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Haz-Zebbug Local Council
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Dear Sir,

Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 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 Payroll

We identified a shortcoming in the payroll (refer to note 5.1).

1.2 Assets insurance

The fixed assets of council are still inadequately insured (refer to note 4.7).

1.3 Debit balances in creditors list

The council failed to address the issue during the year under review (refer to note 10.5).

1.4 Disputed amounts

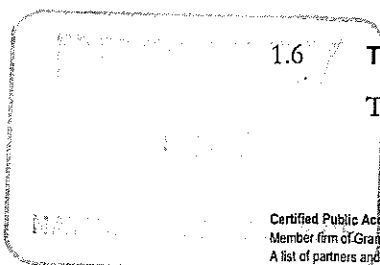
We are pleased to note that the issue related to disputed amounts with Schembri Infrastructure was resolved.

1.5 Fixed asset register

The fixed asset register is still being kept using Excel workbook and therefore depreciation is still being calculated manually (refer to note 6.1).

1.6 Tagging of fixed assets

The council failed to tag fixed assets, where appropriate (refer to note 6.5).



1.7 **Overdue receivables**

The council failed to address the issue regarding overdue receivables recorded in the books of account (refer to note 8.6).

1.8 **Garnishee orders**

We noted shortcomings with respect to garnishee orders (refer to notes 8.8 and 8.10).

1.9 **Trade payables**

The issue relating to differences between trade payables and third parties statements was still not resolved (refer to note 10.7).

The council failed to address the issue regarding long-outstanding creditors (refer to note 10.3).

1.10 **Accruals**

The council included once again the amounts due to the Commission for Revenue as part of the accruals (refer to note 10.17).

The council also failed to resolve the difference between the accruals list and the accounts (refer to note 10.13).

The issue relating to creditor balances listed as accruals has been resolved.

1.11 **Accrued income**

We are pleased to note that there was no difference between the accrued income and third party documentation.

1.12 **Petty cash reconciliation**

The council failed to address the discrepancy in petty cash (refer to note 9.7).

1.13 **LES cheques dated 2007**

The issue was not resolved during the year under review (refer to note 9.3).

1.14 **Business plan**

We are pleased to note that the council prepared business plan covering 2019 - 2023.

1.15 **Financial Situation Indicator**

The council did not rectify the issue during the year under review (refer to note 14.1).

1.16 **Legal letter**

The council is being represented by the legal attorneys. We were provided with one of the legal confirmations, but council failed to provide us with the letter from the second attorney (refer to note 15.4).

1.17 **Expected credit loss**

We did not identify any shortcomings in IFRS 9 adoption.

1.18 **Prior year adjustment**

There was no prior year adjustment during the year under review.

2 Opening balances

2.1 Whilst testing opening balances as at 1 January 2020 we noted the following discrepancies:

No.	Account description	Trial balance at 31 December 2019 €	Trial balance at 1 January 2020 €	Difference €
7240	Urban improvements	938,445.14	937,958.14	487.00
7245	Trees	25,431.11	25,918.11	(487.00)
	Total	963,876.25	963,876.25	-

2.2 Furthermore we noted the following differences when comparing additions recorded in the books of account and additions recorded in the unaudited financial statements 2020:

Category description	Trial balance at 31 December 2020 €	Unaudited financial statements 2020	Difference €
Urban improvements	19,595.00	19,108.00	87.00
Trees	3,268.00	3,755.00	(487.00)
Total	22,863.00	22,863.00	-

2.3 Although the discrepancy does not have any impact on the council's reserves, the council must ensure that opening balances are in the agreement with the prior year audited financial statements. Furthermore, additions recorded in the property, plant and equipment schedule must agree to the books of account.

3 Income

Government income

3.1 During 2020 council received an amount of €10,000 from capital and cities fund and an amount of 1,934 from adjustment fund for decrease in allocation from 2019. The council has included this amount with the annual allocation. We have proposed an audit adjustment to reclassify this amount to other Government income. The council has amended the financial statements to include our audit adjustment.

3.2 The council should ensure that transactions are properly allocated to the correct account.

Supplementary Government income

3.3 During the audit fieldwork we noted that council passed the following journal entry:

Account	Description	Dr €	Cr €
0002	Supplementary Government income	36,787.88	
0260	Accrued income		36,787.88

We have reviewed the original journal entries posted in the books of account in 2019 and established that the entries were the following:

Account	Description	Dr €	Cr €
0260	Accrued income	10,789.74	
0065	Organic waste collection		10,789.74
0260	Accrued income	1,350.00	
0066	General income		1,350.00
0260	Accrued income	24,648.42	
0002	Supplementary Government income		24,648.42

The above shows that during the year under review the council erroneously reversed all accrued income of financial year 2019 against account 0002 'Supplementary Government income' rather than against the accounts where the original entries were posted. We have proposed an audit adjustment to rectify the issue. The adjustment was correctly included in the audited financial statements.

3.4 We also noted that the council did not issue invoices to WasteServ Malta Ltd for organic waste collection covering November and December 2019 amounting to €10,789.74. Therefore, we have proposed an audit adjustment to record accrued income. The council has amended the financial statements to include our audit adjustment.

3.5 We recommend the council that prior to recording entries in its books of account the council carefully evaluates the nature of the transactions and therefore uses appropriate accounts. Furthermore, council should issue invoices in a timely manner.

Other Government income

3.6 We noted that council recorded as other Government income, funds amounting to €1,375 which were received in terms of the 'Achievers scheme' established by Malta Council for the Voluntary Sector. During audit fieldwork, the council informed us that due to COVID-19, activities in relation to the scheme were postponed and therefore no expenses were incurred during 2020. We have proposed an audit adjustment to defer income to the next financial year. The council has included this adjustment in the final set of financial statements.

3.7 We recommend that the council adheres to the accrual basis of accounting and the income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements.

General income

- 3.8 During our audit fieldwork we noted that in certain instances the council failed to fulfil its obligation to deposit income received on a timely basis, namely:

Description	Receipt number	Receipt date	Deposit Date	€
High-up	123058	15.09.2020	09.10.2020	10.00
Crane	123050	14.09.2020	01.10.2020	10.00
High-up	121991	07.07.2020	28.07.2020	20.00
Cherry picker	121476	11.05.2020	25.05.2020	20.00
'No-parking' permit	123026	09.09.2020	30.10.2020	6.96

- 3.9 The above is in contravention of the relevant regulations. Moreover, leaving cash and cheques on the premises can raise security issues.
- 3.10 During the year under review council recorded an income of €14,916 in relation to the agreement with the Malta Industrial Parks for the cleaning and sweeping of the industrial estate. We have reviewed the contract and noted that the amount per month is of €1,350. Furthermore, we noted that invoice 581 dated 31 August 2020 was issued by the council with the erroneous amount of €66 and therefore the income for the year was understated by €1,284. We have proposed an audit adjustment to rectify the issue. This was approved by the council and incorporated in the financial statements. We also noted that the agreement was not signed by either party.
- 3.11 Furthermore we noted that during the year under review the council received an amount of €18,900 from Malta Industrial Parks. We also identified that debtors list included amount of €2,634 in credit. Upon further audit procedures we noted that council received funds from the debtor of €1,350 in relation to December 2019 and €1,350 covering August 2020 rather than €66 in accordance with invoice (refer to note 3.10). The council failed also to issue invoice covering December 2019. We have proposed an audit adjustment to record omitted entry in the books of account against debtors control account and general income, which was reversed at the beginning of the financial period (refer to note 3.3). The audited financial statements of the council reflect this adjustment.
- 3.12 We recommend the council carefully reviews issued invoices prior to sending to the respective suppliers. We also remind the council to ensure that the agreement is signed by both parties. This would guarantee that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are. Furthermore, may we remind the council that it is of vital importance to issue invoices in a timely manner in accordance with the agreement and to allocate payments received against appropriate invoices. The latter procedure will assist council in investigating credit balances in debtors list.
- 3.13 While reviewing general income we noted that council erroneously recorded as general income an amount of €2,905.78 received from the Southern region of which the council forms part. The income was in relation to the Christmas decorations 2017 and 2019 and 25% share of 2014 profit. We have proposed an audit adjustment to reclassify the amount of €2,905.78 to other Government income. The council has included this adjustment in the final set of financial statements.

- 3.14 The council should ensure that transactions are properly allocated to the correct account.
- 3.15 In the unaudited financial statements the council has classified income from organic waste collection amounting to €63,077.58 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate the above amount to 'other Government income'. The council has amended the financial statements to include our audit adjustment.
- 3.16 We reiterate our recommendation that the council should allocate income receivable to the appropriate accounts so that the income of the council is properly reported.

Income from LES administration fees

- 3.17 We obtained Loqus report 483 and reconciled to income from LES administration fees. We have established that the council's income from LES administration fees for the year under review is overstated by €380.71. The council did not provide us with an explanation for the difference.
- 3.18 We recommend that the council investigates why such differences are arising and identifies whether this is due to a mistake in the invoices issued to the regional committees and LESA or a misposting in the accounts.

Income from LESA and regional committees

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

Invoice month	Invoice date
January 2020	04.03.2020
March 2020	06.08.2020
April 2020	06.08.2020
May 2020	06.08.2020
June 2020	06.08.2020
July 2020	20.10.2020
August 2020	20.10.2020
September 2020	20.10.2020
October 2020	11.11.2020
December 2020	03.05.2021

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

Custodial receipts

- 3.21 We came across instances where the council failed to deposit its income received on a timely basis. Examples are:

Description	Receipt number	Receipt Date	Deposit Date	€
Lands Department	933119	21.07.2020	29.09.2020	238.98
Lands Department	952476	17.09.2020	05.10.2020	3.98
Lands Department	955565	06.10.2020	05.10.2020	348.08
LES income	454746	06.07.2020	13.07.2020	11.65
LES income	4529336	08.06.2020	16.06.2020	23.29

LES income	4496015	21.03.2020	30.03.2020	34.94
LES income	4603347	22.09.2020	28.09.2020	34.94
LES income	4597277	14.09.2020	23.09.2020	23.29

- 3.22 We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.

Joint Committee

- 3.23 We noted that the Central Joint Committee, of which Haz-Zebbug Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2010.
- 3.24 We have obtained the last audited financial statements of the Central Joint Committee and noted that reserves at that date amount to €43,207. In the absence of audited financial statements, we were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 3.25 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the Joint Committee is liquidated and that the council receives any further income that may be due to it.

4 Expenditure

Petty cash summary

- 4.1 We noted that the petty cash summaries do not include all necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts it should be allocated.
- 4.2 We recommend the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

Petty cash vouchers

- 4.3 We have noted that petty cash vouchers are not being signed by the purchaser and the executive secretary. Furthermore, the description of the petty cash vouchers includes solely the name of the supplier from where goods are being purchased while this should include the description of the items purchased.
- 4.4 We remind the council that 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.

Procurement procedures

- 4.5 Testing on cheque payments revealed the council did not obtain any quotations for the below listed purchases:

Details	Supplier	€
Stationery	Smart Office Supplies	801.26
Purchase of trees	Leo Ciappara	2,505.00
Paint, sleeping police	Sign Mark	1,967.54
Cost analysis – Pjazza Pedonali	Baci Ltd	4,248.00
Shredder	Samuel Micallef	2,124.00

Grass cutting	Garden Works	814.20
Various items	Tanti Ironmongery	654.89

- 4.6 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.

Asset insurance

- 4.7 During our audit we identified the following discrepancies between the asset insurance cover and the net book value (NBV) as stated in 2019 audited financial statements:

	Sum insured €	NBV €
Furniture and fittings	12,812	2,857
Buildings	40,629	-
Public property	42,794	-
Office & electronic equipment	7,614	3,289
Plant & machinery	-	1,617
Total	103,849	7,763

- 4.8 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. We have also noted that plant and machinery was not included in insurance coverage.

- 4.9 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We also remind the council that insuring community assets in breach of Directive 3/2017 which states that community assets should not be insured.

Expired contract

- 4.10 During our audit fieldwork, the council informed us that the contract for accountancy services expired in prior years, but the council is still using the same services provider. The council did not provide us with the copy of the expired contract. Furthermore, we also noted that the invoices issued by the supplier during 2020 amounted to € 3,957.96.

- 4.11 We would like to bring to the attention of the council Procurement Guidelines 2017 which states that the council should not make use of expired contracts. Furthermore, the council should allow enough time to obtain quotations or issue a call for tenders and adjudicate it before the preceding contract expires.

Contract manager

- 4.12 We noted that during the year under review the council did not issue a call for quotations/tender in accordance with the Procurement Guidelines 2017 to appoint a contract manager. This is not in line with Directive 03/2019.

- 4.13 Directive 03/2019 states that the council had to appoint a contract manager by 31 December 2019. We recommend that this is rectified in the upcoming year.

IFRS 16 'Leases' assessment

- 4.14 Whilst performing audit procedures we noted that the council recorded rent expense amounting to €1,000 in the books of account. However, the council failed to provide us with IFRS 16 'Leases' assessment.
- 4.15 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.

5 Payroll

Wages' reconciliation

- 5.1 Whilst reconciling the FSS tax declared in FS5 forms to that declared in the FS7 form of the council, we came across the following differences:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
FSS full-time	26,601.88	26,406.00	195.88
NI full-time	20,118.04	20,507.74	(389.70)
Total	46,719.92	46,913.74	(193.82)

- 5.2 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner of Revenue.

Allocation of expenses

- 5.3 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €4,551.92 pertaining to 'Mayor allowance' as 'Employees salaries'. We have proposed an audit adjustment to reclassify the amount in with Mayor allowance. This was correctly amended in the audited financial statements.
- 5.4 Whilst reviewing wages we also noted that the council erroneously classified an amount of €6,923.95 pertaining to 'Bonus' paid as 'Employees salaries'. To this end we have proposed an audit adjustment to reclassify the amount. The audited financial statements of the council reflect this adjustment.
- 5.5 During our testing we noted that the council erroneously classified the amount of €7,092.01 pertaining to 'Allowances' as 'Employees salaries'. We have proposed an audit adjustment to reclassify the amount in with allowances. The audited financial statements of the council reflect this adjustment.
- 5.6 We have also noted that an amount of €8,603.60 pertaining to the 'Executive Secretary salary' was erroneously classified as 'Employees salaries'. To this end we have proposed an audit adjustment to reclassify the amount. The council has amended the financial statements to include our audit adjustment.
- 5.7 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

6 Fixed assets

Fixed asset register

- 6.1 We noted that the council keeps a fixed asset register on Excel workbooks and not on the council's accounting software. Therefore, the depreciation is being calculated as well using Excel.
- 6.2 We have also noted that the fixed asset register does not contain complete details such as reference numbers, description of assets, invoice numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.
- 6.3 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Cost
 - Depreciation rate
 - Location of the asset
 - Grants received
- 6.4 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.

Tagging of fixed assets

- 6.5 We noted that not all assets are tagged (where applicable). This is in breach the Local Councils (Financial) Procedures, 1996.
- 6.6 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.

Reconciliation of financial statements with fixed asset register

- 6.7 We identified various differences between the NBV of assets in the financial statements and the NBV in the fixed asset register. These are summarized below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Construction and special projects	234,697	448,974	(214,277)
Office furniture	2,292	2,774	(482)
Urban improvements	195,809	225,827	(30,018)
	432,798	677,575	(244,777)

- 6.8 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.

Procurement procedures on fixed asset additions

- 6.9 Testing on fixed asset additions revealed that the council failed to obtain quotations for the below listed purchases:

Details	Supplier	€
Trees	IO Projects	1,062.00
Trees	Leo Ciappara	2,505.42
10 doggy bins	360 Retail Supplies Ltd	1,062.00
Vjal il-Helsien land survey	Matsurv & Associates Ltd	1,799.50

- 6.10 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.

Property, plant and equipment schedule in the unaudited financial statements 2020

- 6.11 While reviewing property, plant and equipment schedule in the unaudited financial statements 2020, we noted that council included an adjustment to the cost of the category 'Trees' amounting to €4,035. Upon enquiry the council explained to us that during financial year ended 31 December 2019 creditor, which was supplying local council with the trees, had a debit balance of €4,031.47 for which the council accrued for during prior year. Furthermore, the council stated that during 2020 a supplier statement was obtained and reconciled, and it transpired that the accrued invoices were of an expense nature rather than capital expenditure therefore council recorded an adjustment to the cost of the trees. We also noted that additions for category 'Trees' during 2019 amounted to €424. The council did not provide any further explanation.
- 6.12 We recommend that the council regularly assesses all its expenditure and establishes which expenditure shall be capitalised in accordance with IAS 16 *Property, Plant and Equipment* and which should be expensed.

7 Inventory

Stock list

- 7.1 The council did not provide us with a stock list to confirm the inventory held at year-end with a carrying amount of €3,200 and consequently we could not test stock. Our audit report has been qualified in this respect.
- 7.2 We recommend the council to ensure that a list of all stock held is kept including the cost per unit and reconciled regularly to the books of account.
- 7.3 We also recommend that the council performs a stock count regularly, and any discrepancies identified between the stock list and the count should be investigated. All books which are being sold by the council should be included as part of the council's stock. In the case that some of the books are slow-moving or are given as

complimentary and not sold, then write-offs or provisions of inventories might be necessary if the books remain slow-moving or have no realisable value.

8 Trade and other receivables

Pre-regional LES debtors

- 8.1 In our testing on LES debtors, we obtained report 622 generated from Loqus system and found that tribunal pending payments as at 31 December 2020 were €212,944.88. The council had passed an entry of €166 against LES debtors and corresponding provision 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 amended the financial statements to include our audit adjustment.
- 8.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Confirmation of debtor

- 8.3 We have obtained a statement from Wasteserv Malta Ltd showing a € nil balance due to the council. However, the council's books of account indicate a balance of €128,239.02. This resulted in a difference of €128,239.02. Upon our request the council contacted Wasteserv Malta Ltd and it was established that the difference pertains to the payment amounting to €53,112.70 which was recorded by Wasteserv Malta Ltd in November 2020 but received by the council in May 2021. It was also noted that in the statement provided by Wasteserv Malta Ltd the payment an 'adjustment for missing trips' amounting to €844 was recorded but this entry was never recorded in the council's books of account. The revised difference of €74,282.32 is arising from invoices issued by the council for October to December 2018 and January to December 2020 which were not recorded by Wasteserv Malta Ltd.
- 8.4 We recommend that the council contacts Wasteserv Malta Ltd and ensures that all invoices are approved and recorded in their books. The council should also chase for the payment.
- 8.5 We recommend that the council contacts Wasteserv Malta Ltd and resolves the above discrepancy and updates its books accordingly.

Overdue receivables

- 8.6 We noted the following long-term receivables which have not been provided for in the books of account:

Debtor	€
Central region	538.02
East region	47.67
North region	1,203.23
South East region	1,678.05
Southern region	673.63
Wasteserv Malta Ltd	65,161.44
	<u>69,302.04</u>

We also noted that the council has an overdue balance of €47.67 from East region which is not one of the five regions currently established in Malta.

- 8.7 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due. Furthermore, the council should establish the nature of the recorded amount due to East region.

Garnishee order

- 8.8 While performing audit procedures on other debtors we noted that the council included an amount of €23,903.16 with respect to a garnishee order. The latter was served on the council with respect to the court case with Media & Graphic Services Ltd. The council explained to us that when the garnishee order was served on the council, the court erroneously withheld garnishee of €11,951.58 from two bank accounts pertaining to the council. The council failed to provide us with the supporting documentation for this amount. Up to date of the audit fieldwork the council did not resolve this matter with the courts of Malta.
- 8.9 We advise the council to contact its legal adviser and to resolve the above stated matter with the courts of Malta.
- 8.10 We also noted an amount of €10,560.78 included in other debtors and described in the books of account as 'Amounts due to other Local councils'. Upon enquiry council informed us that this amount is a garnishee order served on the council by Siggiewi local council. We obtained a judgement and noted that the court decision was taken back in 2006 and council still has not applied for the release of the garnishee order. The council failed to provide us with the supporting documentation for this amount.
- 8.11 We strongly advise the council to investigate the matter and to enquire on the procedure to be followed in order to release the garnishee order.
- 8.12 Furthermore we noted a balance of €1,808.23, fully provided for, and described in the books of account as 'Debtor ADT'. The council informed us that this balance was brought forward for several years. No further explanation or supporting documentation was provided to us during the audit fieldwork.
- 8.13 May we remind the council that each balance recorded in the books of account should be supported by the documentation, even if the balance is fully provided for. We recommend that the council investigates the above amount. Any decisions and discussions regarding this balance should be minuted during the council meetings.

9 Bank and cash

'LC other entities' bank account

- 9.1 We noted that during the year under review the council did not open the new bank account to deposit and transfer the money to other entities in accordance with the requirements established in the Directive 05/2020.
- 9.2 We recommend that the council opens a new bank account and adopts the process established by the Directive 05/2020.

LES cheques dated 2007

- 9.3 As stated in previous year's management letter prepared by the predecessor auditors, when the executive secretary commenced her role at the local council, she discovered stale cheques amounting to €5,346.33 which were being kept at the premises of the council. The executive secretary informed NAO and DLG about these cheques and it transpired that the receipts were issued to the payors but the cheques were not being deposited in the bank but rather were kept in the premises by the predecessor executive secretary.
- 9.4 We recommend that the council continues liaising with NAO and DLG in order to resolve the above stated issue.

List of unrepresented cheques

- 9.5 We noted that in the list of unrepresented cheques for the HSBC current account the following line item was included:

Cheque number	Date	Description	€
14591	12.08.2020	Philip Gatt – final settlement	263.75

Stated cheque was reversed by the council in the books of account, however the bank reconciliation was not updated in this respect.

- 9.6 May we remind the council that bank reconciliations should be prepared on a regular basis thus identifying and investigating differences promptly and ensuring that the bank reconciliation is agreeing to the books of account.

Petty cash reconciliation

- 9.7 During our audit fieldwork we performed a cash count as at 5 May 2021 and reconciled it back to 31 December 2020. This procedure highlighted an excess of €64.52 in the accounting records. We have also noted that the same difference arose as at 31 December 2019. No audit adjustment was proposed as we could not establish from where the difference is coming.
- 9.8 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.

10 Trade and other payables
Supplier statements

- 10.1 The council did not obtain monthly statements from all of its suppliers. Memos issued from time to time by the Department for Local Government specifically state that the council should obtain monthly statements from all suppliers.
- 10.2 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.

Long-outstanding creditors

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

Creditor	€	Note
Agius Nazzareno	110.00	
ARMS Ltd	3,954.42	
ASOS	55.98	
Avantgarde Caterers	155.95	
Azzopardi Alexander	24.34	
Ballut Blocks Services	114.46	
Antoine Bartolo	24.34	
Bella Casa	45.95	
Blue print Grafix	288.75	
Bonnici Bros	313,689.89	(a)
Bugela Paul	329.87	
Cachia Mario	1,694.55	
Caprice Glass Works	33.75	
Capital Pest Control	97.23	
3D Door to Door	590.00	
Data Protection	23.29	
Datatrak IT Services	94.28	
Davico Services	343.16	
Do it all	2,728.71	
Flower Land	225.01	
General Informatix Ltd	27.47	
Golden Gate	20.00	
Jacap Ltd	450.00	
John Spiteri	350.00	
Kazin San Filep	411.00	
Kazin San Guzepp	235.00	
Local Enforcement System Agency	5,381.74	
Mifsud Wilson	625.86	
Martin Transport	184.00	
Marvic & Sons Ltd	6,649.75	
Med Design Associates	9,690.46	
Med Design Consultants	94.40	
Media & Graphic	9,544.56	(b)
Melita Cable	338.01	
Mellieha Holiday Centre	152.00	
MEPA	167.20	
Mica Med Ltd	5,642.88	
Michael Partainer	100.00	
NRGY Concepts Ltd	413.00	
Patrick Prints	413.00	
Potterware Ltd	70.80	
Rita Xuereb	2,500.00	
San Gorg Preca Boys Secondary School	9.00	
Sammut Concrete Supplies Ltd	169.95	
Signmark Ltd	365.80	
St Joseph Club & De Rohan Band	1,032.00	
Ufficju Parrokjali Zebbug	520.00	
VenScic Ltd	560.50	
Victor Busutil	35.40	

Victor Water Supply	30.00	
Water's Edge	124.00	
WM Environmental Ltd	8,703.98	(b)
Water Services Corporation	120.00	
	<u>379,755.69</u>	

(a) Bonnici Bros had a court case with the local council where there was a final judgement stating that the council is to pay all the amounts due including interest. The amounts pending were all paid in 2021 apart from arbitration fees which are still pending to date.

(b) Media & Graphic & WM Environmental Ltd have taken the local council to court since the amounts payable are in dispute. The court cases are still ongoing and thus the amounts are still outstanding.

- 10.4 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. With respect to outstanding amount due to creditors which are in dispute, council should ensure that the books are updated accordingly once the final decision is given.

Debit balances in creditors' list

- 10.5 We have identified the following debit balances in the creditors' list amounting to €19,202.96:

Supplier	€
AF Sign Studio	265.50
Attrans Commercial Ltd	134.71
Audio Visual	186.76
Best Print Co Ltd	88.88
Enemalta Corporation	20.70
Electrical Supplies & Services Ltd	388.32
Fal-con Ltd	2,277.46
Golden Lion Petrol Station	1,172.78
La Barbone Dolceria	1,298.29
Lia & Aquilina	350.00
Marindex Ltd	1,095.20
PMD Coatings	283.20
Raymond Calleja	4,241.77
Superior Ironmongery	6,484.21
Tanti Ironmongery	915.18
Total	<u>19,202.96</u>

We noted that the debit balances identified above relate to payments made to the various suppliers before the respective invoices were received, i.e. payment on account. Subsequently, we noted that there was an entry to record the expense against accruals. We have proposed a reclassification to net the balances as to not

overstate the assets and liabilities in the financial statements. The council has amended the financial statements to include our audit reclassification.

- 10.6 We recommend that the council should issue payments against specific invoices. Furthermore, the payments should be allocated. We also recommend that the council investigates the debit balances in creditors as these can indicate a possible overpayment or omitted purchases or expenses.

Confirmation of trade creditors

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

Supplier	Amount in council's books of account €	Amount in Confirmation Reply €	Difference €
Bonnici Bros	347,924	350,475	(2,551)

The council has reconciled the difference and established that the difference was arising from interest payable to the supplier on late payments.

- 10.8 We remind the council that circular 1/2021 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.
- 10.9 The council failed to provide us with the invoices and proof of payments made from 1 January 2021 up to date of audit fieldwork with respect to outstanding balances as at 31 December 2020 as well as we were not provided with the suppliers' statements as at year end for the sample below. Hence, we could not perform audit procedures on such selected creditors' balances. Our audit report has been qualified in this respect. The selected sample included:

Creditor	€
Marvic & Sons Ltd	18,076.50
Med Design Associates	10,628.56
Media & Graphic	9,544.56
MICA MED Ltd	6,947.55
Rita Xuereb	2,500.00
WM Environmental Ltd	8,703.98
	<u>56,401.15</u>

- 10.10 We again remind the council that effort must be done in obtaining monthly statements from its suppliers and if any discrepancies are identified promptly address them.

Payments on account

- 10.11 We noted that the council is making supplier payments on account and not on specific invoices. On certain occasions we were unable to identify specific long-outstanding invoices.

- 10.12 We reiterate the recommendation included in last year's management letter stating that the council should issue payments against specific invoices. In this way the council will be able to reconcile creditor balances and identify any differences on time. Payments should be allocated to the specific invoices to identify any misallocation immediately.

Accruals

- 10.13 Whilst performing tests on the accruals we noted a difference of €177 between the accruals list and the amount disclosed in the unaudited financial statements. The council was unable to reconcile the above-mentioned difference. Furthermore, we noted that the difference was brought forward from prior year.
- 10.14 We recommend that the council prepares the appropriate workings to support the accruals as per accounts, and that the accounts agree to the workings.
- 10.15 As per of our audit testing, we enquired the local council for the invoices issued by WasteServ Malta Ltd relating to waste collection for the month of December 2020 for which an accrual amounting to €7,222.01 was recorded in the books of account. The council failed to provide us with the requested invoices.
- 10.16 We remind the council that obtaining and retaining signed copies of invoices is of vital importance.
- 10.17 Accruals included an amount payable to the Commissioner for Revenue with regards to FSS and NI of October, November and December amounting to €10,784.54. This was classified as other creditors through an audit reclassification.
- 10.18 We would like to point out that NI and FSS should be paid before the end of the following month, and that any amounts not yet paid are classified as other creditors.

Contractors' guarantees

- 10.19 Whilst performing the test on contractors' guarantees, we were provided with a list in which we noted an amount of €5,000 in guarantees paid to the council some even received way back in 2016.
- 10.20 We recommend that the council should check whether the projects associated with these guarantees have been finalised, and if so, whether the amounts are still payable. If not, the council should consider removing these after the necessary discussions and approval in council meetings. Any decisions should be minuted in the council minutes.

11 Meetings

Binding of minutes

- 11.1 We noted that the council did not bind the minutes for the eight legislature.
- 11.2 We recommend that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous legislature minutes to be bound. The binding of minutes should be given due importance since this provides the only permanent, unchangeable record of council meetings and discussions.

Schedule of payments

- 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 schedules have been presented and approved.

12 Electronic site

- 12.1 We noted that the council did not upload signed copies of 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 report covering October to December 2020.
 - (b) To date of the audit fieldwork the council failed to upload the business plan for 2020 – 2022.
 - (c) To date of the audit fieldwork the council failed to upload the annual administrative report for 2019.
 - (d) To date of the audit fieldwork the council failed to upload the financial statements of 2019.
 - (e) To date of the audit fieldwork the council failed to upload the management letter of 2019.
 - (b) To date of the audit fieldwork the council failed to upload the reply to the management letter for 2019.
- 12.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports. We recommend the council uploads all documents in pdf within the required time.

13 Schedule of payments

Approval of schedules of payments

- 13.1 We noted that all schedules of payments did not include any cheque numbers and, as a result, we could not ensure that all cheque payments were included.
- 13.2 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.

14 Financial Situation Indicator

- 14.1 The council's Financial Situations Indicator (FSI) at the end of the financial period under review the FSI was 6%, which is still less than the minimum positive balance of ten per cent of the annual Government allocation.
- 14.2 The executive secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the executive secretary must immediately notify the Director when the FSI falls below ten percent and explain the actions that are to be taken by the council to remedy the situation.

15 Financial statements

Presentation of financial statements

- 15.1 We identified the following shortcomings 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.
 - ii. Note on intangible assets states that it is amortised using the reducing balance method rather than straight-line method.
 - iii. Statement of cash flows and note 6 to the financial statements do not cast.
 - iv. Council failed properly to distinguish between financial and non-financial assets and liabilities in the notes 18 and 21 to the financial statements.
- 15.2 We recommend that the council gives more attention in the preparation of the financial statements. The council correctly amended points i to iii in the audited financial statements, however the council did not amend point iv.

Contingent liabilities disclosure

- 15.3 During the audit fieldwork we received a lawyer's confirmation disclosing the council's involvement in the following cases, however these cases were not disclosed in the unaudited financial statements:
- i. Unfair dismissal with Philip Gatt – it was not yet established the amount which the council would have to pay in case the plaintiff claim is upheld.
- 15.4 The council informed that they are being represented by another lawyer on a legal case with WM Environmental Ltd. This litigation was not disclosed in the unaudited financial statements. Up to the date of signing of audited financial statements, the reply from said lawyer has not yet been received.
- 15.5 We recommend that the council updates the financial statements in line with the lawyer's letter. Furthermore, the council should ensure that all correspondence from lawyers are received on time in order to ensure that all necessary information is disclosed in the financial statements.

16 Budget

- 16.1 To the date of audit fieldwork, the council failed to prepare and approve the 2020 budget. This is in contravention to article 56 of Local Council Act, 1993. Furthermore, we noted that the 2021 budget was prepared and approved withing the stipulated timeframe.
- 16.2 We recommend that the council prepares a budget for approval by the local 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.

17 Capital commitments

- 17.1 During the year under review we noted that the council included capital commitments amounting to €80,980 in the 2021 budget. However, the financial statements do not include any capital commitments.

- 17.2 We recommend that the financial statements should adequately disclose the council's future capital expenditure plans, if any, as disclosed in the budget and business plan. Where appropriate, it is advisable to explain how such capital expenditure is to be funded.

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 Paula Valletta and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

