



## KUNSILL LOKALI SANTA VENERA

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3<sup>rd</sup> August 2020

The Director

Department of Local Government

St. Christopher Street

Valletta

Dear Sir,

### Reply to Management Letter for the year ended 31/12/2019

We are forwarding the Santa Venera Local Council's response to Management Letter for the financial year ending 31<sup>st</sup> December 2019.

#### 2.1 & 2.2 Income – Government Allocation

The Council has noted the correct treatment of the MITA deduction of €1108 and the requirement not to net off such deduction from the allocation from government for the year.

## 2.3 Income – LES Debtors

The Council takes note of the adjustments suggested by the auditor, which were reflected in the Financial Statements and will ensure continuance of such practices.

## 3. Payroll

### 3.1 & 3.2 Allocation of payroll costs by category

Council takes note of the recommendation by auditor to ensure that payroll costs are properly reflected in the Financial Statements disclosure note.

## 4. Expenditure

### 4.1 to 4.3 Expired Contracts

Tenders are in the process to be issued.

### 4.4 to 4.6 Budget vs Actual Expenditure

The auditor listed the discrepancies between the Capital Expenditure Budget 2019 and the Actual Capital Expenditure for the year and identified the discrepancies per category. The Council under spent when compared to budget mainly in the Construction Category. This was related to the fact that construction of new roads was taken over by Infrastructure Malta and Dun Gorg Preca (tal-Palazz l-Aħmar) project has been delayed and thus

In this section, the auditor compared the make-up of the surplus before depreciation for council for 2019 when compared to the relative budgeted figure for same year. The Council reported a lower surplus before depreciation of €62k mainly because of the following factors:

- a. Income from permits and contraventions were lower than budgeted and also projected revenue from supplementary government income did not materialise.
- b. Government increased mayor's honoraria and also allowances to councillors during the year
- c. Community and LES wardens expenditure increased heftily due to the increased level of social and cultural activities and rising costs for such activities. This was partly offset by lower expenditure on under items of expenditure such as road and street cleaning.

Overall, one notes that with regards to expenditure levels, council kept these lower than budgeted by €7k; however, this was much lower than the negative difference in income as explained above.

The council acknowledges the need for more rigor in the budgetary preparation stage and would welcomes more guidance from the appropriate authorities as to how virements should be processed and reflected within the scope of the budgetary process. This guidance is vital for Council to be able to adjust the budget during the year.



#### 4.7 to 4.9 Insurance

Council notes the observation that the Council's insured amounts for computer, office equipment, office furniture and office fittings which stood at €89k as per the insurance cover held by council at year end, are much higher than the book value of the same, which stood at €9k at year end. The reason for this was that as from the previous year, the council netted off all grants received over the years on the same items of capital expenditure, against the historical cost of same. This led to a substantial decrease in net book values, which, do not reflect the actual replacement values of the assets held. Council will take this matter up with the insurers to ensure that it performs its custodial function in a proper manner.

#### 4.10 & 4.11 Provision for bad debts

The council notes the re-instatement of an amount of €4,931 being debit balances in creditors on which a separate provision for bad debts had been recognised in earlier years, which has now been reflected in the audited financial statements for 2019. Council takes note of the recommendation by auditor to maintain a track record of balances recoverable and follows up on uncollected amounts.

#### 4.12 Locality Day

The Council has taken note

#### 4.13 to 4.15 Other Expenses

With regards to point 4.13 with regards to the amount recoverable from central government relating to tipping fees for 2019, Council took the position that unless there is clarity in the sense that these are not recoverable, it should accrue for such income. Council took note of the more prudent approach by auditor given the lack of clarity on the same accrued income as per various exchanges of correspondence with authorities on the same issue.

Council took note and accepted the audit adjustment relative to the July invoice for refuse collection which was inadvertently not posted in the books and neither accrued for.

### 5. Property, plant and equipment

#### 5.1 to 5.2. Depreciation

The Council notes the discrepancies identified in the charge for depreciation for the year which amounted in total to €2799 and has adjusted its books accordingly.





## 6. Grants and Deferred Income

### 6.1-6.2 Central Region Funds

The Council notes the comment of the auditor in respect of the deposit of €22,890 received from Central Regional Council Funds to the bank account ending 9082 rather than to the designated bank account ending 5057. Council will remedy this by carrying out the necessary bank transfer.

## 7 Bank and Cash

### 7.1 to 7.2 Bank Reconciliations

The Council agrees with the recommendation that all bank accounts are duly reconciled on a more frequent basis and that such reports are printed, verified and approved by the Executive Secretary of the Council, and filed with the monthly bank statements. However, Council would like to note that for efficiency purposes it is not always possible to carry out such reconciliations within ten working days.

## 8 Payables

### 8.1 to 8.3 Creditors Statements

The Council observes that it is unfortunate that many suppliers do not have a proper system of issuing statement of account thus making the recommended periodic reconciliations quite difficult to identify. However, it has to be noted that the Council is a relatively prompt payer and as such any problems or discrepancies can be easily identified by the supplier himself upon receipt of payment.

With respect to the amount of €7,898 the Accountants of the Council will be making the necessary re-allocation between the respective creditor accounts, which belong to related companies.

### 8.4 & 8.5 Approval of payments

Cheques are being prepared by the staff prior to the Council meeting and after approval they are signed and sent to supplier accordingly.

### 8.6 Debit Balances in Payables

Council notes and has ensured that debit balances on payables at year end are transferred to the proper nominal ledger account at year end to ensure figures tally with the final approved audited financial statements for the respective year.

### 8.7 & 8.7 Aged Creditors

Council notes the observation that an amount of €25,374 at year-end 2019 was due to creditor for over 365 days or 2 years and would like to clarify that these mainly related to an invoice from Central Asphalt, which has been disputed by Council.

## 9. Presentation of Financial Statements



9.1 to 9.3 Presentation of Financial Statements

The Council's Accountants have assured the Council that they will be making the necessary changes to the template used for the unaudited financial statements to reflect the disclosure requirements under IAS 8 and IFRS 9. Council also positively notes the adoption of IFRS16, Leases, in the accounts for the year.

9.4 Other issues identified in the financial statements

Observations on cross-referencing in financial statements have been noted.

10.1 Council meetings minutes

The Council has taken note of this point

10.2 to 10.4 Attendance at Meetings

The Council has taken note of this point.

11 Joint Committee

The Council has taken note of the point raised by the auditors but unfortunately, the Council has no control over this matter.



*Stephen Sultana*

*Mayor*



*Michael Mifsud*

*Acting Executive Secretary*

c.c.

The Local Government Auditor

And

National Audit Office