Accountant.

10.3 Financial Statements presentation

Point taken – discussed with Accountant.

11.1 Comparison with the Annual Budget

The Council will do its utmost to be more in line with the budget. However it cannot exclude the possibility of having variations. In order to overcome this, the Council will present revised budgets.

11.2 Council meetings, minutes and schedule of payments

In general these are kept very much up to date. As to the timing of the meetings only slight variations in time (a few minutes) occur as the Local Council cannot commence unless there is a *quorum*.

As to the signed copies of minutes and schedule of payments on the website we don't believe this is practical since we upload a PDF version directly from computer without having to scan all copies. Scanned copies take up much more space than converting a Word or XL file directly to PDF.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Deguara', written in a cursive style.

Maria F. Deguara, MD, MMCFD, PgDip US

Mayor

cc: National Audit Office