



# KUNSILL LOKALI TAL-IMGARR || MĠARR LOCAL COUNCIL

22, Triq Sir Harry Luke, l-Imgarr

21520011, 27520011 || mgarrlc@gov.mt || www.mgarrlc.com

Our Ref : T1547/AUD2019/DLG

Your Ref :

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

7 July 2020

Dear Sir,

## Management Letter – Financial Year – 2019

Reference is made to the above-mentioned letter dated 18<sup>th</sup> May 2020, received at the Mgarr Local Council on the 18<sup>th</sup> June 2020, 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 2018**

The Council has addressed to the best of its abilities all matters which were mentioned in last year's management report, other than those, which were outside the control of the Council. The Council will strive to continue to improve its operations during the coming year.

### **2. INCOME**

#### **General Income & Custodial Receipts**

The Council deposits its funds once every month. This to keep a balance between the cost incurred to deposit such funds and the risk involved with keeping such money at the Local Council. It is important to note that the funds are held in a locked safe and thus the time of the employees of the Council will be utilised to more benefit for the Locality and the Local Council.

#### **Other Government Income**

Auditors' comment noted and audit adjustment processed accordingly. However, as discussed during the audit such accrued income was included since this income referred to 2019. Furthermore, DLG Circular about this matter was issued and clearly states that such balance will be honoured from DLG



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and not from the respective Council. Furthermore, all the relevant expenditure was included in the 2019 financial statements since the expense was incurred in 2019.

### **LES administration fees**

It is to be noted that it's a standard procedure among most, if not all Councils that mentioned letter is sent to the Regions requesting payment, since this letter is issued from the LES system managed by Loqus Holdings. This letter is recognised by all Councils and Regions as the official invoice. This is then posted into Sage Line 50 by crediting the income statement and debiting the respective debtor. Furthermore, it is to be noted that the balance of the posted transactions is then available in Sage Line 50. Thus, any inconsistency between the old LESA system and the new LESA system is outside the Council's control. DLG may take wish to take up this matter directly with Loqus.

### **Joint Committee**

The North Joint Committee is in the process of being wound up. Process has begun in 2011 and was expected to be finished in 2014. 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 31<sup>st</sup> December 2016 were still not available.

The Council has made persistent representations calling for 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.

## **3. EXPENDITURE**

### **Petty cash expenditure**

Noted and the Council will be looking into the auditors' recommendation to improve the documentation kept for this expenditure type.

### **Procurement procedures**

Noted and the Council will be looking into the auditors' recommendation to improve the documentation kept for this expenditure type.

### **Rent agreements**

Matter noted and since leases were deemed immaterial, IFRS16 was not applied.



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### **Asset insurance policy**

The costs with respect to insured fixed assets will be updated according to those disclosed in the financial statements at the expiry of next insurance period. 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. Furthermore, it is important to note that the Council pays an insurance policy on the works of art at the Tempra Contemporary Art Museum since this Art collection is in custody of the Local Council and thus the Local Council is responsible for it.

### **Accounting services**

The fees charged by the accountant fall under the Eur5,000 limit threshold and thus the Council decided not to issue a public tender for such services. It is very important that the Council has a reliable provider for professional services including the service of accountant, architect and lawyer. Since the Council is satisfied with the service provided from the current accountant and the cost is deemed to be very fair and falls beneath the threshold as provided by the Procurement Procedures, we do not believe that we need to issue a new tender.

### **Council meals**

Immaterial overspending noted.

### **Membership in Majjistral Action Group**

Noted.

## **4. PAYROLL**

### **Wages' reconciliation & Reconciliation of wages between FS5s and books of accounts**

Noted and the Council will do its utmost to clear out any differences during the year. It seems that the wrong copy of the FS7 was provided to the auditors since the differences raised by the auditors were already ironed out during the year end procedures.

### **Councillors' allowances**

Noted but since the Council believes that the work of the Councillor is more than attending the monthly Council meeting, the Councillor was still paid the full allowance after a decision was taken during a



council meeting. This approach was confirmed by DLG who changed also the way how to account for these allowances in the second part of the 2019.

#### **Final Settlement System payments**

Noted, however one has to clarify that it was normal practice during the past year, that late payment penalties for FS5 payments were not being enforced. One must also keep in mind the limitation that the Council cannot issue a cheque payment to remit the FS5 before the payment is approved in the Council Meeting. Furthermore, it is important that since FS5s were raised for 4 weeks, it is practically impossible to associate to the FS5s due dates.

### **5. FIXED ASSETS**

#### **Fixed asset register**

The Council acknowledges that at the moment when the Audit was held, a Fixed Asset Register is not existent and is currently working on a project to create this Fixed Asset Register. Once it will be brought up to date, it will be maintained in line with the requirements of the Local Council Procedures (1996 – Finance) KLP 1/93, P1. It is the intention of the Council that the description of the asset in the Fixed Asset Register card will contain the highest degree of detail possible. Description will not be only of a generic nature.

#### **Reconciliation of financial statements with accounting records**

Comment noted and mentioned reclassifications will be processed in line with the setting up also of the Fixed Asset Register. Suggested reclassifications by the auditors were included in the updated financial statements.

### **6. TRADE AND OTHER RECEIVABLES**

#### **Long outstanding balances**

These balances, being with a related party, were not provided for since the Council believes that they will eventually be paid. The Council will chase these related parties to clear off these balances during the coming year.



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### **Confirmation of debtors**

Difference as stated by the auditor was due to invoices issued by the Local Council dated 2019 but not recorded by Wasteserv in the year under review.

## **7. INVENTORIES**

### **Net realisable value of inventories**

Noted and matter will be discussed in 2020 and any decisions by the Local Council will be represented in the financial statements.

## **8. BANK AND CASH**

### **Final withholding tax on bank interest**

Noted. Since the Council did not receive any interests, this classification did not have any effect on the Local Council, material and immaterial.

## **9. TRADE AND OTHE PAYABLES**

### **Trade Payables**

Auditor's comment noted. Statements from creditors are reconciled as received.

### **Accruals**

Immaterial adjustments to accruals recorded in the updated financial statements

### **Unrecorded liabilities**

The mentioned missing three transactions were omitted due to a human oversight when discussing the closing off procedures between Council staff and the Accountant. Proposed audit adjustments were recorded in the updated financial statements.



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### 10. FINANCIAL STATEMENTS

#### Presentation of financial statements

The disclosures which were mentioned in the draft management letter were updated in the revised financial statements.

### 11. COUNCIL MEETINGS AND MINUTES

#### Schedules of payment

Noted. The Council will be doing its utmost to rectify the situation in 2020

### 12. ELECTRONIC SITE

It is to be noted that the Council encountered various difficulties when the migration to the new site was happening. This can be verified through the various emails and telephone calls made to the DLG, which underlined the eagerness and willingness on the Council to come in line and rectify its position. In fact, once these technical issues were ironed out, the Council updated the records at once and also uploaded long-outstanding documents on the website.

#### Schedules of payment

Noted. The Council will be doing its utmost to rectify the situation in 2020.

#### Uploading of management letter and other documents

Noted. The Council will be doing its utmost to rectify the situation in 2020.

The Council thank the Audit Firm Grant Thornton, especially the auditor Mr Sandro Bonanno for his cooperation and immediate response throughout the audit, which this year was held under unprecedented conditions due to the measures in place to mitigate the spread of the COVID-19.

Sincerely,

SIGNED

Paul Vella

Mayor

Cyprian Dalli

Executive Secretary