



Grant Thornton

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The Mayor
Marsa Local Council
Pont San Tumas,
Marsa

Grant Thornton
Fort Business Centre
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.granthornton.com.mt

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10 June 2020

Dear Sir,

Financial statements for the year ended 31 December 2019

During the course of our audit for the year ended 31 December 2019 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Accounting function

We again noted a shortcoming in relation to the accounting function (refer to note 2.1).

1.2 Books of account

The council did not rectify the issue during the year under review (refer to note 3.1).

1.3 Presentation of financial statements

We have encountered various shortcomings in the presentation of the unaudited financial statements (refer to note 4.1).

1.4 Government income

We are pleased to inform that the council has recorded the amount received from the Department for Local Government pertaining to the commercial zone fund in other Government income.

1.5 Income from LES System

The council recorded the 10% administration fees to LESA and region in the proper account.

We again noted a discrepancy between the Loqus report 483 and council's calculation of income from LES administration fees (refer to note 5.5).

1.6 **Bank interest**

We are pleased to inform that the council has disclosed interest receivable in a separate account. Also, finance income and finance cost were separately disclosed.

1.7 **Income from LESA**

We identified an instance where the council did not issue a LESA invoice within the first week of the following month as required by memo 91/11 (refer to note 5.7).

1.8 **Organic waste collection agreement**

We again noted a shortcoming with regards to income arising from organic waste collection agreement (refer to notes 5.9 and 5.10).

1.9 **Urban greening grant**

We did not identify shortcomings with regards to the urban greening grant.

1.10 **European grants**

During the year under review the council did not receive European funds.

1.11 **Payments of FSS and NI**

The council has rectified the issue during the year under review.

1.12 **Councillors' allowances**

We again identified shortcomings in councillors' allowances (refer to notes 6.1 and 6.3).

1.13 **Mayor's honorarium**

We again noted a shortcoming in the mayor's honorarium (refer to note 6.7).

1.14 **Petty cash expenditure**

The council is not including details of the nominal account in the petty cash list (refer to note 7.1).

1.15 **Procurement procedures**

We again identified an instance where the procurement procedures were not followed (refer to note 7.3).

1.16 **Insurance policy**

The council's assets are still not appropriately insured (refer to note 7.5).

1.17 **Personal accident insurance**

The insurance is still extended to worldwide coverage instead of limited to Maltese territories (refer to note 7.10).

1.18 **Expired contracts**

During the year under review the council kept on using expired contracts (refer to note 7.12).

1.19 **Tendering procedures**

We have again noted shortcomings in the tendering procedures (refer to note 7.14).

1.20 **Fixed asset register**

The council is still maintaining its fixed asset register in Excel format (refer to note 8.1).

1.21 **Reconciliation of financial statements to fixed asset register**

The council once again failed to reconcile the amounts in the financial statements and fixed asset register (refer to note 8.5).

1.22 **Tagging of fixed assets**

The council's fixed assets are still not tagged as required by the Procedures (refer to note 8.7).

1.23 **Depreciation of fixed assets**

The council is providing depreciation workings in Excel format (refer to note 8.9).

1.24 **Existence of old assets**

We did not encounter any old assets which are included in the fixed asset register.

1.25 **Disposal of fixed assets**

During the year under review there were no disposal of fixed assets.

1.26 **Additions to fixed assets**

We did not identify any shortcomings in the additions to the fixed assets.

1.27 **Property, plant and equipment schedule in financial statements**

The council disclosed grants separately in the property, plant and equipment schedule in the unaudited financial statements.

1.28 **Cash count**

The council's cash in hand did not agree to the amount presented in the books of account (refer to note 9.4).

1.29 **LES Receivables**

We again noted that debtors in the Loqus report 622 are less than LES debtors recorded in the council's books of account (refer to note 10.1).

1.30 **Overdue receivables**

Long overdue balances were again identified in the debtors' list (refer to notes 10.3 and 10.5).

1.31 **Other debtor**

The books of account still include the guarantee deposit given in favour of ARMS limited (refer to note 10.9).

1.32 **Trade receivables**

We still encountered differences between the books of account and a third-party confirmation letter (refer to note 10.7).

1.33 **Prepayments**

We are pleased to inform that we did not identify any shortcomings in prepayments.

1.34 **Accrued income**

We did not identify any shortcomings with regards to accrued income for the cleaning of Marsa racecourse area.

1.35 **Supplier statements**

The council is not obtaining suppliers' statements as at or near year end (refer to note 11.1).

1.36 **Long-outstanding creditors**

The council did not rectify the issue during the year under review (refer to note 11.3).

1.37 **Unrecorded liabilities**

We again identified irregularities in unrecorded liabilities (refer to note 11.13).

1.38 **Accruals**

We again identified shortcomings in accruals (refer to note 11.13).

1.39 **Groupings**

We are pleased to inform that the council has rectified the issue.

1.40 **Councillors' absence**

We are pleased to inform that the council has rectified the issue during the year under review.

1.41 **Attendance at meetings**

We did not note any councillor who failed to attend more than one third of the meetings called within a period of six months.

1.42 **Meeting Minutes**

The council once again failed to specify the meeting minutes being approved (refer to note 12.1).

1.43 **Schedules of payments**

The council did not rectify the issues during the year under review (refer to notes 13.1 and 13.7).

1.44 **Electronic site**

The council did not address the issue of uploading documents on the council's website (refer to notes 14.1 and 14.3).

1.45 **Comparison with the annual budget**

The council failed to address the issue (refer to note 16.1).

2 Accounting function

2.1 The unaudited financial statements showed a loss of €100,897 which, after our proposed audit adjustments, decreased to €72,881.

2.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2020 which did not present fairly the results and statement of financial position of the council at year-end. If interim accounts are prepared in the same way, the council may be misguided as to the performance and position of the council and may incorrectly rely upon inaccurate accounts for decision-making purposes and the budgeting process. Our audit findings and proposed audit adjustments indicate that the accounting function needs to be improved.

2.3 The council should not rely on the year-end audit to reveal errors in the preparation of its accounts. May we remind the council that in accordance with circular 1/2020 the council must make sure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should be up-to-date with accounting standards and regulations.

2.4 We also remind the council that it is the responsibility of the executive secretary and council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

3 Books of account

3.1 During the audit fieldwork we noted that the council was posting various expense invoices in the wrong nominal account and then reclassifying them in grouped transactions in the correct account. The reclassifications did not include the full details of the invoices. This was noted mainly in the following accounts: roads/streets pavements, signs, road markings, lease of equipment, bulky refuse collection, open skips, mayor's allowance, employees' wages, social security contribution, allowances, assets under construction, urban improvements and office equipment.

3.2 We recommend that transactions in the books of account should be posted individually. Furthermore, all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

4 Financial statements

Presentation of financial statements

4.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) and Financial Procedures. During our audit we pointed out that the council's unaudited financial statements were not prepared in accordance with IFRS. Below are some of the non-compliance issues identified:

- i. Note 2, sub-header 'New and amended standard adopted by the local councils' was not updated for the financial year ended 31 December 2019.
 - ii. Note 2, sub-header 'Government grants' states that during the year the council changed the accounting of government grants from the income to capital approach however, this was applied during previous year.
 - iii. The council failed to include the accounting policy in relation to IFRS 16 'Leases'.
 - iv. The council did not differentiate between financial assets and non-financial assets for note 21 and 22.
 - v. The council failed to update the amount of cash and cash equivalent with our audit adjustments in liquidity risk note 21 of the audited financial statements.
 - vi. The council disclosed a net asset position rather than current net asset position in liquidity risk note 21 of the audited financial statements.
- 4.2 The council correctly amended points i to iv in the audited financial statements.
- 4.3 The following shortcomings were also identified in the unaudited financial statements of the council:
- i. The amounts in the unaudited financial statements of 'income raised under Local Council Bye-Laws' and 'income raised under Local Enforcement System' did not agree with the books of account. The council passed a reclassification of €415 between the two income categories in the unaudited financial statements. However, this was not reflected in the books of account. We have proposed an audit adjustment to reclassify the amounts to agree with financial statements.
 - ii. The creditors' amount in note 16 of the unaudited financial statements did not agree with the creditors' list provided by the council. The council provided us with an adjustment amounting to €2,103.16 to adjust the creditors and community service accounts.
 - iii. The council failed to disclose contingent liabilities (refer to note 15.1).
 - iv. The council used the term 'assets not yet capitalised' rather than 'assets under construction' in the property, plant and equipment schedule.
- 4.4 The council correctly amended points i to iii in the audited financial statements, however the council did not amend point iv.
- 4.5 We recommend that the council gives more attention to the preparation of the financial statements.

5 Income

Other Government income

- 5.1 During the year under review, the Department for Local Government paid an amount of €34,709.38 to Wasteserv Malta Limited in relation to tipping fees incurred in previous years. The council included this transaction in the 'urban improvement fund' account classified with 'other Government income' category. We have proposed an audit adjustment to correctly classify the amount in 'supplementary Government income'. This has been reflected in the final set of financial statements.

- 5.2 The council should ensure that transactions are properly allocated to the correct account.

General income

- 5.3 In the unaudited financial statements the council classified income from organic waste collection amounting to €22,816 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate this amount to 'other Government income'. The council has amended the financial statements to include our audit adjustment.
- 5.4 We recommend the council discloses all income received from Government, which is not part of the annual allocation, as other Government income, unless otherwise directed by the Department for Local Government.

Income from LES system

- 5.5 When reconciling the income from LES administration fees as shown in the books of account with the amount shown in report 483 of the Loqus system, we noted that the accounts are understated by €577. We were not provided with an explanation for this difference and therefore no adjustment was proposed.
- 5.6 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

Income from LESA

- 5.7 The invoice for the month of November 2019 was not sent to LESA in the first week of the following month. The invoice was dated 3 January 2020.
- 5.8 In accordance with memo 91/2011 local councils are required to issue the regional committees and LESA invoices in the first week of the following month.

Organic waste collection agreement

- 5.9 The council provided us with the agreement signed by Wasteserv Malta Limited for the collection of household organic waste. We noted that the council has invoiced Wasteserv Malta Limited up to May 2019. The executive secretary informed us that in 2019 the council has adjudicated a new tender with different rates per collection round. Due to this, the council did not issue invoices to Wasteserv Malta Limited for the period covering June to December 2019.
- 5.10 During our audit fieldwork, the council has also provided us with the revised agreement indicating the rates per collection round amounting to €248 and €212.40 for the period of October 2018 to May 2019 and June to December 2019, respectively. We have proposed an audit adjustment to record accrued income for the period covering June to December 2019 against 'other Government income' amounting to €19,328.40. The audit adjustment was based on the rate covering period of June to December 2019 for the collection of household organic waste as established in the signed agreement since invoices provided by the waste collector do not differentiate between organic and other types of waste collections. The council has amended the financial statements to include our audit adjustment.
- 5.11 May we remind the council that the invoices should be issued within the timeframe established in the agreement to avoid any possible disputes between the parties and to ensure that council receives income in accordance with the agreement. We also recommend the council to ensure that agreements are kept up-to-date and in line with any changes that might occur during the year. Furthermore, we recommend

the council advises the waste collector to issue separate invoices for organic and other types of waste collections.

6 Personal emoluments

Councillors' allowances

- 6.1 When reviewing the FS3 forms of the councillors, we have again noted that the council has incorrectly reported councillors' allowances under 'Part Time Gross Emoluments'.
- 6.2 We would like to remind the council that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under 'Gross Emoluments' (FSS Rules). We recommend that the council adheres to these regulations.
- 6.3 During our audit fieldwork, we noted that according to the FS3 forms provided the councillors' allowance for the year should total €12,100. However, the books of account show councillors' allowances of €11,928. Thus, resulting in a difference of €172. This difference could not be traced to wages and salaries account. No explanation was forthcoming from the council and no audit adjustment was proposed.
- 6.4 We recommend that the council prepares regular reconciliations, reconciling FS3 forms to the books of account to identify any discrepancies before finalising the accounts.

Wages' reconciliation

- 6.5 Whilst reconciling the FSS tax declared in FS5 forms to that declared in the FS7 form of the council, we came across the following discrepancies:

Description	Declared in FS5s	Declared in FS7	Difference
	€	€	€
FSS full-time	80,486	80,484	2
FSS part-time	24,275	23,848	427
Total	104,761	104,332	429

- 6.6 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

Mayor's honorarium

- 6.7 Whilst reviewing the FS3 form of the newly elected mayor for the year ending 2019, we noted that the FS3 form is overstated by €120. The total emolument of the elected mayor should amount to €9,194 whilst the FS3 form shows a gross emolument of €9,314. From the reconciliation provided by the council, we noted that the council calculated the mayor's honorarium on the amount of €15,027 rather than the amount of €14,789 as stipulated in circular 14/2019.
- 6.8 We recommend that the council keeps updated with new regulations issued from time to time and ensures that any overpayment is reimbursed to the council.

7 Expenditure

Petty cash expenditure

- 7.1 During our audit fieldwork we noted that the petty cash lists prepared by the council do not include details of the nominal account to which the expenses were allocated.
- 7.2 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

Procurement procedures

- 7.3 Our testing on cheque payments revealed an instance where a purchase was not supported by quotations in accordance with the Procurement Guidelines 2017. The following is an example:

Details	Supplier	Amount €
Hire of skip and cleaning in Triq Belt il-Hazna	RBT Skips Rental	684.40

- 7.4 In accordance with Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but not €500, a direct order approved by the Executive Secretary is issued.

Insurance policy

- 7.5 During our audit we identified the following discrepancies between the asset insurance cover and the net book value as stated in the previous year audited financial statements:

Asset	Sum insured €	NBV in accounts €
Buildings	329,212	313,532
Plant and machinery	64,021	2,817
Other trade contents	175,933	94,474
Electronic equipment	21,000	5,855
Glass – loss limit	5,000	-
	595,166	416,678

- 7.6 It is evident that some of the fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council's insurance coverage is in line with current legislation.
- 7.7 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement cost of the assets.

- 7.8 We again noted that the combined insurance policy has employer's liability for employee wages of €76,000. Employee wages and salaries for the year amount to €111,512. To this end, the council is under insured.
- 7.9 May we remind the council to update the insurance cover on a regular basis in order to ensure that the cover is in line with reporting figures.

Personal accident insurance

- 7.10 The insurance is extended to worldwide coverage instead of limited to the Maltese territories. Should a council member require to go overseas on council business a separate policy should be taken out for the specific trip.
- 7.11 We recommend that the council updates the insurance policy accordingly and limits coverage to the Maltese islands.

Expired contracts

- 7.12 During our audit fieldwork we noted that the council utilised expired contracts for the following services:

Tender no.	Details	Date of expiry	Note
KLM01/15	Street Cleaning Services	26.07.2019	(a)
KLM03/15	Cleaning and maintenance of public convenience	19.07.2019	(a)
KLM06/13	Collection of bulky refuse	31.01.2018	(b)
KLM04/15	Cleaning and maintenance of public gardens using environmentally friendly products and practices	31.10.2018	(c)
KLM05/15	Upkeep and maintenance of soft areas within access roads and access only and pedestrian streets using environmentally friendly products and practices	31.10.2018	(d)

- a) To date of the audit fieldwork the council did not issue a new tender thus it kept on using the service from the same supplier under the old terms and conditions.
- b) During the audit fieldwork we noted that the council kept on using the expired tender up to March 2019. The council has issued a new tender which commenced on 1 April 2019.
- c) We noted that the council used the expired tender up to April 2019. In 2019, the council issued another tender which commenced on 1 May 2019.
- d) The council kept on using the contract up to April 2019. The council issued another tender with date of commencement being 15 May 2019.
- 7.13 We would like to remind the council that Procurement Guidelines 2017 state that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts.

Tendering procedures

7.14 We noted the following shortcomings in the tendering procedures:

Tender no.	Details	Notes
KLM01/19	Cleaning and maintenance of public garden using environmentally friendly products and services	(a, b)
KLM03/19	Collection of bulky refuse	(a, b)
KLM04/2019	Collection of mixed household waste	(a, b, c)
KLM05/2019	Cleaning and maintenance of soft areas	(a, b, c)
KLM06/2019	Upkeep and maintenance of footpaths and pedestrian street civil and ancillary work	(c)

- a) The evaluation committee was composed of a chairperson, two evaluators and the secretary.
- b) The council failed to send the letter of acceptance and letter to unsuccessful bidder.
- c) The council failed to obtain the performance guarantee of 4% within 15 days of contract date.

7.15 May we remind the council that the Procurement Guidelines 2017 state that the evaluation committee shall be composed of a chairperson, two evaluators, one technical specifically appointed as an evaluator and a secretary being the executive secretary. Also, Procurement Guidelines 2017 article 13 specifies that the letter to the successful and unsuccessful bidder shall be sent through ePPS. Furthermore, Procurement Policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for purchase above €500,000. Moreover, the General Conditions for Service Contracts V.2.0 state that the performance bond should be submitted to the council within 15 days of receipt of the contract.

Professional fees

7.16 We noted that the council incurred professional fees pertaining to the certification of fountain works and upgrading of the football pitch amounting to €1,328.95 and €1,350.83 respectively. The fountain works and the upgrade of the football pitch were capitalised. Thus, we have proposed an audit adjustment amounting to €2,679.78 to capitalise the amounts incurred for professional fees as these were directly in relation to the council's projects. Also, we have proposed an audit adjustment of €168.03 to account for the depreciation charge. The council has amended the financial statements to include our audit adjustment.

7.17 Furthermore the council has incurred an amount of €3,201.73 for the works on a new monument in Qormi road as well as professional fees amounting to €737.50 in relation to the works. We have proposed an audit adjustment to capitalise these amounts and to record the respective depreciation amounting to €161.50.

7.18 We recommend that the council assesses all the professional fees and establishes which of them shall be capitalised in accordance with IAS 16 *Property, Plant and Equipment* and which should be expensed. IAS 16 specifies that items of property plant and equipment should initially be recorded as cost. Cost includes all necessary costs incurred to bring the asset to the working condition for its intended use. The total cost would include site preparation, delivery, handling, installation and related professional fees for architects and engineers. This exercise will avoid the understatement of assets in the council's books.

Allocation of expenses

- 7.19 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €2,783.84 pertaining to 'cleaning and maintenance of parks and gardens' in the account 'cleaning and maintenance non-urban'. We have proposed an audit adjustment to reclassify the amount in the correct account.
- 7.20 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

Contracts manager

- 7.21 We noted that during the year under review the council did not issue a call for quotations/tender in accordance with the Procurement Guidelines 2017 to appoint a contract manager. This is not in line with Directive 03/2019.
- 7.22 Directive 03/2019 states that the council had to appoint a contract manager by 31 December 2019.

IFRS 16 'Leases' assessment

- 7.23 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €700 in the books of account. We noted that the council did not account this amount in accordance with IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 7.24 We recommend the council to perform IFRS 16 assessment to establish whether the council has to account for the rent expense in accordance with IFRS 16 accounting treatment.

8 Fixed assets

Fixed asset register

- 8.1 In accordance with circular 1/2020 the council must prepare a fixed asset register which reconciles with the nominal ledger. It was noted that the council keeps a fixed asset register on Excel workbooks and not on the council's accounting software. Therefore, the depreciation is being calculated using Excel.
- 8.2 We have also noted that the fixed asset register does not contain complete details such as reference numbers, invoice numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.
- 8.3 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Cost
 - Depreciation rate
 - Location of the asset
 - Grants received

- 8.4 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

Reconciliation of financial statements to fixed asset register

- 8.5 During our audit fieldwork we noted that the fixed asset register does not agree to the financial statements. The following is the discrepancy identified:

	NBV in fixed asset register	NBV in financial statements	Difference
	€	€	€
Urban improvements and construction	235,320	89,660	145,660
	235,320	89,660	145,660

- 8.6 In addition to the requirement in the regulations, the council is contravening circular 1/2020 which obliges councils to ensure that the fixed asset register agrees to the nominal ledger. To this end we reiterate our recommendation to the council to investigate the variance identified between asset category in the financial statements and the fixed asset register.

Tagging of fixed assets

- 8.7 We have noted that the council still does not tag fixed assets (where applicable) on its premises which is in contravention of the Local Councils (Financial) Procedures, 1996.
- 8.8 We recommend that the council tags its fixed assets (where applicable) thus enabling individual assets to be identified and their physical existence to be verified.

Depreciation of fixed assets

- 8.9 During fixed assets' testing procedures we noted that the council's depreciation charges for office, furniture and fittings as well as urban improvement and construction is overstated by €899. We did not propose an audit adjustment since depreciation is an estimated amount.
- 8.10 We would like to remind the council that computing depreciation manually is contrary to the Local Councils (Procedures) Regulations, 1996 and recommend the council rectifies the issue in the coming year by updating its fixed asset register on the council's accounting software.

9 Bank and cash

Bank reconciliation

- 9.1 Whilst reviewing the bank reconciliation for account 5002 we noted a stale cheque dated 17 July 2019 with cheque number 8650 amounting to €12,303.89. We confirmed that this cheque was not encashed after year end. Upon further enquiry to the council we were informed that this cheque was replaced by cheque 8864 on 15 January 2020 which was approved on schedule of payments 01/2020.

- 9.2 Furthermore, whilst testing the outstanding deposits from the bank reconciliation of account 5002 in the trial balance we noted two deposits amounting to €105.80 and €2,035.97. The council provided us with an adjustment to reverse the amount of €105.80 due to double posting. Also, the council provided us with another adjustment to reverse the amount of €2,035.97 as this was a reversal of a cheque which was erroneously posted as an outstanding deposit. The council has amended the financial statements to include our audit adjustments.
- 9.3 We recommend that the bank reconciliation is performed on a regular basis at least monthly to determine all errors and ensure that the book balance is correct. It is absolutely essential that the council keeps strong control over its cash and bank balances. The reconciliations should be checked to ensure that there are no 'stale' or cancelled cheques.

Cash count

- 9.4 As part of our audit procedures, we counted the cash of the council on 25 February 2020 and reconciled the amount counted back to cash in hand as at 31 December 2019. This procedure resulted in extra cash of €87.52.
- 9.5 In view of the discrepancy identified above, we recommend that the council performs cash counts on a regular basis and reconciles to the petty cash and cash till accounts. The Local Councils (Financial) Procedures, 1996 requires that the executive secretary establishes adequate controls over all cash held by the council.

10 Trade and other receivables

LES Receivables

- 10.1 According to report 622 generated from Loqus system, tribunal pending payments as at 31 December 2019 were €94,722. The council has not reflected this movement in its books of account, which are showing €94,867. When compared to the amount stated in the books of account this resulted into a difference of €145. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 10.2 We would like to remind you that it is the council's responsibility to investigate and reconcile the movements with Loqus.

Overdue receivables

- 10.3 We have again noted that the council has the following overdue receivables which have been provided for:

Debtor	€
Gozo Region Committee	58.22
Latina	500.00
Water Services Corporation	7,372.15
	<u>7,930.37</u>

- 10.4 We recommend that, although a provision has been made, the council should continue trying to obtain settlement from these debtors reminding them that the amounts have been long overdue.

- 10.5 We have again noted some long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Borg & Aquilina Ltd	206.27
Central Region Committee	13.88
LESA	2,251.29
LESA Regjun Centrali	47.66
LESA Regjun Nofsinhar	38.32
LESA Regjun Xlokk	20.95
North Region Committee	11.63
South Eastern Region	94.28
South Region Committee	64.06
Wasteserv Malta Ltd	16,120.00
	<u>18,868.34</u>

- 10.6 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due.

Confirmation of debtors

- 10.7 During our audit fieldwork we identified the following discrepancies between a third-party confirmation and the debtor's balance in the books of account, namely:

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
South East Regional Committee	94.28	112.90	(18.62)
LESA	2,684.24	1,032.01	1,652.23

The council failed to provide us with the reconciliations for the identified discrepancies.

- 10.8 We recommend the council to perform regular reconciliations with all debtors to promptly highlight any differences.

Other debtor

- 10.9 We again noted that the council's other debtors include an overdue balance receivable of €466 for an ARMS guarantee deposit which has been carried forward from previous years.
- 10.10 We advise the council to send reminders to the debtor regarding the long overdue amount. In the event that recoverability of this debtor remains doubtful, the council should also consider making a provision for doubtful debt in the books of account after obtaining approval in meeting.

11 Trade and other payables

Supplier statements

- 11.1 During the course of our audit we noted that the council did not manage to obtain monthly suppliers' statement for all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 11.2 We again recommend that the council obtains monthly statement from all suppliers in order to ensure proper recording of creditors in the council's ledger. This will highlight any discrepancies between amounts recorded in the ledger and amounts in the suppliers' statements.

Long-outstanding creditors

- 11.3 The council's creditors' list includes the following balances which have been outstanding for more than 180 days:

Creditor	€	Notes
ARMS	7.98	
Bryden Azzopardi	458.33	
Datatrek	29.19	
Department of information	9.32	
Dieter Falzon	59.00	
Enemalta Corporation	43.87	
Environmental Landscape Consortium	1,072.61	(11.5, 11.7)
F.Media Ltd	330.40	
Ghaqda Festi Esterni	715.00	
Karming Trading	17.35	
Leo Garage Paramount	189.80	
Regjun Xlokk	183.56	(11.7)
Serv Group	512.12	
Telemalta Corporation	19.10	
Waste Collection Limited	261.92	(11.7)
WasteServ Malta Ltd	78,468.09	
Water Services Corporation	503.54	
	82,881.18	

- 11.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.
- 11.5 During the year under review, the council provided us with an adjustment to reverse an invoice issued by Environmental Landscape Consortium amounting to €1,014.26. The council explained that this amount is to be credited since the tender had expired. Furthermore, we have also received a confirmation letter from the creditor that the balance is nil (refer to note 11.7). However, the adjustment provided by the council has not been passed since no supporting documentation was provided.
- 11.6 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and circular 1/2020 which state that councils should obtain monthly statements in order to reconcile balances with

the accounts. Furthermore, decisions and discussions regarding the balance should be minuted during the council meetings.

Confirmation of trade creditors

- 11.7 As part of our audit procedures we circularised confirmation requests to selected suppliers. We noted the following discrepancies:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Waste Collection Limited	6,555.12	6,293.20	261.92
Xlokk Region	183.56	-	183.56
Environmental Landscape Consortium	1,072.61	-	1,072.61

We did not propose an audit adjustment since the council did not provide us with a reconciliation of the identified discrepancies.

- 11.8 We remind the council that circular 1/2020 states the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any difference as soon as possible.

Trade creditors

- 11.9 We noted that the council erroneously classified the amount of €5,259.43 pertaining to refuse collection for the month of November 2019 in 'cleaning and maintenance non-urban' account rather than in 'refuse collection' account. Thus, we have proposed an audit adjustment to classify the expense in the correct account. Subsequently, we noted that the council recorded the invoice for refuse collection for the month of November 2019 amounting to €5,259.43 twice in the creditors against the expense. Thus, we have proposed another audit adjustment to reverse the double posting. The council has amended the financial statements to include our audit adjustments.
- 11.10 We recommend that the council allocates its expenditure to appropriate accounts so that the expenses of the council are properly reported. Furthermore, we recommend that the council ensures that an expenditure is recorded for when it is incurred so that expenses and liabilities are accounted for properly in the financial year.
- 11.11 Furthermore, we noted that the council recorded an amount of €8,358.13 pertaining to invoices from Karming Trading which were still outstanding as at year end. We noted that this amount includes the contracts manager fees amounting to €462.55. Subsequently, the council paid an amount of €7,895.58 by cheque 8877 dated 24 January 2020 which excluded contract manager fees. The council did not appoint a contract manager yet (refer to note 7.21). Thus, the creditors and expense accounts are being overstated by €462. We did not propose an audit adjustment as council has to decide whether this amount is still payable or not.
- 11.12 We recommend that the council records the amounts properly to avoid overstatement of creditors as well as expenses.

Unrecorded liabilities

- 11.13 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted an invoice from Bezzina Refuse Collection dated 3 January 2020 for €758.57 pertaining to bulky collection for December 2019. We have proposed an audit adjustment to record an accrual in this respect.
- 11.14 We recommend that the council ensures that expenditure is accounted for when it is incurred so that expenses and liabilities are accounted for in the proper financial year.

12 Meetings**Meeting minutes**

- 12.1 During the year under review we noted that for the period covering January to March 2019 the council approved prior meeting minutes, but it was not specifying which meeting minutes is being approved. However, we noted that the council has acknowledged our prior year recommendation regarding the meeting minutes since the council has specified the meeting minute being approved for the period covering April to December 2019.
- 12.2 We recommend that the council includes the meeting minute reference in the minutes to ensure that all minutes have been presented.

13 Schedules of payments

- 13.1 Whilst reviewing the schedules of payments we have noted that the council is approving invoices from Wasteserv Malta Limited. However, no cheques are being issued.
- 13.2 The council should not approve schedules of payments based on invoices received. The schedules of payments should be approved when the actual cheque payment is being made. Furthermore, in accordance with the Local Councils (Financial) Procedures, 1996, councils should prepare a schedule of payments for the council's approval. This schedule of payment should also include the type and method of payment being made.
- 13.3 We also noted that the council instructed the bank to stop payment of cheque 8277. Subsequently, the council issued a replacement cheque 8431. The council failed to approve the re-issued cheque in the schedules of payments.
- 13.4 Furthermore, we noted that the cheque 8491 was omitted from the schedules of payments.
- 13.5 The council did not include the cheque number in schedule of payments 01/2019 for the payment approved to Maria Arpa with description 're per diem' amounting to €400.
- 13.6 May we remind the council that the schedule of payments is compiled to approve all payments made by the council. All cheque numbers should be included in the schedule of payments to ensure proper approval. Memo 10/2016 provides the schedule of payments template. The cheque number is required by the same template. We also recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council.

- 13.7 Moreover we also noted that the council approved schedules of payments during meetings. However, the council did not specify which schedule of payments were approved in meeting minutes covering period from January till March.
- 13.8 We recommend that the council includes the schedule of payments reference in the minutes to ensure that all schedules have been presented and approved.

14 Uploading of documents

Electronic site

- 14.1 During our audit fieldwork we noted that the council was not uploading documents on time. The following are some examples:
- (a) The council failed to upload the quarterly financial reports for the period January to September 2019 within the stipulated time frame.
 - (b) To date of audit fieldwork, the council did not publish quarterly financial report for October to December 2019.
 - (c) The council failed to approve the quarterly financial report for October to December 2018 within the stipulated time frame. The report was only approved on 6 February 2019.
 - (d) To date of our audit fieldwork the council has failed to upload the management letter and reply to the management letter for 2018.
- 14.2 The council should ensure that minutes are uploaded on the council website within three days of approval as required by the Local Councils (Financial) Procedures, 1996. All other reports should be uploaded on the website within the stipulated timeframe.

Uploading of management letter and other documents

- 14.3 During our audit fieldwork we noted that the council did not upload the 2018 management letter in full in accordance with Circular 21/2019.
- 14.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 14.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

15 Contingent liabilities

- 15.1 Whilst reviewing meeting minutes 05/2019 we noted the council has a contingent liability of €22,509 with the beneficiary being C&F Building contractors. The council received a legal letter dated 20 August 2019 from C&F Building Contractors Limited, being the contractor that performed works on the council's building way back in 2014. The contractor is requesting an amount of €22,509 for the works carried out. However, the council of that time decided not to pay the contractor since the works were not carried out properly. We noted that in the meeting minutes 05/2019, the council decided to inform the architect to evaluate the works

which were carried out in 2014 and establish which amounts should be paid to the contractor. However, this was not disclosed in the unaudited financial statements (refer also to note 4.1). The council correctly disclosed contingent liabilities in the audited financial statements.

- 15.2 We recommend the council to disclose these contingent liabilities in the financial statements in accordance with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'.

16 Reports

Comparison with the annual budget

- 16.1 We noted that the expenditure incurred in 2019 exceeded the budgeted amounts as follows:

	Budget €	Actual €	Difference €
Expenses			
Personal emoluments	90,389	115,512	(25,123)
Operations, maintenance and administration	539,330	631,070	(91,740)

- 16.2 We recommend that the council compares budgeted figures to actual figures at least on a quarterly basis to ensure expenditure is in line with budgeted amounts. The council should apply due care and diligence when compiling the budget figures as required by the Financial Regulations.

17 Liquidity position

Going concern

- 17.1 The council has a negative liquidity position of €713. Although this is a small amount, we recommend that the council should keep the position under constant monitoring so that it will improve the liquidity position as required in the Financial Procedures 1996 including prioritising expenditures and reduce recurring and capital expenditure.

Financial Situations Indicator

- 17.2 The council's Financial Situations Indicator (FSI) at the end of the financial year under review is less than the minimum positive balance of ten per cent of the annual Government allocation.
- 17.3 The executive secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the executive secretary must immediately notify the Director when the FSI falls below ten per cent and explain the actions that are to be taken by the council to remedy the situation.