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4th July, 2017

National Audit Office

Notre Dame Ravelin

Floriana

FRN 1600

Dear Sir,

Reply to Management Letter regarding the Financial Statements for the year ending

31st December, 2016

We are in receipt of your Management Letter dated 26th May, 2017 in connection with the Audit of the Santa Venera Local Council's financial statements as at the 31st December, 2016. 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 arose from the review of our system and we will do our utmost to implement them so as to be in conformity with the Local Council's Act (1993), the Financial Procedures (1996), the various Legal Notices and the Local Council's Department Memos.

We, the undersigned, Stephen Sultana (Mayor) and Jane k/as Yvonne Spiteri (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.

We are hereunder forwarding the Santa Venera Local Council's response to Management Letter for the financial year ending 31st December 2016 which in your opinion need the Council's attention.

Preamble

Change in Council Accountant

The Council would like to clarify that in early 2017 the Council adjudicated the Tender for Accountancy Services to a new accounting firm, DConsulta Limited. The unaudited financial statements for the year ending 31 December 2016 were prepared by the previous accountant who was not available to give his insights and feedback on neither the audit adjustments presented by the auditors nor the content of this management letter. The Council has accepted the advice of its accounting software provider to install a new software, Sage Evolution, and at the time of writing this reply to the management letter, this process is still ongoing.

Change in Executive Secretary

The Santa Venera Local Council also had a change in Executive Secretaries. The current Executive Secretary, Ms. Jane k/as Yvonne Spiteri, has taken over the post as at the 2nd of January, 2017.

2.1 & 2.2

Income – Tipping Fees

The council notes the observation made by the auditor and will strengthen the controls necessary to identify accrued income, such as that relating to Wasteserv, thus leading to recognition of such accrued income in the appropriate financial period.

2.3 & 2.4

Income – Urban Greening Project

The Council has noted the correct treatment of the income receivable at year end with respect to the Urban Greening Project as properly reflected in the audited financial statements as approved by Council.

3.1 & 3.2

Payroll

The Council has noted the correct treatment of accrual for payroll related costs, which were properly reflected in the audited financial statements as approved by Council.

3.4

Payroll – Allocation of payroll costs in the nominal ledger

The Council's new Accountants have taken note of the discrepancies found with respect to the proper allocation of payroll related costs to respective nominal ledger accounts, with a view of

adopting a new payroll journal that reflects the point raised by the auditor in this year's management letter.

3.6

Council staff have carried forward their vacation leave due to justified reasons. The Department of Local Government was notified as such.

4.1

The Council is in the process to issue a tender re Street Lighting.

4.6

The tender for Road and Street Cleaning has since been issued and is in the process of being evaluated and adjudicated.

4.7

The contractor has been notified and funds will be recovered in due course.

4.9

Budget vs Actual Expenditure

In this section, the auditor listed the discrepancies between the Budget 2016 and the Actual Capital Expenditure for same year and identified a total of €145,807 which mainly relates to an unplanned expense of €15,226 on trees and plants that arose due to the receipt of a grant specifically targeting towards Urban Greening (in fact the Council received €30,000 in total) and to an increase in construction costs of €133,037 which again was related to the approval of further grants to the Council that were expensed on a number of capital projects.

As to Income, the Council notes that the discrepancy consisted of an increase of €50k, composed of other income from grants of €30k, which was not planned at budget stage, and €10k from income raised from LES that was unfortunately not budgeted for.

On the expenditure side the Council reported an increase of €14.6k on a budget of €342k, amounting to a reasonable increase of 4%. This consisted of an increase of €18k in hospitality costs that was offset by a decrease in €11k in personnel emoluments because the Council had for significant parts of the year less than the normal staff complement.

5.1

Fixed Asset Register

The Council notes the observation that the Fixed Asset Register should state the location of the asset and the name of the supplier. It will ensure that any new addition will be recorded accordingly.

5.2

Depreciation

The Council notes the discrepancies identified in the charge for construction and has informed the newly appointed Accountants to take heed of this observation for future reference.

5.4 & 5.5

Additions to PPE

The Council agreed with the reclassification of the expenditure coming out of the Urban Greening Project from urban improvements to trees and plants. This was duly recorded in the approved final financial statements.

5.6 & 5.7

Reconciliation of Financial Statements to Accounting Records

The Council notes the observation made by auditor with regards to differences between the fixed asset register and the nominal ledger/fixed asset schedule and will instruct the newly appointed Accountants to delve into this matter in detail and especially in the context of the implementation of Directive 1/2017 issued recently by the Department for Local Government.

6.1 & 6.2

Grants and Deferred Income

The Council notes the observation made by auditor with regards to Grants and Deferred Income and will instruct the newly appointed Accountants to delve into this matter in detail and especially in the context of the implementation of Directive 1/2017 issued recently by the Department for Local Government.

6.3-6.6

Central Region Funds

The Council is directing the newly appointed Accountants of the Council to delve into the various points raised by the auditor with respect to the recognition and classification of central region funds, with a view of identifying any changes to accounting procedures, treatment and reporting as necessary and this with immediate effect as from the financial year 2017.

7.1 & 7.2

Receivable – Overdue Amounts

The Council is in contact with the Legal Advisor so that overdue funds may be recuperated.

The Council will be making a review of any overdue receivable amounts to ensure collection and to safeguard its interest from a legal viewpoint whenever such pending amounts remain overdue for a very long time.

8.1 & 8.2

Bank and Cash – Bank Reconciliations

The Council agrees with the recommendation that all bank accounts are duly reconciled on a more frequent basis and that such reports are reviewed and approved by the Executive Secretary of the Council.

Bank Accounts are now being reconciled monthly by the Executive Secretary.

9.1 & 9.2

Payables – Creditors Statements

The Council observes that it is unfortunate that many suppliers do not have a proper system of issuing statement of account thus making the recommended periodic reconciliations quite difficult to identify. However, it has to be noted that the Council is a relatively prompt payer and as such any problems or discrepancies can be easily identified by the supplier himself upon receipt of payment.

9.3 & 9.4

Payables –Cut off and Unrecorded Liabilities

The Council notes the recommendations of the auditor with respect to cut-off and unrecorded liabilities for future preparation of financial statements on a quarterly and annual basis.

9.5 & 9.6

WasteServ Balance

The Council notes the recommendations of the auditor with respect to periodic reviews of payments made to WasteServ and the actual tipping fees allocated for each financial year. It will also strive to recover any over-payments identified in this respect by the auditor.

10.1 – 10.3

Presentation of Financial Statements

The Council has been re-assured by the newly appointed Accountants that they will be making the necessary changes to the template used for the unaudited financial statements to disclose accounting policies and changes therein, related parties, maturity analysis of deferred income, and Statement of Cash Flows in line with the respective statutory or standard requirements.

10.4

Capital Commitments

The Council has been re-assured by the newly appointed Accountants that they will be making the necessary changes to the template used for the unaudited financial statements to reflect the note on capital commitments in line with the applicable IFRS.

10.5

Other Issues Identified in the Financial Statements

The Council has noted the observations made by auditor on the four other issues relating to discrepancies in the financial statements and the books of account of the Council.

11.1

The Council has taken note and the correct procedure is being adopted.

11.2

The Council has taken note and this is being rectified.

11.3 & 11.4

Estimates and Forecasts

The Council has been re-assured by the newly appointed Accountants that they will be using the appropriate template for the Council's budget and that as from the next budgetary period, more attention is given to planned capital expenditure due to its major impact on the financial position and performance of the Council.

Business Plan is for the whole legislature and not only for 3 years.

11.5

One of the Councilors was excused from attending Council meetings since he was abroad following an Erasmus Project. The Department of Local Government was advised regarding this matter and this was even discussed during a Council meeting. Having said that, the Council has decided that his seat was not vacated due to valid reasons that were presented.

12.1 & 12.2

Local Enforcement System

The council has noted the comments made by the auditor with regards to the share of profits from the pooling system managed by the Birkirkara Joint Committee, of which our council is a member, and will investigate the situation further and request the council's accountant to review the recently issued audited financial statements published by the same committee.

IFFIRMATA

Stephen Sultana

Mayor

IFFIRMATA

Jane k/as Yvonne Spiteri

Executive Secretary

C.C.

The Local Government Auditor

And

The Department of Local Government