



26 August 2020

Director (Monitoring & Support)

Local Government Division

Triq l-Arcisqof,

Valletta

REPLY TO MANAGEMENT LETTER – FINANCIAL YEAR 2020

In terms of the Local Council (Audit) procedures I hereby attach a copy of the management letter by the Local Government Auditors.

This management letter was discussed during Council meeting of 25 August 2021 and the following comments were approved:

2.1 Income from Joint Committee

The Local Council is fully aware of this issue and continue to urge the Department for Local Government to proceed with the liquidation of the Joint Committee and remaining funds distributed amongst local councils which formed part of it.

2.4 Income from LESA and Regional Committees

We understand that should be regulations on many tasks required however, given the limited resources, one should allow certain level of flexibility. Here the delay was only for one instance of 6 calendar days!

2.6 General Income

Council deposits income twice weekly (at the time through G4S Security) however deposits may not be registered by Bank on same day. One should also allow for weekends which will delay the process even more. The deposit date indicated is actually the date when deposit was registered by the bank.

3.1 Procurement Procedures

The auditors state that the Local Council did not provide quotations for three instances. We are not aware that the auditors had requested the quotations. As a matter of fact no such request was made to the Executive Secretary. The following are our justifications:

C Planet IT Solutions – service providers who are knowledgeable enough with regards to IT systems at the Local Councils are quite limited. One has to be well versed and trusted and shall need to be able to offer the service quickly. Such issues crop up unexpectedly and therefore they will be urgent enough to merit immediate action. One shall also keep in mind that when covid-19 pandemic broke, the Council had to act as fast as possible to ensure continuation of services, including to equip itself with the means for the staff to work from home. In this regard we acted as per article 100 of the Public Procurement Regulations (PPR);

The Street Lighting – The council followed article 100 of the PPR and the Head of the contracting authority deemed it fit to issue the purchase order based on one quote for the simple reason that there was no time to follow the whole procedure of quotations, selection etc;

Mario Mallia – The Council has a number of quotations, not as stated;

Progressive Information Systems Ltd – This concerns the purchase of SAGE 50 upgrade. As Head of the Contracting Authority, the Executive Secretary (ES) considered the fact that suppliers for this specialised software are very limited, price was verified through prices online and he had the advice of the accountant that this company were able to offer support. There we acted according to article 100 of the PPR;

Calleja & Sons - The reason we had only 2 quotations is simply due to the fact that the others failed to submit a quotation. The Council therefore had no other option but to proceed accordingly;

Global Tech Ltd – The reason we only had 2 quotation is due to the fact that out of 9 requests, and despite a number of reminders, including by the ES himself, only 2 submitted their quote.

CRC Group – We have in fact 2 quotations out of 3 requested. Considering the amount quoted, and compared to the other quote by 360 Retail, which was much higher, it was deemed fair and reasonable and therefore proceeded with CRC Group.

Tal-Maghtab Construction – The Council had request three quotations and such service providers are very limited. Unfortunately, despite a number of reminders and a lot of wait, only eventually one submitted the quote. One needs to understand that will the high number of roads being constructed by IM, contractors related to road works (in this case road markings) are very committed with central Govt projects. We literally had to beg to the selected contractor and it was thanks to this company being based in Naxxar that they finally quote and did the work.

Accountancy services – This profession requires detailed knowledge on Local Government directives, regulations etc and commitment. In accordance with article 100 of the PPR, and after it was ascertained that the rate requested is fair and reasonable, there was no justified reason why the Council would have gone to quotations.

3.4 Tender exceeding budget amount

Tenders for handyperson – Due to the fact that the Naxxar Local Council does not have any persons assigned to it by Central Government (free of charge) as is the case with other localities, the Council has no other option but to contract out this service. The estimated budget was based on the previous tenders which were for a shorter period. It was difficult to provide a more accurate estimate. The Council had no alternative but to accept the tenders although it only did so once it was established that the rates were still fair and reasonable, considering the commitment and conditions imposed.

3.5 Error in the contract for handymen services

We would like to thank the auditors for pointing out this error which has since been corrected. In the meantime it is important to note that payments issued were always according to the accepted offer and thus correct.

3.6 Amounts paid exceed contract of handymen

Unfortunately the auditors missed the fact that payments issued to these persons were not only for this contract but for other services distinct from this contract. So we regret that the auditors are not correct on their conclusion.

3.8 Tender for Finishing Works at Tal-Għaqba Windmill

This project is an EU funded one with strict deadlines. The difference was not considered to be that big to justify the exclusion of the only bidder. One has to keep in mind that with construction still booming, it was very hard to find anyone available and ready to meet deadlines. It is also true that the performance guarantee was dated 19 days following signing of the contract when it should have reached us within 15 days (4 days delay). Again it was not deemed to justify the exclusion of the only bidder for this slight delay given also that processes at banks were taking (and are still taking) much longer due to stringent controls.

3.10 Contract not signed

We do not blame that the auditors may have missed the contractor's signature however we confirm that the contractor did sign the contractor at the bottom of the form (not on the appropriate line).

3.12 Contract without date (contracts manager)

We really cannot understand why the auditors made this observation since we have re-checked the document and it is actually dated.

3.14 Payment approval

The auditors mention 3 instances where payments were issued prior to Council approval. Whilst every effort is made to do so accordingly, there may be exceptional circumstances which cannot wait. However in all cases the Council would have already approved the service with the exact amount specified or in further exceptional instance, following consultation with the Mayor/Finance Committee. With regards to the handymen, since they are quasi employees, they cannot wait for their monthly payment until Council meets and approves.

3.16 Expired contract

This refers to a contract for rental of a garage. Despite not having a formally signed contract, there is communication between the two parties which makes it binding enough.

3.18 Insurance Policy

We refer to replies to management letter of previous years. Until regulations are updated we will continue to have similar comments by the auditors. One cannot insure on the NBV but on replacement value (new for old). Therefore they can never agree. With regards to the totem signs, despite the mentioned directive the NLC will continue to insure these particular signs as it is deemed proper risk management and in the interest of the Council to do so.

3.22 IFRS 16 'Leases' assesment

The council has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

4.1 FSS Statutory documentation

Action has already been taken to ensure that in the future there will be no difference between the FS5's and FS7.

4.3 Reconciliation of wages between FS5s and books of account

Action has already been taken to ensure that in the future there will be no difference between the FSS forms and payroll expenditure in accounts.

4.6 Councillors' and Mayor's allowance

We are not aware of the mentioned understated amount and at this stage we cannot confirm how this could have come about. However we will do all that is possible to ensure that the amounts on the FS3's and the books of accounts agree.

4.9 Declaration of Mayor's allowance and honoraria

Point taken for the future.

5.1 Tagging og fixed assets

Every effort is made to ensure that all assets are tagged and we do check them out on a regular basis just in case some tags may have come off. We suggest that in future the auditors bring these instances to our immediate attention since we still cannot find untagged assets.

5.3 Upkeep of fixed asset register

We will do every effort possible to keep the FAR updated as the auditors recommended.

5.6 Reconciliation of financial statements with FAR

We have noted the auditors' comments and will do all that is possible to comply accordingly.

5.8 Fixed assets additions

We have noted the auditors' comments and will do all that is possible to comply accordingly.

5.10 Reconciliation of financial statements with FAR additions

We have noted the auditors' comments and will do all that is possible to comply accordingly.

6. Accounting for Grants

The attached file has a full explanation of how the grants were accounted for when amounts were released to income when the capital approach for fixed assets and grants was adopted.

7. Inventory

In this case there seems to have been some miscommunication with Council staff. The auditors were provided details by the staff however they did not come back for clarifications whilst they were doing the field work. If they did, we would have given them all the

necessary clarifications. As a matter of fact we still cannot figure out how the auditors came up with the figures.

8. Trade and other Receivables:

LES debtors are fully provided for by means of a Provision for Doubtful Debts.

With regards to pre-regional LES receivables, the council will in future post this in LES debtors and decrease the Provision for LES Bad Debts with the same amount.

With regards to the long outstanding receivables due from Green MT and Water Services corporation, the council will keep on chasing such payments, even though a full provision for Bad Debts against these dues has already been accounted for.

As duly noted by the auditors, Wasteserv Malta Limited were not up to date with their postings as at year end, and therefore amounts due by Wasteserv Malta Ltd to Naxxar Local Council for Organic Waste Collections were not agreeing at the time the auditors requested the balance confirmation.

9.1 Bank Account

This was an oversight and every effort will be made to ensure correctness irrespective whether amount is material or not.

9.4 We will contact the bank accordingly.

10.1 Supplier statements

As the auditors rightly so mentioned we do every effort possible to obtain statements and almost of all them provide us with such statements. We also insist that if they do not provide us with a statement, we will not do further business with them.

10.3 Long outstanding creditors

We will comply accordingly once the final decision is given.

10.5 Confirmation of trade creditors

We already reconcile creditors' balances and when errors are noticed, we inform them accordingly. With regards to this case in fact the error came from the creditor and not the Local Council.

10.7 Refundable deposits

We will comply with auditors' comments as we are already doing.

11.1 Meeting regulation

With regards to discrepancies between the dates set and the actual dates of the meetings for one instance there was an urgent meeting in between; next meeting was still held according to what was decided. In the other two instances mentioned there was a typo where one was noted as 6th June (which fell on a Saturday) instead of 10th and the other noted as 24th instead of 23rd. Whilst every effort will continue to be made to reduce errors, these things are bound to happen as in fact happened to the auditors when they wrote 21st instead of 24th.

11.2 Date of next meeting at the end of every meeting

With regards to meetings 12 and 13, these were of an urgent nature and therefore no date is set since the Council will still meet on the date decided during the last ordinary meeting.

11.4 Agenda not sent to Councillors five days prior to meeting

May we bring to the attention that in two of the three instances mentioned (12 and 13) the meetings were of an urgent nature and therefore this regulation does not apply. With regards to the third meeting (16) we believe that this was sent on time.

12.1 Electronic Site

We will do whatever possible to keep the website updated.

12.3 Uploading of management letter and its reply

We have already taken necessary steps to ensure that website is up to date however from time to time we do face some technical issues which precludes us from uploading the documents in a timely manner.

12.4 We urge the DLG to issue a clarification and direction since there is a clear contradiction between what is required by the DLG and the GDPR.

13.1 Cheque number on schedule of payments

We do not agree with auditors' comments and we find these in contradiction with previous comments (on same management letter 3.14). The auditors may easily reconcile with bank statements. Furthermore, since almost all of the payments are done through internet banking, it is far easier to reconcile as we are reducing the amount of unrepresented cheques.

13.3 Reference to schedule of payments

Since then, we are complying fully with the auditors' recommendations. As a matter of fact the only meeting mentioned was the one prior to the previous audit and as soon as they brought this to our attention, we have improved our referencing.

14 Presentation of the Financial Statements

As duly noted by the Auditors, the financial statements had been amended as soon as this shortcoming has been brought to our attention.

Conclusion

We are pleased that many of the comments brought forward by the auditors in the previous management letters have been addressed. Some others are in the process of being addressed fully during this year. Whilst we will continue to do every effort to minimise these issues, certain circumstances will not allow for a perfect environment and many times we need to act according to priorities with the available resources.

In the meantime we would like to take the opportunity to thank the auditors for their work, without which we will not be able to improve our processes and practices.



Anne Marie Muscat Fenech Adami

Mayor

cc: Auditor General, NAO

Local Auditors