



Grant Thornton

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Our ref ABC/scl/032516

27 April 2016

Dear Sir,

Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We are pleased to note that the council has addressed the issue and passed adequate provisions for accrued bank interest.

We also noted that the council embraced our recommendations and increased the cash transit service.

We regret to note that income from LES administration fees is still not being reconciled (refer to note 2.2).

1.2 Payroll

We did not encounter any issues related to payroll during the year under review.

1.3 Expenditure

We are still encountering instances where the council is not adhering to the petty cash procedures (refer to note 3.1).

Irregularities are still being identified with respect to the procurements procedures whereby the council is not issuing purchase orders or obtaining a minimum number of quotations (refer to note 3.5).

The performance bonds are still not being obtained within the 7 days of issuing the acceptance letters to the awarding tenderers (refer to note 3.11).

No irregularities were noted in the opening of the tenders during the year.

The council is still not adequately insuring its assets (refer to note 3.13).

The accident insurance coverage has been appropriately limited to Maltese islands only, however other irregularities have been identified (refer to note 3.15).

The council has again not provided us with formal rental contract of garage rent. In addition it is using expired rental contracts with respect to rental of public premises (refer to note 3.17).

No instances were identified where the council made a donation payment.

1.4 **Fixed assets**

The council again failed to reconcile the financial statements with accounting records (refer to note 4.1).

The council also failed to reconcile the fixed assets register with the financial statements (refer to note 4.5).

The fixed assets register is still missing some important information (refer to note 4.7).

We did not encounter any discrepancies in the fixed assets additions in the year under review.

No amounts in dispute were identified.

1.5 **Grants**

The council has satisfactorily rectified the issue concerning the outdoor equipment for CDCC in the audited financial statements presented last year.

We did not encounter any infrastructure issues relating to development and adaptation of agriculture.

We again identified various errors relating to release of deferred income (refer to notes 6.1 and 6.3).

1.6 **Debtors**

We did not encounter any issues with debtors.

1.7 **Creditors**

The council is still not obtaining suppliers' statements at the year-end (refer to note 5.1).

The council did not investigate the long outstanding creditors as recommended in the prior year's management letter (refer to note 5.4).

During our audit we again noted that the council has not rectified the PPP present value issue (refer to note 5.6).

1.8 **Bank and cash**

The council again failed to provide us with the statement as at year end (refer to note 7.1).

1.9 Meetings

We again noted that two council meetings lasted for more than three hours (refer to note 8.3).

The council has again not uploaded minutes and schedule of payments within three days from approval in meeting (refer to note 8.5).

We did not identify any instances where a councillor was excused for more than one-third of the meetings.

We did not encounter issues regarding the approval to carry forward unused leave.

1.10 Financial statements

We again identified certain shortcomings in the financial statements disclosures (refer to note 11.1).

2 Income

Other supplementary Government income

2.1 During our audit testing we found that the council did not account for the payment made by Department of Local Government to WasteServ on behalf of the council, we proposed an audit adjustment to correct this. Refer to note 5.2 for further details.

Income from LES administration fees

2.2 While reconciling income from LES administration fees with report 483 from Loqus, we identified a difference of € 155. We did not propose an adjustment in view of the insignificant amount.

2.3 We recommend that the council investigates the difference and determine if the discrepancy relates to a mistake in the invoices issued to the regional committees or a misposting.

3 Expenditure

Petty cash expenditure

3.1 Our testing on petty cash expenditure revealed the following irregularities:

Details	Supplier	€	Notes
Items re Kids Club	Tal- Lira	21.00	a
Utilities	Natura Hobbies	21.32	a,b,c
Cleaning material	Ganza Shopping Centre	22.05	a
Utilities	Natura Hobbies	20.50	a,b,c
Pet grooming	Tony Azzopardi	20.00	a
Utilities	Natura Hobbies	22.00	a,b,c
Cleaning material	Tal-Lira Plus South Centre	21.00	a
9 pine legs for lamp	Il-Mincott Co. Ltd	15.30	a
Hospitality costs	LIDL	17.15	a,c

- (a) The fiscal receipts obtained are not addressed to the council.
- (b) The fiscal document obtained does not disclose the description of the goods purchased, thus we were unable to confirm if these expenditures were incurred in the council's usual business operations.
- (c) The narrative disclosed in the petty cash book is not specific and thus we were unable to confirm the nature of the expenditure.

3.2 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 that supplies are only made on the provision of a valid invoice which is addressed to the council. To this end, we recommend that, where possible, the council obtains a tax invoice or a VAT receipt appropriately addressed to the council for petty cash purchases to ensure the expense was incurred for the council's activities. We further recommend that the narrative in the petty cash book is more specific rather than general, such as 'utilities' or 'hospitality' to ensure that petty cash is properly monitored.

3.3 Furthermore we encountered instances where the council obtained two separate bills for the same items in order not to exceed the € 23.29 threshold. The cases in point include the following:

Date	Supplier	Details	€
27.01.15	Natura Hobbies	Pet food	21.32
28.01.15	Natura Hobbies	Pet food	21.32
03.03.15	Ganza Shopping Centre	Cleaning material	18.54
03.03.15	Ganza Shopping Centre	Cleaning material	22.05
13.03.15	Natura Hobbies	Pet food	7.05
13.03.15	Natura Hobbies	Pet food	20.50

3.4 The Local Councils (Financial) Procedures 1996 states that only cash transactions for items of expenditure costing less than € 23.29 in the aggregate may be paid through the use of petty cash.

Procurement procedures

3.5 We identified the following irregularities while testing procurement procedures:

Details	Supplier	€	Notes
2 frames, 3 trophies, 2 tokens	Maridex Ltd	200.00	e
Shelving unit, gate, cupboard	Joseph Farrugia	2,900	a
Various items	Leo Ironmongery	109.06	b,e
3 notice boards	Twanny's Aluminium	1,239.00	c,d
Hiring of 5 open skips	Tramanja Plant Hire	295.00	e
TCTC banner	A&S	290.00	e
PA system	DSS	650.00	e
Festa poles for Christmas street decorations	Ghaqda tal-Armar	233.00	e
Audio rentals for Zejt iz-Zejtun	DSS	2,150.00	f
Supply of glass panels for bus shelters	M Quip Co. Ltd	3,048.04	e

- (a) The fiscal invoice obtained was not addressed to the council.
- (b) The cheque issued for this expenditure was numbered 10882 while in the schedule of payments the cheque number listed is 10898. The executive

explained that this was a typing error when inputting the details manually onto the schedules of payments.

- (c) The cheque issued for this expenditure was not addressed to Twanny's Aluminium but to Anthony Grima. Upon enquiry the executive secretary explained the cheque was issued to the name indicated on the quotation obtained from the supplier.
- (d) The council did not obtain the minimum three quotations as required by the Local Council (Financial) Procedures, 1996.
- (e) The council did not issue purchase orders nor obtain quotations for these expenditures.

3.6 May we remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. Such a purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier.

3.7 In addition, the council must obtain a tax invoice/receipt duly addressed to the council for all payments issued by the council.

3.8 Furthermore, we draw your attention to the Local Councils (Financial) Procedures, 1996 which state that councils should obtain at least one quotation for purchases between € 24 and € 1,165 and at least three quotations if between € 1,165 and € 4,658. In addition, as stated in memo 1/2010, all calls for quotations must be published on the Government Gazette and any other local newspaper.

Tendering procedures

Non-collusive agreement

- 3.9 During our testing of tenders we were not provided with the non-collusive agreement for tender 03/14 awarded to Nexos Street Lighting
- 3.10 We recommend the council obtains signed non-collusive agreements as required by the Local Councils (Tendering) Procedures, 1996.

Performance bond

- 3.11 We also noted that, in the case of tenders 03/14, 02/15 and 03/15, the successful bidder failed to furnish the guarantee within the stipulated seven days.
- 3.12 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within seven days from the date of the letter of acceptance.

Assets insurance

- 3.13 We reviewed the council's assets insurance policy to determine whether assets are adequately insured. The following discrepancies were noted:

Asset	Sum insured €	Cost as per accounts €
Office furniture and fittings	361,647	114,892
Property	360,000	486,957
Equipment	-	30,254

Urban improvements	-	826,732
Plant and machinery	-	4,968
	721,647	1,463,803

- 3.14 The above illustrates that the capital assets are not insured in line with their value. In this regard, the council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind you that the executive secretary is bound by section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage.

Group personal accident insurance

- 3.15 We also noted that the council's group personal accident policy does not state the names of the persons insured.
- 3.16 We recommend that the council updates its policy and include the names of those insured. We further recommend the council updates the policy on a yearly basis stating any amendments if required.

Rent

- 3.17 We noted that the council is using expired agreements with respect to renting of public premises from the Government of Malta. In addition, we were not provided with a formal contract with respect to the garage rental from Clean Away Service Limited.
- 3.18 The council should ensure that the rental of premises are always covered by a contract covering the current year period specifying the rights and obligations of each party.

4 Fixed assets

Reconciliation of financial statements with accounting records

- 4.1 Whilst performing our audit testing on fixed assets we again identified a number of differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV as per unaudited financial statements €	NBV as per nominal ledger €	Difference €	Note
Special programmes	1,533,169	1,435,547	97,622	
Furniture and fittings	71,018	70,101	917	
Office equipment	7,100	8,018	(918)	
Urban improvements	219,079	362,846	(143,767)	4.2
Trees	35,172	34,466	706	
Property	459,306	459,306	-	
Assets not yet capitalised	45,439	-	45,439	4.2
Plant and machinery	824	817	7	
	<u>2,371,107</u>	<u>2,371,101</u>	<u>6</u>	

- 4.2 During our audit procedures we noted that according to the unaudited financial statements “assets not yet capitalised” amount to € 45,439. However this was not reflected in the books of accounts. Upon enquiry, the accountant informed us that the balance is to be reclassified from “urban improvements”. We proposed an audit reclassification to rectify this error, thus reducing the difference in “urban improvements” of € 143,767 to € 98,328 and eliminating the difference in “assets not yet capitalized” of € 45,439.
- 4.3 The council did not provide adequate explanation as to how the remaining differences occurred.
- 4.4 The council is reminded to investigate and reclassify accordingly the variances identified between assets as disclosed in the financial statements and in the nominal ledger.

Reconciliation of fixed asset register with financial statements

- 4.5 We also noted that the fixed asset register does not agree to the financial statements. We identified the following variances in the classes of fixed assets:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Special programmes	1,567,962	1,533,169	34,793
Furniture and fittings	70,101	71,018	(917)
Office equipment	8,019	7,100	919
Plant and machinery	818	824	(6)
Asset not yet capitalised	-	45,439	(45,439)
	<u>1,646,900</u>	<u>1,657,550</u>	<u>(10,650)</u>

- 4.6 We again recommend that the council investigates this variance in the asset categories and updates the fixed asset register and/or accounting records accordingly.

Details in the fixed asset register

- 4.7 We again noted that the fixed assets register lacks a number of details which limits its purpose to the council.
- 4.8 We recommend that the council amends the fixed asset register and includes the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code
 - Cost
 - Depreciation method and rate
 - Location of the asset
- 4.9 A well maintained fixed asset register is essential to exercise control over the assets in the council’s custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and conditions. Furthermore, the correct asset category is essential to obtain accurate depreciation workings that reflect the useful life of the asset.

Tax invoice

- 4.10 We regret to note that the council has accepted a bill of quantities on an Excel worksheet as an alternative to a proper tax invoice. This does not satisfy fiscal requirements. The case in point is the following:

Details	Supplier	€
Pavements work in 'Triq Melchior Gafa'	Joseph Tabone	22,996.45

- 4.11 The Financial Procedures state that a valid tax invoice should be obtained for all purchases made by the council. Therefore, we recommend that the council ensures that all supplies and services are supported by a valid tax invoice or receipt that is addressed to the council.

5 Creditors
Trade payables

- 5.1 During the course of our audit we noted that the council did not obtain monthly suppliers' statements from all of its creditors.
- 5.2 We noted that the council did not record a payment of € 10,083.11 made by the Department of Local Government to WasteServ on behalf of the council in respect of outstanding excess tipping fees. An adjustment was proposed in this respect to record this payment as "Other Supplementary Government Income" in line with memo 3/2016. Following this adjustment a difference of € 113 remained. The adjustment was correctly passed in the latest set of financial statements.
- 5.3 The above situation again highlights the importance of reconciling the creditor balances. We refer again to Procedures and memo 3/2016 which state that councils shall obtain monthly statements in order to reconcile balances with the accounts.

Long-outstanding creditors

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

Supplier	€
Avantech Limited	156.84
Enemalta Corporation	390.00
F Caruana Brothers	41.42
Hal Mann Limited	5,928.45
Group 4 Securities Limited	68.52
Information Technology Services	342.20
JJ Schembri	58.93
John Abela	250.00
Josef Zerafa Boffa	93.00
Kitchen Garden	151.20
Mario Borg	431.63
MG Plus	78.84
Malta Information Technology & Training	79.56
Mario Zahra	118.00
Seg. Permanenti OPM	37.50
Plaza Hotels	15.00
Pillow Space Frame Limited	1,072.79
Cleaning Services Department	3,609.38

Ronald Bezzina Skips Services	186.51
Wilson Mifsud Environmental Ltd	185.25
Total	<u>13,295.02</u>

We understand that five of the above are in dispute and are in the process of being resolved by the council.

- 5.5 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

PPP agreement

- 5.6 As noted in our previous management letter, the council is not discounting to present value the long term liabilities with respect to PPP agreement as stipulated by IAS 39, *Financial Instruments: Recognition and Measurement*.
- 5.7 We again recommend that the council adheres to IAS 39, *Financial Instruments: Recognition and Measurement* and does carry out an exercise using a reasonable discount rate to determine if the net present value of the long term creditor is materially different from its carrying amount. If so, we recommend that an adjustment is passed to reflect the present value at the balance sheet date. In view of the above omission our audit report is qualified.

6 Grant accounting

Release of grants to income

- 6.1 During our audit testing we noted that the deferred income was over-released to income statement by the accountant. This error mainly results from incorrect release of "AXIS 3- Measure 313- Encouragement of Tourism Activities" grant where the accountant released income for 12 months while the corresponding assets were depreciated for one month only. We proposed an audit adjustment of € 27,315.96 to rectify this error. This adjustment was correctly passed in the audited financial statements.
- 6.2 We refer the council to memo 1/2015 and the accounting policies set out in its financial statements which state that grants from the Government are to be treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this approach, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge. The council should also compile a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate of assets.
- 6.3 Furthermore, a portion of the grant "AXIS 3- Measure 313- Encouragement of Tourism Activities" awarded relates to pots and trees. The council did not release the portion of this grant relating to trees to income statement.
- 6.4 Although trees should have a 0% depreciation charge, a reasonable rate of depreciation should be taken for trees (and pots), since otherwise the capital grant would be left as deferred income for all time. However since no decision has yet been made regarding a reasonable rate, no audit adjustment was proposed for the year. We recommend that the council gives due consideration to this issue.

Reclassification of current and non-current portion of deferred income

- 6.5 Due to the above mentioned error, the current and non-current deferred income balance is also incorrectly stated. We proposed an adjustment to reclassify the non-

current portion of deferred grants of € 71,468.10 to the current portion. The deferred income disclosure after the above mentioned adjustments is to be as following:

	Unaudited financial statements €	Financial statements after proposed adjustments €
Grants released to profit and loss	82,744	55,428
Current deferred income	62,667	134,135
Non-current deferred income	680,150	635,997

- 6.6 In view of the adjustments proposed relating to grant, we recommend the council amends the financial statements accordingly. Subsequently, the council amended the financial statements accordingly.

7 Bank and cash

Bank statements

- 7.1 During our audit procedure we noted that the council could not provide us with a bank statement up to 31 December 2015 for the HSBC savings account but only up to 30 September 2015.
- 7.2 We recommend that the council obtains bank statements as at year end to ensure no movements have taken place and that the correct balance is included in the books of account at year end.

Final withholding tax on bank interest

- 7.3 We noted that the interest received by the council on its BOV savings account A/C measure 125 was charged a final withholding tax.
- 7.4 We recommend that the council instructs the bank not to withhold tax from interest on deposits held, since councils are exempt from income tax.

8 Council meetings

Holding of meetings

- 8.1 We observed that some of the council's meetings were not held at least at five-weekly intervals.

Council meeting	Date of meeting	Date of preceding meeting
Meeting 03/15	05.03.2015	23.04.2015
Meeting 08/15	22.07.2015	10.09.2015

- 8.2 We draw your attention to section 43(2) of the Local Councils Act which states that council's meetings should be held at least once a month or at any other shorter intervals as the committee may decide. This period should not, however, exceed five weeks.
- 8.3 Furthermore, during our review of the council's minutes, we noted that meetings 01/15 and 09/15 lasted more than three hours.

- 8.4 Unless otherwise determined by the unanimous decision of the councillors, memo 68/2009 and section 43(3) of the Local Councils Act state that council meetings shall not exceed three hours.

Uploading of meetings minutes

- 8.5 We observed that the council did not upload the minutes for meetings 02/15 and 05/15 on the electronic site of local councils within three working days from their approval.
- 8.6 We recommend that minutes are approved at the following council meeting and abides by the directive given in memo 02/2014, where it is stated that all meeting minutes and schedules of payments, must be uploaded on the council's site within three days of approval. We also recommend that the council uploads signed documents thereby confirming that these are approved.

9 Electronic site

- 9.1 We noted that the council did not upload the annual budget 2015 and audited financial statements 2014 within the required time frame. Furthermore, the council did not upload the quarterly financial reports for the year 2015, the business plan 2015-2017 and the annual administration report 2014.
- 9.2 Although not mentioned in memos 36/2011 and 2/2014, we would still suggest that the council uploads the signed documents to indicate that these are the final documents as approved by the council and have not been changed or subsequently updated.

10 Schedules of payments

- 10.1 During our review of minutes, we noted that the schedules of payments were approved by the council before compiling a complete list of cheque numbers.
- 10.2 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 jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council.

11 Financial statements

Presentation of financial statements

- 11.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS):
- i. The accounting policies state that the street signs and litter bins are depreciated at the rate of 100% whereas they should be accounted for on a replacement basis.
 - ii. The "new and amended standards adopted by the council" note includes amendments such as "amendment to IAS 32" and "amendment to IAS 36". These came into force in 2014 and not 2015.

- ii. The revenue recognition note and note 7- Income raised under Law Enforcement System are not updated with the latest LESA changes.
- iv. Note 26, "Comparative figures" was disclosed in financial statements; however the comparative figures were not restated.

The council correctly amended the above mentioned errors the final set of financial statements

11.2 Other shortcomings identified are listed below:

- i. Note 14, Property, plant and equipment is incorrectly netting off the depreciation of disposed assets with the depreciation charge for the year.
- ii. Note 21, "capital commitments" includes a disclosure stating the funding of the special programmes. However the capital commitments do not include special programmes. We recommend that the council discloses how it will fund the remaining commitments approved but not yet contracted for.
- iii. The maturity analysis schedule was incorrectly disclosed under note 15.2 instead of note 15.1.

The council did not correct the above mentioned shortcomings in the final set of financial statements.

Cash flow statement

11.3 We observed that the cash flow statement of the council had some shortcomings:

- i. The deferred income movement and provision for bad debts movement is incorrectly disclosed under "movements in working capital".
- ii. Adjustments to the surplus for the year incorrectly includes "disposal of assets".
- iii. Adjustments to the surplus for the year does not include an adjustment for the Government grants forgone.
- iv. The investing activities do not include payments made with respect to PPP agreement.

Subsequently, the council correctly disclosed the shortcomings mentioned above.

11.4 We recommend that the council prepares the cash flow statement in accordance with IAS 7, *Statement of Cash Flows*.

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 Anton Falzon and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Grant Thornton