

## **KUNSILL LOKALI HAL LIJA**

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HAL LIJA  
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Director of Audit  
Audit Office  
Notre Dame Revelin  
Floriana

14th July 2019

Ref LLC/June 01/19

Dear Sir,

**REPLY TO MANAGEMENT LETTER DATED 19<sup>th</sup> MAY 2020 FOR THE FINANCIAL YEAR ENDED 31<sup>st</sup> DECEMBER 2019.**

Reference is made to the Auditor's management letter dated 19<sup>th</sup> May 2020, which was received at the council by post on the 30<sup>th</sup> of June, 2020. 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:

### **CURRENT YEAR ISSUES**

#### **2. INCOME**

##### **Annual Government Allocation**

2.1 - 2.2 – As suggested in the management letter we took note and agreed with the reclassification and actioned accordingly.

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### **Regional Committee surplus**

2.3 -2.4 – As suggested in the management letter we agreed with the reclassification and adjusted accordingly in the final set of financial statements

### **Advertising Income**

2.5 - 2.6 – As suggested in the management letter we agreed with the adjustment and reflected it accordingly in the final set of financial statements.

### **Accrued Income**

2.7 – 2.11 – As suggested in the management letter we agreed with the reclassification and reflected the adjustment in the final set of financial statements.

## **3. EXPENDITURE**

### **Insurance**

3.1 – 3.2 – As the auditors remarked, the council's motor vehicle is currently insured under a third-part 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.

### **Budget vs actual expenditure**

3.3 – 3.5 – With regards to the variance in actuals versus budgets for 2019, the Council would like to point out that the budget is prepared according to historic data and expected future revenues and expenses, which cannot always be reasonably estimated. The Council has put more effort in preparing its budgets and most line items were on track, except for contractual services where the Council has to work with bid prices on tenderers' offers, which are outside of the Council's control and the minimum bids can, at times, be higher than the budgeted figures.

The purchase of capital goods was not expected when the budget was prepared and the Council used savings on other expenses to fund these items.

### **Accruals and Prepayments**

3.6 – 3.9 – The Council accepted the comments passed by the Auditor with regards to the accruals and prepayments and did 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

## **Income set-off versus expenditure**

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

## **4. Property, plant and equipment**

### **Fixed assets register**

4.1 - 4.2 – 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 that the council has. 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 regarding the recommendation of following the requirements of Directive 1/2017 and will in fact advise the accountant to aid the council in being in line with this directive.

### **Disposals**

4.3 - 4.4 – The Council accepted the comments passed by the Auditor with regards to the disposal of fixed assets and with the professional help of the accountant, the council will work to have an appropriate fixed asset register as need be.

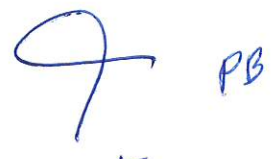
### **Depreciation**

4.5 – 4.6 – As noted under the same heading for the year 2018, depreciation for 2019 was once again worked out manually and posted in sage via journal entries on monthly bases. 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.

## **5. Bank and Cash**

### **Bank reconciliations**

5.1- 5.2 – With regards to bank reconciliations, one must point out that the main banking activities of the Council is done through HSBC, in fact two of the accounts are reconciled on a monthly basis and the respective bank reconciliation is even printed, filed and signed with the respective bank statements. The other two HSBC accounts are made up of a fixed account which is renewed every six months and another savings account which has now been amalgamated with the other savings accounts. With regards to the BOV account, this account is not used that much, and statements are

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not received on a monthly basis and this explains why the reconciliation is not done monthly but whenever the statements are received. In the future, the Executive Secretary will try and ensure that the BOV statements are received on monthly basis so this would enable monthly reconciliations.

These reconciliations besides being prepared by the Accountant preferably prior to the 10<sup>th</sup> of the following month, are also printed as a hard copy, signed by the Accountant and Executive Secretary and then filed in the respective bank file.

The Council will be extra careful to make sure that this procedure is followed every month and that the policy is always adhered to all bank accounts during 2020.

### **Petty cash**

5.3 – As has been already confirmed during the audit, the executive secretary confirms again that the petty cash transaction of EUR83, which exceeds the EUR50 limit for petty cash transactions, was genuinely made. At the time this transaction was made the executive secretary was new to her position and was not aware of this excess. Infact this was only a genuine one-time occurrence because once the executive secretary was aware of the EUR50 petty cash excess daily amount, she made sure that daily purchases made by petty cash amounts were either lower or equal to EUR50.

### **6. Trade and other payables**

#### **Creditors' statements**

6.1 – 6.2 – The council would like to point out that the auditors were provided with ALL the requested supplier statements as requested on their list. Supplier statements were requested by the auditors at year end 2019 and not monthly. The council was more than cooperative in providing these statements and other 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 the respective suppliers. 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.

#### **Debit Balances in Creditors**

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

### **7. Payroll**

7.1 - The Council accepted the comments passed by the Auditor with regards to the cost allocation and classification of the payroll. The proposed reclassification was reflected in the final set of the financial statements.

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## **8. Birkirkara Joint Committee**

8.1 – 8.2 – As indicated under these two notes and even more as pointed out in previous management letters, it's true, that the Lija Local Council forms part of the Birkirkara Joint Committee, and even though as per the audited account as at 31<sup>st</sup> December 2015, it seems that there is an indication of retained earnings and a positive bank balance, but the Council is not in a position to determine what is it's share. As a Council the utmost we can do is, to follow up through the Mayor and the Executive Secretary on the matter with the mentioned Birkirkara Joint Committee. In fact, the Council did follow up and chased for the 2016, 2017 and 2018 audited accounts but these have not yet reached us.

## **9. Financial Statements**

9.1 – 9.5 – In 2019, the Council awarded a new tender for accounting services as from 1st October 2019. Unfortunately, the outgoing accountant did not provide an adequate detailed handover and working papers to the new accountant. The current accountant had to use an 'old' excel workbook to compile the Financial Statements which was not up to standard, and a complete re-write of the Financial Statements had to be undertaken.

The second version:

- agrees with the Trial Balance;
- contains all the required disclosures;
- contains all comparatives;
- is compliant with IFRSs, including IFRS 6;
- includes the policies and the correct disclosures in the notes to the financial statements regarding maturities, risks, key persons, contingent liabilities and commitment.

The Council confirms that this issue will not repeat itself in the next audit.

**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 2019, during council meeting no 16 dated 14th July, 2020.

Thank you and best regards,



Anthony Dalli

Mayor



Pamela Borg

Executive Secretary