



Mellicha

Ref. F/1/2/Vol VII

16th August 2016

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

Dear Sir,

Management Letter – Financial Year – 2015

Reference is made to the above-mentioned letter dated 24th May 2016, 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 2014

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

2. INCOME

2.1 - Local Enforcement System

The North Joint Committee is in the process of being wound up. Process has begun in 2011 and was expected to be finished in 2013. From enquiries carried out with the Executive Secretary of the Regional Committee, which succeeded the Joint Committee, it transpired that the audited annual report of the Joint Committee for the year ending 31st December 2015 was still not available.

The Council has made persistent representations calling for the production of such a report 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 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.

2.2 – Income raised under Local Council Bye-Laws

Noted and any proposed reclassifications were included in the updated financial statements.



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2.3 – Supplementary Government Income

Comment made by auditors have been noted, however it must be stated that the Council always strives to prepare its financial statements on the 'Accrual Basis'. One is to point out that such payments by DLG to Wasteserv were effected after the financial statements were concluded and thus the Council could not reliably calculate the amount to include as Accrued Income as at year end.

Any suggested audit adjustments were approved and included in the updated financial statements.

3. PERSONAL EMOLUMENTS

3.1 – Payroll workings shortcomings

Comment noted and the Council agrees to the auditor's comment of accruing for the Executive Secretary's performance bonus and in fact such amount was included in the Payroll reconciliation provided to the auditors. However, due to a human oversight, the accrual was not posted in the financial statements. This error was noted and the Council posted this accrual as an audit adjustment in the updated financial statements.

4. EXPENDITURE

4.1 - Procurement Procedures

With respect to the production of a performance bond by Mr Daniel Galea, it is to be pointed out that said contractor had already issued such bank guarantee in favour of the Council, as he was awarded the previous contract for accountancy services, while the contract sum remained the same. Said performance bond expired on 20th July 2016.

Notwithstanding that payments indicated below were effected within a four month period, the services rendered by TCTC and In Media Marketing were spread over a longer period. Insofar as the services provided by Imperial Band Club and Societ  Filarmonica La Vittoria, one is to point out that these were related to Council organized cultural events during the months specified in table below:

Supplier	Expense	Aggregate Amount	Month during which services were rendered.
TCTC	Computer Courses	€2,300	Feb'15 / Jul'15
In Media Marketing	Provison of filming and related activities	€3,599	Aug'14/Dec'14/Jul'15
Imperial Band Club	Provision of musical services	€2,300	Mar'15/Jun/'15/Aug'15/Sep'15/Dec'15



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Società Filarmonica Vittoria	La	Provision of musical services	€2,300	Apr'15/Jun'15/Jul'15/Sep'15
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The comments made by auditors with respect to Imperial Band Club and Società Filarmonica La Vittoria, should be considered in the light of Department for Local Government Memo 11/2016 and Local Councils Association circular 17/2016, dealing with services rendered by musical societies – copy can be obtained through the following link:

<https://dlg.gov.mt/en/DLG/Media/Memos/2016/Memo%2011%202016%20-%20Servizzi%20tal%20G%C4%A7aqdiet%20Mu%C5%BCikali%20tal%20Lokal.pdf>.

4.2 – Approval of Payments

Apart from the Eco Pure Ltd payment, the payments effected prior to Council approval were made to MITA and the Directorate of Lifelong Learning – which are both Government institutions. In the latter cases, the Council was bound to pay in view of set deadlines.

4.3 – *Jum il-Lokal* Expenses

Memo 122/2010, as amended by 8/2011, deal with receptions organised on the occasion of *Jum il-Lokalita`* and other activities as agreed upon by Local Councils. In the case of Mellicha, *Jum il-Kunsill* is certainly not an activity of this nature, since not even drinks and/or food items were served. The expenses identified by the auditors had nothing to do with receptions.

4.4 – Procurement for Street Lighting

The tender for street lighting is being tackled by the Regional Committee and therefore Council has limited control over this issue. During its 14th Sitting held on the 8th January 2014, the Council had decided to join forces with the Regional Committee to achieve economies of scale by issuing the tender for street lighting as a region. The Regional Committee's procrastination in issuing the call in question should therefore not be considered as an infringement of procurement regulations, or the recommendations made in Memo 34/2013, on the part of the Council.

Moreover, the proper upkeep and maintenance of street lighting in accordance with national and international standards, is vested on Regional Committees, as laid down in Article 19 of Legal Notice 320/2011 (S.L.363.160). As a matter of fact, such obligation is not included with the functions of Local Councils in Section 33 of the Local Councils Act (Cap. 363).

4.5 – Donations in kind

The School Hall is government property, and therefore in our view, any improvements thereat should in no way be considered as a donation to an NGO. Furthermore, the Community Hall is frequently used by the Council for important gatherings and cultural activities. The improvements carried out in this hall over the years, were the result of resource pooling between the Education Division and the Local Council, as otherwise these would not have materialized.

In the Council's view, the auditors' interpretation of Article 63A is unacceptable, as improvements carried out by the Local Council in a Government owned asset is certainly not to be considered as a donation. A modest expenditure of €1,150 is considered as a concrete step by the Council in fulfilling



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part of its social and cultural obligations within the locality, while anything less would be only paying of lip service to this cause.

5. PROPERTY, PLANT AND EQUIPMENT

5.1 – Reconciliation of the Fixed Asset Register and Nominal Ledger

The Council will be reconciling and adjusting the amounts as per FAR and nominal ledger and reallocate the balances from one asset category to another, as instructed by the auditors.

Discrepancy noted in the depreciation reserves have been analysed during the year and is the result of previous years' audit adjustments. However, it is noted that such previous years' audit adjustments posted in Sage Pastel (nominal ledger) cannot be reflected in Sage Evolution because the depreciation is calculated and posted automatically through the software.

5.2 – Insurance Coverage

The costs with respect to insured fixed assets were updated according to those disclosed in the financial statements at the renewal of the current insurance in May 2016. However, it must be stated that certain items, such as Road Resurfacing, are to remain excluded, as these are not considered as vulnerable to damages, theft or vandalism. Their inclusion would therefore unnecessarily inflate the premium.

6. RECEIVABLES

6.1 – Accrued Income and prepaid expenses

Immaterial amount noted and proposed audit adjustment was accepted by the Council and included in the updated financial statements.

7. PAYABLES

7.1 – Accrued Expenditure and Payables Cut-off Errors

As regards amounts not accounted for as creditors, the specified amounts were included with the accruals because the taxable invoice was received after the Council has closed off the financial year in Sage Pastel. A note was written on the taxable invoice confirming the date of receipt by mail of such invoice for accuracy's sake. To ensure the correctness of data, the Council included the transaction with the accruals.



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7.2 – Accounting for Government Grants and Deferred Income

The recommendations made by auditors have been noted and proposed audit adjustment posted and were reflected in the updated financial statements.

7.3 – Amounts payable to supplier under the PPP agreement

The Council did not have a balance under the creditors list because the Council only gets invoiced for the payment which falls due as per PPP agreement and as at year end the Council did not have any overdue payment with the Contractor. The Council does not agree to the comment made by the auditors. As per Council workings, the total amount payable to the Contractor as at 31st December 2015 is €160,692.15, which amount was depreciated at the discounting rate of 8.38% which rate has been kept fixed during the duration of this PPP agreement.

8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

8.1 – Disclosures required in respect of Financial Procedures

The Council has no control over this matter, on grounds that the budgets and financial statements are not comparable, in view of their different basis of accounting preparation. The Annual Budget has been prepared on a cash basis as indicated in the Local Council Procedures.

8.2 – Disclosures required in respect of IFRS

This year the auditors did not prepare a draft management letter and only issued a list of proposed audit adjustments, which list was approved by the Council and the Financial Statements updated accordingly.

8.3 – Financial Statements presentation

This year the auditors did not prepare a draft management letter and only issued a list of proposed audit adjustments, which list was approved by the Council and the Financial Statements updated accordingly. While every effort is made to ensure that Financial Statements are free from any form of error, we kindly point to the Concept of Materiality. Comments about €1 casting difference in the Management letter lets the reader of the document reach its obvious conclusions.

9. GENERAL

9.1 – Council Minutes and Schedule of Payments

Although the minutes uploaded in the Council website were not signed, their approval by the Council was corroborated by hard copies which were made available for viewing to the auditors. It is to be noted that DLG is strongly suggesting that the Council uploads documents which had been converted to pdf from word or excel, rather than scanned copies to make electronic searching easier.



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9.2 – Comparison with the Annual Budget

The estimated expenditure on street lighting was in fact raised for discussion in Council and votes 3010 and 7220 in the Annual Budget were subsequently revised accordingly, as per minute 2.3.3. in the minutes of the 41st Sitting held on the 10th August 2015. For ease of reference please vide said minutes through the following link:

http://www.lc.gov.mt/mediacenter/PDFs/2_Min41A_10_08_15.pdf

The budgeted expenditure with respect to Refuse Collection was €120,000. This was based on an expenditure of €78,000 payable to the refuse collection contractor and the amount allocated by DLG for tipping fees (€41,942). The difference between the actual amount claimed by WasteServ and that due by Council was not provided for in the budget, since this is not considered as a cash transaction, as the difference is normally paid directly by DLG to WasteServ.

9.3 – 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 last year.

John Buttigieg
Mayor

Carmel Debono
Executive Secretary

Cc: Ms Tanya Mercieca
Assistant Auditor General