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The Mayor
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Our ref ABC/mf/45919

24 April 2019

Dear Sir,



Financial statements for the year ended 31 December 2018

During the course of our audit for the year ended 31 December 2018 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).

1.2 Expenditure

We are pleased to note that petty cash purchases are made in line with the new directive.

The expired rental contract has been terminated since the council moved to its new premises.

We are pleased to note that we did not identify irregularities in tendering procedures.

1.3 Property, plant and equipment

We again noted that the fixed asset register does not include all the details highlighted in note 3.3.

We are pleased to note that we did not note any obsolete assets in the fixed assets register.

We are pleased to note that depreciation charge for the year was accounted for properly.

We again identified shortcomings in amounts shown as 'Assets under construction' (refer to note 3.11).

1.4 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).

The balance due from Water Services Corporation has still not been reconciled (refer to note 4.5).

1.5 Bank and cash

We did not encounter instances of 'stale' cheques.

1.6 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).

The council did not discount the PPP liability. However, since this is now almost fully repaid, any discounting would be an immaterial amount.

1.7 Wages and salaries

We are pleased to note that the council has accounted for the mayor's honorarium correctly.

1.8 Meetings

We again identified omitted cheques from schedules of payments (refer to note 6.2).

1.9 Financial statements

We found shortcomings in the financial statements' disclosures required by certain accounting standards (refer to notes 7.1, 7.3 and 7.4).

2 Income

Other Government income

2.1 The council has classified the receipt of €2,314 from the Department for Local Government, with respect to memo 9/2017 – cultural funds, as cultural activities. We proposed an audit adjustment to reclassify this amount with other Government income unless otherwise directed by the DLG. This adjustment 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 €36,833.33 from the Foundation for Social Welfare Services, with respect to the rental of the second floor of the civic centre, in other Government income. We proposed an audit adjustment to reclassify this amount to a separate account. This should also be shown as a separate line item in the financial statements as required by IAS 40 'Investment Property'. The council has passed the audit adjustment but opted to show this amount under 'General Income'.
- 2.4 We recommend that the council discloses income from any rental agreements as a separate line item in the financial statements' note "Funds received from Government" since the Foundation for Social Welfare Services is a Government entity.
- 2.5 We also noted that in other Government income there is an amount of €9,274.80 which relates to one off charges to the Foundation for Social Welfare Services in relation to additional work which the Foundation required for it to use the floor for its intended purposes. Upon querying the council whether the cost incurred for the additional work done on the second floor was capitalised, the council was not yet in a position to specify this. We did not propose an audit adjustment since the council was not sure whether such amount was capitalised or expensed and therefore could not identify whether the amount recharged should have been capitalised or included as other Government income. In view of this we had to qualify our audit opinion.
- 2.6 We recommend that the council traces all expenditure which relates to the rental of the civic centre and ensures that any amounts recharged to tenants is matched to its respective capitalised amounts rather than taken directly to profit or loss.
- 2.7 Upon reviewing the agreement with the Foundation for Social Welfare Services, we noted that the agreement was signed on 8 August 2017 and stating that the building will start being used by the Foundation in January 2018. Given that the building was not certified by the architect until the end of May 2018, this resulted in the council receiving rental income before the premises were certified as completed to satisfaction.
- 2.8 We recommend the council ensures that until the building is fully compliant with local legislation, any parts of the building which are not certified, should not be used as this might cause room for claims against the council which would not be covered by insurance owing to lack of compliance with building regulations.

LES administration fees

- 2.9 During our audit fieldwork we tested income from LES administration fees by comparing the 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 understated by €250. We did not propose an audit adjustment to correct this misstatement since no explanation was forthcoming for the difference.
- 2.10 We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.

3 Fixed assets

Reconciliation of fixed asset register with accounting records

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

Asset category	NBV in fixed asset register €	NBV in unaudited accounting record €	Difference €
Construction works	278,633	214,513	64,120
Urban improvements	69,838	156,252	(86,414)
	348,471	370,765	(22,294)

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
- Cost
- Depreciation rate
- Location of the asset
- Grants received

Fixed asset additions

3.5 During our testing of fixed asset additions, we noted an addition in relation to trenching works costs in relation to the civic centre amounting to €36,430.67. Upon reviewing the invoice, we noted that the invoice amounted to €41,430.67. An audit adjustment was proposed to rectify this situation (refer to note 5.5). This adjustment has been correctly incorporated in the audited financial statements.

3.6 We recommend that the council ensures that any invoices are input to their proper account and that the amounts agree to the invoices being received. This would allow the council to have an exact image of what the council still owes to suppliers and ensures reconciliation of balances with creditors.

- 3.7 We also noted that four invoices issued by PC Generation for ‘computer equipment’ amounting in total to €2,837.90 could not be traced to approval in the council minutes.
- 3.8 We remind the council that all fixed asset additions, apart from adhering to procurement procedures, need also be approved in council meetings before these are bought.

Grants

- 3.9 When reviewing the fixed assets register, we noted that in the case of construction works, additions amounted to €14,102.50. However, the additions in the books of account amounted to €26,807. Upon enquiry, we were informed that the assets in the fixed asset register are included net of the grant and therefore the original cost and grant value are not shown separately. This was properly recorded in the books of account.
- 3.10 We recommend the council ensures that the cost is included in the fixed asset register in full and the grant is shown separately. This is to make sure that the fixed asset register has all the necessary information that the council might need.

Assets under construction

- 3.11 During our fieldwork, we noted that “assets not yet capitalised” include an amount of €1,961,27.73 related to assets for the civic centre. Given that the civic centre is also being used and that the second floor is being rented out, an audit adjustment was proposed to reclassify the amounts to their respective category based on the information and figures supplied by the council. Grants in relation to these assets, were also adjusted to be shown in their respective category.
- 3.12 We recommend the council reviews assets in construction regularly to ensure that any assets which are complete and brought into use are reclassified to the appropriate category and depreciated accordingly. We have proposed an adjustment to rectify the above. The adjustment included an amount of €1,961,273.73 in cost which was reclassified to the correct categories and depreciation charge from the date the property was brought into use amounting to €2,056.16. This adjustment has been correctly incorporated in the audited financial statements.
- 3.13 We also noted that bank interest amounting to €14,026.40 was included in assets under construction. Given that the civic centre started being used in September 2018, interest capitalised should have stopped by the end of September. An audit adjustment of €4,833.52 was proposed in this regard to rectify the situation. This adjustment has been correctly incorporated in the audited financial statements.
- 3.14 We reiterate our recommendation that the council should ensure that assets are capitalised when they are put into use. In the case of any interest, this should stop being capitalised once the project is put into use.

Investment property

- 3.17 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.

- 3.18 We recommend 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 €3,540.88 which contrasts with the amount of €3,529.24 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 noted that the council failed to account for the movement in report 622 in the accounts. No adjustment was proposed since LES debtors are fully provided for in the accounts and therefore it has no effect on the financial statements.
- 4.4 We recommend the council accounts for the movement from year to year so that the council knows what is still due from pre-regional debtors at any point in time.

Trade debtors

- 4.5 Water Services Corporation did not agree to the amount recorded in the council's book of accounts amounting to €29,675 but confirmed that the amount due to the council is €818. No adjustment for the difference of €28,857 was proposed since no explanation for the difference was forthcoming. In view of this, our audit report is once again qualified.
- 4.6 The council should follow up with Water Services Corporation to reconcile the discrepancies. It is recommended that all amounts due from debtors are periodically reconciled with a supplier to avoid major discrepancies.

Prepayments

- 4.7 During the year under review, the council computed a prepayment in relation to amounts paid to the Lands department. Upon reviewing the documentation, we noted that this amount was not prepaid since the amount paid was all for 2018 or before. An audit adjustment of €321.04 was proposed to rectify this discrepancy. This adjustment has been correctly incorporated in the audited financial statements.
- 4.8 We recommend that the council accounts for expenses on the accrual basis and ensures correct recording in the books of account.

Accrued Income

- 4.9 During our fieldwork we noted that an amount of €12,704.44 in relation to Skema Tarmak, an amount of €459 in relation to the December administration fees and €20.97 in relation to trenching permits in December were included as accrued income twice in the books of account. An audit adjustment of €13,184.41 was proposed to remove the double counting of this income. This adjustment has been correctly incorporated in the audited financial statements.
- 4.10 We recommend that the council ensures that the books of account are always up-to date to ensure that there is no double counting of transactions.

Asset insurance policy

- 4.11 During our audit we identified the below discrepancies between the asset insurance cover and the NBV as presented in the 2017 signed financials (see note 4.13 below).

Asset	Sum insured €	NBV in 2017 signed financials* €
Construction works	120,000	514,495
Office furniture and fittings	72,284	13,832
Office equipment	30,159	6,852
Plant and machinery	1,685	513
Civic centre – asset in construction	1,000,000	1,425,618
	1,224,128	1,961,310

* NBV is at 31.12.2017 before adjusting grants and depreciation.

- 4.12 It is evident that some of the fixed assets are over/under 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.

- 4.13 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 (2017) financial statements. However, in view of the fact that 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.

Liability insurance

- 4.14 During our analytical review of expenses, we were notified that the council is using the services of three employees seconded from Regjun Nofsinhar. Upon reviewing the personal group accident insurance policy, we noted that the insurance policy covers employees "hired or loaned" by the council, which includes employees provided by District Operations Ltd and those by Resource Support & Services Ltd. This may not include those seconded by another entity.
- 4.15 We recommend that the council enquires with Regjun Nofsinhar whether employees who are seconded to a council in another region are covered under the insurance policy of the Regional Committee, and if not, ensure that such employees are covered by the council for any liability that might arise.

5 Trade payables

Long outstanding creditors

- 5.1 Whilst scanning the aged list of creditors we noted, as in our previous management letter, the following creditors which are long outstanding:
- i. An amount of €2,478.00 due to Waste Collection Limited. The council informed us that the amount has not been settled after the supplier did not honour its contractual obligations. However, an agreement has been reached and the amount will be paid in full in 2019.

- 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 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.

Creditor confirmations

5.5 As part of our audit procedures we circularised confirmation letters to selected creditors. We noted the following discrepancies between the council's books of account and received confirmations:

Creditor	Amount in council's books of account €	Amount in confirmation reply €	Difference €	Note
Enemalta Corporation	16,430.67	21,430.67	(5,000.00)	(a)
PC Generation Limited	2,837.90	7,587.90	(4,750.00)	(b)

- (a) The council instructed the posting of an audit adjustment in this regard since the discrepancy is coming from an invoice which was input in the books of account with a wrong amount (refer to note 3.5).
- (b) The council also proposed an audit adjustment to rectify this discrepancy. In this case, the council failed to account for an invoice which should have been accounted for in 2018 but was erroneously accounted for in 2019.

5.6 It is of utmost importance that council reconciles creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible. These adjustment have been correctly incorporated in the audited financial statements.

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. 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.

Approval of schedules of payments

- 6.2 We also identified instances where a cheque was not listed on the schedule of payments. Upon further investigation we noted that the cheques were cancelled. Examples include cheque numbers 11923, 12034 and 12299.
- 6.3 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing cheques in sequential order and present them for council's approval.
- 6.4 We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheque should as such be retained as existence of its cancellation.

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 the accounting policies and procedures, depreciation rates listed are not correctly reflecting the depreciation rates used in the books of account.
 - ii. Note 13 in the financial statements is not in line with Directive 1/2017. In this case the 2017 figures were not restated properly. In the case of 2018, the amounts of Government grants received are not being shown separately but are netted off against the cost.
 - iii. 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 go ahead for the loan to be issued but in no part of the agreement is the Government guaranteeing the loan amounts taken by the council.
 - iv. The accounting policy for borrowing costs is incorrect.

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

IAS 8 'Accounting policies, changes in accounting estimates and errors'.

- 7.3 The council failed to include all the disclosure required by IAS 8 '*Accounting policies, changes in accounting estimates and errors*'. The standard requires the council to disclose the nature and amount of a change in accounting policy and estimates that has an effect in the current period or future periods. Also, the same standard requires the disclosure of the nature of a prior period adjustment and for each period presented, the amount of the correction for each financial statement line item affected and a description of how the error was corrected.

IFRS 9 'Financial Instruments'

- 7.4 The financial statements do not include all the disclosures required by IFRS 9. The standard requires additional disclosures regarding financial instruments' impairment and expected credit losses.

- 7.5 Owing to the departures from IFRSs in note 7.3 and 7.4, our audit opinion has been qualified.
- 7.6 We recommend that the council ensures that its accountant is fully up to date with all IFRS's and includes all accounting treatments and disclosures required by new and existing accounting standards.

8 Electronic site

- 8.1 We noted that the council failed to upload the quarterly report January to December 2018 and the annual administrative report within the required time frame.
- 8.2 We recommend 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 Memo 7/2016 required the council to upload the management letter on the website. We have noted that the council does not upload the management letter on the website whilst other do so. We would like to point out the Local Councils (Audit) Procedures, P2.10.06b states that "such correspondence would not be made public ...".
- 8.4 We therefore recommend that the council contacts the Department for clarification of this contradiction.
- 8.5 We would also 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.

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 Beverly Saliba and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

