



Nadur Local Council

7th July 2020

The Director
Department for Local Government
26 Archbishop Street
Valletta

Dear Sir

Re: Management Letter – Financial Year 2019

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 almost all of the issues noted on the audit of 2018 were resolved during the year 2019. The issues remaining will be referred to in this year's response.

2. Property, plant and equipment.

With respect to the identification and correct classification of property, plant and equipment, the Local Council always pays great attention in this respect. However, the Local Council will seek to ensure that a greater effort is made so that all property, plant and equipment are recognised in the correct category and in accordance with the accounting policies as outlined in the financial statements. Consequently, the correct depreciation rate will be applied as well.

It should be mentioned that as per usual practice, at the end of every financial year, the Nadur Local Council does obtain a report from its architect on the projects undertaken by the Council during the year, which report actually shows the projects which are still ongoing and those which have been completed. Such report is also forwarded to the auditors during the audit itself. The particular project mentioned in the management letter, "Resurfacing of Rural Roads in Nadur for Better Accessibility", was in effect ready by end of 2019. In fact, the architect classified such project as complete. The only uncertainty in relation

MAYOR
Edward Said (MSc Finance)

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

EXECUTIVE SECRETARY
Sue Ellen Bugeja

ADDRESS
Nadur Local Council
North Street, Nadur, NDR 1222,
Gozo, Malta.

TEL. NUMBER
(+356) 21558080

WEBSITE
www.nadur.gov.mt

FAX NUMBER
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E-MAIL
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to this project arose with respect to the variations which at the time of issue of the audited financial statements were still pending and though estimated at around Euro 100,000, were only a rough estimate and had no supporting documentation. As stated correctly in the management letter, the Nadur Local Council together with several other Councils in the same situation, referred the situation to the Ministry for Gozo and in fact it is highly probable that such variations will be completely funded by the said Ministry.

With respect to the fixed asset register, the Local Council would like to point out that such register was in effect handed over to the auditors during the audit. The Nadur Local Council was able to regularize its fixed asset register in accordance with Directive 01/2017 as from 1st January 2018. In fact, as from this date onwards, all fixed assets are listed item by item in the fixed asset register and included with all requested details. In addition, all audit adjustments and reclassifications passed during the audit are reflected in the fixed asset register accordingly.

3. Receivables.

With respect to receivables, no provision for doubtful debts was provided for since all debtors existing as at 31 December 2019 were deemed to be fully receivable by the Local Council. In fact, all debtor balances held as at year end 2019, 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.

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5. Payables.

For the year ended 31 December 2019, special care was taken to try to provide for all expenses relating to 2019 which were not invoiced by the respective suppliers as at year end.

With respect to the deferred income as at 31 December 2019, this was classified as non-current assets by mistake. In fact, as stated correctly in the management letter, the related projects are estimated to be completed within one year. The Local Council will take greater care to ensure that all liabilities are properly categorized as either current or non-current assets in accordance with IAS 1 – Presentation of Financial Statements.

6. 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 is important to point out that such excesses are not highly material. The greatest excess which may be deemed as material relates to item 6.1.19 – Contractual Services (Category 3000). Such category includes in it the expenditure for Road and Street Cleaning and Waste Collection. The expenditure under this category was effectively increased by the Local Council as also directed and instructed by the Department of Local Councils. It should be pointed out that 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.

With respect to items 6.4 and 6.5, it is important to note that the Nadur Local Council always seeks to follow Local Councils Financial Procedures and to this effect requests a VAT Fiscal Receipt for all services received by VAT registered entities and individuals. The Local Council also performs follow-up procedures to ensure that such VAT Fiscal Receipts are effectively obtained.

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7. 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 2019 to prior years. It should also be pointed out that the financial situation indicator for 2019 was budgeted at negative 38% whereas in reality as at end of 2019, the Nadur Local Council ended up with a financial situation indicator of negative 20.62%. 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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