

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.grantthornton.com.mt

Our ref MB/mf/107621

25 August 2021

Dear Sir,



Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 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 notes 4.1 and 4.3).

1.4 Other government income

We are pleased to inform that the council has recorded the amount received from the Department for Local Government pertaining to the Wasteserv tipping fees in Supplementary Government income.

1.5 Income from LES System

We again noted a discrepancy between the Loqus report 483 and council's calculation of income from LES administration fees (refer to note 5.11).

1.6 Income from LESA

We are pleased to note that all invoices were sent to LESA within the first week of the following month.

- 1.7 **Organic waste collection agreement**
We are pleased to note that the council has rectified the issue during the year under review.
- 1.8 **Councillors' allowances**
We again identified shortcomings in councillors' allowances (refer to note 6.1).
- 1.9 **Wages reconciliation**
We again noted a shortcoming in the wages reconciliation (refer to note 6.3).
- 1.10 **Mayor's honorarium**
We are pleased to note that the Mayor honoraria agrees to circulars issued by the Department.
- 1.11 **Petty cash expenditure**
The council included the nominal account in petty cash lists.
- 1.12 **Procurement procedures**
We again identified an instance where the procurement procedures were not followed (refer to note 7.5).
- 1.13 **Insurance policy**
The council's assets are still not appropriately insured (refer to note 7.9).
- 1.14 **Personal accident insurance**
The insurance is still extended to worldwide coverage instead of limited to Maltese territories (refer to note 7.14).
- 1.15 **Expired contracts**
During the year under review the council kept on using expired contracts (refer to note 7.16).
- 1.16 **Tendering procedures**
We have again noted shortcomings in the tendering procedures (refer to note 7.20).
- 1.17 **Professional fees**
We did not note any professional fees which had to be capitalised during the current year.
- 1.18 **Allocation of expenses**
We again noted that the council is not allocating expenses in the correct nominal account (refer to note 7.22).
- 1.19 **Contracts manager**
To date of the fieldwork the council failed to appoint a contract manager (refer to note 7.30).

1.20 **IFRS 16 'Leases' assessment**

The council failed to provide an assessment of leases in accordance with IFRS 16 (refer to note 7.32).

1.21 **Fixed asset register**

The council failed to provide us with a copy of the fixed asset register during the current year (refer to note 8.1).

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

The council failed to provide us with the fixed asset register during the current year thus this testing could be performed.

1.23 **Tagging of fixed assets**

The council's fixed assets are still not tagged as required by the Procedures (refer to note 8.5).

1.24 **Depreciation of fixed assets**

The council failed to provide us with the fixed asset register and depreciation workings (refer to note 8.7)

1.25 **Bank reconciliation**

We again encountered a difference in the bank reconciliation (refer to note 9.1).

1.26 **Cash count**

The council's cash in hand did not agree to the amount presented in the books of account (refer to note 9.3).

1.27 **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).

1.28 **Overdue receivables**

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

1.29 **Confirmation of debtors**

We did not encounter any difference between debtors in the books of account and confirmation replies received.

1.30 **Other debtor**

The books of account still include the guarantee deposit given in favour of ARMS limited (refer to note 10.7).

1.31 **Supplier statements**

The council is not obtaining suppliers' statements as at or near year end (refer to note 11.3).

1.32 **Long-outstanding creditors**

The council did not rectify the issue during the year under review (refer to note 11.5).

1.33 **Confirmation of creditors**

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

1.34 **Unrecorded liabilities**

We again identified irregularities in unrecorded liabilities (refer to note 11.7).

1.35 **Meeting Minutes**

We are pleased to note that the council has rectified the issue during the year.

1.36 **Schedules of payments**

The council did not rectify the issues during the year under review (refer to note 12.1).

1.37 **Electronic site**

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

1.38 **Uploading of documents**

During the year we noted that the council uploaded the management letter in accordance with Circular 21/2019. The council failed to abide with the GDPR regulations (refer to note 14.3).

1.39 **Contingent liabilities**

We again noted that the council failed to include all contingent liabilities (refer to note 16.1).

1.40 **Comparison with the annual budget**

The council failed to address the issue (refer to note 17.1).

1.41 **Going concern**

We are pleased to note that the council has rectified the issue during the current year.

1.42 **Financial Situations Indicator**

We noted that the FSI is more than 10%.

2 Accounting function

2.1 The unaudited financial statements showed a loss of €38,308 which, after our proposed audit adjustments, the council had a profit of €27,359.

2.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2021 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 1/2021 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 We again noted that the council was posting various expense invoices and income receipts in the wrong nominal account and then reclassifying them in the correct account. Some reclassifications did not include the full details of the invoices being reclassified. This was noted mainly in the following accounts: roads and street pavements, other repairs and upkeep, refuse collection, cleaning and maintenance of non-urban areas, urban improvements and general income.
- 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 2020.
 - ii. The council failed to include the accounting policy in relation to IFRS 16 'Leases'.
 - iii. The council did not differentiate between financial assets and non-financial assets in note 16.
 - iv. The council failed to disclose all contingent liabilities (refer to note 16.1).
- 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 amount for the interest on third party loan in the Statement of comprehensive income of 2019 does not agree to the audited financial statements for 2019.

- ii. The amounts in the unaudited financial statements of ‘income raised under Local Enforcement System’ and ‘other Government income’ do not agree with the books of account. The council passed a reclassification of €3,758 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.
- iii. The amounts in the unaudited financial statements of ‘income raised under byelaws’ and ‘income from permits’ did not agree with the books of account. The council passed a reclassification of €396 between the two income categories in the unaudited financial statements. No audit adjustment was proposed as this was reclassified in the wrong account.
- iv. Grants amount noted in the ‘*Property, plant and equipment*’ schedule for 2020 does not cast.
- v. Note 17, Borrowings note does not cast.
- vi. Note 20, liquidity risk for 2020, amounts do not agree to note 16 ‘payables’.
- vii. 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 vii in the audited financial statements.

4.5 We recommend that the council gives more attention to the preparation of the financial statements.

5 Income

Government income

5.1 During 2020, the council received an amount of €788 from ‘adjustment fund for decrease in allocation from 2019’. The council has included this amount with the annual allocation. We have proposed an audit adjustment to reclassify this amount to other Government income. The council has amended the financial statements to include our audit adjustment.

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

Supplementary Government income

5.3 In 2020, the council received €87,583.76 from the Department for Local Government for Wasteserv tipping fees. The council failed to record this transaction. To this end, we have proposed an audit adjustment to record this amount as supplementary Government income. The adjustment was correctly included in the audited financial statements.

5.4 We recommend that the council records such amounts when they have been approved for payment and are certain to be received.

Other Government income

5.5 During the year under review the council included an amount of €3,200 with other Government income in relation to the ‘LC Care Project Grant Support Scheme 2020’. The council confirmed that the expenses for this scheme will be incurred in 2021. To this end, we have proposed an audit adjustment amounting to €3,200 to record it as deferred income. This was approved by the council and incorporated in the financial statements.

- 5.6 We recommend that the council records income in the correct period as required by IFRS.

General income

- 5.7 During our testing, we noted that receipts for general income were not deposited regularly. Examples include the following:

Details	Receipt date	Receipt number	Deposit date	Deposited in bank	€
Skip permit	20.01.2020	1730	21.01.2020	27.01.2020	8.12
High up permit	12.03.2020	1838	16.03.2020	23.03.2020	15.00
Crane permit	03.04.2020	1865	23.04.2020	24.04.2020	15.00
Crane permit	08.05.020	1929	09.06.2020	24.06.2020	15.00
Lifter permit	01.06.2020	1974	09.06.2020	24.06.2020	10.00
Crane permit	08.07.2020	2056	28.07.2020	29.07.2020	15.00
Crane permit	18.08.2020	2155	21.08.2020	24.08.2020	30.00
Crane permit	14.09.2020	2227	18.09.2020	22.09.2020	30.00
Crane permit	23.10.2020	2340	29.10.2020	30.10.2020	30.00
Crane permit	11.11.2020	2404	13.11.2020	17.11.2020	15.00
Crane permit	09.12.2020	2488	17.12.2020	21.12.2020	15.00

- 5.8 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the Procedures. We recommend that the council adheres to the Financial Procedures and ensures all receipts are deposited at least twice weekly.

Custodial receipts

- 5.9 The council did not deposit custodial receipts on a regular basis. Some instances encountered during the audit are the following:

Description	Receipt number	Receipt date	Deposit date	€
Land Department	911598	24.01.2020	30.01.2020	35.52
Land Department	914334	14.02.2020	21.02.2020	26.79
Land Department	930720	15.07.2020	28.07.2020	164
Land Department	935758	03.08.2020	21.08.2020	112.50
Land Department	954798	29.09.2020	16.10.2020	236.25
Land Department	962309	30.10.2020	09.11.2020	34.35
Land Department	966212	07.12.2020	30.12.2020	6.99
LES receipts	4502208	06.04.2020	23.04.2020	11.65
LES receipts	4532703	13.06.2020	18.06.2020	116.47
LES receipts	4549988	09.07.2020	28.07.2020	69.65
LES receipts	4641457	30.10.2020	09.11.2020	34.94
LES receipts	4675465	05.12.2020	17.12.2020	23.29

- 5.10 We recommend that the council abides by the Local Council (Financial) Procedures and deposits its receipts twice a week to avoid retaining cash on the council premises.

Income from LES system

- 5.11 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 overstated by €264. We were not provided with an explanation for this difference and therefore no adjustment was proposed.
- 5.12 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

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.

Reconciliation of wages between FS5s and books of accounts

- 6.3 During the audit we noted a discrepancy of €110.96 between the wages account and personal emoluments found in the FS5 forms sent to the Commissioner for Revenue (see appendix 1).
- 6.4 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

Reconciliation between FS7 and FS5s

- 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 in FS7 €	Difference €
Gross wages full-time	84,009	116,596	(32,587)
Gross wages part time	32,592	-	32,592
FSS full-time	8,719	14,246	(5,527)
FSS part-time	5,527	-	5,527
Total	130,847	130,842	(5)

- 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.

Councillors' excuse letters

- 6.7 When reviewing the excuse letters presented by council members, we noted that in meeting 10 and 16 a councillor did not present a formal excuse letter.
- 6.8 We recommend that the council obtains written letters of excuse. Following discussion as to acceptance or otherwise, letters should be attached to the minutes.

We remind the council that memos and circulars state that a valid reason should be presented in writing to the council.

7 Expenditure

Petty cash expenditure

- 7.1 We have noted that some cash payments are not supported by an appropriate authorised petty cash voucher identifying the items being purchased. Details are only included in the monthly summary petty cash expenditure. Examples include:

Details	Supplier	Date	€	Note
Electrical supplies	Iper Shop	07.01.2020	36.00	a
WC net, garbage bags	Eddie Store	15.07.2020	7.06	b
Supplies for fountain	United Ironmongery	06.11.2020	5.47	b

- (a) The council prepared a petty cash voucher as receipt was not itemised. We noted that the council failed to include the list of items being purchased and their respective cost.
- (b) The council prepared the petty cash voucher with items purchased but failed to include the individual cost.

- 7.2 We recommend the council fills in a petty cash voucher in accordance with Directive 3/2017 and LN 269 of 2017. The petty cash voucher should include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchaser and the executive secretary.

- 7.3 During our audit fieldwork we were not provided with the tax invoice, fiscal or VAT receipt in respect of the below:

Details	€
Springfields – disinfectant spray, kitchen roll and coffee	18.00

- 7.4 We remind the council that in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by tax invoice/fiscal receipt.

Procurement procedures

- 7.5 Our testing on cheque payments revealed instances where purchases were not supported by quotations in accordance with the Procurement Guidelines 2017. The following are examples:

Details	Supplier	Amount €
Hiring of chairs Christmas party	Silvio Grech	120.00
Powerwash	Alex Water Transport	1,014.80
Refuse bins and cleaning utensils	ABBS Limited	514.30
10 bowsers for cleaning roads	Alex Water Transport	1,475.00
Maintenance works	Mario Mallia	2,163.69

- 7.6 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.

- 7.7 Whilst reviewing the schedule of payments we noted instances where the nominal account included in the schedule of payments does not agree with the actual account used when inputting the invoice in the books of account.

Details	Supplier	Amount €	Note
Refuse bins and cleaning utensils	ABBS Limited	514.30	(a)
CCTV camera support	APCO Limited	488.52	(b)

- (a) Nominal account included in the schedule of payment was 2210 and invoice was recorded in account 2220.
- (b) Nominal account included in the schedule of payment was 4541 and invoice was recorded in account 3690.

- 7.8 We remind the council to ensure that all invoices are allocated in the correct account and to update the schedule of payments based on the nominal account used when inputting invoices in the books of account.

Insurance policy

- 7.9 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	310,236
Plant and machinery	64,021	-
Other trade contents	175,933	83,665
Electronic equipment	21,000	3,908
Glass – loss limit	5,000	-
	595,166	397,809

- 7.10 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.
- 7.11 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.
- 7.12 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 €116,601. To this end, the council is under insured.

- 7.13 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

- 7.14 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.
- 7.15 We recommend that the council updates the insurance policy accordingly and limits coverage to the Maltese islands.

Expired contracts

- 7.16 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	(b)
KLM04/15	Cleaning and maintenance of public gardens using environmentally friendly products and practices	31.10.2018	(c)
KLM06/19	Upkeep and maintenance of footpaths and pedestrian str, civil and ancillary works	09.06.2019	(d)

- a) We noted that the council has issued a new tender in 2020. The tender was evaluated, and council has selected the bidder. However due to an appeal taken in court the council could not sign the agreement and start utilising the new tender.
- b) To date of the audit fieldwork the council did not issue a new tender thus it kept on using services from the same supplier under the old terms and conditions.
- c) In 2019, the council issued another tender which commenced on 7 November 2020.
- d) We noted that the council obtained services from the supplier after expiry date. In 2019, the council issued another tender which commenced on 23 October 2020.
- 7.17 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.

Extensions to contract agreements

- 7.18 During the year under review the council obtained an extension of one year for the tender of street lighting in the locality of Marsa. We noted that the extension agreement was only signed by the mayor and contractor. The executive secretary failed to signed the extension agreement.

- 7.19 It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

Tendering procedures

- 7.20 We noted the following shortcomings in the tendering procedures:

Tender no.	Details	Notes
KLM06/2019	Upkeep and maintenance of footpaths and pedestrian street civil and ancillary work	(a)
KLM02/2020	Tender for the embellishment of Belveder Garden	(b)

- a) The council failed to obtain the performance guarantee of 4% within 15 days of contract date.
- b) Letter of successful bidder was sent on 28 September 2020. To date of the audit fieldwork the council failed to sign an agreement with the supplier and obtain a performance guarantee. Furthermore, we noted that the letter to the successful bidder was not sent through ePPS.
- 7.21 May we remind the council that the 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.

Asset additions included with expenses

- 7.22 We noted that the council expensed the irrigation system amounting to €7,920. We also noted that the water pump for the same system was included with fixed asset additions. We have proposed an audit adjustment amounting to €7,920 to capitalise the amounts incurred. Also, we have proposed an audit adjustment of €28 to account for the depreciation charge. The audited financial statements of the council reflect this adjustment.
- 7.23 The council received a grant from the Department for Local Government with respect to the Irrigation system. In 2020 the council released an amount of €7,640.19 to profit and loss for the year. We have proposed an audit adjustment to include the release of grant in the *'Property, plant and equipment'* schedule. The council has included this adjustment in the final set of financial statements.
- 7.24 Furthermore the council incurred an amount of €4,690.50 for an online payment system purchased during the year under review. The council has expensed the system rather than capitalise it. We have proposed an audit adjustment to capitalise the software. Furthermore, no depreciation was taken on the asset as this was not in use as at year end. The audited financial statements of the council reflect our proposed audit adjustment.
- 7.25 We recommend that the council assesses and establishes which cost 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

- 7.26 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €1,088.25 pertaining to 'street signs' in the account 'road markings'. We have proposed an audit adjustment to reclassify the amount in the correct account. The adjustment was correctly included in the audited financial statements.
- 7.27 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.
- 7.28 We noted that the council erroneously classified the amount of €4,071.94 pertaining to refuse collection 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. The council has amended the financial statements to include our audit adjustment.
- 7.29 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.

Contracts manager

- 7.30 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.
- 7.31 Directive 03/2019 states that the council had to appoint a contract manager by 31 December 2019.

IFRS 16 'Leases' assessment

- 7.32 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.
- 7.33 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 During our audit fieldwork we were not presented with a fixed asset register. In prior year, the council had provided a fixed asset register in excel.

- 8.2 In addition to the requirement in the Regulations, the council is contravening circular 1/2021 which obliges councils to ensure that the fixed asset register agrees to the nominal ledger.
- 8.3 The fixed asset register should at least include the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code
 - Cost
 - Depreciation method and rate
 - Location of the asset
- 8.4 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

Tagging of fixed assets

- 8.5 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.
- 8.6 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

- 8.7 During our fixed assets' testing procedures we were not provided with the fixed asset register and therefore we could not perform any audit procedures in relation to the depreciation of fixed assets.
- 8.8 We would like to remind the council that according to the Local Councils (Procedures) Regulations, 1996, the council should update its fixed asset register on the council's accounting software and compute the depreciation charge accordingly.

9 Bank and cash

Bank reconciliation

- 9.1 The books of account show that BOV account 14102713016 has a book balance of €197,398.16. The bank statement included a balance of €210,825.06, thus the difference between the books and bank statements resulted to €13,426.90. The council provided us with a list of outstanding deposits of €2,827.48 and a list of unrepresented cheques of €16,207.18. However failed to reconciled the remaining difference of €47.20.
- 9.2 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

- 9.3 As part of our audit procedures, we counted the cash of the council on 25 May 2021 and reconciled the amount counted back to cash in hand as at 31 December 2020. This procedure resulted in extra cash of €89.05. We further noted that this difference has been coming forward for a number of years and never resolved.
- 9.4 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.

Bank accounts

- 9.5 When performing bank audit procedures we noted that the council has bank account 40021892257 amounting to €0.99. This account was is not included in the council's books of accounts
- 9.6 We recommend that the council includes all bank accounts which are legally held by the local council. No adjustments were proposed as the balances on the above mentioned accounts are immaterial.

'LC other entities' bank account

- 9.7 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfer of the amounts due to entities such as LESA and Lands Department. The council was transferring amounts to the respective parties from their bank account.
- 9.8 We recommend that the council opens a new account and adopt the new system to be in line with the Directive 05/2020.

10 Trade and other receivables

LES Receivables

- 10.1 According to report 622 generated from Loqus system, tribunal pending payments as at 31 December 2020 were €94,652. 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 €215. 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	26.76
LESA Regjun Nofsinhar	38.32
LESA Regjun Xlokk	62.19
North Region Committee	11.63
South Region Committee	64.06
Valentino Bros	70.00
Wasteserv Malta Ltd	43,003.76
	<u>45,748.16</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.

Other debtor

- 10.7 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.
- 10.8 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

Trade payables' reconciliation

- 11.1 According to the council's creditors' list as at 31 December 2020, trade payables amount to €296,527. The balance disclosed in the trial balance as trade payables amounts to €298,516, that is a difference of €1,989. Upon enquiry to the council we noted that the difference was due to the adjustments passed by the council when concluding the unaudited financial statements. The adjustments were mainly the reversal of the Bezzina Refuse Collection amount of €2,035.97 against the waste disposal account and accounting of J2 Group invoice of €47.20 against the IT account.
- 11.2 We recommend that the council reconciles the creditors' list with the creditors' control account. According to the Local Councils (Financial) Procedures, 1996, records and ledgers should be reconciled at least monthly. Furthermore, the council must ensure that the financial statements agree to the trial balance prior to signing.

Supplier statements

- 11.3 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.
- 11.4 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

- 11.5 The council's creditors' list includes the following balances which have been outstanding for more than 365 days:

Creditor	€
ARMS	113.62
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
F.Media Ltd	330.40
Ghaqda Festi Esterni	715.00
Irvine Desira	50.00
J,F Mallia	2.44
Karming Trading	479.90
Leo Garage Paramount	189.80
Regjun Xlokk	183.56
Serv Group	512.12
Telemalta Corporation	19.10
Waste Collection Limited	261.92
WasteServ Malta Ltd	99,313.24
Water Services Corporation	503.54
	104,346.96

- 11.6 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.

Unrecorded liabilities

- 11.7 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted two legal disputes which were lost by the council. Upon further enquiry we were informed that the case of C & F Contractors Limited has been coming forward from 2014. In 2021 both parties entered into a settlement agreement of €16,651.55. Furthermore, we also noted that another payment was made to Untours limited of €7,008.16 for a legal dispute made in court which was sentenced against the council. We have proposed an audit adjustment to record an accrual for both amounts as these were previously not recorded. The audited financial statements of the council reflect this adjustment.

- 11.8 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 Schedules of payments

- 12.1 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.
- 12.2 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.
- 12.3 We also noted that the council cancelled cheques 8987, 9121 and 9044. Subsequently, the council issued a replacement cheque 9078, 9121 and 9024. The council failed to approve the re-issued cheque in the schedules of payments.
- 12.4 Furthermore, we noted that cheque 9081 was omitted from the schedules of payments. During our audit fieldwork we noted that the cheque is still at the council.
- 12.5 We further noted that in schedule 03/2020 the council approved cheque 8984 to Project Lazarus Malta. Upon reviewing cheque stubs we noted that this cheque was cancelled.
- 12.6 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 Annual administrative report

- 13.1 The council failed to prepare the annual administrative report for 2019. This report is prepared as a summary of the council performance, operations and achievements for the above mentioned period.
- 13.2 In accordance with the Local Councils (Financial) Regulations an administrative report must be compiled under the direction of the mayor, councillors and the executive secretary and should be approved by 31 July of the following year.

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 December 2020 within the stipulated time frame.
 - (b) To date of the audit fieldwork the council failed to upload the annual budgets for 2020 and 2021.
 - (c) The council failed to upload the audited financial statements for 2019, management letter and reply to the management for 2019 within the stipulated time frame.
 - (d) We also noted that the Business Plan 2020 – 2024 is still not uploaded on council website.
 - (e) To date of the management letter meeting minute 13 is still not uploaded on council website. The council has erroneously uploaded the agenda.
- 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 uploaded the 2019 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 Capital commitments

- 15.1 When reviewing the Budget 2021 we noted that the council included an amount of €27,000 as capital commitments in the projected property, plant and equipment schedule and cash flow budget. However, no capital commitments were disclosed in 18 'Capital Commitments' of the unaudited financial statements.
- 15.2 We recommend that the financial statements should adequately disclose the committee's future capital expenditure plans, if any, as agreed to the budget and business plan. Where appropriate it is advisable to explain how such capital expenditure is to be funded.

16 Contingent liabilities

- 16.1 Whilst reviewing meeting minutes 23/2020 we noted the council has a contingent liability of €6,000 with the beneficiary being Untours Insurance Agents. The council had a legal case dating back to 2014. We further noted that the final sentence was decided against the council and the council had to pay the sum of €7,008.16. This was not disclosed in the unaudited financial statements (refer to note 11.7).
- 16.2 We recommend the council to disclose these contingent liabilities in the financial statements in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

17 Reports

Comparison with the annual budget

- 17.1 We noted that the expenditure incurred in 2020 exceeded the budgeted amounts as follows:

	Budget €	Actual €	Difference €
Expenses			
Personal emoluments	117,089	124,339	(7,250)
Operations, maintenance and administration	506,212	421,381	84,831
Administrative and other expenses	127,264	223,190	(95,926)

- 17.2 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.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr Edward Spiteri Audibert and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Marsa Local Council Wages Reconciliation

Appendix 1

As per FS5's

Month	Gross (€)	SSC (€)
January	12,016.00	1,109.44
February	9,098.00	1,109.44
March	9,491.00	1,386.80
April	9,098.00	1,109.44
May	9,098.00	1,109.44
June	9,562.00	1,386.80
July	9,110.00	1,109.44
August	9,110.00	1,386.80
September	9,504.00	1,109.44
October	9,110.00	1,109.44
November	9,110.00	1,386.80
December	12,294.00	1,109.44
	<u>116,601.00</u>	<u>14,422.72</u>
add 1/2 of total NI	7,211.36	
Total	<u><u>123,812.36</u></u>	

As per FS7

Gross Salary	116,596.00
add 1/2 of total NI	7,211.36
Total	<u><u>123,807.36</u></u>

As per Accounts

Account No. & Name	Amount (€)
1100 Mayor's allowance	15,027.00
1200 Employees	49,739.30
1201 Executive Secretary	34,445.62
1500 Social Security Cont	7,326.64
1600 Allowances	17,800.00
	<u>124,338.56</u>
Add opening accruals	2,834.86
Less closing accruals	-3,250.10
	<u><u>123,923.32</u></u>
Difference	<u><u>-110.96</u></u>