



Ref. F/1/2/Vol VII

25th July 2019

Director,
Department for Local Government
26, Archbishop Street,
Valletta VLT 2000

Dear Sir,

Management Letter – Financial Year – 2018

Reference is made to the above-mentioned letter dated 12th June 2019, received at the Council offices on the 17th June 2019, concerning the systems and controls used by the Council to safeguard the Council's assets in line with prevailing legislation dealing with local councils.

The contents of the Management Letter were read and discussed by the Council, where it was deemed appropriate to forward the following comments:

1. FOLLOW-UP: MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2017

The Council has addressed all matters which were mentioned in last year's management report, other than those, which are beyond its control.

2. INCOME

2.1 - Local Enforcement System Pre-Regional

The Council has made persistent representations calling for the production of the North Joint Committee Audited Financial Statements for 2018 within the respective time frame. Notwithstanding that the Council is not happy with the qualification in its audit report, there are no further actions to be taken other than those already taken. In view of this, while the Council will continue to exert pressure on the Regional Committee, one should point out that such an issue calls for Department for Local Government intervention, rather than being mentioned in the management letters of affiliated Local Councils, year after year. Furthermore, the Council records for all receipts from Pre-Regional contraventions on cash basis, since the Council only comes to know of such transactions upon receipt.



2.2 – Reimbursement for administrative fees on LES fines collected

The amounts invoiced by the Mellieħa Local Council to LESA and/or to the Regional Committees on a monthly basis are based on reports extracted from the LES System v2 for each Region/LESA. Moreover, Regional Committees and LESA have always accepted the amounts indicated on the invoices issued by the Mellieħa Local Council, and therefore no disputes have arisen in this respect.

2.3 – Reclassification of Supplementary Government Income

Point noted and any suggested reclassifications were reflected in the updated financial statements.

2.4 – Income cut-off procedures

Point noted. The Council will recognise any committed financial assistance and/or other Government income in the financial period it relates to.

3. PERSONAL EMOLUMENTS

3.1 – FS7 and FS5 reconciliations

Comment noted. However, it is to be pointed out that both amounts on forms FS5's and those on the FS7 are automatically processed through the Council's Payroll Software (Technosoft). Through a reconciliation exercise it transpired at the end of the year that both amounts tallied. Mentioned difference was never mentioned during the audit field work and as per management letter itself, this is not a difference in the payroll reconciliation but a dispute in the way the performance bonus is calculated by the Council. The auditors were shown a confirmation by Department for Local Government, instructing the Council to calculate the performance bonus of the Executive Secretary in the way it is being calculated. Please refer to 3.2 hereunder

3.2 – Disclosure of Executive Secretary's Remuneration and Bonus Workings

The 10% performance bonus paid to the Executive Secretary was calculated and paid correctly. The Executive Secretary's performance bonus is worked out on a Scale 5 Salary and not on a Scale 6 Salary. This was approved in writing by the Department for Local Government as per clarification dated 18th December 2013. Said clarification stated that:

“As an Executive Secretary in a Council of 9 members, you are salaried at Scale 5, and the performance bonus percentage should reflect this scale”



3.3 – FSS calculations discrepancies

Point noted. It is however to be pointed out that FSS is calculated automatically by the Payroll Software (Technosoft) and thus the Council does not have any control on the FSS deducted from the employees' payslips.

4. EXPENDITURE

4.1 – Jum il-Lokal Expenses

Memo 122/2010, as amended by 8/2011, deals with receptions organised on the occasion of *Jum il-Lokalita`* and other activities as may be agreed upon by Local Councils. We reiterate that in the case of Mellieħa, *Jum il-Kunsill* is certainly not a banquet, nor a street party, since the amount expended on the drinks and food items served after this award presentation activity was €693, that is 11% of the entire cost of the event which amounted €6,163. It is incomprehensible how such a comment is raised year after year, notwithstanding repeated clarifications given by the Council.

4.2 – Expenditure incurred on Social/Cultural Events

“Iljieli Melleħin”, “Miled Mellieħi” and “Festa ta’ San Ġwann tal-Ħġejjeġ” are considered as cultural events that draw a considerable amount of visitors to the locality, with a significant commercial aspect. On the basis of such initiatives, the Council was awarded the Local Enterprise Support Award in its editions of 2011, 2013, 2014, and 2016 and again in 2018 involving a total prize money of €56,000.

It is also to be pointed out that over the years, Central Government has encouraged the organization of cultural activities through various schemes that are still being launched on an annual basis. As a result of which, the Mellieħa Local Council has benefited a total of €85,300 from such schemes between 2010 and 2017. Besides such funding, efforts have always been made to obtain sponsorships from commercial entities in support of the activities under reference. Such funding on the part of the Department for Local Government has always been intended to supplement Council funding in order to ascertain the organization of events of a decent standard.

One is also to comment that the Council did not put aside its statutory obligations insofar as road maintenance and capital projects are concerned. In fact during the year 2018 the Council invested almost Eur500,000 in capital projects. Furthermore, the social and cultural activities amount to less than 10% of the annual government allocation. This, not to mention the additional income from Central Government and private entities that the Council manages to obtain to reduce the net cost of these activities in the community of Mellieħa



4.3 – Other Expenditure Shortcomings

The Council was not aware of the maintenance of road markings invoice when closing off the financial statements for 2017 and received the invoice in 2018. Police Department cost was allocated to Road & Street Repairs since it related to Traffic management when the road and street repairs were being undertaken on Triq Ġorġ Borg Olivier rainwater culvert improvements. Local enforcement expenditure is normally used for generic traffic management costs.

5. PROPERTY, PLANT AND EQUIPMENT

5.1 – Reconciliation of the Fixed Asset Register and Nominal Ledger

The Council has embarked on the project to apply Directive 1/2017 on its Fixed Assets. This was a very labourious task, which process was done during 2018 and one time adjustment in the value of the fixed assets was realized in the income statement of the current year. Unfortunately, when the updated figures were imported in Sage Evolution, some discrepancies were noted. These are currently being investigated and will be updated during the current year.

5.2 – Insurance Coverage

The costs with respect to insured fixed assets were updated according to those disclosed in the financial statements prior to the renewal for insurance policies in May 2018. Note has been taken with regards the provision of insurance coverage with respect to assets not yet capitalized.

5.3 – Capital Expenditure classification

Comment noted and any suggested reclassification was reflected in the updated financial statements.

5.4 – Assets not yet Capitalised

Comment noted. May we also add that the Council has been recording Assets Not Yet Capitalised as far as way back in 2005. Through such a spreadsheet, the Council records each and every invoice related to all Capital Project not yet capitalised. This database is kept up-to-date on a regular basis.



6. INVENTORIES

6.1 – Valuation of stock of books and CDs

Immaterial difference noted. Mentioned difference represent the movement of items of inventory which took place between end of year and the stock take performed by the auditors.

7. RECEIVABLES

7.1 – Amounts receivable from Transport Malta

Matter is currently being discussed with Transport Malta and the Council looks forward to close this situation once and for all. The Council signed an agreement on 2nd May 2017 with Transport Malta about the road works done in Triq il-Qortin, copy of which was given to the auditor during the audit. The matter is currently in dispute between the Contractor and Water Services Corporation, which dispute is on the quantities relating to the replacement of water mains. The Council will only effect payment to the Contractor upon clearance of the pending disputes between Water Services and the Contractor and receipt of payment from Infrastructure Malta.

7.2 – Accrued Income

Immaterial difference noted. Any suggested audit adjustment was reflected in the updated financial statements. Matter has been discussed during the audit and our workings were shown to the auditor who agreed to the details of our workings.

8. CASH AND BANK

8.1 – Bank Reconciliation

Comment noted. Difference arose because a cheque dated up to December 2018 was cancelled after the bank reconciliation was performed.

9. PAYABLES

9.1 – Trade creditors

Comment noted. The Council regularly asks and reconciles creditors' statements with Council records. Cases mentioned in the management letter were not mentioned during the audit field work. Upon investigation of these cases, it was found out that:



Central Asphalt Ltd – Mentioned difference is for invoices disputed as per 7.1 above, which invoices were included in Central Asphalt books but were not processed in Mellieha Local Council books since the latter is not in agreement;

Mica Med Ltd – Difference is represented by invoices for works which the supplier issued in 2018, but for works which were done in 2019 and invoices received by the Council in 2019;

WasteServ Ltd – Difference represents a cheque which was issued by the Council in 2018 and was processed by the supplier in 2019

9.2 – Creditors' list variance

Point noted. The variance may be due to a change in accounting system software effected in October 2017. However, the matter is being investigated together with the software provider with a view to detect the indicated discrepancy.

9.3 – Accounting for Government Grants and Deferred Income

It is with satisfaction that the auditors noted that the Council has gone into the old issues mentioned in previous year's audit about this matter. This in line also with DLG Directive 1/2017 of the 20th January 2017, which called for a change in the accounting method from income approach to capital approach as from next year and thus, any such reclassifications as mentioned in the auditors comment will cease to have any effect.

9.4 – Amounts payable to supplier under the PPP agreement

This matter was not raised during the audit field work. The Council gets invoiced from the creditor for that portion of the balance which will be payable. Other longer term balances are not invoiced by the creditor. However, the Council provides for these balances as per IAS39.

9.5 – Accruals

This matter was explained to the auditor during the audit field work since the creditor issued an invoice dated February 2019, just hours before the financial statements were approved by the Council but for services rendered in 2018. The Council recognized that cost in 2018 since it referred to the year under review.



10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1 – Disclosures required in respect of Financial Procedures

The Council does its utmost to prepare Financial Statements in line with International Financial Reporting Standards. Furthermore, the auditors did not prepare a draft management letter, but only issued a list of proposed audit adjustments, which list was approved by the Council and the Financial Statements updated accordingly.

10.2 – Financial Statements Presentation

Any comments mentioned by the auditors in the review of the financial statements were noted and included in the updated financial statements.

11. GENERAL

11.1 – Council Minutes and Schedule of Payments

The duration of Council sittings is set with the consent of all those present according to the exigencies of the items placed on the agenda.

11.2 – Comparison with the Annual Budget

It is normal practise that budgetary figures for the upcoming year are set on the actual expenditure of the current year, unless new contracts, agreements, or foreseen activities dictate otherwise. However, unforeseen circumstances may arise throughout the year which call for increased expenditure. Attention is also given that expenditure is not exceeded under the main heading such as: Repair and Upkeep; Contractual Services; Office Services; Information Services etc. Over expenditure under particular sub-headings normally is compensated for by under expenditure in the case of other sub-headings, falling under the same main heading. When variances under sub-headings are catered for under the same main heading, no changes will be effected. The difference in the cost of Bulky Refuse collection resulted due to the fact that the budget was computed on a tender value which was not awarded because it was deemed unrealistically low. Furthermore, the Council started an additional organic collection which collection is being reimbursed from Wasteserv. Increase in bulky refuse was recognized by the Council and a virement was done in its budget figures. It is incomprehensible how the Auditor did not note any actual office utilities. The auditor failed to note that the Council had also a budget for the Contracts Manager under the Professional services. If one is to include such, the Council cost was within the budget

11.3 – Opening Balances

The Council always strives to post prior year adjustments as recommended by the auditors and therefore the auditors' statement in the management letter is somewhat surprising in that the



opening balances were not in agreement with the financial statements, as this matter was not raised during the audit field work. The Council is not aware that the opening balances of the nominal ledger were not in agreement with the approved and audited Financial Statements of the previous year apart for those instances as requested by Directive 1/2017.

11.4 – Uploading of Documents on Local Government Website

The Council will be uploading the mentioned documents on the website. Documents were not uploaded before because the website did not have a tab where to upload the management letters. For this reason the Management Letters and their respect replies had to be upload under the Audited Financial Statements tab in the Local Government website.

Dario Vella
Mayor

Carmel Debono
Executive Secretary

cc: Ms Tanya Mercieca
Assistant Auditor General