



Nadur Local Council

3rd May 2018

The Director
Department for Local Government
26 Archbishop Street
Valletta

Dear Sir

Re: Management Letter – Financial Year 2017

In response to the management letter received by the Nadur Local Council from the auditor, RSM Malta, we would like to remark the below:

1. Follow-up to Last Year's Report.

It is satisfactory to note that practically most of the issues noted on the audit of 2016 were resolved during the year 2017. The issues remaining will be referred to in this year's response.

2. Property, plant and equipment.

The Nadur Local Council has effectively sought to correct this issue, i.e. matching accumulated depreciation in fixed asset register to that in financial statements, even in prior years as explained in detail in our reply to the 2016 management letter. However, due to:

- (i) Insufficient information in relation to depreciation charges concerning individual items, since this issue has been recurring as from 2013, and
- (ii) In view of the fact that as from 1 January 2018, as instructed by the Department of Local Government, the depreciation method will be changed from reducing balance method to straight line method, the Nadur Local Council will seek to line its fixed asset register to the accounts once this change comes into force.

MAYOR
Edward Said (MSc Finance)

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Eucharist Camilleri Deputy Mayor, Dr. Josianne Cutajar (LL.B., Dip. Not., LL.D. Melit.),
Michael Camilleri, Dr. Rita Mifsud (B.A. LL.D.)

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It should be kept in mind that once the depreciation charge is corrected to reflect that in the financial statements, since the cost of the fixed assets already agrees to that of the accounts, it will automatically follow that the net book value will also agree since the net book value is calculated as the cost of assets less accumulated depreciation.

3. Receivables.

With respect to receivables, no provision for doubtful debts was provided for since all debtors existing as at 31 December 2017 were deemed to be fully receivable by the Local Council. In fact, all debtor balances held as at year end 2017, including those older than two years, were confirmed with the respective customers.

4. Bank and cash.

The Nadur Local Council tries to review the list of unpresented cheques every quarter upon issuing quarterly reports. In this instance, the stale cheques were not reversed as yet since respective suppliers had not contacted the Council regarding the inability to cash cheques and thus new cheques had not effectively been issued.

The cheque from the Ministry of Gozo was effectively dated 21 December 2017 and deposited in Council's bank account on 5 January 2018. Thus, when considering only cut-off, this cheque should have been accounted for in the financial statements. However, as explained to the auditors, the works for which the funds were obtained, i.e. the resurfacing and reconstruction of a particular road in Nadur, are to take place during year 2018. In fact, the respective tender was issued in February 2018 and recently awarded. Thus, all relevant expenditure relating to the funds received will be incurred in 2018. In essence, the Nadur Local Council felt that the funds obtained of €143,407 from Ministry for Gozo, were not to be accounted for in year 2017, since in substance such funds will effectively distort and inflate the performance ratios of the Local Council and will make them appear more positive in the eyes of third parties when effectively this is not the case.

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5. Payables.

For the year ended 31 December 2017, special care was taken to try to provide for all expenses relating to 2017 which were not invoiced by the respective suppliers as at year end. However, in view of the tight deadline between year end and the submission of the financial statements, not all suppliers manage to issue their invoices up till the preparation of the financial statements. Contractual items are easily identified and estimated for accordingly but one-off expenses are more difficult to identify. The inclusion of all expenses in the respective financial year is always given high priority by the Local Council.

Furthermore, with respect to the classification between accruals and payables, it should be pointed out that some suppliers issue their invoices relating to 2017 services well into 2018 but with the invoice date still dated 2017. All expenses included as accruals, were not backed up by an invoice up till preparation of financial statements and thus the Local Council was not aware of the respective invoice date issued on the supplier invoice. For future years, special attention will be given to try to avoid this issue.

The Nadur Local Council is aware that grants relating to fixed assets should be capitalised. More attention will be given to account for such grants correctly in the first place.

6. Income.

The Nadur Local Council will give greater attention to ensure that income is properly classified under the correct income category.

7. Expenditure and Tenders.

The discrepancies between actual and budgeted figures, whereby actual expenditure exceeded the budgeted expenditure, as pointed out in the management letter, are being acknowledged. However, it should be pointed out that such excesses are compensated against other line items where budgeted expenditure exceeded actual expenditure. In addition, the Nadur Local Council is investing a lot of effort to carry out good budget forecasts and to try and regulate its expenditure in accordance to such forecasts.

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In the management letter only line items that exceeded budgeted were mentioned. In our opinion it would be more appropriate that also those line items that were less than budgeted are mentioned since these compensated for the excess in the other line items.

During the audit, both the Mayor and the Executive Secretary explained the reasons for the required addendums to extend contracts. With respect to item 7.5.1 mentioned in the management letter, the Contract for the Public Convenience of Gnien il-Kunsill was dropped by the previous contractor. Thus, since this garden consists of a public convenience, the Council had to ask permission from the Department of Local Government to issue another tender as per Memo 34/2015. In the meantime, whilst awaiting grant for such permission, the Nadur Local Council had no option but to still carry out the service in the mentioned garden and public convenience. Such service was given through direct order after approval during a council meeting. Once permission was granted from Department of Local Government, the tender was issued immediately.

In regards to item 7.5.2 of the management letter relating to the Contract for the collection of mixed refuse, the Local Council agreed during a council meeting to extend the contract with an addendum since the issue of a new tender involved a lot of preparations and such addendum enabled the provision of enough time to carry out the all the necessary proceedings.

In regards to item 7.5.3 of the management letter relating to the Contract for Bulky Refuse, an addendum was required since the tender had to be issued twice. In the first issue, none of the bidders were compliant and thus tender had to be re-issued again. Due to the additional timing of the second issue of the tender, the Local Council had no other choice but to extend the contract with an addendum in order to avoid dumping taking place in valleys. This was also approved during council meeting.

One important point to note in relation to all the above instances is that the Department of Local Councils was always being kept informed of all addendums and the reasons behind them being required.

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8. Personal Emoluments.

It should be pointed out that the Nadur Local Council always pays great attention to the correct filling and filing of forms with Inland Revenue Department and that all forms tally with each other. With respect to the mistake encountered on FS7, as explained during the audit, this was eventually noted and corrected with the Inland Revenue Department prior to the audit.

Another point to note with respect to fringe benefits is that in view of the fact that year 2017 was the first year in which such item was introduced, the treatment of such benefits were confirmed with the auditor when visiting our premises last year.

8. Financial Situation Indicator and Liquidity.

It is important to always keep in mind that the net liability position of the Nadur Local Council does not arise from the day-to-day operations of the Council but from prior year capital projects which were not adequately financed. As pointed out in the management letter, it is true that the financial situation indicator is negative and that the Local Council has a deficit position in absolute terms. However, the essential point in this regard should be that the Local Council is decreasing its deficit position at an increasing rate whilst at the same time maintaining its day-to-day activities, annual events and also managing to be innovative and carrying out capital projects by acquiring alternative sources of finance.

In fact, a positive movement can be identified both in the financial situation indicator and in the statement of financial position when comparing the results for 2017 to prior years. The Council remains committed to continue taking measures which will lead to further decreases.

Edward Said
Mayor

Sue-Ellen Bugeja
Executive Secretary

cc: Auditor General, National Audit Office
RSM Malta

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