



**IR-RABAT LOCAL COUNCIL**

**Council's response to the  
Auditor's Report to Management  
For the financial year ended 31 December 2013**

50/0923/14

27<sup>th</sup> May 2014

Auditor General, National Audit Office

Director (Local Government), Department for Local Government

Local Government Auditor

Dear Messrs,

**RESPONSE TO MANAGEMENT LETTER FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2013**

In terms of section P2.06 (c) (d) of the Local Councils (Audit) Procedures 2006, on behalf of the Ir-Rabat Local Council, the undersigned are submitting the Council's response of the management letter submitted by the appointed auditors – *3a Accountants*, Certified Public Accountants and Management Consultants. The attached response was approved by the Council during a council meeting held on Tuesday 27<sup>th</sup> May 2014.

The Council would like to thank the auditors for the submission of their opinions on the financial operations for the year under review which shall be of guidance to the Council to maintain its reputation of accountability and transparency in the administration of public funds.



Charles Azzopardi  
Mayor



Orietta Masini Cardona  
Executive Secretary

## TABLE OF CONTENTS

0.	PRELIMINARY NOTE.....	0
1.	FOLLOW UP.....	1
2.	INCOME.....	1
3.	PERSONAL EMOLUMENTS.....	2
4.	EXPENDITURE.....	3
5.	NON-CURRENT ASSETS.....	4
6.	RECEIVABLES.....	5
7.	PAYABLES.....	6
8.	OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS	8
9.	FINANCIAL POSITION.....	8
10.	GENERAL.....	9

## **1. FOLLOW UP**

Recommendations of Auditors for previous year's management letter numbered 1.2, 1.6, 1.7, 1.8, 1.12, 1.13, 1.17, 1.19, 1.24, 1.25, 1.26, 1.27, 1.38, and 1.39 were fully addressed by the Council whilst 1.41 was partly addressed.

The other points in the follow up section are addressed in this report.

## **2. INCOME**

### **2.1. Local Enforcement System (LES)**

It is pertinent to state that the Auditors' observations, issues arising and recommendations contradict in terms the function of the Joint Committee. The Auditors state that the "Joint Committee function ended in August, 2011" – so how could the financial statement for 2013 be drawn and published? As from September 1<sup>st</sup> of the same year, the delegation of the local enforcement system was passed to the legally set up Regional Committees. Hence, the qualification of the audit report might raise concern as it is the Regional Committee that is now responsible for the financial management of the system and not the Council.

### **2.2. Reimbursement for administrative fees on the LES fines collected**

Although the 10% administrative reimbursements for LES Fines are issued on a monthly basis from the LES system. The accountant failed to notify the Executive Secretary with the report, for the month of July. The Council will be monitoring the invoices on a monthly basis so that this issue will not come up in the near future.

### **2.3. System of Council income recording and cash transactions**

With reference to the observations made by the Local Auditor, the Ir-Rabat Local Council will study alternative solutions so that the income recording and cash transactions will be linked to the Sage accounting system to avoid any comments in the future.

### **2.4 Revenue Recognition**

The accountant will be advised to follow the provisions of IAS 18-Revenue Recognition and ensure that all income is properly recorded.

## 2.5 Income raised under Local Council Bye Laws

The Ir-Rabat Local Council took note of the observation made by the Local Auditor and will notify the accountant to ensure that all income which falls under any one of the Councils Bye Laws, will be recognized separately in the Financial Statements.

## 3. **PERSONAL EMOLUMENTS**

### 3.1 Councillor's Allowance

The observation mentioned by the Local Auditor in relation to the Part Time emoluments when declared in the FSS documentation was pointed out last year in the Management letter which was issued in April 2013 and it was rectified except for one Councillor. When this issue cropped up again in June 2013, this was rectified immediately and in the following FS 5 documents (i.e from July onwards) there were no other Councillors declared under the Part Time Rules.

With reference to the difference mentioned by the Local Auditor, the council will instruct the accountant to abide by the auditor's recommendation.

### 3.2 Personal tax deductions

When this issue was mentioned during audit stage, the Ir-Rabat Local Council tackled the matter with the service provider in order to rectify the position in the payroll software.

### 3.3 Other payroll shortcomings

The Ir-Rabat Local Council acknowledges the fact that the FS 3 of one of the Councillors who had resigned on 16 July 2013 should have the same termination date and not 31 December 2013.

With regards to the weekly wage reported in the FS3 of one of the employees, the Ir-Rabat Local Council is in disagreement with the observations made by the Local Auditor. The employee in question is on scale 13 payscale and works for 25 hours a week. When the weekly wage is compared to the weekly wage as stipulated in the Government payscales, the proportion weekly wage is correct. In fact, the weekly wage of 40hour week is €303.79 and therefore for 25 hour week, the weekly wage accounts to €189.86.

### 3.4 Mayor's Honoraria Refund

The Council is monitoring the issue accordingly and as stated by the Local Auditors, the minor difference was paid in 2014. Since then all payments are regularly being deposited by the ex Mayor.

## 4. EXPENDITURE

### 4.1 Procurement Procedures

Whilst the Council abides with the tendering procedures as confirmed by our Auditors, it must be highlighted that the information left blank in respect of tender T122/2013, was the field related to the advert publication call. Therefore it is not related to the tendering process or, in any way should the tender have been eliminated.

In relation to the argument for the council's decisions not to choose the cheapest bidder, it must be highlighted that the Local Councils, can select the most advantageous offer as long as a valid reason is given. This is in terms of the financial regulations.

With reference to a payment made in respect of Jum ir-Rabat 2010, it must be highlighted that the Executive Secretary raised the issue in the Council meeting G 16 dated 11<sup>th</sup> February 2014 since this related to a period prior to her employment with the Council and in the previous legislature. The Council approved the payment despite the Executive Secretary having informed the Council that no call for quotation was issued in 2010.

### 4.2 Schedule of Payments

The Council is abiding to Memo 37/2011 and the schedule of payments are filled with all information. However it cannot be expected that the cheque number is entered prior to the Council's approval of payments.

Salaries are included as a global amount, which is also in line with the Department for Local Government's policy.

### 4.3 Inappropriate Expenditure Documentation

The Council took note of the observations made and will do its utmost to see that this issue will not come up in the near future; although as to VAT receipt this is beyond the Council's control, as it is a requirement of the supplier to provide such documentation.

#### 4.4 Rental Agreement

The Council does not agree with the auditor's recommendation since the amount involved is well below the threshold of €1165.00.

#### 4.5 Other Expenditure Shortcomings

The Ir-Rabat Local Council took note on the observations made by the Local Auditor and will instruct the accountant to avoid future mispostings.

### 5. **NON-CURRENT ASSETS**

#### 5.1 The upkeep of the Fixed Asset Register (FAR)

As explained to the Local Auditors and as mentioned in the observation note made by the Local Auditors, the major discrepancy between the FAR and trial balance relates to the grants given against the capital expenditure included in the financial statements as in the previous years government grants were accounted for on the capital base approach. The Ir-Rabat Local Council will do its utmost to identify the said assets and rectify the FAR. The Council will further request the accountant to take the necessary steps to reconcile the FAR.

#### 5.2 Depreciation charge for the year

The Ir-Rabat Local Council will instruct the accountant to verify the Financial Procedures as amended by Legal Notice 323 of 2002 and to amend the depreciation rate and category.

#### 5.3 Computer Software

The Ir-Rabat Local Council will instruct the accountant to insert a new category for the intangible assets and to rectify the position according in the FAR.

#### 5.4 Capital Commitments

The observations and recommendations as listed by the Local Auditor were noted.

## 5.5 Insurance Policy

Although the Council has already made an exercise to update its policy as mentioned in last year's report, the Council will instruct its accountant to carry out an exercise and ensure that the insurance policy covers all its assets represented in the FAR.

## 5.6 Street Signs

The Ir-Rabat Local Council took note of the observation made by the Local Auditors. In fact, the Council accepted the audit adjustment and the Financial Statements were adjusted accordingly.

## 6. RECEIVABLES

### 6.1 Joint Committee Co-Operation amount receivable

According to our discussions held at our offices, kindly note that we had informed our Auditors, that the refund was given back in the year 2002. In fact this was confirmed by the authorized officer within the Birkirkara Joint Committee.

### 6.2 Accounting for Prepayments

The Ir-Rabat Local Council accepted the adjustment made by the Local Auditors and prepayments were adjusted accordingly.

### 6.3 LES amount receivable

With reference to the observation made by the Local Auditor, regarding the LES debtors, amounting to €43,230.68, kindly note that whilst this figure is in line with the LES report 622, there is no mention in the agreement that these amounts due are to be assigned to the Ir-Rabat Local Council.

However the Council will instruct the accountant to verify the above and to enter any provision for bad debts.



#### 6.4 Doubtful Receivables

With regards to the observation made by the Local Auditors, we had a verbal assurance from the management of the Green MT that the amount dues with the Ir-Rabat Local Council will be received and therefore no adjustment was made.

#### 6.5 Debit balances in list of debtors

The Ir-Rabat Local Council accepted the adjustment made by the Local Auditors and the financial statements reflected the said adjustment accordingly.

### 7. **PAYABLES**

#### 7.1 Long Outstanding Creditors

With reference to the observations made by the Local Auditor, the Ir-Rabat Local Council would like to point out that some creditors do not send a creditors' statement at month end and therefore could not provide with such a statement to the Local Auditor. The Local Auditors adopted alternative testing on some of the creditors' mentioned by sending a creditors' circularisation letter to the creditors and it transpires that only one creditor did not respond to our Auditors.

#### 7.2 Accrued Expenditure and Payables

From the observations noted by the Local Auditor, two of the invoices which were not accrued for, were dated on March 2014 when the accounts had been approved and no adjustments were passed to the accountant of the Local Council. With regards to the other observations, we took note of the comments raised up by the Local Auditor.

With regards to the comment made by the auditor that the Council has failed to account for some creditors, it was noted that when the management letter was received two of the creditors mentioned in the said letter i.e Dolceria Percius Co Ltd for the amount of €127 and Cleansing Directorate for the amount of €900, were recorded correctly in 2013 in the respective suppliers account and even in the nominal ledger. The issue behind these two suppliers was that in the first schedule of payments these were recorded as one excluding the VAT element and the other recording only the VAT element whilst in sage these were recorded in full. After noticing this mistake, the Council rectified the situation by inserting in the schedule of payments for January the missing amounts. In view of this,

the Ir-Rabat Local Council will reverse partially the audit adjustment as recorded by the Local Auditor (AA 9) during the financial year 2014.

### 7.3 Contractor's deposit guarantee

The Ir-Rabat Local Council partially disagrees with the observations made by the Local Auditor. The Council has a separate bank account into which deposits and/or payments of contractor's guarantees are effected. In fact the bank account number which the Ir-Rabat Local Council use for these transactions is 40016399406.

With regards to the excel list that the Ir-Rabat Local Council has for the applicants deposits and movements, the Council is aware of the discrepancy with the nominal ledger and this was explained to the Local Auditor. The accountant will be instructed to reconcile the nominal ledger as proposed by the Local Auditors.

### 7.4 Accounting for deferred Income

The Ir-Rabat Local Council had released the grants to the Comprehensive Income Statement at the same rate which the asset is being depreciated and pro rata of the asset being capitalised. On the other hand, the Ir-Rabat Local Council updated the information of grants received during the years in order to release the grants to Comprehensive Income properly in the future accounts.

However the accountant will be instructed to ensure that the Council is in line with the income approach of IAS 20.

### 7.5 Disclosure of contingent liabilities and assets

The Ir-Rabat Local Council took note of the observation and comments made by the Local Auditor in relation to the appeal against MEPA and the contingent asset of €26,366 relating to pending LES.

Regarding the contingent liability amounting to €28,350, related to the invoices received by the Council but not ordered, it must be highlighted that the Department for Local Government instructed the Council to verify the works by obtaining a certificate of works by the Council's Architect. This procedure was followed but the Council's Architect did not provide such certification for a substantial amount of invoices received. The Council Architect verbally stated his opinion that these invoices cannot be certified. Therefore the Council does not agree with the Auditor's claim that "there is a probability that eventually these invoices will need to be settled by the Council". This

case is still being discussed with the Department for Local Government, since even certain certifications provided by the Architect, imply that he wasn't on site when the alleged work were carried out. Further more this inclusion of these amounts in the Council's accounts will automatically render the claims as accepted dues by the Council.

## **8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS**

### **8.1 Disclosures required in respect of certain IFRS**

The Ir-Rabat Local Council has been notified by its' accountant that the Financial Statements were within line with the IAS 1 and IAS 24 when the financial statements were approved on April 2014. However the Council will instruct its' accountant to ensure that as recommended by the Auditors the financial statements are prepared in accordance with IAS and IFRS.

### **8.2 Disclosures required in respect of Financial Procedures**

With regards to the disclosures of the budgeted figures, the Ir-Rabat Local Council, nor any other Council in Malta and Gozo has ever presented the said figures in the Financial Statements.

### **8.3 Financial Statements presentation and accounts**

The Ir-Rabat Local Council took note of the observations mentioned by the Local Auditor and will request an explanation from the accountant on each and every point mentioned.

## **9. FINANCIAL POSITION**

### **9.1 Liquidity of the Council**

Although the Council expects that the Department for Local Government takes the appropriate provisions as stipulated in the financial regulations and procedures, the Ir-Rabat Local Council will consider the Local Auditors recommendation in term of restructuring plan to address the liquidity position.

## **10. GENERAL**

### **10.1 Actual expenditure exceeding budgeted expenditure**

The Council takes note of the Auditor's recommendation and will instruct the accountant to prepare and adjustment report on a quarterly basis.

### **10.2 Prior Year Adjustment**

The Ir-Rabat Local Council took note of the observations made by the Local Auditor and will instruct the accountant to comply with IAS8 and IAS20.

### **10.3 Council reports**

The Council is currently discussing the business plan which will be approved during this year.