

Encls.

Tanya Mercieca
Asst. Auditor General

Yours faithfully,

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2017.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2017**

Dear Sir/Madam,

The Mayor and Executive Secretary
Marsaskala Local Council
Marsaskala

3 May 2018

Your Ref:

Our Ref: NAO 107/2015/35

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35/1558/8/1
14 MAY 2018



The Mayor
Marsaskala Local Council
228, Triq is-Salini,
Marsaskala, MSK 3314

Our ref ABC/mf/48418

15 March 2018

Dear Sir,



Financial statements for the year ended 31 December 2017

During the course of our audit for the year ended 31 December 2017 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 did not identify any contracts which were not signed by both parties.
The council also provided us with all requested bank deposit slips for the year and we had no issues in tracing receipts to bank deposit slips.

1.2 Expenditure

Petty cash purchases were found to be supported by cash register chits not addressed to the local council (refer to note 4.1).

We again noted various instances where the council is not adhering to the procurement procedures (refer to note 4.4).

We did not identify instances where the council failed to obtain a performance bond within the stipulated time frame.

The council furnished us with all required rental agreements for the year under review.

The council's group accident insurance policy is considered to be of adequate cover during the year.



1.3 Fixed assets

Once again, we identified discrepancies between the net book value disclosed in the financial statements and the accounts (refer to note 5.3).
Government grants are still being wrongly classified under urban improvements rather than with construction works (refer to note 5.1).
The fixed asset register is once again lacking information as requested by the Local Councils (Financial) Procedures, 1996 (refer to note 5.6).
We have again identified fixed assets, which are obsolete or not in good working order, included in the fixed asset register but not found at the council's premises (refer to note 5.9).

1.4 Receivables

The council is still not obtaining financial statements from the GAL Xlokk Foundation (refer to note 6.1).
No irregularities relating to income from Green MT were noted.

1.5 Trade and other payables

The council is still not obtaining suppliers' statements at or near year-end (refer to note 8.1).
We again noted a discrepancy between the direct confirmation from a supplier and the creditors' list (refer to note 8.3).

1.6 Council meetings and website uploads

We still identified instances where the council meeting lasted for more than three hours (refer to note 9.3).
We again noted instances where cheque numbers are not listed in sequential order on the schedule of payments (refer to note 9.5).

The council did not upload all the required reports on the electronic site (refer to note 10.1).

2 Opening balances

We noted that the prior year's audit adjustments were not recorded in the books of accounts. As a result, we noted differences in opening balances as follows:

No.	Account description	In Sage	In audit	Difference	Audit A/E
7998	Grants - Construction	-	(157,421)	157,421	A/E 2
7999	Grants	(182,523)	(25,102)	(157,421)	A/E 2
8038	Accum.dep.-Computer equip	(7,315)	(6,501)	(814)	A/E 1
8039	Accum dep -Computer software	(2,819)	(3,633)	814	A/E 1
	Total		192,657	(192,657)	
				-	

2.2 In view of this, we have prepared an audit adjustment to record the omitted audit adjustments (AJE 1 / 2017 and AJE 3/17). Although the adjustments do not have any impact on the council's reserves, the council must pass the adjustments since these ensure correct classifications of grants, assets and accumulated depreciation. These adjustments have been correctly incorporated in the audited financial statements.

3 Income

3.1 Income from LESA distribution

The council has classified the receipt of €8,390.90 from LESA, with respect to the LESA distribution, as other Government income. We proposed an audit adjustment to reclassify this amount to LFS income. LFS income should be disclosed as a separate line item in the financial statements.

3.2 We recommend that the council disclose all LFS income separately in the financial statements. The council has adjusted its audited financial statements and correctly presented the LESA distribution.

4 Expenditure

4.1 Petty cash expenditure

We have noted that most of petty cash payments are still supported by a cash register hit that is not addressed to the council. Examples include:

Date	Supplier	Details	€
13.01.2017	Racs Bargain Spot	Detergents	19.17
09.03.2017	Nica Ltd	Petrol for van	20.00
10.07.2017	Firm Salvatore Caruana	Mini block single plastic	22.54
24.10.2017	Sparkle Image	Perfume for nurse for	16.94
01.11.2017	Louis Cini	Repair of van	20.00

4.2 We advise the council to obtain fiscal receipts that are addressed to the former in order to comply with the requirements established by the Local Councils (Financial) Procedures 1996, which state that the suppliers must be made only on the provision of a valid invoice/fiscal receipt which is addressed to the council.

4.3 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and 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. This legal notice came into force on 1 January 2018.

4.4 Procurement procedures

Our testing on cheque payments revealed the following irregularities:

Details	Supplier	€	Note
Sage Evolution	ICT Solutions	896.80	(a)
Website yearly holding	Webee Ltd	531.00	(b)
Road paint	Colcetro General Supplies	814.75	(b)
Rephalt	Bonnici Brothers Ltd	1,131.62	(c)
LED bulbs	JV Meli Imports	799.00	(c)
Summer uniforms for staff	In Design (Malta) Ltd	931.62	(c)
Drilling of 14 holes	Solidbase Laboratory Ltd	1,156.40	(c)



- (a) In the schedule of payments, the council indicated that this expenditure was recorded in account 2210 'operating materials and supplies'. This transaction, however, was correctly recorded in account 7331 as a computer software addition.
 - (b) The council did not raise a purchase order nor obtain any quotation.
 - (c) The council did raise the purchase order, but no quotation was obtained.
- 4.5 May we remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier.
- 4.6 Furthermore, we draw your attention to the Local Councils (Financial) Procedures, 1996 which state that councils should obtain at least one quotation for purchases between €23,29 and €1,165 and at least three quotations if the expense is within the €1,165 and €4,658 threshold.

Tendering procedures

- 4.7 We are pleased to note that the council has successfully implemented the ePPS system when issuing a call for tenders. We would like to mention that the existing Tendering Procedures and Regulations remained in force until the end of 2017. These still require certain additional documents which are not included in the ePPS system, such as a bid bond and non-collusive agreement which, under the existing Procedures/Regulations, should have been obtained.
- 4.8 We appreciate that there are differences between the requirements of the EU directive regarding the new system and requirements prescribed by the previous legislation regarding tendering procedures. We recommend that any concerns you may have are addressed to the Department.

5 Fixed assets

Classification

- 5.1 As already pointed out in prior years' management letters and as pointed out in note 2.1, the council is still classifying Government grants amounting to €157,421 relating to construction with urban improvements. An audit adjustment was proposed to show this grant with the relevant asset. The council approved our proposed audit adjustment and correctly incorporated it in the audited financial statements.
- 5.2 Although this is correctly disclosed in the financial statements, we recommend the council passes the proposed audit adjustment in the books of account to match grants with the correct asset.
- 5.3 We identified differences between the net book value of assets in the unaudited financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV in unaudited financial statements	NBV in nominal ledger	Difference
Plant and machinery	16,602	15,107	1,495
Computer software	2,585	4,080	(1,495)
	19,187	19,187	-



5.4 Upon further analysis of the above discrepancies between the accounts and the unaudited financial statements, we noted that the amortisation for computer software (intangible asset) was included with plant and machinery, and in this regard two audit adjustments amounting to €1,495 were proposed to adjust this discrepancy. These adjustments were approved and correctly incorporated in the audited financial statements.

5.5 We recommend that the council ensures that any amortisation is accounted for separately from depreciation so as to have the correct net book value for both tangible and intangible assets.

5.6 **Details of fixed asset register**
When reviewing the fixed asset register, we noted that certain details like invoice numbers and suppliers' details are missing. For example:

Net book value	Purchase date	Description	Asset code	Asset category
€ 324.46	07.09.2017	Computer	KLM001530	Computer equipment
123.74	29.08.2002	Shelving units - Library	KLM00596	Office furniture and fittings
582.02	15.12.2014	Airconditioner - Lucille room	KLM001397	Office furniture and fittings
261.80	23.05.2016	Waterjet cutting	KLM001493	Plant and machinery
129.63	14.06.2013	Personal computer	KLM001373	Computer equipment

5.7 We recommend that every possible effort should be made to complete the fixed asset register to include all of the following:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code
- Cost
- Depreciation method and rate
- Location of the asset

5.8 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 henceforth with all relevant details.

5.9 During our testing we noted that the following fixed assets included in the fixed asset register were not situated at the council's premises:

- Rex Rotary fax machine
- Photocopier IR2520/M0420
- Printer



5.10	<p>We were informed that the fax machine was scrapped as it was not in working order. In the case of the photocopier, a new one was bought in 2017 and the old one was replaced. The printer and the photocopier were approved for replacement by the council during meeting number 64, but were not removed from the register. We have proposed an adjustment for €2,397.64 to dispose of these assets and this has been incorporated in the final set of financial statements.</p>
5.11	<p>The secretary is required to create, maintain and control an up-to-date inventory of the fixed assets held by the council, as required by the Local Council's (Financial) Procedures P1.16b. It is recommended that the fixed asset register is reviewed and any obsolete items included in the fixed asset register are written off or scrapped. Any write off or scrapped assets should be approved in council meeting.</p>
6	<p style="text-align: center;">Trade and other receivables</p> <p style="text-align: center;">GAL Xlok membership</p>
6.1	<p>We noted that the council is still a member of the GAL Xlok Foundation. The council should obtain, as members, the financial statements from GAL Xlok so that it is able to assess the cost/benefit of this membership. However we were not provided with the above. We were notified by the executive secretary that the council requested the financial statements of GAL Xlok Foundation but these have not yet been provided by the latter.</p> <p>We would like to emphasise the importance of obtaining the audited financial statements of GAL Xlok Foundation in order to perform cost/benefit analysis for such expenditure. Furthermore, as a member of the Foundation, the council is entitled to view the financial statements.</p>
7	<p style="text-align: center;">Bank and cash</p> <p style="text-align: center;">Bank statements</p>
7.1	<p>During our audit we were provided with a bank statement dated 11 May 2017 for the term deposit account number 40024375674, with the term deposit ending on 8 November 2017.</p>
7.2	<p>All bank statements provided to us should be dated 31 December 2017 to verify movements between the interim statement and year end.</p>
8	<p style="text-align: center;">Trade and other payables</p> <p style="text-align: center;">Suppliers' statements</p>
8.1	<p>During our testing of trade creditors, it was noted that the council is still not obtaining at or near year-end statements from suppliers to confirm the balance as at year end. Thus, the council is not ensuring completeness of creditors in the books of accounts.</p>
8.2	<p>The council is not adhering to the relevant Procedures, which require that monthly statements are obtained from all suppliers. The DLG specifically states in memos that the council should reconcile the books of account to supplier statements on a monthly basis.</p>
8.3	<p style="text-align: center;">Supplier's confirmation</p> <p>During our audit, we obtained a direct confirmation from Environmental Landscapes Consortium Limited, stating that as at year end the council owes it €3,641.86. This contradicts the council's records which state €1,820.83. We were informed that the difference of €1,820.83 is due to an invoice which was not received by the council and thus not recorded.</p>

8.4	<p>Upon discussion with the council, we have proposed an adjustment amounting to €1,820.83 to account for this invoice. This audit adjustment has been incorporated in audited financial statements.</p> <p>We recommend the council obtains supplier statements on a regular basis in order to regularly reconcile any discrepancies and thus avoid material differences from being accumulated.</p>										
9	Council meetings										
9.1	<p>We observed that the minutes of the council are not bound at the end of each financial period. The minutes were last bound for the year 2015.</p>										
9.2	<p>We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.</p>										
9.3	<p>From the minutes of the council, we noted that meetings 59 and 66 lasted for more than three hours.</p>										
9.4	<p>This is contrary to memo 68/2009 and section 43(3) of the Local Councils Act which state that the duration of council meetings shall not exceed three hours unless consensus is reached by all members and this should be noted in the minutes.</p>										
9.5	<p>Approval of schedules of payments</p> <p>We identified a few instances where cheque numbers are not listed in sequential order and some cheque numbers have been omitted from the schedules of payments. During our testing we confirmed that the omitted cheques were cancelled before the approval of schedule of payments. Examples include:</p>										
9.6	<p>In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. To maintain the sequence, it is essential that cancelled cheques are included and indicated as such. We 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.</p>	<table border="0" style="width: 100%;"> <tr> <td style="text-align: right;">Cheque number</td> <td style="text-align: right;">12624</td> <td style="text-align: right;">12729</td> </tr> <tr> <td></td> <td style="text-align: right;">1,820.83</td> <td style="text-align: right;">633.60</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>2,454.43</u></td> <td></td> </tr> </table>	Cheque number	12624	12729		1,820.83	633.60		<u>2,454.43</u>	
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	<u>2,454.43</u>										



10 Electronic website

- 10.1 During our audit work we found that the council did not upload the quarterly financial report for July to September and October to December as well as the business plan 2018 - 2020. Furthermore, the annual administrative report for 2016 uploaded on the council's website is not signed or indicated as being signed.
- 10.2 We recommend that the council abides by the directive given in memo 02/2014 which states that all meeting minutes, schedules of payments and specified documents must be uploaded on the council's site within three days of approval. The "affirmat" on the documents are the confirmation that the uploaded documents are the approved and correct ones.

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 Josef Grech and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Grant Thornton