



VALLETTA  
*Città Uniffissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

The Director  
Department for Local Government  
Archbishop Street,  
Valletta

Monday, 18<sup>th</sup> October 2021

**Management letter reply**

Dear Mr Galea,

Further to the report prepared by the Auditors, we are hereby submitting our replies in corresponding references to the report for ease of identification.

Gabriella Agius  
Executive Secretary

Alfred Zammit  
Mayor of Valletta

CC. 3a Auditors  
cc. Auditor General



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

### **Section 1: Follow Up: Management Report – Year ended 31 December 2021**

The matters that were not addressed during 2020 will be tackled in detail in the other sections of the Management Reply.

### **Section 2: Income**

#### **2.1 System of Council recording income**

Income from Government Subventions are verified through the bank statements and remittance advices. We will inform the LC to issue an official receipt of the funds being received by the Central Government.

Invoices and receipts are being issued on Permit Income, LES income, Waste Organic, Transport Malta and CVA invoices, for other income generated from any Activity organised by the Local Council a receipt will start to be issued.

The local Council agree that an electronic centralised invoicing/ receipt system facilitates reporting and the information system of the LC. The LC will obtain a quote from the Sage providers to activate the Sage Invoicing system.

#### **2.2 Reimbursements for administrative fines fees on LES fines collected.**

The Local Council will investigate the difference of € 131.44 between the LOQUS system and the amounts in the financial statements. The difference of € 1,651.24 between the invoices issued in 2020 and the amounts in the financial statements is because invoices pertaining to 2020 were issued in 2021. Correct cut-offs will be ensured.

#### **2.3 Income not recognised correctly in the appropriate period.**

As stated by the auditors since income pertaining to 2019 amounting to € 1,390 was not recoded in 2019, the Council accounted such income in 2020. The amount is not material to demand a reinstatement of prior year amounts.

#### **2.4 Incorrect classification of income**

The Local Council will ensure that Income is classified to the right Nominal ledger account.

#### **2.5 Other Income Shortcomings**

The Local Council will ensure that the bye-law enacted in 2019 on Advertising of Street furniture is uploaded on the Council website.



### **Section 3: Payroll**

#### **3.1 Payments of FSS and NI Due**

The Local Council will ensure that payments in respect of Past FSS Tax and SSC are affected as per agreement entered with the Inland Revenue Department and will rectify other arrears by effecting similar agreements.

#### **3.2 Payroll workings shortcomings**

The Local Council will ensure that all FS5 and FS7 are signed by the Executive secretary.

Also, the Local Council in 2021 has stopped imposing the Maternity Fund Contributions.

In respect of Incentive Scheme Workers, it is to be noted that these are not employed by the Local Council but are granted to the Local Council. All payments in respect of overtime to Incentive Scheme Workers are supported by Invoices issued by their employer.

The Local Council will minute the allowance that is being given to employee.

#### **3.3 Payroll Reconciliation**

The Local Council will submit revised FS5 to ensure that FS5 agrees to the FS 7 and FS 3 submitted.

Furthermore, the payments to drivers supported by invoices will be reported in a separate line in the financial statements to highlight that such drivers are not employed by the Local Council with a contract of employment.

#### **3.4 Other HR Procedures shortcomings**

An administrative report will start to be drawn on the Councillors' attendance to the Council's meetings.

A written approval by the Council will be obtained for those employees that have a leave balance in excess of 48 hours, indicating the number of hours carried over to the following year.



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

### **3.5 Allowance paid to the Executive Secretary**

The Local Council will discuss this issue. It is to be noted that the allowance paid to the Executive secretary agrees to the Allowance approved by the Council on 11 September 2018.

## **Section 4. Expenditure**

### **4.1 Procurement procedures, renewal of contracts and expired contracts**

The Local council will issue tenders for expenditure that exceeds the threshold. In respect of the matters identified by the auditor please note the following:

- a) The services for the printer are being provided from the service provider who owns the printer.
- b) The Local Council will issue a tender for street lighting.
- c) The Local Council has a very attractive terms with ELC and will not be viable to amend the contract or issue a new tender.
- d) The tender for accountancy services has been issued and the Council will continue to use the current accountants until the tender is awarded.
- e) The Local Council will continue to use the services of Waste Collection Ltd until a new tender is issued by the Harbour Region in line with the Local Government Act.

### **4.2 Inappropriate Expenditure Documentation**

The Local Council will issue a purchase order when required by the Local Council Financial Regulation. The shortcomings found this breach is just one instance in 2020.

The Local Council will demand a Vat fiscal receipt from the supplier as required by the Local Council Financial Regulations. It is to be noted that all these were supported by Tax invoices.

The Local Council will demand a Tax invoices from Stanisalaws Agius as recommended by the auditors.

Invoices from Premier Business Limited amounting to € 107,553.60 and Sanitech € 5,425.04 are in hand and were made available at the time of audit. Further such costs were also reimbursed by Planning Authority Grants in respect of Premier Business and the MTA in respect of Sanitech.



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

#### **4.3 Payment Vouchers**

The Local Council will ensure that payment vouchers prepared will included the full details and are endorsed by the Executive Secretary and Mayor.

#### **4.4 Donations, hospitality, and other expenditure**

As emphasised by the auditors, the Local Council is still required to fulfil its social and cultural obligations as required by the Local Government Act even if the Local Council has a negative financial position. Furthermore, the Hospitality and Community costs incurred in 2020 were much lower than those incurred in 2019 and previous years. Further, the Local Council remarks that the Subvention does not cater for any Social and cultural activities that the Local Council is responsible for in terms of the Local Government Act.

#### **4.5 Tendering process**

The Local Council will obtain a copy of the contractors' third-party liability insurance for Tender VLC-T02-2019, VLC-T03-2019 and VLC-T01-2020.

Further, minutes will commence to be taken in respect of meetings convened for the adjudication of tenders.

#### **4.6 Expenditure not recorded in the appropriate accounting period**

The four instances identified by the auditors are all in respect of invoices pertaining to 2019, but which were given to the Local Council in 2020 after the unaudited accounts for the year ended 31 December were issued on 22 February 2020. We ensure that invoices will be received in time by the suppliers.

### **Section 5: Intangible Assets**

The Local Council has amended the depreciation charge on the Local Council website as recommended by the Auditor.



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

## **Section 6: Property, Plant and Equipment**

### **6.1. Reconciliation of the Fixed Asset Register**

The Local Council is currently drafting a fixed asset registry. The items inside the Local Council premises have been identified however the Local Council need to still determine the Urban Improvements done throughout the years over Valletta. In this respect the Local Council need to determine such assets from previous contracts and certify such costs with the Local Council architect.

### **6.2 Reconciliation between amounts in the financial statements and nominal ledger**

The difference in total between PPP in the financial statements and the nominal ledger is just of € 36. However, the Local Council will reclassify amounts in the nominal ledger from assets not yet capitalised to Urban Improvements to agree to Financial statements classification. A similar reclassification will be done from Urban improvements accumulated depreciation to Urban improvements grants.

### **6.3 Depreciation**

The Local Council will start to calculate depreciation from the Fixed Asset Register in Sage once the FAR is concluded and posted into the Sage Accounting System.

### **6.4 Certification of capital expenditure works**

The Local Council will ask the architects to provide documentation and certifications to St Pauls Street (€ 92,148) and Mattia Preti Square (€ 73,610). As explained by the auditors these works were concluded and accounted for during the year ended 31 December 2017.

### **6.5 Insurance cover**

The Insurance cover of the local council is based on the LC offices and office furniture and computer equipment inside the offices. The building is not owned by the Local Council, but by the Lands Department, but the LC is obliged to provide for insurance of the building.

The Local Council will do an exercise to determine the replacement value of the assets in the LC offices and base the Insurance cover on such value.



VALLETTA  
*Città Umilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

## **6.6 Capital Commitments**

The Local Council will start to classify the capital commitment note in the financial statement between the capital commitments that will fall for next year and commitments that are expected to be incurred after more than one year.

## **Section 7: Receivables**

### **7.1 Trade receivables**

The adjustments against the suspense account identified by the auditors in the customer activity report of 2019 are adjustments passed on opening balances.

Furthermore, the auditors have stated that “The balances of receivables as of 31 December 2020 could not be confirmed and we found evidence of misstatement in certain debtor balances”, However, no list of this misstatements was given to the Local Council and no list is present in the management letter for the Local Council to verify. We ask the auditors for the requested list.

### **7.2 Local Enforcement receivable balance**

The Local Council will adjust for the variance of € 2,135.12 between the LES debtors in the accounting system and the Loqus system.

### **7.3 Prepayments and accrued income**

The Local Council will ensure that information is passed to the accountants in order to correctly calculate prepayments at year end. All the adjustments proposed by the auditors were approved in the audited financial statements.

In respect of accrued income on DLG Wasteserv payment it is to be noted that such payments were affected by the DLG in 2021 and the amounts provided as accrued income are correct. The Local Council will provide documentation in respect of Old Bakery Street grant amounting to € 79,316 since this is available.



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

## **Section 8: Cash and Cash equivalents**

### **8.1 Petty Cash Payments**

The Local Council will ensure that petty cash payments are only done for items which cost less than € 50.

The Local Council will start to record petty cash payments on a petty cash voucher sheet and not using the Purchase order book.

### **8.2 Cash Balances**

The Local Council will ensure that a float for petty cash is maintained and will stop using permits income to pay petty cash expenses.

The Cash balance at year end amounting to € 3,813.79 includes Permits income not deposited in the bank accounts at year end.

### **8.3 Bank balances included in the financial statements**

The Local Council will adjust for the HSBC bank balance of € 16.

In respect of the European Walled Town Association, the balance forms part of the Local Council bank account even if it is in the name of the Association since the Local Council is the representative of the European Walled Town Association in Malta.

As stated by the auditors the Garnishee orders will bill be closed off in 2021 and the amounts held under Account No 5011 will be transferred in the main account of the Local Council.

### **8.4 Stale cheques**

The Local Council will reverse the four stale cheques identified by the auditor.

### **8.5 Frequency of Bank deposits**

The Local Council understand that in accordance with the Local Council Procedures bank deposits should be affected twice weekly. However, most of the payments are being done online and the LC has reduced the amount of cash in hand. For this reason, a deposits of once per week is enough.





VALLETTA  
*Città Unilfissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

## **8.6 Bank Interest**

The Local Council will ensure that bank interest payable is not accounted for in the bank charges account. The amount for 2020 of € 16.14 is immaterial to the financial statements.

## **Section 9: Payables**

### **9.1 Trade payables**

The Local Council will investigate the Waste Collection Limited creditor balance. This balance of € 235,744.39 was reconciled to the creditor balance given to the Local Council on 31 December 2020. The statements presented to the auditors by the supplier amounting to € 178,326.01 including payments effected in 2021. The result of the discrepancy is due to timing differences.

The Local Council will demand statements from Regjun Xlokk, V&C Contractors Limited, Premier Business Ltd and TCTC since these suppliers has not provided any statements to the auditors.

Regjun Xlokk is also a debtor to the Local Council and a set off agreement need to be affected.

### **9.2 Amounts payable to supplier under the Public Private Partnership (PPP)**

The Local Council will investigate the difference between the amounts in the LC books of € 11,227.84 and the calculation of € 14,970.40 derived by the auditors. A statement from the supplier will be obtained.

### **9.3 Accruals and cut-off errors**

The Local Council will ensure that all information is given to the accountants in order to determine accurately the accruals at year end.

### **9.4 Contingent liabilities**

The Local Council has amended the disclosure liability to agree to the amount proposed by the auditors of € 112,000 instead of € 120,000.



VALLETTA  
*Città Unilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

### **9.5 Government Grants**

The Government Grants working was based on the audited financial statements of previous years. Such working is based on when the asset was brought in use and not when the grant was received. For this reason, the timing of the grant in the Local Council working and auditors working will be different. Further as stated in the Auditors workings the last audited accounts available was that of 2012 and they have taken the Net Book Value as at 1 Jan 2012 in their working which is net of transfers to the income statement. For this reason, the Grant working by the Local Council amount is higher than the Working by the auditors. These need to be rectified by the auditors.

### **9.6 Amounts due to the Inland Revenue Department**

The Local Council will go through the difference of € 23,669 that the auditors state that exist between the financial statements and the ARS statements dated 5 May 2021.

### **Section 10: Financial Position**

The Local Council is aware of the precarious financial position. Unless the Government allocates more funds to the Valletta Local Council, the Council will remain with its negative financial indicator. Just the expenses on Refuse Collection and Road and Street Sweeping are more than half the allocation given by the Local Council.

However, the Local Council will try to generate other income from the Local and Business Community in Valletta in order to improve the financial situation of the Local Council.

### **Section 11: Other Disclosures in the Financial Statements**

#### **11.1 Disclosures required in respect of certain IFRS**

The Local Council has amended all the recommendations by the auditors in terms of disclosures in the Financial statements.

#### **11.2 Financial Statements presentations**

The Local Council has amended all the errors in the presentation of financial statements



VALLETTA  
*Città Unilivissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

## **Section 12: General**

### **12.1 Quarterly Reports, Annual Budget, Business Plans and Management Letters**

The Local Council has prepared all the above reports and will upload such reports on the Local Council website after they are endorsed by the Executive Secretary and the mayor.

### **12.2 Councillors' attendance, Council meeting agenda, minutes, and payment schedule**

The Local Council will ensure that the Council meeting agenda will be circulated at least five working days prior to the meeting.

The Local Council will upload the minutes of Council meeting 18 on the Local Council website.

The Local Council will ensure that the Schedule of Payments Links in the Local Council website work.

The Minutes of the Local Council will start to include the time when the meeting has ended.

### **12.3 Differences noted in the opening balances**

As already answered in the previous year management letter reply there are no difference between the opening balance as of 1 January 2019 and the Audited accounts of 2018. The adjustments passed by the auditors during the audit for the year ended 31 December 2018 were passed with 1 January 2019 date in the financial statements

To this fact the auditors did not find any difference in the opening balance in 2020 since the audit adjustments for the year ended 31 December 2019 were included in the Sage accounting system with the 31 December 2019 date.

### **12.4 Approval to carry out and exercise to update and reconcile trade payable balance**

The Local Council will obtain written confirmation from the Department of Local Government. The approval to pass any past adjustment was given in a meeting held in the presence of members from DLG, whereby the Mayor Dr Alexie Dingli as assisted with the executive secretary Ms Gabriella Agius and the accountant of the Local Council Mr Arthur Douglas Turner agreed with them to reconcile the creditors and to adjust for past differences. The exercise



VALLETTA  
*Città Umilissima*

KUNSILL LOKALI VALLETTA

VALLETTA LOCAL COUNCIL

was carried out and approved by the Local Council.

As explained in Section 9.1 the Local Council will obtain creditors balance and do a reconciliation on the creditors who had not yet provided statements.

### **12.5 Actual expenditure exceeding budgeted expenditure**

When comparing actual expenditure with budget expenditure one has to compare also budgeted income with actual income.

The major discrepancies found under expenditure in relation to capital expenditure, conference and event expenses and repairs and upkeep were funded by grants obtained specifically for these types of expenses.