



Grant Thornton

An instinct for growth™

The Mayor
Zejtun Local Council
28, Dar iz-Zwieten
St Angelo Street
Zejtun

ABC/mf/41017

5 April 2017

Grant Thornton
Tower Business Centre, Suite 3
Tower Street
Swatar BKR4013
Malta

T +356 21320134
F +356 21331161
www.granthornton.com.mt

Dear Sir,

Financial statements for the year ended 31 December 2016

During the course of our audit for the year ended 31 December 2016 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

No irregularities were noted with other supplementary Government income since the Department of Local Government did not make any payments to WasteServ on behalf of the council.

We are pleased to note that the council has reconciled income arising from LES administration fees with report 483 from Loqus. However we noted other irregularities regarding LES receipts (refer to note 2.5).

1.2 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 procurement procedures whereby the council is not issuing purchase orders or obtaining a minimum number of quotations (refer to note 3.6).

Guarantees are still not always obtained within seven days of issuing acceptance letters to the awarded tenderers (refer to note 3.10).

The council is still not adequately insuring its assets (refer to note 3.12).



No irregularities were noted with respect to the group personal accident insurance.

The council has again not provided us with a formal rental contract for garage rent. In addition it is using expired rental contracts with respect to rental of public premises (refer to note 3.14).

We identified instances where the council made donations during the year (refer to note 3.16).

1.3 **Fixed assets**

The council once again did not reconcile the financial statements with accounting records (refer to note 4.1).

The council also failed to reconcile the fixed asset register with the financial statements; however improvements from prior year were observed (refer to note 4.3).

During the year, we did not encounter any instances where a proper tax invoice or VAT receipt was not obtained.

It was also noted that the fixed assets register still lacks some important information (refer to note 4.5).

1.4 **Grants**

We again identified an irregularity relating to the increase in receivable grants (refer to note 5.1).

1.5 **Creditors**

The council is still not obtaining all suppliers' statements at the year-end (refer to note 6.1).

The council did not investigate the long outstanding creditors as recommended in the prior year's management letter (refer to note 6.3).

During our audit we again noted that the council has not rectified the PPP present value issue (refer to note 6.7).

The council has correctly released grants for the year to income and correctly classified current and non-current portions of deferred income.

1.6 **Bank and cash**

Once again the council failed to provide us with the statement as at year end for the HSBC savings account (refer to note 7.1).

It was also noted that, for various bank accounts, the banks are still instructed to charge withholding tax (refer to note 7.3).

1.7 **Meetings**

The council meetings were not held at least at five week intervals (refer to note 8.3).

The council successfully uploaded all meeting minutes. However we noted that the minutes were not bound (refer to note 8.1).

1.8 **Electronic site**

We again noted that the council is not uploading the required signed documents (refer to note 9.1).

2 Income

Custodial receipts

- 2.1 During our audit we noted that the council is not keeping a record of the receipts for rent cash collected and then forwarded to the Lands Department.
- 2.2 We recommend the council prepares a detailed daily report of all cash received during the day, including a reconciliation between deposits and the relevant receipts as required by the Financial Procedures.
- 2.3 Furthermore, whilst testing the LESA receipts, we noted that the council was not keeping copies of the receipts. The only documents maintained are a report generated from the LESA system which shows a list of contraventions settled. This report, however, does not show the actual date when the contravention was paid. In view of this, we were unable to confirm whether the council is depositing LESA receipts twice weekly.
- 2.4 We recommend the council keeps copies of the receipts issued during a particular day so as to be able to reconcile the amount of receipts to the daily reconciliations which are then agreed to the amounts which are paid to LESA.

Joint Committee contraventions

- 2.5 During the course of our audit, we noted that the council received income amounting to €1,430 with respect to contraventions paid during the current year but relating to the period when the Joint Committee was still established. No supporting documentation was presented on payment of this amount.
- 2.6 We recommend the council starts obtaining reports for any income, received by the council, relating to the Joint Committee in order to ascertain what such income relates to.

3 Expenditure

Petty cash payments

- 3.1 The council continues to accept cash register chit not addressed to the council for most of the petty cash payments. Furthermore, that chits have a general description such as "utilities" and we are unable to confirm these purchases were made in the council's normal course of operations. Below are instances which were encountered during the audit:

Details	Suppliers	Date	€
Cleaning material	Ganza Shopping Centre	06.01.2016	22.27
Hospitality costs	Primavera Store	10.03.2016	11.59
Re-imbusement of trousers	Underneath Needs	11.04.2016	20.00
Utilities	Natura Hobbies	27.05.2016	17.00
Culling of pigeons-ammunition	In-Namra	21.10.2016	19.50

- 3.2 We understand that there are instances where it is more practical to obtain a cash register chit. However, this is in contravention of the Local Councils (Financial) Procedures, 1996 which specifically require that supplies are only made on the provision of a tax receipt which is addressed to the council.
- 3.3 Furthermore we also noted that the petty cash vouchers for the above purchases are not signed. We suggest that the petty cash vouchers are signed appropriately to ensure that the purchase has been authorised.
- 3.4 We again encountered instances where the council obtained two separate bills for the same items in order not to exceed the €23.29 threshold. Below are the instances identified:

Date	Supplier	Details	€
06.01.2016	Ganza Shopping Centre	Cleaning material	22.27
06.01.2016	Ganza Shopping Centre	Cleaning material	18.89
27.05.2016	Natura Hobbies	Utilities	17.00
27.05.2016	Natura Hobbies	Utilities	9.62
19.08.2016	Multigas	Items 'Pageant of the Seas'	18.90
19.08.2016	Multigas	Items 'Pageant of the Seas'	23.22

- 3.5 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

- 3.6 Our testing on cheque payments revealed instances where a purchase was not supported by a purchase order and quotation/s in accordance with the Procedures. We were not provided with any evidence of the relevant purchase orders / quotations during our fieldwork. Examples include:

Details	Supplier	€
Camera streaming	Smart Technologies	885.00
Hiring of sound	DSS	2,200.00

- 3.7 In accordance with the Local Councils (Financial) Procedures, 1996 the council should raise purchase orders for all purchases of more than €23.29. Furthermore the council should obtain at least one signed quotation for purchases not exceeding €1,165 and at least three quotations for all purchases in excess of this amount up to €4,658. In addition, as stated in memo 1/2010, all calls for quotations must be published on the Government Gazette and another local newspaper.

Call for tenders

- 3.8 Our audit revealed that the following cheque payment was not supported by a call for tenders:

Supplier	Details	Cheque number	€
Koperattiva Tabelli u Sinjali	Road markings	12070	9,057.16

- 3.9 May we remind the council that in accordance with the Local Councils (Financial) Procedures, 1996 councils are specifically required to make a public call for tenders for expenditures in excess of €4,658 and that once accepted, a formal contract should be drawn up and signed by both parties.

Guarantee

- 3.10 In the case of tender 01/16, the successful bidder failed to furnish the guarantee within the stipulated seven days.
- 3.11 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.

Asset insurance policy

- 3.12 We noted the following discrepancies between the asset insurance cover and cost as per nominal ledger.

Asset	Sum insured €	Cost as per accounts €
Office furniture and fittings	361,647	120,392
Property	360,000	486,957
Equipment	-	30,254
Urban improvements	-	559,737
Plant and machinery	-	4,968
	721,647	1,202,308

- 3.13 The above shows that some of the council's assets are not adequately insured. The council must comply with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 and carry out a periodic review to assess the adequacy of the council's insurance coverage and ensure that the council's assets are not under/over insured.

Expired contracts

- 3.14 The council is still using expired contracts with respect to renting of public premises from the Government of Malta, amounting to €1,513. In addition, we were not provided with a formal contract with respect to the rent of a garage from Clean Away Service Limited, the expense amounting to €1,680.
- 3.15 The council should ensure that the rental of premises is always covered by a contract covering the current year period specifying the rights and obligations of each party.

Donations

- 3.16 Whilst reviewing the minutes and schedules of payments we noted that the council made the following donations:
- A medal for Gieh Iz Zejtun amounting to € 300
 - Complimentary drinks at Partit Laburista amounting to €300
- 3.17 We remind the council that the Local Councils Act strictly prohibits the payment of any form of donations in excess of €200, whether in cash or in kind.

4 Property, plant and equipment

Reconciliation of financial statements with accounting records

- 4.1 We 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 in unaudited financial statements €	NBV in nominal ledger €	Difference €
Special programmes	1,550,349	1,550,339	10
Furniture and fittings	70,113	72,200	(2,087)
Office equipment	6,249	4,160	2,089
Plant and machinery	655	660	(5)
	1,627,366	1,627,359	7

- 4.2 We remind the council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and reclassified accordingly.

Reconciliation of fixed asset register with financial statements

- 4.3 We noted that the net book value in the fixed asset register does not agree to the unaudited financial statements due to an audit adjustment which was proposed in 2014 and which was not reflected in the fixed asset register. The following variance in the categories of fixed assets was identified:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Special programmes	1,585,133	1,550,340	34,793

- 4.4 The Local Council Procedures state that the council is obliged to prepare the fixed asset register which reconciles with the nominal ledger.

Fixed asset register

- 4.5 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. For example:

Asset category	Asset code	Description	Purchase date	Net book value €
Computer equipment	ZLC00966	PC set up and printer	03.02.2014	166.13
Construction works	ZLC00963	WSC road works	01.08.2003	901.64
Construction works	ZLC00212	Paving	09.11.1999	1,928.42
Office furniture & fittings	ZLC00997	Wall bracket for TV and radio	31.10.2014	575.03
Office furniture & fittings	ZLC01073	Standing ornamental lamp	30.10.2015	353.99

- 4.6 We recommend that every possible effort should be made to prepare the fixed asset register and include at least 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
- 4.7 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.
- 4.8 We also noted that various assets in the fixed asset register may have stopped being used or have been scrapped but are still included in the fixed asset register. One such example is fans - the plant register includes 16 fans.
- 4.9 In this regard, the secretary is required to create, maintain and control an up-to-date inventory of the fixed assets held by the council, as required by the Local Council's (Financial) Procedures P1.16b. It is recommended that an exercise is performed and any obsolete items included in the fixed asset register are written off or if such assets are being scrapped, such scrapped assets are approved in a council meeting.

Classification of capital expenditure

- 4.10 The council is not recognising capital expenditure in accordance with IAS 16, *Property, Plant and Equipment*. The following are some examples of capital expenditure which were incorrectly treated as revenue expenditure:

Details	Classification in income statement	€
New PC	Office furniture & equipment	684.81
Monitor	Office furniture & equipment	136.88
Camera	Office furniture & equipment	85.00
Lenovo PC	Office furniture & equipment	350.00
Hard disk	Office furniture & equipment	47.79
Computer	Office furniture & equipment	408.57

- 4.11 We recommend that the council recognises capital expenditure in accordance with IAS 16, *Property, Plant and Equipment* which states that items of property, plant and equipment should be recognised as assets when it is probable that economic benefits associated with the asset will flow to the entity and the cost can be measured reliably.

5 Debtors

Grants receivable

- 5.1 During the course of our audit, we noted that the agreement for a new grant allocated to the council relating to the 'Teatru Miftuh' was only signed by the executive secretary and the mayor, and not signed by a representative from the Department of Local Government.
- 5.2 We recommend that all contract agreements are signed by both parties so as to ensure the validity of the grant.

LES receivables

- 5.3 According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €327,302.73. This amount was not recognised as an LES receivable in the council's books of accounts and in the financials. We did not propose an audit adjustment to account for such LES debtors 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.
- 5.4 We recommend that the council records this significant amount and adjusts the books of account accordingly in a way that LES receivables at the reporting date reflect all adjudicated contraventions not yet paid. This is a requirement of IFRS 7.

5.5 GAL Xlokk membership

We have noted that the council is still a member of the GAL Xlokk Foundation. The council should obtain, as members, the financial statements from GAL Xlokk so that it is able to assess the cost/benefit of this membership. However we were not provided with the above. We were notified by the executive secretary that the council requested the financial statements of GAL Xlokk Foundation but these were not provided by the latter.

- 5.6 We would like to emphasise the importance of obtaining the financial statements of GAL Xlokk Foundation in order to perform cost/benefit analysis for such expenditure. Furthermore as a member of the Foundation, the council should be entitled to view the financial statements.

6 Creditors

Trade creditors

- 6.1 We noted that the council again did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 6.2 This is contrary to the relevant procedures, which require the council to request monthly statements from all suppliers. Memos/circulars issued by the Department of Local Government specifically state that the council should reconcile the books of account to supplier statements on a monthly basis.

Long outstanding trade creditors

- 6.3 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amount to €15,929.86 and have been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

Supplier	In creditors' list €	Confirmed by supplier €
Avantech Limited	156.84	105.82
Clean Away Service Ltd	1,680.00	
Enemalta Corporation *	390.00	
Eugenio Buhagiar	335.00	
F Caruana Brothers	62.32	
Hal Mann Limited *	5,928.45	
Group 4 Securities Limited	68.52	
Information Technology Services	342.20	0.0
JJ Schembri *	58.93	
John Abela	250.00	
Josef Zerafa Boffa	93.00	
Kitchen Garden	151.20	
Koperattiva Tabelli u Sinjali	1,105.21	
Mario Borg	110.61	
Mario Zahra *	118.00	
MG Plus	78.84	
Malta Information Technology & Training	79.56	
Seg. Permanenti OPM	37.50	
Plaza Hotels	15.00	
Pillow Space Frame Limited	1,072.79	
Cleaning Services Department *	3,609.38	3,075.28
Ronald Bezzina Skips Services	186.51	
Total	15,929.86	3,181.10

- 6.4 We understand that five of the above are in dispute (marked in the schedule above with an asterisk) and are in the process of being resolved by the council. For some of the above balances, we were informed that the council obtained direct suppliers' confirmations that the balances are no longer due. However this has not yet been discussed in a council meeting with a view to resolving these balances.
- 6.5 In case of Koperattiva Tabelli u Sinjali, the council's creditors' list shows a balance of €3,815.83 as at year end. We obtained a confirmation from the supplier, stating the balance due as at year end amounts to €2,710.72, thus a difference of €1,105.11 is noted. This difference is equivalent to the long-outstanding balance indicated above.
- 6.6 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 payables

- 6.7 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*.

- 6.8 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.

Statement from supplier

- 6.9 In relation to the point 6.1 above, the council did not obtain a supplier statement with respect to the PPP payable balance. Thus, we were unable to verify the balance due of €62,594 as at year end. However, we were able to perform satisfactory alternative confirmation procedures.
- 6.10 We repeat our recommendation in note 6.2 above, that the council should obtain the suppliers' statements at least at year end.

Balance payable to Works and Infrastructure Department

- 6.11 In the judgment given on the 17 June 2014 from the first hall of the civil court, the council is liable to pay an amount of €81,377.94 together with the relevant legal interest.
- 6.12 During audit fieldwork, we received a confirmation from the Works and Infrastructure Department stating that, as at year end, the council owes the following:

	€
Principal amount	81,377.94
Legal expenses	622.21
Interest	86,802.13
Total	<u>168,802.28</u>

- 6.13 Although provided for in the books of account (see note 6.18), no explanation was provided on how the council will pay this balance.
- 6.14 We recommend this is discussed in a council meeting to determine a payment plan.

Unrecorded liabilities

- 6.15 We noted the following payments recorded in the January 2017 schedule of payments, relating to liabilities incurred in 2016. However no accrual was provided for as at year end:

Details	Supplier	€
Contribution- Pantomima	Phyllis Agius	800.00
Musical Services Zejt iz-Zejtun '16	Edmond Jackson	300.00
Claim M13/3088 Toni Abela	Gasam Mamo Insurance	3,215.78
Use of parish hall- December 2016	Parocca Santa Katarina	250.00
Complimentary drinks Zejt iz-Zejtun 2016	Partit Laburista- Zejtun	300.00
		<u>4,865.78</u>

- 6.16 We proposed an audit adjustment amounting to €4,865.78 to accrue for the above expenditure and this has been incorporated in the final financial statements.
- 6.17 We recommend that the council records expenditure on an accruals basis so that liabilities are recorded in the correct financial year.

Accruals

- 6.18 During our testing of accruals we identified several irregularities:
- The council recognised an accrual of €1,050 in relation to a bulk refuse expense incurred in the month of October 2016. However the respective invoice of this accrual was issued in 2016. Accordingly the council should have recorded the invoice by passing an entry in the supplier's account, rather than providing an accrual for the expense.
 - By tracing the accruals to the respective invoices issued after year end, we noted that certain expenses were under accrued. Overall, bulk refuse, waste disposal and street lighting were under accrued by €4,360. We proposed an audit adjustment to increase the accruals as at year end by the amount mentioned above. This has been correctly adjusted in the audited financials.
 - The council recognised an accrual amounting to €78,121.44 with respect to the accumulated interest due to the Works Division Department. Upon obtaining a confirmation from the supplier, we were informed that the running interest as at 31 December 2016 increased to €86,802.13. Accordingly we proposed an audit adjustment to increase the accrual of the interest by €8,680.69. This has been accepted by the council and is included in the audited financial statements.
- 6.19 Regarding the last point, accrued interest of €86,802.13, the council requested to transfer this balance to the supplier's control account. In view of this we passed an adjustment and the council reflected this in the audited financial statements.
- 6.20 The council should make adequate provisions for accruals so that expenditure is recorded in the correct financial period based on the accruals concept of accounting. This ensures that the results for the year are presented fairly.

7 Bank and cash

Bank statements

- 7.1 The council did not provide a bank statement for the HSBC saving account as at 31 December 2016. The only bank statement available for this account was up to 30 September 2016.
- 7.2 We recommend that the council ensures that all bank statements at year end are obtained to ensure that no movements have occurred between the latest statement and year end, with a reconciliation presented if the need arises.

Final withholding tax

- 7.3 We noted that following bank account are subject to final withholding tax:
- HSBC current account 056-075708-001
 - BOV current account 40020566649
 - BOV current account 40021821040
 - BOV current account 40021826980
 - BOV savings account 40022052096

- 7.4 Given that councils are exempt from income tax, we recommend that the council sends instructions to the banks not to withhold tax from such accounts.

Petty cash

- 7.5 During our petty cash count, we noted that the petty cash as at the date of count agreed to the petty cash schedules. However when reconciling the cash to the year end balance, the amount did not agree to the amount shown in the books of account. The following irregularities were noted:

	€
Closing cash balance in Sage as at 31 December 2016	105.56
Expenses omitted from Sage in October 2016	(150.56)
Expenses omitted from Sage in December 2016	(102.91)
Expenses double posted in Sage in September 2016	147.83
Total	(0.08)

- 7.6 Furthermore, we noted that the petty cash schedule prepared for the month of December 2016 was incorrectly prepared and did not state the actual cash balance as at year end. The schedule is disclosing a top up from bank on 01.12.2016 amounting to €132. However when this was traced to the copy of the cheque we noted that it was actually issued on 05.01.2017.
- 7.7 Owing to this, the council actually had a negative petty cash balance of €2 and not €132 as stated in the schedule and approved by the board.
- 7.8 We recommend that the petty cash reconciliation should reconcile both the cash in hand with the petty cash reconciliation but also to the amount which is being shown in Sage so as to ensure that all transactions are being accounted for. It is also recommended that in the petty cash reconciliation, the cash is recorded as obtained on the day the amount is actually received rather than at the beginning of each month so as to have a more accurate reconciliation in place.

8 Council meetings

Binding of minutes

- 8.1 We observed that the minutes of the council are not bound at the end of each financial period or legislation.
- 8.2 We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

Frequency of meetings

- 8.3 Whilst viewing the council minutes, we again noted that the time lapse between meetings exceeded five weeks:

Council meeting	Date of meeting	Date of preceding meeting
Meeting 03/16	09.03.2016	27.04.2016
Meeting 07/16	25.07.2016	12.09.2016
Meeting 08/16	12.09.2016	24.10.2016
Meeting 09/16	24.10.2016	12.12.2016

- 8.4 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 council may decide. This period should not, however, exceed five weeks.

9 Uploading of documents on local council's website

- 9.1 We noted that the council did not upload the annual budget 2016 and audited financial statements 2015 within the required time frame. Furthermore, the council did not upload the quarterly financial reports 2016, the business plan 2016-2018 and the annual administration report 2016.
- 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 without a complete list of cheque numbers on the schedule.
- 10.2 Furthermore we noted that when the cheque numbers are inserted manually, council did not include cancelled cheques on the schedule. Examples of cancelled cheques are 11885, 11898, 11959 and 12138.
- 10.3 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.
- 10.4 We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheque should be retained in the cheque book as evidence of cancellation.

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,

