



Grant Thornton

An instinct for growth™

The Mayor
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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 Fixed asset register

The fixed asset register has not yet been compiled (refer to note 3.1).

1.2 Depreciation

We again noted that the council is still computing the depreciation on Excel (refer to note 3.4).

After the change in approach to account for capital grants, the net book value of trees, which were purchased with the grant, was nil.

1.3 Grants

The council did not rectify the issue with respect to the grant Wied Blandun project (refer to note 3.10).

1.4 Income from Central Government

We have again identified a shortcoming in the income from Central Government (refer to note 4.1).

1.5 Income from LESA distribution

During the year under review, the council did not receive a distribution from LESA.

1.6 Income from LES administration fees

We still encountered a small difference between the books and the Loqus 483 reports (refer to note 4.5).

1.7 Petty cash expenditure

We are still encountering instances where the council is not adhering to the petty cash procedures (refer to note 5.1).

1.8 Cultural activities

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

1.9 Christmas dinner

We again identified a shortcoming in the expenditure incurred in relation to the Christmas dinner (refer to note 5.14).

1.10 Purchase orders

During the audit fieldwork we identified shortcomings in relation to purchase orders (refer to note 9.14).

1.11 Insurance policy

We have again encountered a shortcoming in relation to the insurance policy (refer to note 5.5).

1.12 Councillors' allowance

We have again noted shortcomings in the councillors' allowances (refer to note 6.1).

1.13 Wages' reconciliation

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

1.14 Declaration of councillors' allowances

The council properly reported allowances under 'Gross Emoluments' (FSS Rules).

1.15 Pre-regional receivables

Debtors in the Loqus IT system are more than LES debtors recorded in the council's books of account (refer to note 7.1).

1.16 Amounts receivable from WSC

We did not identify any issue in relation to long-outstanding amounts receivable from WSC and its corresponding provision.

1.17 Overdue trade receivables

We still identified long-outstanding debtors (refer to note 7.3).

1.18 Confirmation of trade receivables

The council did not rectify the issue during the year under review (refer to note 7.3).

1.19 **Accrued income**

We again identified a shortcoming in accrued income (refer to note 7.5).

1.20 **Supplier statements**

The council failed once again to obtain all supplier statements at year end to confirm the year end balances (refer to note 9.1).

1.21 **Long-outstanding creditors**

The council did not rectify the issue during the year under review (refer to note 9.3).

1.22 **PPP payables**

The council once again failed to distinguish between trade creditors and capital creditors in the trial balance (refer to note 9.5).

1.23 **Supplier confirmation**

We did not identify a discrepancy between the obtained direct confirmations and books of account.

1.24 **Presentation of financial statements**

We have again identified a number of shortcomings in the presentation of financial statements (refer to note 10.1).

1.25 **Electronic site**

During the year under review the council did not address the issue of uploading documents on the council website (refer to note 11.1).

2 Prior period adjustment

2.1 During the year under review the council changed its accounting treatment for grants from the income to the capital approach in line with Directive 1/2017 issued by the Department of Local Government. In accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) the adjustment should be accounted for retrospectively.

2.2 The Council provided us with journal entries for the prior period adjustment which it passed in its books of account. The prior period adjustment in question should not have had an effect on retained earnings, yet an amount of €8,193 was included in profit and loss for 2018. This indicates that there must be an error in the prior period adjustment. We noted that the €8,193 is only the balancing figure passed in 2018 as income. This relates to prior periods.

2.3 The following discrepancies were identified:

Account	Correct treatment	Journal entries in books of account	Difference
	€	€	€
7101 Asset - road resurfacing	(116,335)	(111,885)	(4,450)
7240 Asset – urban improvements	(110,396)	(96,433)	(13,963)

7310 Asset – office equipment	(12,188)	(12,002)	(186)
7510 Asset – trees	(14,157)	(17,006)	2,849
8041 Accumulated depreciation road resurfacing	42,726	38,277	4,449
8035 Accumulated depreciation urban improvements	47,869	44,948	2,921
8036 Accumulated depreciation office equipment	7,563	7,376	187
	(154,918)	(146,725)	(8,193)

- 2.4 We have reversed the incorrect prior period adjustment posted by the council and passed the above adjustment to correct the errors identified. The adjustment was approved by the council and incorporated in the audited financial statements.
- 2.5 We recommend that the prior period adjustment should be carefully calculated by the council and confirmed to supporting documentation to establish the accuracy of this type of adjustment.

3 Fixed assets

Fixed asset register

- 3.1 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which states that every council is to create, maintain and control an accurate and up-to-date fixed asset register. Furthermore, Circular 2/2019 specifically requires the executive secretary to furnish the auditor with a fixed asset register that agrees to the nominal ledger.
- 3.2 May we remind the council that the fixed asset register must 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
- 3.3 A fixed asset register is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and condition. Furthermore, the information contained above allows any disposals to be correctly accounted for.

Depreciation

- 3.4 During our audit we were again provided with depreciation workings computed on Microsoft Excel. This contravenes the Local Council (Procedures) Regulations, 1996.

- 3.5 We reiterate our recommendation from our previous management letter stating that the council should combine and maintain a fixed asset register which will allow the council to depreciate its assets by means of the month-end facility in the council's accounting package.

Addition to fixed assets

- 3.6 Whilst performing audit procedures on fixed asset additions we noted that in the below instances the council failed to issue a call for quotations:

Supplier	Description	€
Ellul SRV	Stone restoration at Garden Lorry Sant	5,900
Toplechnix	Show throw projector	5,900

- 3.7 In accordance with Public Procurement Regulations Subsidiary Legislation 174.04, purchases equal to or above €5,000 but below €10,000 should be supported by a call for quotations issued through the ePPS system. The Guidelines issued by the Department specify that the amounts are exclusive of VAT, however the Financial Regulations and PPR's do not mention VAT in respect of purchases. Therefore we recommend that the council seeks clarification from the DLG regarding this matter.

- 3.8 We also noted that in aggregate the following amounts to €5,084.

Date	Supplier	Description	€
13.04.2018	Scan Centre	19.5" Acer LED black monitor HP Laserjet Pro 24.4" Liyama black hawk Lenovo Yoga Scan HDMI StarTech USB	1,489
04.04.2018	Scan Centre	Microsoft office 365 business premium subscription	145
19.04.2018	Scan Centre	Dell Vostro 3268 core-i5-7400 256GB SSD 8GB (x5)	3,450

- 3.9 We draw your attention to the section e.01 of the local councils (Financial) Procedures, 1996 which states that similar purchases within four months are to be considered as one single purchase. Thus, it should be supported by a call for quotations.

Grants

- 3.10 As stated in last year's management letter we noted that the 'Wied Blandun' project will not be carried out by the council. Upon enquiry we were informed that the project will be undertaken by Projects Malta. During 2016 council had received a grant of €50,000 in respect of the same project. To date of the audit fieldwork the council was still negotiating with the Department of Local Government to establish whether the funds can be used to enhance the same project. The council proposed to utilise this amount for the monument to be placed in 'Wied Blandun'.
- 3.11 We recommend that the council continues liaising with the Department of Local Government and resolves the issue in the coming year.
- 3.12 Whilst reviewing property, plant and equipment in the financial statements we noted that the council failed to separately disclose grants. The council has netted off

grants against the cost or depreciation of assets. The council has correctly amended the audited financial statements.

- 3.13 We recommend the council discloses grants received in a separate line item in the property, plant and equipment schedule. This provides clear information of the nature and extent of grants recognised in the financial statements as required by IAS 20 and the specimen financial statements in appendix P2.1 of the Local Councils (Audit) Procedures.

4 Income

Income from Central Government

- 4.1 During the year under review, the council received the amounts of €10,000 and €8,817 in relation to 'Commercial Zone funds/Cities 2016' and 'Capital and Cities Funds' respectively from the Department for Local Government. The council has included these amounts with the annual allocation. We have proposed an audit adjustment to reclassify €18,817 to other Government income. The council has amended the financial statements to include the audit adjustment.
- 4.2 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 DLG.

Other Government income

- 4.3 Whilst performing audit procedures on other Government income we noted that the council received from the Department of Local Government an amount of €8,553. Upon initial enquiry the council was not able to identify the nature of the amount received. However the council contacted the DLG and obtained an explanation that this amount relates to the reimbursement of Christmas activities held during 2017. In October 2018, the council received an additional €5,000 in relation to the same activity. The Department notified the council that the €5,000 should be reimbursed as the claims are the same as the one provided in a previous payment. After further discussion, the executive secretary asked the Department not to refund the €5,000 and use the funds for "Casal Paola fil-Pjazza tan-Nies" activity. Incorporated in the same email the council also forwarded a copy of all invoices. In an email dated 18 March 2019, the Department approved to allocate the €5,000 for the other activity. We have proposed an audit adjustment to reallocate the €5,000 adjustment for social activities to other Government Income. This was approved by the council and incorporated in the financial statements.
- 4.4 We recommend that the council immediately establishes the nature of any funds received and classifies these amounts to the appropriate accounts so that income is correctly reported.

Income from LES administration fees

- 4.5 We obtained Loqus report 483 and reconciled to the LES administration fees and established that the council's income from LES administration fees for 2018 is understated by €114.
- 4.6 We did not propose an audit adjustment due to the immateriality of the amount. However we recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

- 4.7 Furthermore we noted that council has disclosed in the financial statements an amount of €2,099 as ‘fines re traffic contraventions from individuals’. The council could not confirm what it relates to.
- 4.8 We recommend that prior to recording income council obtains all supporting documentation and establishes the nature of the income and whether it pertains to the council.
- 4.9 The invoice for the month of August 2018, dated 13 September 2018, was not sent to LESA within the stipulated time period.
- 4.10 In accordance with memo 91/2011 local councils are required to issue regional committees’ and LESA invoices in the first week of the following month.

Investment income

- 4.11 Whilst performing audit procedures on interest received from the bank, we noted that council erroneously netted off interest received amounting to €79 with bank charges. We proposed an audit adjustment to show the income and expense separately. The adjustment was correctly included in the audited financial statements.
- 4.12 We recommend the council discloses investment income and expense separately in order to accurately report it in the financial statements.

Organic waste collection agreement

- 4.13 To date of the audit fieldwork the council did not have a signed agreement with WasteServ Malta Limited for the reimbursement of organic waste collection expenses. Owing to the absence of an agreement the council could not accrue for this source of income for October to December 2018.
- 4.14 May we remind the council cotacts WasteServ to sign the agreement. In this case the council will be able to claim the organic waste collection costs. The contract will also establish the rates of recharge and reimbursement and rights and obligations of both parties.

5 Expenditure

Petty cash expenditure

- 5.1 During our audit fieldwork we noted that the following purchase items exceeded the €50 threshold:

Details	Supplier	Date	€
Receipts books + VAT	Print Right Limited	12.06.2018	59
Opening of drainage – Gnien Paul Boffa	Ryan Seguna	22.06.2018	59
Taxi service airport Venice	Kurt Scerri	06.11.2018	57
Stationery	Desktop Stationery	21.11.2018	58

- 5.2 Directive 3/2017 and Legal Notice 269 of 2017 state that cash transactions paid through petty cash should not exceed €50. If expenditure surpasses the established threshold, then the council should obtain prior approval by means of a signed purchase order, quotations and make payment by cheque. The Local Councils (Financial) Regulations specify that no petty cash transaction shall be made for items of expenditure costing € 50 or over in aggregate.

Tendering procedures

- 5.3 Whilst reviewing the below tender documents we noted the following irregularity:

Reference	Title
01/2018	Upkeep and Maintenance of Soft Areas in an Environmentally Friendly Manner
02/2018	Provision of Project Management and Coordination Services

Contract agreement was signed by the executive secretary and contractor only, but not by the mayor.

- 5.4 We recommend that all contract agreements are signed by the mayor and executive secretary, who jointly have the power to bind and represent the council.

Insurance policy

- 5.5 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and NBV in the 2017 audited financial statements:

Asset	Sum insured €	NBV in audit financial statements 2017 €
Property office buildings	82,000	86,980
Furniture and fittings	35,000	14,798
Office equipment	25,000	6,831
Computer system	22,000	4,048
Plant and machinery	17,000	10,284
Glass	13,600	-
Total	194,600	122,941

* NBV is at 31.12.2017 before adjusting grants and depreciation.

- 5.6 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.
- 5.7 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. 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 and

inclusion of grants) we recommend that the insurance at least covers the replacement cost for assets.

Travelling

- 5.8 During the audit fieldwork we noted that the council incurred travelling expenses amounting to €755 for Efforts Annual Congress in relation to “European Fortification Cultural Heritage challenges after EYCH 2018” which was held in Venice. The council did not submit the travel report to the Department of Local Government for this trip.
- 5.9 The council is required to prepare travel reports for each project or event which the council or delegates attend and submit this to the Director for Corporate Services as required by MF/5/2012. The report should be submitted to the Department for Local Government by not later than one month after the trip and needs to include the purpose of the visit and any remarks such as benefits achieved from such trips.
- 5.10 Furthermore the council incurred travelling expenses amounting to €809 in relation to Paola (Italy) for which we were not provided with any twinning agreement. The council failed to prepare and submit the required report to the DLG.
- 5.11 May we remind the council that in accordance with the Local Councils (Twinning) Regulations before initiating a twinning process the council must submit a report to the Director of DLG stating the objects and reasons of the proposed twinning and an estimate of the expenditure for the activities related to the twinning. After the approval by the DLG the agreement shall be signed. Furthermore at the end of each financial year the council shall prepare a report to DLG stating the results and benefits of twinning and a statement of all expenditure relating to twinning.

Rent expense

- 5.12 Whilst performing audit procedures on expenses we noted that the rent expense for the Civic centre amounting to €531 was erroneously included with account 2235 ‘Permit and Licences’ rather than with account 2400 ‘Rent’. We proposed an audit adjustment to reallocate rent expenditure to the appropriate account. The council has amended the financial statements to include our audit adjustments.
- 5.13 We recommend that the council should allocate its expenditure to the appropriate account so that the expenses of the council are properly reported.

Christmas dinner

- 5.14 We noted that during the year under review the expense in relation to the Christmas dinner amounting to €630 was posted in account 3360 ‘Social Events’ as well as in account 3380 ‘Community Services’ and thus overstating the trade payables. We have proposed an audit adjustment to rectify the issue. The council has included this adjustment in the final set of financial statements.
- 5.15 We recommend that the council establishes whether invoices have already been recorded in the books of account thus avoiding double posting.

Schedules of payments

- 5.16 During our review of schedules of payments, we noted that the account numbers are not included on the schedules. This is not in accordance with the template issued by the DLG.

- 5.17 The council should fill in all details on the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule and the expenses included in the books of account.

6 Payroll

Councillors' allowances

- 6.1 During our audit fieldwork we noted that the council has erroneously classified €1,600 as mayor's allowances instead of councillors' allowances. We have proposed an audit adjustment to rectify this issue. The audited financial statements of the council reflect this adjustment.
- 6.2 We recommend that the council properly classifies accounting entries to the respective nominals to agree to the financial statements.

Payment of overtime

- 6.3 The council is paying overtime without obtaining prior approval in council meetings. Overtime payments made in 2018 amount to €4,642.
- 6.4 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

7 Trade and other receivables

Pre-regional receivables

- 7.1 When testing pre-regional receivables, we noted a balance of €144,957 in the council's books of account whilst report 622 shows a balance of €500,738. This results in a difference of €355,781 for which the council could not provide us with any explanation. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 7.2 We would like to remind the council that it is the council's responsibility to investigate and reconcile the movements in the Loqus reports.

Overdue receivables

- 7.3 We identified the following overdue receivables for which no provision was made in the books of account:

Debtor	€	Note
Central regional committee	51	
Gozo regional committee	102	
Northern regional committee	4	
Southern regional committee	8	
South East regional committee	579	(a)
	<u>744</u>	

- (a) We received a confirmation letter from South East regional committee stating that the outstanding balance should be €243 and not €650 (the total due from the debtor). Hence the committee is disputing the amount. Every effort should be made to reconcile this balance.

- 7.4 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council's books of account are correct by preparing a reconciliation of invoices and receipts. Otherwise if council still believes that amounts are unrecoverable, the former should evaluate the possibility of writing them off in the books of account after obtaining approval by council in meeting.

Accrued income

- 7.5 During audit fieldwork we noted that the Department for Local Government paid €400 for SPI 9/2018 Libraries. However, the council did not account for this income during the year under review. Upon enquiry council stated that in January 2019 it received a cheque from the Department dated 6 November 2018 and therefore council deposited it in its bank account on 11 January 2019. We have proposed an audit adjustment to rectify the issue. The council approved our audit adjustment and included it in the final set of financial statements.
- 7.6 We recommend that the council accounts for its income in the year to which it pertains. Thus income is reported in the appropriate period.

Prepayments

- 7.7 The prepayment of €585 for health insurance has been omitted from the list of prepayments. Furthermore we noted that the cheque (with which the health insurance for 2019 was settled) BOV 9104 dated 28 December 2018 was not included in the bank reconciliation as at 31 December 2018. We have proposed an audit adjustment to account for the prepayment and corresponding payment. This was approved by the council and included in the financial statements.
- 7.8 We also noted that expenditure of €831 for the insurance of the motor vehicle was erroneously classified as insurance coverage rather than motor vehicle insurance. Furthermore, council failed to account for the prepayment portion of €286 for the motor vehicle insurance thus overstating the expenditure for the current year. We have proposed an audit adjustment to correct the errors. This has been reflected in the audited financial statements.
- 7.9 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept. Furthermore, all the expenditure should be classified in the appropriate accounts.

8 Bank and cash

Petty cash reconciliation

- 8.1 During our audit fieldwork we determined that the council does not perform petty cash counts. We performed a cash count as at 12 March 2019 and reconciled it back to 31 December 2018. This procedure highlighted an excess of €50 in the accounting records.
- 8.2 We would like to remind the council that petty cash should be counted and reconciled to the books on a monthly basis as required in the Financial Procedures. In this manner differences are immediately identified and adjusted.

9 Trade and other payables

Supplier statements

- 9.1 We again noted that the council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department of Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 9.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Long-outstanding creditors

- 9.3 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
Arms Limited	567
Flowers	25
Socjeta' Filarmonika De Paule	100
ELC Consortium	3,625
Environmental Landscapes Consortium	2,174
Kumitat Festi Kristu Re	100
Renato Micallef	250
Saviour Mifsud	130
SRF Valedrians	6,253
Virtuosi	250
W.M Limited	400
	13,874

- 9.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

PPP payables

- 9.5 We again noted that the council did not distinguish between trade creditors and capital creditors in the trial balance. We have proposed an audit reclassification to reclassify PPP payables of €77,785 to a separate account. This has been reflected in the final set of financial statements.
- 9.6 We have also proposed an audit reclassification of €19,446 and €58,339 to distinguish between the short-term and long-term capital creditors respectively. This adjustment was properly reflected in the audited financial statements.
- 9.7 We reiterate our recommendation from our previous management letter that capital creditors are disclosed separately, especially when they are long term, to avoid taking incorrect figures when calculating liquidity and FSI ratios. Separate disclosure will also aid in the preparation of the cash flow statement.

Primavera creditor

- 9.8 During our audit fieldwork, we noted that the Primavera creditor balance includes invoice 5009 amounting to €1,651 in relation to catering services for the award presentation of the best decorated street which took place on 18 January 2019. An audit adjustment was proposed since this expense is in relation to year end 2019. This was correctly adjusted in the financial statements.
- 9.9 We recommend that the council accounts for its expenses in the year to which they relate to ensure expenditure is reported in the appropriate period.

Accruals

- 9.10 During accruals' testing we found that the council did not accrue for December 2018 tipping fees amounting to €4,526. An audit adjustment was proposed to increase the expense and accruals as appropriate. This was accepted by the council and corrected in the final set of financial statements.
- 9.11 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.
- 9.12 When reviewing the list of accruals, we noted that the council made a payment of €1,515 for the purchase of hampers for the councillors, staff, district members of Parliament, parish priests, police officers, local clubs and helpers at active ageing centre.
- 9.13 We would like to remind the council that donations are contrary to Section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation whether in cash or in kind. The council should seek clarification from the Department of Local Government regarding the purchase of hampers.
- 9.14 Furthermore we noted that council accrued €2,800 for community services being:

Supplier	Description	€
Socjeta Filarmonika Ant. De Paule	Christmas decorations	1,100
Ghaqda Nar u Armar Parrocca Madonna ta' Lourdes	Christmas decorations	700
Socjeta Filarmonika 11 ta' Frar	Christmas decorations	1,000
		2,800

- 9.15 The council failed to provide us with tax invoices/fiscal receipts, purchase orders and quotations with the respect to the above expenditure.
- 9.16 May we remind the council that in accordance with the Procurement Guidelines 2017 issued by Department for Local Government the council should raise purchase orders for all purchases of more than €50. The council should obtain at least three signed quotations for purchases exceeding €50 and up to €5,000. Furthermore the council must obtain a tax invoice/ VAT receipt duly addressed to the council for all payments issued by the council.

10 Financial statements

Presentation of financial statements

10.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards and Financial Procedures. During our audit we pointed out that the council's unaudited financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS). Below are some of the non-compliance issues identified:

- i. The financial statements do not state that they are prepared on the going concern basis as required by IAS 1 *'Presentation of Financial Statements'*.
- ii. The council failed to include all standards which are applicable to the coming financial year; case in point is IFRS 16 *'Leases'*.
- iii. The accounting policy for property, plant and equipment includes the percentage rather than range of years or percentages due to change in the depreciation method.
- iv. The council omitted the note stating the change in depreciation method.
- v. Investment income was erroneously disclosed within the revenue.
- vi. The council's financial statements include the title 'deferred income'. However due to the change in accounting policy for grants it should read 'advance payment'.
- vii. The council failed to disclose that balances are restated.
- viii. In note 16 the council erroneously stated that Government grants are accounted for 'by applying the method of deferring the income, which is recognise as income, on a systematic basis over the useful life of the asset, in line with IAS 20'.
- ix. The note 'New important standards and amendments not yet adopted' is incorrect.
- x. The note 'Government grants' is incorrect.

10.2 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.

IFRS 9 'Financial Instruments'

10.3 The unaudited financial statements did not include all the disclosures required by IFRS 9. The standard required additional disclosures regarding financial instruments' impairment and expected credit losses. Required disclosures were included in the audited financial statements.

10.4 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 the accounting standards.

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

10.5 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 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. The council correctly included the required disclosures in the final set of financial statements.

11 Electronic site

11.1 We identified the following shortcomings in the uploaded documents on electronic site. The following are some examples:

- (a) Quarterly financial reports for January to December 2018 were not uploaded within the publishing time limits. Furthermore uploaded documents were not the signed version.
- (b) To date of the audit fieldwork the audited financial statements for 2016 and 2017, management letters and its replies for corresponding years were not uploaded on the council's website.
- (c) Meeting minutes 42, 43, 44 and 52 were uploaded late on the council's website.
- (d) The council failed to upload the business plan for years 2018 – 2020.
- (e) The annual budget 2018 was uploaded within stipulated timeframe but was not signed.
- (f) To date of the audit fieldwork the annual administrative report for 2017 was not uploaded on the council website.

11.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required time period. 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

11.3 Memo 7/2016 required the council to upload the management letter on the website. We have noted that the council does not upload the letter on the website whilst other councils 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 ...”.

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

11.5 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 the GDPR prior to uploading on the website.

12 Budget

12.1 To the date of audit fieldwork council failed to approve the budget. The above is in contravention to article 56 of Local Councils Act, 1993.

12.2 We recommend that the council prepares a budget for approval by the council not later than 15 February of each year. It is important that the council approves the budget early at the start of the year for proper financial planning and to prioritise expenditure.

13 Committee meetings

Attendance at meetings

- 13.1 Based on the number of meetings held the maximum number of attendances is 119. When one considers that there were 56 excuses, the overall attendance is only 53%. Only the mayor and one councillor attended all meetings. If these are excluded from the above calculation, attendance by the other five councillors was only 34%.
- 13.2 We would like to remind to the council that council members are obliged to attend all meetings under section 18 of the Local Councils Act. On the other hand, if a letter of excuse is provided the mayor and council must consider the reasons for excuse and document the approval or otherwise in the minutes of the council. We recommend to the council to do its utmost to increase the attendance level.
- 13.3 Five councillors failed to attend more than one-third of the meetings called within a period of six months. 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 seat vacant.
- 13.4 The council did not abide by Circular 17/2016, which states that the council must inform the Minister of the list of absenteeism of councillors from the council meetings.

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 Kurt Scerri and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

