

10<sup>th</sup> June 2016

The Director  
Department for Local Government  
26 Archbishop Street  
Valletta

Dear Sir

**Re: Management Letter – Financial Year 2015**

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.**

Many of the issues noted on the audit of 2014 were resolved during the year 2015. The issues remaining will be mentioned in this year's response.

**2. Property, plant and equipment.**

Reconciliation was made identifying the differences arising between fixed asset register and accounts. It was noted that all differences arose due to audit adjustments included in accounts in years 2013 and 2014 but not included in fixed asset register. The Council will rectify this situation during the current year.

Property, plant and equipment were capitalised under the wrong category since the architect in his report stated that the Nadur square project was not 100% complete in 2015. Therefore, the additions for the Nadur square should have been included under the 'Assets under Construction' category and not under the 'Construction' category. Also, on the 'Assets under Construction' no depreciation should have been provided for. This is why the auditors stated that errors have been found in the computation of depreciation charge.

Some patching works were included as fixed asset rather than as expense for the year in error. In view of this, better attention will be taken regarding works carried out and any recurring expenditure will be included as expense rather than as fixed asset.

The item mentioned by the auditors relating to insurance will be looked into by the Council. However the insurance policies that will be issued to the Council need not necessarily cover the full net book value of the assets, since items such as resurfacing and land will not be insured.

**3. Receivables.**

All debtors existing as at 31 December 2015 were deemed to be fully receivable by the Local Council.

#### **4. Bank and cash.**

As from this year, all cheques existing as at end of year which are still uncashed will be reviewed and any stale cheques will be investigated.

The Council is aware of the petty cash limit and the limit was only exceeded marginally to purchase post stamps. This will not be repeated in the current year.

#### **5. Payables.**

Not all expenses were accrued for in view of the fact that certain suppliers had not forwarded their invoices or an estimate of costs for 2015 by end of deadline for submission of draft financial statements. The Council will continue to try to obtain all invoices relating to the year under review in a timely manner.

Incorrect calculation and treatment of the release of deferred income mainly arose due to the fact that no release of deferred income was taken by auditors on Nadur Square Project since project was deemed still under construction by architect.

Even though no regular reconciliation was carried out between suppliers' ledger in the accounts and the suppliers' statements received during the year, as at year end 2015, reconciliations were made for two of the major Council's suppliers and any discrepancies were identified. The Local Council will try to carry out such reconciliations on a frequent basis.

#### **6. Income.**

The Council as from this year will strive to account for income correctly without netting any income with expenditure items. The recommendations made by auditors regarding analysis of income have been noted.

#### **7. Expenditure and Tenders.**

During this year, the Local Council will strive to produce budgets which greater reflect the actual expenditure incurred by the Local Council.

#### **8. Personal Emoluments**

A new program was adopted by the Local Council for the calculation of wages and FSS tax and social security payments in order to eliminate mistakes and discrepancies.

**8. Financial Situation Indicator and Liquidity.** The main cause for the negative financial situation indicator is the fact that the Council has embarked on the PPP scheme some years ago without the adequate financing sources. Other causes include increases in various items of current expenditure. The lack of financing for both capital and current expenditure has had

a very negative impact on the Council's finances. During this year we will strive to rectify the negative FSI through better management of working capital. As recommended by the auditors we will curtail our current expenditure while enhancing to tap various sources of financing. Our approved budget is projecting no material capital expenditure for 2016.

**Edward Said**  
**Mayor**

**Sue-Ellen Bugeja**  
**Executive Secretary**

cc: Auditor General, National Audit Office  
RSM Malta