



Ref. F/1/2/Vol VII

9th July 2018

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

Dear Sir,

Management Letter – Financial Year – 2017

Reference is made to the above-mentioned letter dated 29th May 2018, 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 2016

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 Pre-Regional

The Council has made persistent representations calling for the production of the North Joint Committee Audited Financial Statements for 2017 within the respective time frame. Notwithstanding that the Council is not at ease 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 – 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 reconciled the amounts indicated on the invoices issued by the Mellieħa Local Council, and therefore no disputes were ever registered in this respect.

2.3 – Reclassification of Supplementary Government Income

Point noted and additional allocation given by the Central Government has been reclassified as per auditors instructions.

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.

2.5 – Reclassification of income released from grants (deferred income)

Point noted. The Council included the suggested audit adjustment in the updated financial statements. Grant was recognized in the income statement since it was considered as a grant of a revenue nature, since same referred to maintenance and embellishment.

3. PERSONAL EMOLUMENTS

3.1 – FS7 and FS5 reconciliations

Comment has been noted. However, it is to be pointed out that both amounts indicated on the FS5 and FS7 forms are automatically processed through the Council's Payroll Software (Tehnosoft). Through a reconciliation exercise, it transpired at the end of the year that both amounts tallied.

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 states 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. Through a verification exercise, without the use of said software, it transpired that the amount of FSS deducted was correct. However, a statement has been requested from the Department of Inland Revenue for further verification. In any case, if FSS is not correctly deducted on the part of the Council, any discrepancies would have to be covered by the employee on receipt of the annual statement issued by the Inland Revenue Department.

4. EXPENDITURE

4.1 – Jum il-Lokal Expenses

Memo 122/2010, as amended by 8/2011, deal with receptions organised on the occasion of *Jum il-Lokalità* 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, or a street party, or a similar social even, since the amount expended on the drinks and food items served after this award presentation activity was €884, that is 15.0% of the entire cost of the event which amounted €5,887.33. It is incomprehensible how such a comment is raised year after year, notwithstanding repeated clarifications given by the Council.

4.2 – Inappropriate documentation

Point noted. Kindly find our comments below for each instance mentioned:

Ms J. Helm is reimbursed for the use of her personal vehicle, while on Council duties, through her involvement in the Cat Neutering Campaign introduced by the Council. Such disbursements by the Council are effected following the submission of a Transport Expense Claim specifying the distance travelled and the application of the established rate per kilometre, in line with normal procedure. In such cases no fiscal receipts are called for, simply on ground that the payments are made as reimbursement of incurred expenses.

Mr Eugenio Buhagiar has been contacted and issued a fiscal receipt for the amount of €956.98.

App Raiser has forwarded all fiscal receipts for services rendered throughout the year at the end of the year 2017.



A fiscal receipt amounting to €1,032.50 was produced by Multi-Net Co. Ltd to the Council and a copy was forwarded to the auditor during the audit exercise. All three fiscal receipts with respect to Multi-Net Co. Ltd were received following the audit exercise.

The Light Housekeepers have issued a fiscal receipt which amounted to €6,022.39 with respect to Invoice No. 2094.

4.3 - Procurement for Street Lighting

During its 14th Sitting, held on the 8th January 2014, the Council had decided to joint the other members of the North Regional Committee to issued a joint call for tenders with respect to the Maintenance and Installation of Street Lighting, with the aim of achieving economies of scale. The Regional Committee has issued a call for tenders (Ref: RT/03/2016) which was published on the 29th November 2016. The result of the evaluation carried out was not communicated to the respective Local Councils until late in 2017, and the service under the new contract came into operation as from February 2018. Since such procedures were underway, there was no point in following the recommendations made in Memo 34/2013. It was assumed by all Local Councils affiliated in the North Regional Committee that such a memo was more intended for those Local Councils that were obtaining services under an expired contract and had no procedures under way for joint procurement.

Moreover, one should also mention that 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).

4.4 – Expenditure incurred on Social/Cultural Events

“Iljjeġi Melleħin”, *“Milied Mellieħi”* and *“Festa ta’ San Ġwann tal-Ħġeġġeġ”* 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 sustain the organization of events of an acceptable 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 2017 the Council implemented the following projects:

- Road Resurfacing Works at Triq it-Tumbrell/Kaħli/Tunnagġ/Klamari: €110,196;
- Improvement at Ġnien il-Qiġħan Playground: €31,288;
- Construction of Storm Water Culverts at Triq il-Kbira/Ġorġ Borg Olivier: €84,085; and
- Manikata Parish Square Floodlighting Project: €59,177

5. PROPERTY, PLANT AND EQUIPMENT

5.1 – Reconciliation of the Fixed Asset Register and Nominal Ledger

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. Furthermore, mentioned considerable noted discrepancy in the accumulated depreciation of the Special Programme is not an error, but such discrepancy is resulting from accumulated grants accounted for under the capital method, in line with the applicable legislation at the time of acquisition. The Council is currently in the process of reviewing the Fix Asset Register in line with DLG Directive No. 1.

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 2017. Note has been taken with regards the provision of insurance coverage with respect to assets not yet capitalized.

5.3 – Accounting for intangible assets

Point noted. A new category for "Computer Software" has been opened in the Fixed Assets Registry and a new general ledger account has been created in Sage Evolution accounting software and posting of such items is being posted as instructed.



5.4 – Capital Commitments

Only the capital commitments which have been contracted have been included in the financial statements. Such commitments were sufficiently provided for in the Annual Budget.

5.5 – Capital Expenditure and Revenue Expenditure

Comment noted and adjustments effected.

5.6 – Assets not yet Capitalised

May we point out that the four capital projects mentioned were not capitalised in previous years, but were subsequently capitalised during 2017, on ground that the Council was still receiving invoices related to these projects up to 2017, and hence could only conclude them when all costs were established.

The workings with regards to the indicated journal entry of €149,060.37, which was included in the Assets not yet Capitalised list, are given below:

| Accruals: | (€) |
|--|------------|
| Triq Toni Pace/Antonio Falzon/Guze' Flores rainwater culvert works | 41,513.58 |
| Misraħ il-Parroċċa (Mellieħa) and Manikata Street Lighting Project | 128,755.96 |
| Misraħ il-Parroċċa (Mellieħa) and Manikata Street Lighting Project Engineering Services | 7,081.58 |
| | <hr/> |
| | 177,351.12 |
| Less JE 3 (PPP Accounting) | <hr/> |
| | 28,290.75 |
| | <hr/> |
| | 149,060.37 |

These workings were brought to the attention of the auditors via e-mail on 27/04/18.

May we also add that the Council has been recording Assets Not Yet Capitalised on a spreadsheet 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

Mentioned discrepancy represents the movement of items of inventory which took place between end of year and the stock take performed by the auditors. While donations from the inventories will in the future be raised during a Council Sitting, a reconciliation was carried out during the auditing exercise.

7. RECEIVABLES

7.1 – LES amount receivable

As stated by the auditors in the management letter, this amount does not have any effect on the financial statements, since it is fully provided for. Amount disclosed in the financial statements agrees perfectly to the LES Report 483, which report was issued from LOQUS System as per instructions given by LOQUS (Helpdesk) themselves, through an e-mail despatched to all Local Councils on the 20th January 2017. The Department for Local Government was held in copy and therefore its tacit approval was assumed.

7.2 – Accrued Income

Point Noted. Audit Adjustment AA06 was posted as instructed.

7.3 – Debtors List Variance

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

8. CASH AND BANK

8.1 – Bank Reconciliation

Comment noted and adjustment effected.



9. PAYABLES

9.1 – Trade creditors

Comment noted. The Council regularly asks and reconciles creditors' statements with Council records. The instance mentioned by the auditor involves ELC Ltd, which involves €826.00, that has been disputed since 2014. Said amount has subsequently been posted in the books of accounts.

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

The auditors, rightly enough have noted that the Council has gone into the old issues mentioned in previous year's audit concerning the above subject. This was done in line also with DLG Directive No. 1/2017 of the 20th January 2017, which called for a change in the accounting method from income approach to capital approach, as from 2018, 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

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 with respect to the PPP agreement. Balance in creditors list is for other works which the same contractor rendered to the Council.

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. The Council is continuously vigilant in that expenditure is not exceeded under the main headings, such as: Repair and Upkeep; Contractual Services; Office Services; Information Services etc. Over expenditure under particular sub-headings is normally absorbed by under expenditure under other sub-headings, falling under the same main heading. When variances under sub-headings are catered for in this manner, no virements are called for.

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 last year.

John Buttigieg
Mayor

Carmel Debono
Executive Secretary

cc: Ms Tanya Mercieca
Assistant Auditor General