



Grant Thornton

An instinct for growth™

The Mayor
Fgura Local Council
126/128, Kunsill Lokali il-Fgura,
Triq Hompesch
Fgura

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/41220

20 May 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 Income

We again encountered instances where income was not classified correctly (refer to notes 2.1 and 2.3).

We again identified discrepancies in LES administration fees (refer to note 2.5)

1.2 Fixed assets

We again identified discrepancies between the fixed asset register and accounting records (refer to note 3.1)

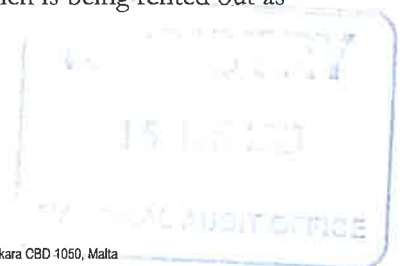
We again noted that the fixed asset register does not include all the details (refer to note 3.4).

We are pleased to note that we did not identify any irregularities in the fixed asset additions.

We did not identify additions netted off with grants.

We did not identify shortcomings in amounts shown as 'Assets under construction'.

The council failed once again to show the property which is being rented out as Investment property (refer to note 3.5)



1.3 Trade receivables

The council once again failed to reconcile the amounts shown in report 622 to those shown in report 483 (refer to note 4.1).

We did not identify any discrepancies between the books of account and trade receivable confirmations.

We are pleased to note that we did not encounter any shortcomings in prepayments.

We did not encounter any shortcomings in accrued income.

The council is still not insuring his assets appropriately (refer to note 4.7).

We did not encounter any shortcomings in the personal group accident insurance policy.

1.4 Trade payables

The council still did not resolve the matter of long outstanding creditors (refer to note 5.1).

The council is still not obtaining all suppliers' statements (refer to note 5.3).

We are pleased to note that we did not identify discrepancies between the books of account and the creditor confirmations.

1.5 Meetings

We again identified councillors that failed to attend more than one third of the meetings called (refer to note 6.1)

We are pleased to note that we did not identify cheques which were omitted from the schedules of payments.

1.6 Financial statements

We found shortcomings in the financial statements' disclosures required by certain accounting standards (refer to note 7.1).

1.7 Electronic site

We again identified shortcomings in uploading of documents on the council's electronic site (refer to note 8.1 and 8.3)

2 Income

Other Government income

2.1 The council has classified the receipt of €35,496 from Wasteserv Malta Limited, with respect to organic waste collections, as general income. We proposed an audit adjustment to reclassify this amount to other Government income. This has been correctly incorporated in the audited financial statements.

2.2 We recommend that 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.



Income from rental of civic centre

- 2.3 The council has classified the receipt of €26,000 from the Foundation for Social Welfare Services, with respect to the rental of the second floor of the civic centre, in a separate account in general income. No audit adjustment was proposed in this regard as the council has taken note of prior year’s management letter and accounted for this in a separate account. However, the council is grouping this account with General Income rather than with funds received from Government.
- 2.4 We reiterate our recommendation that the council discloses all income received from Government entities which is not part of the annual allocation as other Government income.

LES administration fees

- 2.5 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the figure in the financial statements. We found that the amount in the books of accounts is overstated by €1,427. We did not propose an audit adjustment to correct this misstatement since no explanation was forthcoming for the difference.
- 2.6 We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.

General income

- 2.7 We came across numerous instances where the council failed to deposit receipts on a timely basis. The following are examples which we encountered during the audit:

Description	Receipt number	Receipt date	Deposit date	€
Permit	21506	17.05.2019	22.05.2019	15.00
Permit	22052	12.11.2019	22.11.2019	10.00

- 2.8 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

3 Fixed assets

Reconciliation of fixed asset register with accounting records

- 3.1 We identified differences between the net book value of certain assets in the fixed assets register and the net book value of the respective category in the accounting records. These are summarised below:

Asset category	NBV in fixed asset register €	NBV in unaudited accounting record €	Difference €
Construction works	159,739	148,876	10,863
Urban improvements	102,488	113,349	(10,861)
Office equipment	3,019	6,029	(3,010)
Plant and machinery	8,104	76	8,028
Acquisition of property	-	465,711	(465,711)
	273,350	734,041	(460,691)

- 3.2 We recommend that the council investigates these variances and updates the fixed assets register and/or accounting records accordingly.

Details of fixed asset register

- 3.3 The fixed asset register does not include important information such as suppliers' details, invoice number and location of assets. Although we appreciate that the council's accounting system allows the fixed asset register to be issued in various formats, the council is still unable to furnish a single fixed asset register report showing all necessary details.
- 3.4 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

Investment property

- 3.5 Once again, we noted that the second floor of the civic centre is being rented out to the Foundation for Social Welfare Services which operates as an independent entity. Consequently, that part of the civic centre being rented out should be classified as investment property and falls under the provisions of IAS 40 'Investment Property'. No audit adjustment was proposed since we were not provided with the cost of the second floor. Our audit report has been modified to include the failure to adopt the requirements of IAS 40.
- 3.6 We reiterate our recommendation that the council confirms the cost of the floor which is being rented out with the architect. This should include any equipment and other capitalised costs in relation to this floor.



4 Trade receivables

Pre-regional LES debtors

4.1 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in report 622 was €4,943.73 which contrasts with the amount of €69.95 shown in report 483 for pre-regional contraventions paid during the year.

4.2 We recommend the council takes the matter up with Loqus to determine what this difference relates to.

4.3 We also recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.

Long outstanding receivables

4.4 Included with trade debtors are the following amounts which have been outstanding for more than one year:

Debtor	€
Chris Ellul	58.71
CieloMed Enterprises Ltd	57.60
Darren Marmara	1,589.35
Foundation for Social Welfare Services	811.00
Noel Mercieca	262.30
Regjun Xlokk	119.78
Water Services Corporation	28,841.13
	<u>31,739.87</u>

4.5 From the list mentioned in note 4.4 , we would like to point out that the balances due from Chris Ellul and Darren Marmara are fully provided for, whilst the balances due from Noel Mercieca and Water Services Corporation are partially provided for. From the balance due from Noel Mercieca, the amount of €203.59 is provided for whilst €21,931.02 is provided for out of the total balance due from Water Services Corporation.

4.6 We recommend that the council follows up on these outstanding debtors for payment and ensures that all amounts are received.

Asset insurance policy

4.7 During our audit we identified the below discrepancies between the asset insurance cover and the NBV as presented in the 2018 signed financials.

Asset	Sum insured	NBV in
	€	2018 signed
		financials
		€
Buildings	1,065,000	820,407
Office furniture and fittings	151,310	7,753
Office equipment	30,159	6,082
Plant and machinery	1,685	196
	<u>1,248,154</u>	<u>834,438</u>



- 4.8 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.
- 4.9 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 (2018) financial statements. However, since last year a significant number of assets had a nil net book value (because of the change in depreciation) we recommend that the insurance at least covers the replacement value for assets.

5 Trade payables

Long outstanding creditors

- 5.1 Whilst scanning the aged list of creditors we noted that the following creditors are still long outstanding:
- i. An amount of €3,717.00 due to Waste Collection Services Limited.
 - ii. An amount of €3,691.76 due to Neville Montebello which has been in dispute since 2014. No compromise has been reached yet between the supplier and the council.
 - iii. An amount of €12,518.08 due to the council's architect which is also in dispute. No agreement has yet been reached about the amount and hence the council is not paying the creditor.
- 5.2 We advise the council to consider these creditors and, either settle them, or if they are no longer due, write them off after careful consideration and approval by the council.

Trade creditors

- 5.3 We have again noted that the council failed to obtain monthly statements from all suppliers. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.
- 5.4 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. The council should regularly agree creditor accounts to supplier statements and investigate and reconcile any differences.

Accrued expenditure

- 5.5 Our testing on accruals revealed that the council's provisions for expenses in relation to plant and machinery expenses in connection with the Civic Centre were understated by €5,779. We have proposed an audit adjustment to correct the accrual balance as at year end. This has been correctly incorporated in the audited financial statements.
- 5.6 The council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting. This ensures that the results for the year are presented fairly.



Deferred Income

- 5.7 During our testing of deferred income, we noted that the council received the amount of €2,890 in relation to the Library Scheme. However, the council subsequently decided not to do the project for which the money was received and therefore will return the money received. An audit adjustment was proposed to show this amount as other payables. This has been correctly incorporated in the audited financial statements.
- 5.8 We recommend that the council keeps up to date with all grants received to make sure that the capital approach for grants is adhered to.
- 5.9 Included in deferred income was also the amount of €9,607 which the council received for the Irrigation scheme. Given the nature of the grant, such amount should not be considered as deferred income but advance payment. An audit adjustment amounting to €9,607 was proposed to show the grant as advance payment until the items are purchased. This has been correctly incorporated in the audited financial statements.
- 5.10 We recommend the council makes a distinction between deferred income and advance payments. The latter relates to amounts received in relation to future purchases whilst deferred income pertains to income received for which the council has not yet earned.

6 Meetings

- 6.1 Whilst viewing the council meetings, it was noted that four councillors failed to attend more than one-third of the meetings called.
- 6.2 The Local Councils Act stipulates that the Minister should have been informed of the absence and, if due to a justifiable cause, transmit its recommendation not to declare the seats vacant.

7 Financial statements

Presentation of financial statements

- 7.1 We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The council's financial statements diverge from this requirement in the instances noted below:
- i. In note 2 'Accounting Policies and reporting Procedures', the council is stating that they have adopted IFRS 9 in 2019 when this was adopted in prior year. Also, IFRS 16, which is applicable for period starting 1 January 2019 is mentioned that this is not yet effective.
 - ii. In the accounting policies and procedures, depreciation rates listed are not correctly reflecting the depreciation rates used in the books of account.
 - iii. In the accounting policies and procedures, the description for leases is not correct as the council should now have adopted IFRS 16.



- iv. Included in note 18 'Borrowings', the council is stating that the loans are guaranteed by the Central Government. Upon reviewing the agreement, we noted that the Government only gave the approval for the loan to be issued but in no part of the agreement is the Government guaranteeing the loan amounts taken by the council.

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

8 Electronic site

8.1 We noted that the council failed to upload the quarterly report January to December 2019 within the required time frame and it also failed to upload the annual administrative report.

8.2 We recommend that the council uploads all pdf documents within three days of approval. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

8.3 We also noted that the council has uploaded the 2018 Management Letter in full in accordance with circular 21/2019.

8.4 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 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.

8.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

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 Ms Cynthia Plumpton and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,