



KUNSILL LOKALI HAL LIJA

TRIQ ROBERT MIFSUD BONNICI HAL LIJA

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Director of Audit
Audit Office
Notre Dame Revelin
Floriana

20th October 2021

Ref LLC/October 01/21

Dear Sir,

REPLY TO MANAGEMENT LETTER DATED 15th SEPTEMBER 2021 FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2020.

Reference is made to the Auditor's management letter dated 15th September 2021, which was received at the council by post on the 04th of October, 2021. In terms of Section P2.05P (d.02) of the Local Councils (Audit) Procedures 2005, on behalf of the Lija Local Council, we are presenting herewith the following comments on the raised points

As a follow-up, the Council has made sure to address all the issues raised in the management letter:

Previous management letter

1.1 Annual Government Allocation

As suggested in the management letter we agreed with the reclassification and actioned accordingly.



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1.2 Regional Committee surplus

As suggested in the management letter we agreed with the reclassification and adjusted accordingly in the final set of financial statements

1.4 Accrued Income

As suggested in the management letter we agreed with the reclassification and reflected the adjustment in the final set of financial statements.

1.5 Insurance


As the auditors remarked, the council's motor vehicle is currently insured under a third-party policy and this goes against Circular 33/2016, which requires all motor vehicles to be insured at their market value under a comprehensive policy. Nevertheless during the audit the council again emphasised that contact was made with the insurance company about this issue, so as to insure the motor vehicle as required by this circular. Irrespective of the council's effort to be in line with this circular, the insurance company always confirmed that the said vehicle can never be insured under a comprehensive policy. Reason being is that a comprehensive cover can never be offered to a motor vehicle being more than 10 years old. This situation goes beyond the council's control. Furthermore the council explained to the auditors that very soon a new modern van is going to be bought which can be insured as fully comprehensive.

1.7 Accruals and Prepayments

The Council accepted the comments passed by the Auditor with regards to the accruals and prepayments and effected the necessary adjustments in the financial statements accordingly. In the future, the Council will do its utmost to pay more attention to the issue of prepayment and accruals.

1.9 Fixed assets register

With regards to the auditors' comments of the fixed asset register, the council staff has carried out an intensive exercise whereby all of the furniture in the office has been labeled and has been added to a spreadsheet containing information on all of the assets owned by the Council. Information such as date of purchase, purchaser, cost and depreciation was not available for all the assets listed on this spreadsheet and the executive secretary tried to acquire this information from previous executive secretaries. Irrespective of the executive secretary's efforts, such information could not be obtained. The executive secretary is making sure that this information is available for all the new assets that the council acquires.

A handwritten signature in blue ink, consisting of a large loop followed by a checkmark-like stroke. To the right of the signature are the initials 'PB' also written in blue ink.

The council noted the comments of the auditors as requested by the Local Council (Financial) Procedures, 1996 and will in fact advise the accountant to aid the council to come in line with this directive.

1.11 Depreciation

Depreciation for 2020 was once again worked out manually and posted in sage via journal entries on a quarterly basis. The Council accepted the comments passed by the Auditor with regards to the calculations of the depreciation and in the future, the accountant will try to calculate depreciation through the month-end facility of Sage, following the completion of the actions stated in point 1.9 above.

1.13 Petty cash

Refer to replies in detail under 6.1 and 6.3, as already discussed during the audit process with the auditors.

1.14 Creditors' statements

The council would like to point out that the auditors were provided with ALL the requested MONTHLY supplier statements as requested on their list. According to the list requested by the auditors, statements were only requested for those suppliers who give the council a monthly service. The council was more than cooperative in providing these statements and others which were asked for at a later stage while the audit was being carried out. Also, one should consider taking note that, prior to effecting a payment to any one supplier, the Council does it utmost in requesting a statement. However, since the balances are not much long overdue, it is in very rare cases that the Council receives monthly statements from certain suppliers which do not give a frequent service. We do urge the suppliers to send us regular statements but very few do. When they do send us statements, reconciliations are done immediately, and any variances are followed up.

1.15 Debit Balances in Creditors

There is only one debit balance included in the Creditors account: this relates to an overpayment effected to ARMS and is being offset against the bi-monthly utilities bills received. It will continue to remain in debit until the overpayment is extinguished. As suggested in the management letter we agreed with the reclassification and reflected the adjustment in the final set of financial statements.

1.17 Birkirkara Joint Committee

The council shall try its utmost to take action accordingly given the comments listed by the auditor.

A handwritten signature in blue ink, followed by the initials 'PB' also in blue ink.

1.18 Presentation of Financial Statements

Refer to the explanation provided in detail under point 12 below.

2. Accounting Function

The Accountant produced the first set of financial statements in January 2021, based on the information available at the time. The accruals were calculated on the received bills up to 31st December 2020 and he did not yet have sight of the suppliers' bills nor of any other correspondence/statements received later in 2021. In hindsight, the Financial Statements should have been revised with newly-available information before commencement of the audit in late April 2021.

The Council goes through the interim accounts with the Accountant in minute detail every quarter and correctly analyses the performance and position of the Council at each particular point in time.

The Accountant has been in the profession since 1988 and has over 30 years of experience. He undertakes regular Continuous Professional Development (CPD) on a regular basis each and every year and keeps up to date with the accounting standards and regulations, relevant laws, rules, implementing proecures and other notices issued by the authorities, including the Inland Revenue, the VAT Department, the FIAU, the Malta Financial Services Authority, the Malta Business Registry, and other regulatory and governing entities.

3. Reconciliation of books of accounts to financial statements

The differences are mainly related to Works in Progress. The Council and the Accountant will ensure better communication in the future to update the completion of any works in progress and their correct accounting treatment on a timely basis and applied consistently year-on-year.

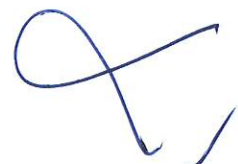
4. Income

Government Income

4.2 Comments of the auditors noted and the council together with the accountant will be more cautious about the government annual allocation given is agreed with the correspondence received by DLG.

Other supplementary Government income

4.6 The council will start following the recommendation to disclose all income received from the Government, which is not part of the annual allocation, as other Government Income.



Other Government Income

4.10 The Council confirms that it adheres to the accrual basis of accounting and the income received is recorded in the appropriate accounting period.

LES Administration fees

4.12 Whilst the audit was being carried out the executive secretary provided the auditor with the necessary reports needed from the loqus system. The auditor pointed out that he is finding a difference between the reports provided and the executive secretary explained that those reports were generated from the loqus system, which is beyond the council's control. The auditor said that it was not necessary to contact Loqus to aid him and the council in providing this report when asked and suggested by the executive secretary.

General income

4.16 – 4.17 The council did not fail to deposit the amount of 230 EUR on time as specified in the management letter. The executive secretary explained to the auditor that money has always been deposited on time. This specific amount could not be deposited and reason being is that the council was planning a weekend break outing for residents, who were coming at the office to book and make payment. Unfortunately due to Covid, the council had to cancel this event only a few days after it was advertised and thus it was not feasible to deposit the money into the council accounts and then issue them again to residents that had booked accordingly. The executive secretary also confirmed that this sum of money was securely being kept at the office since residents were coming to recollect their payment immediately.

4.18 Again the council did not fail to deposit cash on a timely basis, this time for LES contraventions. During the COVID pandemic, ATM deposit machines frequently were found to be out of order and sometimes bank branches were also closed. At this point, this situation went beyond the council's control and there was nothing more that we could do to remedy the situation.

5. Payroll

Mayor Honoraria

5.2 Comments of the auditors were noted and in fact the shortfall was paid to the mayor accordingly.

6. Expenditure

Petty cash summary

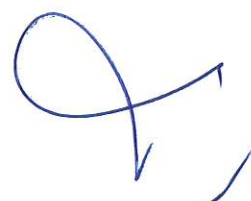
6.1 - 6.2 The petty cash summaries are compiled accordingly to a specific template provided to the council by the Local Government. Infact, Government Circulars 32/2016 and 15/2019 do not specify that there is a rule or directive that account numbers have to be listed in these petty cash summaries. Our summaries and petty cash vouchers are in accordance with the govenmental templates provided and such comments were infact never brought up in previosu audits.

6.3 Unfortunately the council has no control whatsoever on how receipts are issued from the tills of the suppliers. The receipt and cash payment that the auditor made reference to was in fact itemised on the receipt and the total price was shown as broken down. It was only the specific details of the items bought that were not listed and were instead listed as 'GOODS'. The directives that the auditor quoted state that receipts have to be itemised and in this case in point the receipt was infact itemised, having the total amount futher broken down. The directive mostly makes an emphasis of having an itemised bill, irrespective of whether the items are detailed accordingly or listed as 'GOODS', the important thing is that the receipt is finally itemised. However for future reference when the council is provided with a receipt and items purchased are listed as 'GOODS', even though itemised, the executive secretary will make it a point to attach a voucher with the items labelled accordingly including all other minimal details.

Procurement procedures

6.5 The council would like to point out that the auditors were provided with ALL the requested MONTHLY supplier statements as requested on their list. According to the list requested by the auditors, statements were only requested for those suppliers who give the council a monthly service. The council was more than cooperative in providing these statements and others which were asked for at a later stage while the audit was being carried out. Also, we do not agree with the auditor's statement when saying that only one quote was obtained for certain suppliers. For example, for the hiring of tents, the council in fact got three quotes and gave this documentation in hand to the auditor. With regards to the installation of the Nas drive, yes only one quote was obtained but this was something urgent during the covid pandemic and during times likes these the mayor and executive secretary have the authority to act and make urgent purchases given the situation. This was a one-time urgent situation that the council had the responsibility to act on and make sure to install an online system through which employees could work from home safely whilst not disrupting the service that is given to the public daily.

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6.6 The council always issued purchase orders to those contractors whom we purchase goods from and don't have a tender or direct contract with. This has always been done to have proof of the council's approval for a proposed purchase or service.

6.7 On a normal basis the council obtains three quotes for every purchase but PPN 32 states that it's an either-or possibility and the council can opt to have a direct contract with the suppliers at the discretion of the Head of the contracting Authority.

Tendering procedures

6.8-6.9 The opening staff do not necessarily have to sign the opening report of the tenders unlocked. Technically speaking the opening staff sign virtually when unlocking the tenders online, since they log in with unique credentials as opening staff members. They sign and approve the report online automatically. However for future reference the executive secretary will make sure that the opening staff also signed the hard copy of the report.

6.10 – 6.13 The executive secretary shall make it a point to obtain tender performance guarantees on time and within 15 days of receipt of the contract. Unfortunately sometimes this does not depend solely on the executive secretary since the executive secretary would have contacted the awarded bidder numerous times to bring the performance guarantee. During this year, bidders also faced difficulty with banks to obtain such a guarantee due to the COVID Pandemic and could not provide the document on time for this reason as well.

Motor vehicle Insurance Policy

6.17 - 6.18 As the auditors remarked, the council's motor vehicle is currently insured under a third-party policy and this goes against Circular 33/2016, which requires all motor vehicles to be insured at their market value under a comprehensive policy. Nevertheless during the audit the council again emphasised that contact was made with the insurance company about this issue, so as to insure the motor vehicle as required by this circular. Irrespective of the council's effort to be in line with this circular, the insurance company always confirmed that the said vehicle can never be insured under a comprehensive policy. Reason being is that a comprehensive cover can never be offered to a motor vehicle being more than 10 years old. This situation goes beyond the council's control. Furthermore the council explained to the auditors that very soon a new modern van is going to be bought which can be insured as fully comprehensive.

7. Fixed Assets

Fixed asset register

7.1 – 7.4 With regards to the auditors' comments of the fixed asset register, the council staff has carried out an intensive exercise whereby all of the furniture in the office has been



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labeled and has been added to a spreadsheet containing information on all of the assets owned by the Council. Information such as date of purchase, purchaser, cost and depreciation was not available for all the assets listed on this spreadsheet and the executive secretary tried to acquire this information from previous executive secretaries. Irrespective of the executive secretary's efforts, such information could not be obtained. The executive secretary is making sure that this information is available for all the new assets that the council acquires.

The council noted the comments of the auditors as requested by the Local Council (Financial) Procedures, 1996 and will in fact advise the accountant to aid the council to come in line with this directive.

9. Trade and other receivables

Confirmation of debtor

9.7 The Auditor's comments were noted. Both the executive secretary and the mayor make frequent contact with Wasteserv regarding the re-imbursement of organic waste collection. We daily chase them for payment since the invoices we sent them monthly are in fact correct and all are in order.

11. Trade and other payables

Supplier statements

11.1 - 11.2 The council has always obtained supplier statements with suppliers namely monthly suppliers which we trade with the most. The council has never failed to provide statements of suppliers which we mostly trade with. In fact, copies of these monthly supplier statements were given to the auditor.

12. Financial statements

12.1 - 12.2 The comments refer to the first set of financial statements as prepared in January 2021. All the recommendations and reclassifications were reflected in the second set of financial statements, except for the following:

- as per IAS 1, financial statements are assumed to be prepared on a going-concern basis, unless stated otherwise. Nonetheless, we have included a declaration that the financial statements have been prepared on a going-concern basis in the notes to the accounts;
- the Right of Use assets are being disclosed in a separate column under Property, Plant and Equipment. IAS 1 and IFRS 16 do not specifically require a separate disclosure note for the figures, as long as they are disclosed separately;



- IAS 16 states that the accounting policy should present either the depreciation percentages or the useful lives of the assets. We have retained the depreciation percentage rates in the notes to the accounts as the Accountant feels they provide a better representation of the accounting treatment, particularly in the case of those assets which are 100% expensed in the year of purchase, but their useful life will actually span over a number of future years;
- the Council does not have any significant non-financial assets;
- HSBC Bank Malta plc does not have a credit rating,

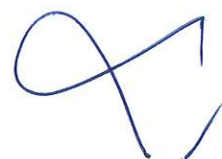
13. Electronic site

13.1-13.2 The executive secretary confirmed that all accounting reports and documents related with council meeting such as the agenda, minutes, and schedule of payments, have always been uploaded on the government electronic site as necessary. There is no single document which is missing. If these reports were not uploaded on time, an assigned person from the local government division would have brought this up to the attention of the executive secretary, which this was not the case. Apart from this confirmation the executive secretary also stated that for a period of time, this site was under maintenance since the local government division had created a new site and thus was undergoing a migration of the data, from one site to another.

14. Administration

14.1 There is no directive or sequential order in which cheques must be listed on the schedule of payments. Furthermore, the council has always listed cheques in sequential order and when these were not listed so, it was something one off. But again, there is no standard procedure or directive as to how cheques must be listed down in the schedule of payments.

14.2-14.3 The executive secretary confirmed that the cancelled cheques pointed out by the auditor during the fieldwork were infact cancelled. The executive secretary explained that it was not necessary to list these cheques as cancelled on the schedule of payments since they were never issued and were never detached from the cheque stub. When writing these cheques, written mistakes were made and thus the cheque was simply crossed out and a new one was written but the first cheque written never went to supplier. For future reference the executive secretary has took note of the auditor's recommendations.

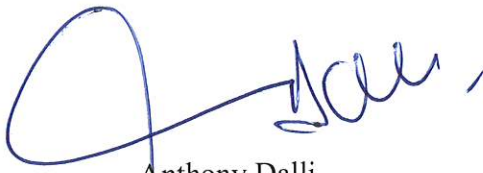


Conclusion

As a Council we did our utmost to reply to all points mentioned in the management letter; however, should there be the need to further clarifications, don't hesitate to contact us.

The Hal Lija Local Council confirms all of the content above, has discussed and approved the reply for management letter for year 2020, during council meeting no 33 dated 20th October, 2021.

Thank you and best regards,



Anthony Dalli
Mayor



Pamela Borg
Executive Secretary