



Nadur Local Council

14th May 2019

The Director
Department for Local Government
26 Archbishop Street
Valletta

Dear Sir

Re: Management Letter – Financial Year 2018

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 most of the issues noted on the audit of 2017 were resolved during the year 2018. The issues remaining will be referred to in this year's response.

2. Property, plant and equipment.

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 auditor during the audit itself. The particular project mentioned, in relation to the new synthetic turf for the football pitch, was actually completed in 2018. However, such project in reality does not constitute a cost expense for the Nadur Local Council. This is so in view of the fact that such project was completely funded by the Development Planning Fund and as per new accounting treatment adopted by the Department of Local Councils, any funds received in respect of a particular project are netted off against its cost. As a result, since the synthetic turf project was 100% funded by the Development Planning Fund, the actual cost for the Nadur Local Council is in substance nil. Therefore, there is no actual cost which could be depreciated.

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.)

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Sue Ellen Bugeja

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The depreciation adjustment, concerning the re-computation of the estimated useful life of the existing assets arising in view of the fact that as from 1 January 2018, as instructed by the Department of Local Government, the depreciation method will be changed from reducing balance method to straight line method, was noted. With respect to the fixed asset register, this matched the figures as shown in the financial statements prior to the audit adjustments. However, since audit adjustments concerning depreciation and reclassification of assets were passed, these adjustments will automatically affect the net book value of the fixed assets. As a result, the fixed asset register values will no longer match the financial statements once audit adjustments are effected. However, it should be kept in mind that once the depreciation charge in the fixed asset register is corrected to reflect that in the financial statements, since the cost of the fixed assets already agrees to that of the accounts, it will automatically follow that the net book value will also agree since the net book value is calculated as the cost of assets less accumulated depreciation.

3. Receivables.

With respect to receivables, no provision for doubtful debts was provided for since all debtors existing as at 31 December 2018 were deemed to be fully receivable by the Local Council. In fact, all debtor balances held as at year end 2018, 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 unrepresented 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.

The audit adjustments concerning the new bank account opened with the Central Bank of Malta for the co-financing project of the Rural Roads were noted and acknowledged.

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5. Payables.

For the year ended 31 December 2018, special care was taken to try to provide for all expenses relating to 2018 which were not invoiced by the respective suppliers as at year end. The Euro 79,006 in bills received from a supplier in respect to road resurfacing works related to 20% advance payment for road works in Nadur. Such bills were financed in 2019 through co-financing, with the Local Council funding only 10% of the total project.

With respect to the deferred income of Euro 297,860 as at 31 December 2018, this was made as an audit adjustment and in fact did not feature in the original financial statements forwarded for audit purposes. The Local Council takes great 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.

The Nadur Local Council is aware that grants relating to fixed assets should be capitalised and that deferred income should only be transferred to property, plant and equipment when the project has been completed. More attention will be given to account for such transactions correctly in the first place.

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 should be pointed out that such excesses arose due to a one-off event, relating to the European Charter for Rural Communities, which event was held in Nadur by the Nadur Local Council in July 2018. The Local Council managed to obtain further funding for this one-off event retrospectively, i.e. in 2019. 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.

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Regarding the amount of expenditure for which is being stated that no quotations were obtained- Euro 5,835, this includes **three** various and separate items. One was in the amount of Euro 4,737.26 that was the service of lighting system during wine festival 2018. The Council issued a quotation in line with procurement regulations for this - reference NLC/14/2018 – and the Council received one offer that was well over the budget. The Board did not recommend it, and the Council was in agreement. Since the event was very close, the Council passed during a Council meeting that we issue a direct order below the threshold that was the amount of Euro 4,737.26. Since the Local Councils Financial procedures states that threshold of a direct order is in the amount of Euro 5,000 we were below that amount (but this only occurred since we were tight with deadlines).

The other two amounts were below direct order threshold – 600euro and 498euro. In both cases there was no need to issue a quotation as per Local Councils Financial procedures since both are below threshold of Direct order. All three mentioned cases, once aggregated, total 5,835 euro.

In the case of Purchase request we do our utmost to always issue either by a purchase order or in an e mail request to suppliers. Also note that we presented during Audit all purchase request booklets to be viewed.

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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 2018 to prior years. The Council remains committed to continue taking measures which will lead to further decreases.

SIGNED
Edward Said
Mayor

SIGNED
Sue-Ellen Bugeja
Executive Secretary

cc: Auditor General, National Audit Office
RSM Malta

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