



13th June 2016

National Audit Office
Notre Dame Ravelin
Floriana
FRN 1600

Dear Sir,

**Reply to Management Letter regarding the Financial Statements for the year
ended 31st December 2015**

We are in receipt of your Management Letter dated 31 May 2016 in connection with the Audit of the Council's financial records as at 31st December 2015. We would like to take this opportunity to thank you and Mazars Auditors for the services and co-operation provided to the Council during the audit exercise.

We have taken note of the weaknesses and recommendations that arise from the review of our systems and we will do our utmost to implement them and to be in conformity with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and the Local Council's Department Memos.

We the undersigned, Stephen Sultana (Mayor) and Michael Mifsud, Mayor (Executive Secretary) are addressing the shortcomings and needs of the Council with the sole aim to be in line with the rules and regulations of the Local Government Department.

Hereunder are our answers with regards to the shortcomings which in your opinion need the Council's attention. Our replies are based on the comments and advice supplied to us by our contracted professional accountant Mr Christian Farrugia.

Income

Tipping Fees in excess of allocation – 2.1

We found this note as very surprising since on an annual basis as part of our preparation in closing the council's accounts and hence preparing the council's Financial statements we have asked Wasteserv for their statement. The main reason is to reconcile their balance and also to identify any income that Wasteserv received from the DLG over and above the approved tipping fees allocated for the council

Triq il-Kbira San Guzepp, Santa Venera SVR 1013.
TELEPHONE: (00356) 21491030 FAX: (00356) 21491664
Indirizz: santavenera.lc@gov.mt Sit elettroniku: <http://www.santavenera.lc.gov.mt>



Since we have deadlines to present financial statements we only rely on information given and provided to us to a certain date. In fact, such information was given to us as at the end of Dec and hence we felt we had all the information to end our accounts,

Unfortunately, we feel there are some weaknesses when it comes to identifying any transactions passed by government, since no form of notification was made when such transaction was made or else when such transaction is planned to take effect.

In fact with reference to Wasteserv statement dated 22nd Feb 2016, it transpires that such transaction was done on the 29th Jan 2016. By that time, we had closed accounts for year ending 2015

Despite all this we will definitely take note and agree to pass on such adjustment we shall be looking on how this can be improved going forward

Street Advertising – 2.5 / 2.6

Noted from our end

Twinning Project – 2.7

Noted of our end and we shall work on better communication between the parties involved

Bank Interest – 2.10 / 2.11

Noted from our end, however actual bank interest was passed during first quarter of 2016 by the bank, and hence accounts were already closed by the council despite the difference is immaterial

Government Allocation – 2.12

Noted from our end and agree with the proposed audit adjustment

Payroll

Performance Bonus – 3.1/3.2

Whilst we are aware of the actual discrepancy between the accrued bonuses and actual bonuses, one has to note that actual bonuses were paid in January and February respectively. In fact, it was by that time when bonuses were confirmed by the Director of LC.



During the period of finalising accounts including financial statements i.e Jan 2016,, we still had to receive confirmation from the DLG with regards to performance bonus payable to the executive secretary.

We believe that in some cases actual expenses can differ from accrued expenses, and given that in the subsequent year such accrued expenses will be reversed, we feel confident that a true and fair view is still represented in the council's accounts.

Allocation of payroll costs in the nominal ledger - 3.3/3.4/3.5

Such reasoning is noted from our end and approved. In fact, we ensure that for next year's financial statements we will present expenses as per note

Council Member Allowances – 3.6/3.7

Discrepancy noted from our end

Expenditure

Petty Cash Expenditure 4.1/4.2/4.3/4.4

This is an issue that always arises with every audit. I have pointed this to auditors that petty cash expenses / items are normally bought from small shops. These shops normally don't have a system of invoicing since they trade on a cash basis. Therefore, the only source of such trade are receipts issued from their cash register. An email was sent to auditors explaining this issue however the only way going forward is to put pressure on the department concerned

Street Lighting Contract – 4.5/4.6

The Local Council is conscious that the Street Lighting Tender has expired however the council is still waiting for the Region concerned to issue the said tender. Having said that, the council is considering to renew the current contract for a further period

Asset Insurance- 4.7/4.8 /4.9

The council believes that this issue should be discussed farther with the department concerned. Although we are fully aware with the financial regulations, we still don't believe that council should not insure those assets which are categorised as immovable property such as roads. While it recognises that moveable assets should be insured, on the other hand, the council believes that large projects such as roads should not be made subject to insurance. The council is very strict in ensuring that all road infrastructure is done up to EU standard, hence the council is of the opinion that

Triq il-Kbira San Guzepp, Santa Venera SVR 1013.

TELEPHONE: (00356) 21491030 FAX: (00356) 21491664

Indirizz: santavenera.lc@gov.mt

Sit elettroniku: <http://www.santavenera.lc.gov.mt>



any damages arising due to poor quality of material used on such infrastructure are to be borne by the contractor assigned for such project

Refuse Collection Tender - 4.10/4.11

The guarantee will be renewed yearly unless otherwise directed by the Local Council. Infact the Council keeps the original Guarantee together with the original signed contract. The Council will release the original Bank guarantee one month after such contract is terminated.

Fixed Assets Register

Fixed Assets Register – 5.1

Whilst every effort was made throughout the years to have an organised Register, one has to take into consideration that such register goes back for quite a good number of years . Different individuals took reasonability of such register and no tagging's were made. We do believe that although the council staff did organise the register in terms of tagging, it is quite impossible to identify every asset including its location and supplier. Nevertheless, we will definitely continue to monitor and update such register.

Depreciation Charge – 5.2 / 5.3

As a result, as mentioned above, this has also led to some of the discrepancies mentioned. We are aware that one particular transaction was passed on the Register to follow last year's recommendation however for some reason or another no depreciation was charged. Knowing that Sage Pastel is quite limited when it comes to amend transactions we shall take note of all points mentioned. including Euro 920 not yet capitalised which has been recurring for a good number of years and that no information was ever given to us by previous council.

Reconciliation of financial statements to accounting records – 5.4/5.5/5.6/5.7/5.8

Extra effort was made and will continue to be made to ensure that when possible Fixed Asset Register and accounts tally. Though the discrepancies are on the low side we will take auditors note include the amount including Eur 920 not yet capitalised which has been recurring for a good number of years and that no information was ever given to us.

We shall be investigating this transaction and pass on the necessary adjustment if and when necessary.

Grants & Deferred Income

Triq il-Kbira San Gużep, Santa Venera SVR 1013.

TELEPHONE: (00356) 21491030 FAX: (00356) 21491664

Indirizz: santavenera.lc@gov.mt

Sit elettroniku: <http://www.santavenera.lc.gov.mt>



Live Streaming – 6.1

We will implement auditor's note and hence audit adjustments were passed

Surplus from Central Region – 6.3/6.4

Noted from our end, as funds were utilised for Triq San Gorg. The necessary adjustments were agreed by the council

Debtors

Provision for Bad Debts – 7.1/7.2

Whilst it is evident that we took last year's auditor's advice, to provide a provision for bad debts, after all attempts were made to recover such amounts. We shall also take this year's auditors advice to separate such provisions separately both in Financial Statements and also in the council book of accounts. Once again we will be doing our best to ask council try and recoup such debt.

Other overdue amounts – 7.3/7.4

With reference to amounts due from Gozo committee, we will definitely monitor such undue balance and ensure to recover such amounts in the shortest time possible

Bank & Cash

Account Signatories – 8.1/8/2

Noted from our end

Bank Reconciliations – 8.3/8.4/8.5/8.6

Whilst we do note the points mentioned by the auditor, we shall be working and improving our communication with the main objective being so that we will be provided with the necessary bank statements in a timely manner. This will help us to reconcile such bank accounts by the 10th of the following month.

Creditors

Creditors list and accruals list – 9.1/9.2

Noted from our end



Creditors Statements - 9.3/9.4

Another issue that keeps on arising year after year is the issue of creditors statements. Whilst we take these points on board, including the necessary effort to follow up on our suppliers to hand over statements, most of our suppliers do not provide such statements especially monthly statements.

Also some suppliers do not provide statements at all since their system of accounting does not cater for this. Other suppliers do send a statements when followed by us, so once again we do suggest that the council will put pressure on the DLG to discuss the following issue.

Non-current payables – Central Asphalt Limited – 9.5/9.6

We will follow auditor's suggestion re above mentioned subject

Financial Statements

Whilst we are aware and did our utmost to present this year's financial statements in line with accounting standards and also we took note of last year's recommendations we will definitely take note of auditors points mentioned this year.

Capital Commitments – 10.4

Whilst we are aware that such commitments do not agree with the budget, one has to keep in mind that other projects are being planned to be financed by UIF Funds, and other funds received such as Regjuni. Since both funds are difficult to quantify at least by the time when the budget is set.

Minutes

Point noted. In fact recommendation is noted and action will be carried out accordingly in the future

Local Enforcement System

Whilst we are aware of this issue, the council had several meeting with the Region to sort off and transfer any balances on the council's accounts. However for reasons beyond our control, this is not possible for the time being mainly due to the number of issues mentioned in the management letter.

Triq il-Kbira San Guzepp, Santa Venera SVR 1013.

TELEPHONE: (00356) 21491030 FAX: (00356) 21491664


Indirizz: santavenera.lc@gov.mt Sit elettroniku: <http://www.santavenera.lc.gov.mt>

**KUNSILL LOKALI
SANTA VENERA**



**SANTA VENERA
LOCAL COUNCIL**

Various attempts were made by the council to try and establish a confirmation re any balances pertaining to Santa Venera Local Council. Unfortunately, the Joint Committee could not confirm such balances due to us,



Stephen Sultana
Mayor

Michael Mifsud
Executive Secretary