



Mdina Local Council

14th July 2020

The Audit General
National Audit Office
Notre Dame
Floriana

MEMORANDUM FOR: The Audit General
 National Audit Office

FROM: Mr Mark Mallia
 Executive Secretary – Mdina Local Council

SUBJECT: Response to the Management Letter for the Financial Year
 ending 31st December 2019

This memorandum provides a response to the Management Letter for the Financial Year ending 31st December 2019. I am responding to the observations and findings cited in the management letter.

2. INCOME

Other Government Income

Council Response

Reclassification processed in the updated financial statements.

LES administration fee

Council Response

Immaterial difference noted. However, it is important to clarify that the Council process all invoices as issued from Loqus LES software. We are informed that one of the reasons for this

difference is that the administration fee on invoices is raised on the date of the end of day of contraventions paid while the report is based on the date of payment of contraventions.

Income from LESA and regional committees

Council Response

Noted and the Council will do its utmost to issue invoices during the first week of the following month.

General Income

Council Response

Reclassification processed in the updated financial statements.

Custodial receipts

Council Response

Noted and the Council will do its utmost to deposit funds in a speedier manner.

Joint Committee

Council Response

This is a recurring issue on which the Council has no control. With respect to the financial statements of the LES Joint Committee for the year ended 31st December 2019, these were still not available at the time of the accounts preparation. The Council also guarantees that all efforts are made in trying to obtain the audited financial statements in a timely manner to be verified by the auditors for every financial year.

Accrued Income

Council response

Matter noted and while stressing that every effort is made to record for all accrued income, mentioned instance of omission due to a human error on an accrued income coming back from 2015 is regretted

Deferred Income

Council response

Matter noted and the Council correctly processed this income as deferred in the books of accounts. Council is chasing the representative of the Ministry for the copy of the Contract, countersigned by their end. It is important to note that such contracts are drafted by themselves and would be the result of various procedures and documentation at application stage and thus it is very likely that both parties are aware of their rights and obligations.

3 CASH AT BANK

List of unpresented cheques

Council response

The Council has taken note of the auditor's recommendation. Bank reconciliations are done every month as am sure was noted by the auditors during her audit since bank reconciliations for months were made available to her during the audit. Mentioned cheque was approved during the Council meeting of December 2019. Proposed audit adjustment included in the updated financial statements.

4. EXPENDITURE

Classification of expenditure

Council response

Reclassification processed in the updated financial statements

Petty cash expenditure

Council response

The Council is committed to keep proper supporting documentation. Below cases noted and any human error is regretted. It is important to note that the Council and also the auditor were aware what type of expenditure these two transactions were for and Council authorisation was issued with the approval of the cheque to replenish the petty cash, in combination with the petty cash report.

Petty cash summary

Council response

Noted and the Council will include the nominal account on the petty cash summary report.

Procurement procedures

Council response

The Council will ensure that all public procurement procedures are followed as per Subsidiary Legislation 174.04. However it is to be noted that the price charged to the Council was still the cheapest technically compliant and as per Procurement Policy Note # 32 dated 19th June 2017 any procurement for up to € 5000 can be obtained also as a direct contract at the discretion of the Head of the Contracting Authority taking into consideration the amount involved, the urgency attached to the procurement or restrictions of choice and availability. Auditors were provided with the basis of the direct order.

Payment approval

Council response

The Council has taken note of the auditor's recommendation

Tender exceeding budgeted amount

Council response

The Council has no cash constraints as the Council's financial indicators show in their books. The budget figures indicated were based on one year of contract and not four years according to the tender.

Insurance policy

Council response

The Council believes that the amount insured should reflect the market value and not the cost as is being compared by the auditors. When one compares the amount insured with the net book value showed in the financial statements the amounts highlighted by the auditors as over/under insured is reduced drastically.

As noted in the reply to the previous management letter, the Council understands that the under-provision that the auditors refer to was due to the improvements done to the car park. The Council feels that the car park was already insured for third party liability and with regards to the physical construction of the car park this only consists of newly replaced tarmac which essentially doesn't increase the insurance value.

The Council also believes that the amount insured for street furniture is adequate especially when considering that it already tries to negotiate with the insurance company to obtain the best coverage possible.

Personal accident insurance

Council response

The Council has taken note of the auditor's recommendation

Rent expense

Council response

The auditor's comment about the absence of a proper rental agreement is an issue which the Council had already replied in previous management letters and unless the Lands Authority heeds to our concerns as the Council has done its utmost to have this in place without any response from the Authority, this will continue to be singled out by the auditor's.

According to the Council, it was given the premises by the Department of Local Government in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Local Council and eventually Heritage Malta never insisted on this claim.

Since an agreement is still in the process to be concluded, it is understandable that the Council could not calculate the IFRS16 workings. Also, since the UBO of the Lands Authority is Government, such IFRS16 disclosure is not obligatory.

5. FIXED ASSETS

Reconciliation of financial statements with fixed asset register

Council response

The Council worked on Directive 1/17 and commissioned the SAGE Suppliers to rebuild the FAR in line with the Directive. As from last year's management letter, it seemed that the new FAR did not reconcile to the Financial Statements. Such reconciliation was started in 2019 and most matters have been ironed out. Other inconsistencies noted in this management letter will be investigated in 2020 and FAR will be rebuilt accordingly.

Upkeep of fixed asset register

Council response

The Council fills all available details in Sage Evolution. Thus, one may query how Sage Evolution is a suggested Fixed Asset Register software if such software cannot fulfil the requirements as stated by the auditor.

Depreciation

Council response

Noted. As per above, the Council is doing its utmost to sort out the FAR matters.

6. TRADE AND OTHER PAYABLES

Trade payables

Council response

It is the Council's practice to reconcile the supplier's balances with the supplier's statements which in fact most balances were duly reconciled. Furthermore, certain creditors do not send their statements on time even though the Council regularly sends email reminders for supplier statements. The Council has carried out the necessary adjustments as recommended.

Long outstanding creditors

Council response

These balances will be reviewed during the current year and, if appropriate, write off

Debit Balances in creditor's list

Council response

The Council has noted the auditor's observations and passed the necessary adjustments.

Accrued expenditure

Council response

The Council has taken note of the auditor's recommendation and as noted by the auditor, we do our utmost to estimate accruals as correctly and completely as possible..

7. TRADE AND OTHER RECEIVABLES

Long outstanding balances

Council response

The Council regularly sends registered letters and emails to customers to recover its amounts due. It also reviews the need to provide for any doubtful receivables on an annual basis.

Alternatives on trade debtors

Council response

Immaterial matter noted. Amount will be investigated during 2020

8. FINANCIAL STATEMENTS

Presentation of financial statements

Council response

The Council, with the help of our accountants, take special care of ensuring that the financial statements presented in accordance with the International Financial reporting Standards. Any matters raised on the draft management letter were addressed on the updated financial statements.

9. BOOKS OF ACCOUNT

Council response

The Council and the Council accountant answered to any queries which the auditor made during the audit.

10. ELECTRONIC SITE

Council response

The Council has taken note of the auditor's recommendation. However one must point out that during 2019, there was a transition period where the Department for Local Government changed the system of how one can upload the necessary documents on their new website and resulted that certain documents mentioned in the management letter were uploaded as per financial procedures but not showing on the website. This mishap was also acknowledged by the ICT Support Unit within the department for Local Government

11. MEETINGS

Binding of minutes

Council response

Meeting regulations

Council response

The Council has taken note of the auditor's recommendation. However, it must be pointed out that in previous management letters this was not pointed out maybe due to the fact that the minutes are still filed in order but not bounded.

12. SCHEDULE OF PAYMENTS

Council response

Immaterial matter noted. It was just a misprint of number on the schedule of payment.

13. REPORTS

Comparison with the annual budget

Council response

The reason for such discrepancy is mainly the difference classification of depreciation. Depreciation is classified as a separate item in the budgets and the quarterly report while it is included as part of administrative expenses on the financial statements.

Peter Sant Manduca

Mayor

Mark Mallia

Executive Secretary