



Ref. F/1/2/Vol VII

20th September 2021

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

Dear Sir,

Management Letter – Financial Year – 2020

Reference is made to the above-mentioned letter dated 28 July 2021, received by this office on the 12th August 2021 concerning the systems and controls adopted 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 in Council, where it was deemed appropriate to forward the following comments:

1. PREVIOUS MANAGEMENT LETTER – YEAR ENDED 31 DECEMBER 2019

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

2. INCOME

2.1 – 2.4: Annual Government Income – Income from bye-laws

Reclassifications were processed in the updated financial statements as suggested by the auditors.

2.5 – 2.9: LES administration fees

Point noted, however it is important to note that the Loqus LES System is beyond the Council's control. Matter is to be taken up with the Local Government Division. A reconciliation of statements released through the said system will be carried out on a half yearly basis. It is to be pointed out that all posting in the Council's accounts have been derived from Loqus itself.

2.10 – 2.11: Custodial Receipts

Note has been taken regarding Auditors' comments, however in our view specified bank deposits were made within reasonable time, considering that week ends were involved.

2.12 – 2.13: Interest Income

Upon re-checking of Mellieħa Local Council's HSBC Statements, it transpired that all bank accounts are set as non-taxable. These were set as such upon their opening. However, bank was instructed on the 1st September 2021 to classify the relative account as "Non-Taxable". It is also to be pointed out



that bank has never deducted the 15% Final Withholding Tax, as corroborated through the relative bank statements.

2.14 – 2.16: Joint Committee

Point noted. However, matter is beyond the Council's control and this issue will remain as such, as the set up running the Joint Committee has been dissolved.

3. EXPENSES

3.1 – 3.3: Procurement

The statement made by Auditors is confirmed, however subsequent procurement was effected through a call for quotations.

Insofar as the services procured to ██████████, it is to be stated that way back in February 2014, a call for quotations was issued for the purchase of equipment and software required for the live streaming of Council sitting. Following a technical evaluation carried out to ascertain compliance with the specifications set by the Department for Local Government, a purchase order was to Correct Termination.

Through Circular 19/2019 of the 27th September 2019, the Local Government Division called upon Local Councils to extent live steaming to an on-demand service. Given that the initial outlay provided by ██████████ was still in place and the cost involved, it was decided that a direct order is to be issued to the same provider for the sake of practicality, in line with Article 100 of the Public Procurement Regulations (S.L. 174.04) and Procurement Policy Note #32 issued by the Department of Contracts on the 19th June 2017.

3.4 – 3.7: Asset Insurance

Point noted, however the assets insured are those acquired out of Mellieħa Local Council funds and therefore are not to be considered as community assets. In fact, these assets are listed in the Council's Fixed Assets Register.

The auditors stated that the insurance policy should be based on the net book value of fixed assets, for insurance purposes. The Council has always quoted the purchase price of the fixed assets for the simple reason that in case of loss, compensation is granted on the actual cost for replacement of the asset. Payment based on the net book value will result in shortfalls which obviously has to be bridged out of Council funds. Shortfalls will also result even if purchase costs are adopted, as inflation would render the replacement cost higher as compared to that of the acquisition date. Notwithstanding the above reasons, the Council would not have any problem adhering to the procedure indicated by the auditors.

3.8 – 3.10: Rent

In our view, IFRS 16 'Leases' does not apply for Government Leases and since matter is immaterial, such accounting was deemed unnecessary.



4. FIXED ASSETS

4.1 – 4.2: Reconciliation of fixed asset register with accounting records

Matter is being tackled in line with Local Government Division Directive 1/2017. The Council regularly reconciles these balances and it transpires that the discrepancy referred to in the management letter, refers to audit adjustments which were raised with respect to assets obtained entirely, or partially through grants. The discrepancies indicated for the first time by the Auditors way back in 2017, have remained unchanged since then.

4.3 – 4.4: Details of fixed asset register

Such fields are not available in the Fixed Asset Register Sage Evolution Software. However, one is to comment that the description of assets is quite exhaustive. Vide fixed asset card fields provided under said software, which is used worldwide.

4.5 – 4.6: Grant allocation

Comment noted. In our opinion, the project was still not finalized as at year end and thus the amount of grants received as at year end was left as Deferred Income awaiting for registration of the final grant payment/s that will enable final capitalisation of the project. Audit adjustment as suggested by the auditors was included in the approved financial statements.

5. TRADE RECEIVABLES

5.1 – 5.2: Overdue trade receivables

Matter noted; however, provision was made to the indicated amount in the Debtors Account. Since the relative claim was dated during 2019, such sum was not classified as Doubtful Debt.

5.3 – 5.6: Confirmation of debtor

Suggestion has been noted and balance will be analysed. It is important also to note that the Council cannot be held responsible if third party is not accounting for the invoices which the Council is issuing and sending..

6. INVENTORY

6.1 – 6.2: Net realisable value of inventory

Comment noted and the Council will be analyzing the inventory and write off any books which the Council Members will approve to be obsolete.



7. CASH AT BANK

7.1 – 7.2: List of unrepresented cheques

The transaction was in fact a bank transfer. Auditors' comments were noted and however, adjustment was included in the updated financial statements. Mentioned payment was for the FS5 of December which was processed in December 2020 in the accounting system of the Local Council since it refers to 2020 but was processed by the bank in 2021 and that is the reason why it showed as an unrepresented transaction as at year end.

7.3 – 7.4: LC Other Entities Account

At the time of the audit exercise, procedures were under way with Bank of Valletta leading to the opening of a savings account to cater for funds received by the Council on behalf of other Government Entities. The due diligency exercise carried out by the bank took quite some time, as the account became operative on the 9th February 2021.

8. TRADE PAYABLES

8.1 – 8.2: Long-outstanding creditors

Such motion will be moved in 2020 for the writing off balances related to ~~XXXXXXXXXX Ltd~~ and ~~XXXXXXXXXX System~~. However, ~~XXXXXXXXXX~~ and ~~XXXXXXXXXX~~ outstanding balances will be retained on the books for the time being. Mentioned creditors were not written off in line with 8.3 to 8.6 hereunder.

8.3 – 8.6: Amount in dispute

Invoicing related to suppliers indicated in 8.1.-8.2. above, were posted with the aim of full disclosure and accountability, as called for in the case of publicly funded institutions.

8.7 – 8.8: Supplier statements

Suggestion noted. It is important to note that the Council pays its creditors every month and thus, same creditors do not usually send monthly statements.

8.9 – 8.13: Deferred income

Comment about the EU funded project entitled “Strengthening a Healthy Culture” have been noted and audit adjustment included in the updated financial statements. Same applies to Gym equipment grant. Comment about it-Tunnara project noted and audit adjustment was included in the updated financial statements. Please refer to 4.5 and 4.6 above.



9. MEETINGS

9.1 – 9.2: Duration of Meetings

A unanimous consensus for the extension of time was reached between all Council Members, whenever this was necessary.

9.3 – 9.4: Meeting regulations

Changes in Council Meeting's dates have been changed for exceptional valid reasons only and upon agreement between all Council Members.

10. FINANCIAL STATEMENTS

10.1 – 10.2: Presentation of financial statements

Updated financial statements recorded on the audited version.

11. BOOKS OF ACCOUNT

11.1 – 11.2: Books of account

This matter referred to year end adjustments in Sage Evolution. Such accounting year end would be prepared and posted in the Extended Trial Balance and then reflected in Sage Evolution under the relative nominal account, after the financial statements would have been approved by the Council. Trial Balance as sent to the auditors was agreeing to the approved financial statements

12. ELECTRONIC SITE

12.1 – 12.2: Electronic site

Point noted.

12.3 – 12.5: Uploading of management letter and other documents

Guidance to this effect is being sought from the Department for Local Government in order to ascertain whether any names of suppliers and creditors raised in the management letter can be obliterated therefrom by the Council when uploading such documents online. The Council is also somewhat confused by the advice given by the auditors, considering that the schedule of payments are invariably uploaded without any omissions.

Dario Vella
Mayor

Carmel Debono
Executive Secretary

cc: Assistant Auditor General