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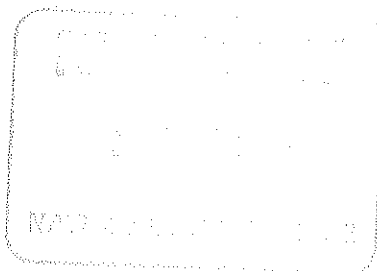
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Our ref: MB/mf/47320

23 April 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 from Joint committee

We have again noted that the council still did not obtain the financial statements of the joint committee (refer to note 3.13).

1.2 Income raised from bye-laws

We again noted that income from bye-laws was included under general income (refer to note 2.10).

1.3 Income not recorded in the appropriate accounting period

We did not identify income which was not recorded in the appropriate accounting period.

1.4 Payroll Shortcomings

We again noted that the executive secretary's salary included in the financial statements does not agree to the FS3 (refer to note 4.3).

1.5 Personal tax deductions and submission of FSS forms

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



1.6 Tendering procedures

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

1.7 Expired tenders

The council kept on using an expired tender for the first five months of 2019 however a new contract was signed later on during the year (refer to note 3.11).

1.8 Membership in Majjstral Local Action Group Foundation

The council failed to obtain a copy of the financial statements as at 31 December 2019 of the action group (refer to note 3.16).

1.9 Twinning project report

We are pleased to note that the council has prepared the twinning report. The report was later submitted to the Department.

1.10 Fixed asset register upkeep and reconciliation

We have again noted instances where a number of assets have been classified in the wrong asset category (refer to note 5.6).

1.11 Insurance policy

The council's assets are still not being appropriately insured (refer to note 3.18).

1.12 Tangible fixed assets labelling

The council is still not tagging its fixed assets (refer to note 5.1).

1.13 Asset no longer used by the council

We again identified assets which are no longer used by the council (refer to note 5.10).

1.14 Website development and computer software

We have again noted that the website development costs are included in the wrong category of assets (refer to note 5.6).

1.15 Depreciation

We again identified shortcomings in the depreciation workings due to the assets which are allocated in the wrong asset category (refer to notes 5.6 and 5.20).

1.16 Capital expenditure vs revenue expenditure

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

1.17 Accounting for disposals

We are pleased to note that disposals were properly accounted for during the year under review.

1.18 Assets under construction

We have again noted shortcomings in the asset under construction account (refer to note 5.16).

1.19 Accounting for grants

The council failed to provide agreements for the prior year grants (refer to note 5.22).

1.20 Stock of booklets

We are pleased to note that the stock of booklets is stored in a locked storage room.

1.21 Insurance of stock

We again noted that the council's stock is still not insured (refer to note 6.1).

1.22 Accrued income

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

1.23 Cash deposits

We noted that the council failed to address the deposits' issue (refer to notes 2.12 and 2.18).

1.24 Petty cash payments

We have again noted shortcomings in petty cash expenditure (refer to note 3.1).

1.25 Accounting for trade payables

We again identified irregularities when testing creditors (refer to note 9.5).

1.26 Overpayment to suppliers

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

1.27 Accruals

We again identified irregularities when testing accrued expenditure (refer to notes 9.9 and 9.11).

1.28 Disclosures required in respect of certain IFRS

We have again identified some shortcomings in disclosures of financial statements (refer to note 13.1).

1.29 Financial statements presentation

The unaudited financial statements had minor shortcomings in presentation of financial statements (refer to note 13.2).

1.30 Agenda of council meetings

The council failed to upload the management letter and reply to the management letter (refer to note 10.3).

1.31 Comparison of actual expenditure with the annual budget

We have noted instances where actual expenditure was not in line with the annual budget (refer to note 14.1).



2 Income

Supplementary Government income

- 2.1 During the year under review, the council received a total amount of €12,100.26 in relation to the physical and sports scheme and urban greening scheme. We noted that the council has erroneously recorded this income in 'supplementary Government income'. We have proposed an audit adjustment to include the above income as 'other Government income'. The adjustment was approved by the council and incorporated in the audited financial statements.
- 2.2 The council should ensure that transactions are properly allocated to the correct account.

General income

- 2.3 The council has classified income from organic waste collection and LES 10% administrative fees amounting to €10,765.97 and 588.68, respectively under 'general income'. We have proposed an audit adjustment to reallocate €10,765.97 in 'other government income' and €588.68 in 'LES income'. The above adjustments were correctly included in the audited financial statements.
- 2.4 We again recommend that the council should ensure that transactions are properly allocated to correct category.

Income from EU Programmes

- 2.5 We noted that during the year under review, the council received income of €15,390 from the Erasmus+ project and €1,223.82 from the other partners within the same project. The total expenses incurred for the above project amount to €17,993.62.
- 2.6 The council recorded the income and expenses noted above in the 'other creditors – youth exchange' account. The council informed us that upon completion of the project the council would have taken the net result (i.e profit or loss on the project) to the income statement. We have proposed an audit adjustment to properly account for the income and expenses separately in the income statement during the current period. The council has amended the financial statements to include the audit adjustment.
- 2.7 We would like to remind the council that correct classification is an integral part of the accounting system.

Accrued income

- 2.8 In 2019 the council had accrued income pertaining to the co-financing of the Erasmus+ project amounting to €3,850. We noted that up to date of audit fieldwork, the council did not receive the approval for the co-financing of the project. To this end we have proposed an audit adjustment to reverse the accrued income due to the lack of approval. Our proposed adjustment was incorporated in the audited financial statements.
- 2.9 We recommend that the council records accrued income only once an approval is provided and a written agreement is signed by all parties.

Income from bye-laws

- 2.10 During the year under review the council received €56 as income from bye-laws. This was erroneously included with general income. To this end we have proposed

an audit adjustment to account for it under the appropriate source of income. The adjustment was correctly included in the audited financial statements.

- 2.11 We recommend that the council ensures that all income from bye-laws is separately disclosed in the financial statements.

General income

- 2.12 During our audit fieldwork, we noted that the council did not deposit its income on a regular basis. Examples include:

Description	Receipt number	Receipt date	Deposit date	€
Skip permit	004590	11.04.2019	18.04.2019	11.70
Lifter permit	004601	02.05.2019	10.05.2019	2.33
Lifter permit	004640	06.06.2019	17.06.2019	15.00
Lifter permit	004684	25.07.2019	05.08.2019	15.00
Scaffolding permit	004716	30.08.2019	09.09.2019	93.20
Cherry picker	004729	13.09.2019	23.09.2019	30.00
Lifter permit	004834	10.11.2019	24.11.2019	15.00
High-up permit	004859	09.12.2019	20.12.2019	15.00

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

Income from LES administration fees

- 2.14 We obtained Loqus report 483 and reconciled income from LES administration fees and established that the council's income for 2019 is understated by an insignificant difference of €48. We did not propose an audit adjustment to correct this misstatement since the difference could not be traced.

- 2.15 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there have not been any mispostings.

Income from LESA and regional committees

- 2.16 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

Invoice month	Invoice date
July 2019	17.08.2019
August 2019	16.09.2019
November 2019	03.01.2020
December 2019	03.01.2020

- 2.17 In accordance with memo 91/2011 local councils are required to issue the regional committee and LESA invoices in the first week of the following month.

Custodial receipts

- 2.18 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	€
Lands Department	902557	11.12.2019	19.12.2019	393.33
Lands Department	898362	25.10.2019	01.11.2019	119.96
Lands Department	888043	30.08.2019	06.09.2019	32.12
Lands Department	852134	21.02.2019	01.03.2019	51.25
Lands Department	846544	24.01.2019	08.02.2019	66.38
LES receipts	4420191	09.12.2019	19.12.2019	23.29
LES receipts	4280229	16.05.2019	22.05.2019	34.94

- 2.19 We recommend that the council liaises with G4 Security Services (Malta) Ltd to collect its deposits at least twice a week to ensure that no cheques or cash are left on the council premises longer than necessary and to ensure that the financial procedures are adhered to.

3 Expenditure

Petty cash payments

- 3.1 The petty cash voucher used by the council is not in accordance with the template issued by the Department of Local Government. We also noted that some cash payments are not supported by the appropriate petty cash voucher identifying the items being purchased. Examples include:

Details	Suppliers	Date	€
Stationery items	Mtarfa Stationery & more	12.12.2019	16.15
Gas tank	Louis Confectionery	21.09.2019	9.55

- 3.2 We advise the council 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, all petty cash vouchers should be signed by the purchaser and the executive secretary. This is in accordance with Directive 3/2017 and LN 269 of 2017. Circular 32/2016 includes the template petty cash vouchers to be used by all councils.
- 3.3 We noted that the petty cash list included regular purchases for items described as conference expenses, sweets for office and drinks, thereby not indicating what the actual purchases were.
- 3.4 We recommend that the council includes a detailed description of items being purchased in the petty cash vouchers and monthly summary. This will ensure that all purchases are allocated to the correct account in the books.
- 3.5 We also noted that the petty cash lists prepared by the council do not include details of suppliers and the nominal account to which the expenses were allocated.



- 3.6 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

Procurement procedures

- 3.7 Our testing on cheque payments revealed the following irregularities for the below listed purchases:

Details	Supplier	€	Note
Detailed land survey – Gnien is- Sinjura	Matsurv & Associates	1,168.20	(a)
Cleaning of Gregorio Caffara Area	JeanCarl Micallef	649.00	(b)
Concrete slabs	Central Asphalt	1,727.52	(b)
Ecological management services	Benjamin Camilleri	855.00	(a)
Stickers for street furniture	B. Grima & Sons	619.00	(a)
Outdoor gym equipment	Opal Limited	4,619.70	(a)
Works at Mtarfa Woodlands	Derek Garden Centre	2,398.65	(a)
Redbox VR5 headset	Headstart Technology	3,349.00	(a)

- (a) The council obtained only 1 quotation.
 (b) The council failed to obtain any quotation.

- 3.8 In accordance with the 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.

Contracts

- 3.9 We noted that in 2019 the council adjudicated the following tender:

Tender number	Description	Supplier
MTFLC/004/2019R	Demolition, excavation, construction and structural works for visitor centre (re-issue)	All Buildings Limited

Up to the date of the audit, the council did not sign the above agreement.

- 3.10 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.

Expired tender

- 3.11 We noted that the council kept on utilising an expired tender up to May 2019 in relation to the provision of street sweeping services even though the tender had expired on 1 January 2018. However, we noted that the council issued a new tender in December 2018 and the new contract agreement was only signed on 14 May 2019.

- 3.12 We would like to bring to the attention of the council memo 10/2013 which states that the council should not make use of expired contracts. Furthermore, the council should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires.

Joint Committee

- 3.13 We also noted that the Birkirkara Joint Committee, of which Miarfa local council formed part up to 31 August 2011, has not provided the council with recent audited accounts.
- 3.14 In the absence of the audited financial statements of the Joint Committee, we were unable to determine amounts due to the council as at 31 December 2019. As a result, our audit report has been qualified.
- 3.15 We would like to emphasise the importance of obtaining the financial statements of the Joint Committee in order to confirm amounts due from the Joint Committee.

Majjstral Action Group membership

- 3.16 The council's membership expenditure account includes an amount of €2,500 relating to a membership fee paid to Majjstral Action Group. The council failed to obtain a copy of the audited financial statements as at 31 December 2019.
- 3.17 We recommend that as members, the council obtains the audited financial statements from Majjstral Action Group so the council would be able to assess the cost/benefit of this membership.

Insurance policy

- 3.18 During our audit we identified the stated below discrepancies between the asset insurance cover and net book value of assets included in the prior year audited financial statements:

Asset	Sum insured	NBV
	€	€
Buildings	110,000	25,928
Furniture, fittings, plant and machinery	60,000	12,706
Computer equipment	20,000	1,135
	190,000	39,769

- 3.19 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.
- 3.20 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.



Personal accident insurance

- 3.21 We noted that the personal accident insurance was extended on a worldwide basis 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. Worldwide coverage for all personnel travelling abroad on personal rather than business activities may be construed as a benefit in kind.
- 3.22 We recommend that the council updates the insurance policy accordingly to include only current councillors and employees and limit coverage to the Maltese islands.

Expenditure for locality day

- 3.23 During the audit we noted that the council spent €4,399.60 on locality day activities. May we remind the council that memo 8/2011 specifically states that the cost of the council's locality day should not surpass the higher of €3,500 or 0.5% of the annual Government allocation (equivalent to €1,397).
- 3.24 We strongly recommend that the council carefully budgets the locality activity and ensures that expenses do not exceed the thresholds specified in the memo.

Rent

- 3.25 Whilst performing audit procedures we noted that the council recorded rent expense, amounting to €7,331 in the books of account. However, the council failed to provide us with IFRS 16 'Leases' assessment.
- 3.26 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.

4 Payroll

Reconciliation of wages between FS5s and books of accounts

- 4.1 During the audit fieldwork we identified a difference of €736.39 which was unreconciled from the wages accounts to the personal emoluments found in the FS5 forms sent to the Commissioner for Revenue (see appendix 1).
- 4.2 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 of Revenue are correctly declared.

Disclosure of the executive secretary's salary

- 4.3 Whilst reviewing the FS3 of the executive secretary we identified that the gross balance included in the FS3 does not tally with the amount included in the financial statements. The amount included in the financial statements is €30,998 whereas the FS3 indicates an amount of €30,894. This results in a difference of €104.
- 4.4 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts.

Payment of overtime

- 4.5 We have noted that a payment of €2,938.49 was made to employees with respect to overtime. This payment was made prior to obtaining approval in council meetings.

- 4.6 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

5 Fixed assets

Tagging of fixed assets

- 5.1 We noted that not all assets are tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 5.2 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

Upkeep of fixed asset register

- 5.3 When reviewing the fixed asset register, we noted that relevant details like invoice number, date of purchase, location and depreciation for the year are missing. Examples include:

Asset category	Asset code	Description	Net book value €
Street lighting	STRLT011	22 floodlights Mtarfa Barrack area	10,007.58
Construction	CON014	Woodland project	257,762.89
Urban Improvements	UI059	Playing field	35,000.00
Plant and machinery	PM001	Chainsaw	331.48
Computer equipment	COMP014	Dell laptop	854.30

- 5.4 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 method and rate
 - Location of the asset
 - Grants received
- 5.5 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.



5.6 During the year under review we noted that certain fixed assets are not being classified under the appropriate fixed asset category. For example:

Asset category	Asset code	Description	Net book value €
Office furniture and fittings	OFF015	Refrigerator	207.31
Office furniture and fittings	OFF019	Panasonic PABX	895.64
Office furniture and fittings	OFF020	Ladder	46.59
Office furniture and fittings	OFF073	Fire extinguisher	160.73
Office equipment	OE008	Website development	465.87
Office equipment	OE031	Front office refurbishment PC	359.90
Urban improvements	UI027	Street lighting HA project	75,991.27
Urban improvements	UI033	40 Street names	6,017.38
Urban improvements	UI035	Fixing of 73 street names	1,605.22
Urban improvements	UI063	New floodlights	1,159.19

5.7 Once again, we suggest the council updates its fixed asset register and allocates assets appropriately. This would ensure that the council is calculating depreciation using the appropriate depreciation rate and thus showing the correct net book value.

Reconciliation of financial statements with fixed asset register

5.8 We identified a number of differences between the net book value of assets in the financial statements and the net book value in the fixed asset register. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Urban improvements	3,560	9,772	(6,212)
Construction	26,391	31,029	(4,638)
Office equipment	3,509	6,356	(2,847)
	33,460	47,157	(13,697)

5.9 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and reclassified accordingly.

Obsolete assets and disposals

5.10 During our audit fieldwork we scanned the fixed asset register for unusual items or exceptions. We identified that the register contains assets which are obsolete or no longer exist such as a laser printer and Nokia mobile phone which were both disposed prior to 2011.

5.11 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain and control an accurate and up-to-date inventory of council fixed assets. Therefore we recommend that any disposals and obsolete items included in the fixed asset register are identified and written off. If the council

scraps assets, the list of items scrapped or written off should be approved in a council meeting.

Additions in fixed asset register

- 5.12 Whilst reviewing the fixed asset register, we noted that the council has recorded the cost of the reception refurbishment twice. The council initially recorded the additions with asset code CON020 amounting in total to €4,638.54. We also noted that the same asset was recorded separately with asset codes CON021 and CON022 of €3,080.94 and €1,557.60, respectively. To this end the council depreciation workings were overstated by €463.85 due to the double posting in the fixed asset register. We have proposed an audit adjustment to correct the depreciation. This has been correctly incorporated in the audited financial statements.
- 5.13 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and reclassified accordingly.

Fixed asset additions

- 5.14 We noted that the council classified pole and floodlights amounting to €1,033 in urban improvements. We have proposed an audit adjustment to reclassify the amount in the correct category that is street lights. The audited financial statements of the council reflect these adjustments.
- 5.15 We remind the council that all fixed assets should be correctly allocated in the fixed asset register and books of accounts.

Assets under construction

- 5.16 During our fieldwork, we noted that the council capitalised the outdoor gym equipment as well as the architect fees in relation to the project amounting to €7,150.74. To date of the audit fieldwork, the council informed us that the assets are stored in the council's garage as not all works were completed prior to the installation. To this end, we have proposed an audit adjustment to reclassify the amount of €7,150.74 to assets under construction and to reverse its respective depreciation amounting to €7,150.74. The audited financial statements of the council reflect this adjustment.
- 5.17 We recommend the council investigates invoices and ensures that all additions are accounted for properly.
- 5.18 Whilst reviewing the fixed asset additions we noted a balance of €15,526.61 in relation to the professional fees for the Pjazza Project. The executive secretary informed us that these costs were incurred for Central Government to start the project. The project is not vested in the council. Thus, no asset will be recognised in the council's financial statements upon completion. We have proposed an audit adjustment to include this amount as expense for the period as this expense will not emanate any economic benefits to the council. The council has included this adjustment in the final set of financial statements.
- 5.19 The council should not capitalise costs which are of an expense nature. IAS 16 states that the asset purchased should provide future service potential. In these cases, the expenses were incurred to maintain their use rather than to add economic benefits or service potential.

Depreciation of fixed assets

- 5.20 During the year under review we noted that the council's depreciation charge for the year was €37,690.97. The council correctly computed its depreciation through its fixed asset register. However as noted in notes 5.6 and 5.8, a number of assets are categorised in the wrong asset category thus resulting in a wrong depreciation rate, also the net book value in the register is higher than amounts included in the books of account.
- 5.21 We reiterate our recommendation that the plant register is updated to agree to the nominal ledger. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

Accounting for grants

- 5.22 In prior years the council received funds with respect of the Public Private Partnership (PPP) Scheme, amounting to €95,716.74. The Department for Local Government has requested the council to reimburse the amount of €20,266.14 of the funds received. To date these funds have not been refunded and the council did not provide us with updates regarding this matter.
- 5.23 We recommend that the council ensures that the proper documentation is maintained with respect to all grants received so that the council may confirm that these funds are properly recorded in line with the relevant conditions attached to the grants itself. The council should also ensure that such grants are properly recognised and capitalised if the funds received would be utilised to finance capital expenditure.

6 Inventory

Stock insurance

- 6.1 In 2016 the council has published the Woodlands booklet and photobooks of the locality. The council failed to insure the stock of booklets and books.
- 6.2 May we remind the council that assets should be adequately insured. Unless stock is insured the council will not be able to recover any losses in stock in case of theft, fire and any other accident.

Net realisable value of inventory

- 6.3 Furthermore, we noted that the council's inventory is slow moving. We have also noted that the majority of the books are given as complimentary and not sold.
- 6.4 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. Write-offs or provisions of inventories might be necessary if the books remain slow-moving or have no realisable value.

7 Trade and other receivables

Overdue receivables

- 7.1 The debtors' list includes overdue receivables from Waterservices Corporation, Green MT and South East Regional Committee amounting to €3,450, €2,600 and €4.66, respectively. These balances have been outstanding for more than one year.

We noted that the balances due from Waterservices Corporation and Greent MF are provided for in full.

- 7.2 The council should ensure that the balances are valid and, if so, pursue these debtors by sending reminders for the long overdue amounts.

Pre-regional LES debtors

- 7.3 In our testing on LES debtors, we obtained report 622 generated from version 1 of the Loqus system and found that tribunal pending payments as at 31 December 2019 were €37,649. The council had passed an entry of €463.56 against LES debtors to agree the books with the LES report. We have proposed an adjustment to reverse the entry passed by the council as there is uncertainty as to whether the LES reports are correct. The council has included this adjustment in the final set of financial statements.

- 7.4 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

8 Bank and cash

Unpresented cheques

- 8.1 The council's bank reconciliation of the BOV current account included the following 'stale' cheques:

Cheque number	Cheque date	€
8722	24.01.19	902.94
8723	24.01.19	69.46
		972.40

- 8.2 When testing cheque payments, we noted that the council has erroneously included cheque 9289 amounting to €850.84 instead of €1,050.84. In view of the above we have passed an audit adjustment of €200 to rectify the issue. The council approved our audit adjustment and included it in the final set of financial statements.

- 8.3 We recommend that the council reviews the list of unpresented cheques and investigates those that are outdated. Since the above cheques are long outstanding, the amounts should be transferred from the bank balance and included with creditors or deducted from expenses so as to ensure that the bank balance represents the correct balance after obtaining approval by council.

9 Trade and other payables

Supplier statements

- 9.1 The council did not obtain monthly statements from all of its suppliers. Memos and circulars issued from time to time by the Department of Local Government specifically state that the council should obtain monthly statements from all suppliers.

- 9.2 We again recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Debit balance in creditors' list

- 9.3 The council's creditors' list includes €79.41 as debit balances in the creditors' list. We proposed a reclassification to other debtors in this respect. This has been correctly incorporated in the audited financial statements.
- 9.4 We recommend the council to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore, the council should investigate why this creditor account is in debit.

Confirmation of trade creditors

- 9.5 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Micamed Ltd	15,231.47	16,090.21	(858.74)
WasteServ Malta Ltd	8,217.44	8,237.44	(20.00)

We were not provided with any explanations or reconciliations with respect to these differences.

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

Alternative procedures on creditors

- 9.7 During the audit we noted that the creditors' list shows a balance of €9,203.16 payable to Chris Gatt. The council has only provided outstanding invoices and after year end payments amounting to €3,634.05. This results in a discrepancy of €5,569.11. Up to the date of the management letter, the amount has not yet been reconciled and we were not provided with an explanation of such difference.
- 9.8 The above situation highlight the importance of reconciling creditors' balances to suppliers' statements.

Accruals

- 9.9 Whilst testing accruals we noted that the council has erroneously over accrued MITA services and cleaning of council premises by €821.99 and €287.50, respectively. An audit adjustment was proposed to decrease the expense and accruals. This adjustment has been correctly incorporated in the audited financial statements.
- 9.10 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.
- 9.11 We also noted that the council included an amount of €350 in relation to band services from Events Malta. Upon reviewing supporting documentation, we noted that the invoice was dated 28 December 2019. We have proposed a reclassification to

include this invoice with creditors. The council has amended the financial statements to include our audit adjustment.

- 9.12 We recommend that the council distinguishes between accruals and creditors to correctly disclose liabilities in the financial statements.

Unrecorded liabilities

- 9.13 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted the below invoices:

Supplier	Details	Date of invoice	Difference
		€	€
Matthew Mallia	Microsoft office home and business	23.11.19	330.40
TCTC Course	Robotica coding	27.05.19	1,150
J. J Ironmongery	Hire of chairs	21.09.19	140.00

We have proposed an audit adjustment to rectify the issue. The council has amended the financial statements to include our audit adjustment.

- 9.14 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

Advanced payments

- 9.15 During 2019 the council received a grant of €56,761.21 for the Clock Tower project which was included in the property, plant and equipment schedule in the unaudited financial statements. Therefore, in effect, this amount reduced the cost of the asset in the course of construction. As at year end the council did not incur any costs in relation to this project. Thus, we have proposed an audit adjustment to classify the grant received as an advance payment. This has been incorporated in the financial statements.

- 9.16 We recommend that any decision taken by the council is to be put forward during meeting and duly approved.

10 Electronic site

- 10.1 We noted that the council did not upload the following documents on the website of local councils within the required time frame:

- (a) To date of the audit fieldwork the council failed to upload the Quarterly financial reports for the covering period April - December 2019.
- (b) Business plan for 2018 – 2020.
- (c) To date of the management letter the council failed to upload the financial statements for the year ended 31 December 2018.

- 10.2 We remind the council of the requirements of memos 77/2009 and 102/2010 to upload the signed minutes on the website within three working days. In addition the council should upload all other reports, audited financial statements and management letter within the specified time frame.



Uploading of management letter and other documents

- 10.3 During the audit fieldwork we noted that the council did not upload the 2018 management letter in accordance with Circular 21/2019.
- 10.4 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. 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.
- 10.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

11 Schedule of payments

- 11.1 Whilst reviewing the schedule of payments, we noted that schedule 3, 4 and 6 were uploaded on the website in Excel and not pdf format. This contravenes memos and circulars issued from time to time.
- 11.2 May we remind the council that memo 10/2016 specifies that all uploaded documents should be saved in pdf format. This has been in force since 1 May 2016.
- 11.3 We also noted that the council approved schedules of payments during meetings. However it is not specifying which schedule of payments was approved.
- 11.4 We recommend that the council includes the schedule of payments reference in the minutes to ensure that all schedule of payments have been presented and approved.
- 11.5 During our review of the schedules of payments, we noted that the council is not including account numbers as required by circulars. This is not in accordance with the template schedule of payment issued by the Department for Local Government.
- 11.6 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.

Approval of schedules of payments

- 11.7 We identified multiple instances where 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 cheque 8744, 8745, 8757, 8758, 8801, 8821, 8822, 8823, 8825, 8851, 8882, 8918, 8969, 9011, 9017, 9020, 9049, 9113, 9147 and 9158.
- 11.8 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. 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. We recommend that all cancelled cheques are retained in the cheque book to provide evidence of their cancellation.

- 11.9 We also noted that all schedules of payments did not include all cheque numbers and, as a result, we could not ensure that all cheque payments were included.
- 11.10 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.
- 11.11 Whilst reviewing the schedule of payments we noted that the council erroneously included cheque 9122 twice in schedule 9 and 10. We noted that in schedule 9 the amount was € 119.99 payable to U-recycle whilst in schedule 10 the amount is €3,065.70 payable to Micamed.
- 11.12 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.

12 Meetings

Binding of minutes

- 12.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 12.2 We reiterate our recommendation from previous management letters stating 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.

13 Financial statements

Presentation of financial statements

- 13.1 The council's financial statements are not compliant with IFRSs in the following instances:
- i. The council did not disclose the list of all the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements.
 - ii. The financial statements do not include all the disclosures required by IFRS 9. The standard required additional disclosures regarding financial instruments' impairment and expected credit losses.
- 13.2 The following shortcomings were also identified in the financial statements of the council:
- i. The note on property, plant and equipment includes the percentage rather than range of years or percentages due to change in the depreciation method.
- 13.3 We recommend that the council gives more attention to the preparation of the financial statements. We are pleased to note that the council has correctly amended the financial statements.



14 Comparison with annual budget

14.1 When comparing the budgeted figures with the actual figures of the year under review, we identified the following differences:

	Budget €	Actual €	Difference €
Income			
Government	297,204	302,348	(5,144)
Bye laws	3,700	220	3,480
Income from LES	1,250	589	661
Investment	50	65	(15)
Other income	2,796	8,813	(6,017)
Expenditure			
Personal emoluments	86,413	81,740	4,673
Operations, maintenance and administration	211,243	271,245	(60,002)

14.2 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 Ms Josette Micallef and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

As per FS5's

Month	Gross (€)	SSC (€)
January	8,699.00	677.92
February	4,873.00	677.92
March	5,072.00	677.92
April	4,780.00	847.40
May	5,119.00	677.92
June	8,471.00	677.92
July	6,154.00	847.40
August	6,125.00	677.92
September	6,539.00	847.40
October	6,068.00	677.92
November	6,626.00	722.86
December	7,534.00	1,072.14
	<u>76,060.00</u>	<u>9,082.64</u>
add 1/2 of total NI	4,541.32	
Total	<u><u>80,601.32</u></u>	

As per FS7

Gross Salary	76,060.00
add 1/2 of total NI	4,541.32
Total	<u><u>80,601.32</u></u>

As per Accounts

Account No. & Name	Amount (€)
1100 Mayor's allowance	9,352.86
1105 Deputy Mayor Allowance	849.99
1106 Councillors' Allowances	1,666.68
1201 Employee Salary - Katia Fenech	20,279.82
1202 Employee Salary - Alexander Caruana	0.00
1203 Employee Salary - Annalise Mallia	1,198.62
1210 Executive Secretary Salary	27,751.70
1300 Bonuses	0.00
1301 Bonuses - Katia Fenech	1,727.08
1303 Bonuses - Annalise Mallia	97.90
1310 Bonuses - Executive Secretary	3,246.46
1500 Social Security Cont.	5,447.34
1600 Allowances	6,983.31
1700 Overtime	2,639.99
1701 Overtime - Katia Fenech	186.13
1703 Overtime - Annalise Mallia	112.37
	<u>81,540.25</u>
Add opening accruals	3,818.00
Less closing accruals	-4,020.54
	<u><u>81,337.71</u></u>
Difference	<u><u>-736.39</u></u>