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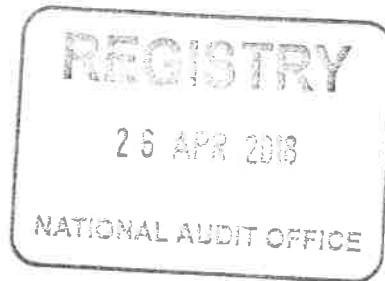
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ABC/mf/50218

18 April 2018



Dear Madam,

Financial statements for the year ended 31 December 2017

During the course of our audit for the year ended 31 December 2017 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 started keeping a record of the receipts for cash collected on behalf of the Lands Department and LESA receipts.

We again encountered income received from the Joint Committee but for which no supporting documentation was provided (refer to note 2.8).

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 notes 3.4 and 3.5).

We again identified shortcomings in the tendering procedures (refer to note 3.9).

The council once again failed to issue a call for tenders (refer to note 3.7).

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

The council has again not provided us with a formal rental contract for the garage. In addition, the council is still using expired contracts with respect to rental of public premises (refer to note 3.20).

We identified an instance where the council made a donation in excess of €200 during the year (refer to note 3.22).

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 (refer to note 4.3).

We have again noted that some assets are included in the fixed asset register but are either obsolete or not in good working order (refer to note 4.10).

It was also noted that the fixed asset register still lacks some important information (refer to note 4.7).

We did not identify any instances where capital expenditure was not treated appropriately.

1.4 Debtors

The council has still not recognised the LES receivables and corresponding provision in its books of account (refer to note 5.1).

The council has not yet obtained the audited financial statements of the Gal Xlokk Foundation (refer to note 5.3).

1.5 Grants

We again identified an irregularity relating to the increase in grants receivable (refer to note 6.1).

1.6 Creditors

The council is still not obtaining all supplier statements at the year-end (refer to note 7.1).

The council did not investigate all long outstanding creditors as recommended in the prior year's management letter (refer to note 7.3).

During our audit we again noted that the council has not rectified the PPP present value issue (refer to note 7.6).

The council has still not determined a payment plan for the balance payable to Works and Infrastructure Department (refer to note 7.8).

1.7 Bank and cash

The council provided us with all the statements as at year end for all bank accounts.

It was noted that, for various bank accounts, the banks are still charging withholding tax (refer to note 9.1).

The council successfully reconciled petty cash.

1.8 Meetings

The council meetings were not held at least at five week intervals (refer to note 12.1).

The council successfully uploaded all meeting minutes. All minutes of meetings were bound.

1.9 Electronic site

During the year under review the council did not address the issue of uploading documents on the council website (refer to notes 13.1 and 13.2).

1.10 Schedules of payments

We again noted irregularities in the schedules of payments (refer to note 14.1).

2 Income

Income from LESA distribution

2.1 The council has classified the receipt of €16,977.98 from LESA, with respect to the LESA distribution, as general income. We proposed an audit adjustment to reclassify this amount to LES income. LES income should be disclosed as a separate line item in the financial statements.

2.2 We recommend that the council discloses all LES income separately in the financial statements. The council has adjusted its financial statements and correctly presented the LESA distribution.

Classification of income

2.3 The council has classified the receipt of €2,109.28 relating to Mizura 413, as supplementary Government income. We proposed an audit adjustment to reclassify this amount to other Government income. This was approved by the council and properly reflected in the audited financial statements.

2.4 The council has also recorded the receipt of €10,000 with respect to income under memo 30/2015 as annual Government income. We proposed an audit adjustment to reclassify this amount to supplementary Government income. This has been correctly incorporated in the final set of financial statements.

2.5 We recommend that the council allocates income receivable to the appropriate accounts so that income is properly reported.

Supplementary Government income

2.6 Our audit revealed that the Department for Local Government paid the amount of €23,843.15 to WasteServ Malta Limited relating to tipping fees incurred in previous years. The council did not record this transaction. We proposed an audit adjustment in this respect. This adjustment was correctly included in the audited financial statements.

2.7 In accordance with circular 3/2018 local councils are required to account for WasteServ fees directly paid by the Department of Local Government as other supplementary Government income. We recommend the council obtains a WasteServ statement on a regular basis to ensure that such income is recorded immediately.

Joint Committee receipt

- 2.8 During the course of our audit, we noted that the council received income amounting to €757 for which no supporting documentation was provided. Upon enquiry, the council informed us that this amount pertains to Joint Committee surplus. We also noted that the Joint Committee has not provided the council with recent audited accounts.
- 2.9 In the absence of the audited financial statements of the Joint Committee, we were unable to determine amounts due to the council as at 31 December 2017. As a result our audit report has been qualified.
- 2.10 We would like to emphasise the importance of obtaining the audited financial statements of the Joint Committee in order to include in the council's books of account amounts due from Joint Committee.

Reversal of erroneous posting

- 2.11 Whilst reviewing general income, we noted an amount of €1,065.23 which was classified as discounts received. This entry was erroneously posted to income to reverse an expense which was posted twice. The council instructed us to pass an adjustment to rectify this issue by reversing the entry. This was correctly reflected in the final set of financial statements.
- 2.12 We recommend the council ensures that all transactions passed reflect the income which the council received, and any entries posted erroneously are reversed immediately and correctly so as to avoid any inflation of revenue.

Accrued income

- 2.13 During our fieldwork we noted that an amount of €800 relating to circular 22/2017 'Local Libraries' was not accounted for. An audit adjustment was proposed to include this amount in accrued income for the year. This adjustment was correctly included in the audited financial statements.
- 2.14 We recommend that the council records accrued income when it has been approved for payment and is certain to be received.

Zejtun tribunal premises

- 2.15 We have noted that the council is receiving an income of €1,343.50 per month from Regjun Xlokk for the renting of the tribunal premises situated in Zejtun without concluding and signing the agreement.
- 2.16 We acknowledge the effort which the council has made in this respect. However it is our duty to report on the matter that to date no contract has been signed.
- 2.17 We recommend that the council should draft and sign the agreement with Regjun Xlokk in order to regularise the positions of both parties.

3 Expenditure

Petty cash payments

- 3.1 The council continues to accept cash register chits not addressed to the council for most of the petty cash payments. Below are instances which were encountered during the audit:

Details	Suppliers	Date	€
Garbage bags, milk	Primavera Store	22.12.2017	16.40
Bulk postage	MaltaPost	27.11.2017	12.24
1 USB, 1 Logitech USB mouse	Klikk Computers Store	21.08.2017	16.00
Hospitality ('kors tal-inbid')	Lidl	24.07.2017	21.97
Ice-tray, glasses mixers, cutlery tray	JB Stores	28.06.2017	9.70
Plates	Mario Cassar	31.05.2017	10.50
Pet food	Natura Hobbies	05.04.2017	10.10
Railing rod	Superior Ironmongery	14.02.2017	6.50
Pet food	Natura Hobbies	30.01.2017	14.50

- 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 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchaser and the executive secretary. This legal notice came into force on 1 January 2018.

Procurement

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

Supplier	Details	€
Anton Zarb	15 bollards, ductile cast iron	1,416.00
Marindex Ltd	1 Silver trophy, 4 plates, 1 token	1,174.10
Carmel Grima	Performance at Zejt iz-Zejtun 2016	650.00
Tramanja Skip Service	Hiring of 2 open skips for January 2017	118.00
Greenpak	Supply of 3 new domes	885.00

- 3.5 During our audit fieldwork the council did not provide us with three quotations in the following cases:

Supplier	Details	€
Anton Zarb	15 bollards, ductile cast iron	1,416.00
Marindex Ltd	1 Silver trophy, 4 plates, 1 token	1,174.10

- 3.6 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.

Call for tenders

- 3.7 Our audit revealed that during 2017 the total invoices received from Koperattiva Tabelli u Sinjali amounted to €10,928.63. This expenditure was not supported by a call for tenders.
- 3.8 May we remind the council that in accordance with the Local Councils (Tendering) Procedures, councils are specifically required to make a public call for tenders for expenditure in excess of €4,658 and that once accepted, a formal contract should be drawn up and signed by both parties. We also draw your attention to the Section e.01 of the Local Councils (Financial) Procedures, 1996 which state that similar purchases within four months are to be considered as one single purchase.

Tendering procedures

- 3.9 In the case of tenders 01/17, 02/17 and 03/17, the successful bidders failed to furnish the council with performance guarantees.
- 3.10 The above contravenes the requirements established by the Local Councils (Tendering) Procedures, 1996 and new legislation in the ePPS system, which require the council to request a performance guarantee from the successful tenderer.
- 3.11 We are pleased to note that the council has successfully implemented the ePPS system when issuing a call for tenders. We would like to mention that the existing Tendering Procedures and Regulations remained in force until the end of 2017. These still require certain additional documents which are not included in the ePPS system, such as a bid bond and non-collusive agreement which, under the existing Procedures/Regulations, should have been obtained.
- 3.12 We appreciate that there are differences between the requirements of the EU directive regarding the new system and requirements prescribed by the previous legislation regarding tendering procedures. We recommend that any concerns you may have are addressed to the Department.

Asset insurance policy

- 3.13 During our audit we identified the stated below discrepancies between the asset insurance cover and cost included in the nominal ledger:

Asset	Sum insured €	Cost in unadjusted accounts €
Office furniture, fittings and equipment	361,647	124,286
Property	360,000	486,957
Equipment	-	31,253
Urban improvements	-	839,194
Plant and machinery	-	4,968
	721,647	1,486,658

- 3.14 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.
- 3.15 Furthermore, during the audit fieldwork the council provided us with an invoice from the insurance broker stating that the sum insured is €821,647. The council requested the insurance broker to provide the breakdown of this amount, but the latter only confirmed the breakdown of sum insured amounting to €721,647.
- 3.16 We recommend that the council obtains the full insurance policy document annually to confirm assets insured and note any changes in the policy.
- 3.17 Directive 3/2017 and Legal Notice 269 of 2017 state that assets must be insured on the asset value as included in the financial statements. The council should not insure any 'community assets'. This notice has an effective date of 1 January 2018.

Payment approval

- 3.18 We identified an instance where the council has issued a cheque before approval in council meeting. Cheque 12456 issued to Marindex Ltd was dated 27 April 2017; however it was only approved on 21 June 2017.
- 3.19 This is in contravention of the Local Councils (Financial) Procedures, 1996 which state that payments in excess of € 23.29 must be approved by the council in meetings. The existing procedure of issuing payments prior to their approval could present the council with a risk of making payments for unapproved purchases or uncertified work. To this end we reiterate our recommendation to the council to approve payments prior to being effected.

Expired contracts

- 3.20 The council is still using an expired contract with respect to renting of public premises from the Government of Malta, amounting to €1,513 per annum. In addition we were not provided with a formal contract with respect to the rent of a garage from Clean Away Service Limited.
- 3.21 The council should ensure that the rental of premises is always covered by a signed contract covering the current year period. This not only verifies the rental charge, but most importantly establishes rights and obligations of each party.

Donation

- 3.22 Whilst reviewing the minutes and schedules of payments we noted that the council made a donation in the form of an award costing €400. We were informed that this was given as a token of appreciation for the voluntary work performed in the community throughout the years.
- 3.23 We remind the council that the Local Councils Act and Directive 5/2016 strictly prohibit the payment of any form of donations in excess of €200, whether in cash or in kind. If the council feels that such awards exceeding the monetary limit are justified, we recommend that the matter is taken up with the Department.

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 €
Furniture and fittings	70,712	68,625	2,087
Office equipment	3,584	5,672	(2,088)
Special programmes	1,480,785	1,487,284	(6,499)
	1,555,081	1,561,581	(6,500)

- 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 was identified:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Special programmes	1,515,578	1,480,785	34,793

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

Classification of fixed assets

- 4.5 We noted that the council capitalised the amount of €6,497.23 under the special programmes' category. Upon enquiry the council stated that this amount should have been capitalised in 2018, but erroneously was capitalised in 2017. The council requested us to pass an audit adjustment to rectify this issue. This adjustment was correctly reflected in the final set of financial statements.
- 4.6 We recommend that the council capitalises assets once they are ready for their intended use, thus also ensuring the appropriate calculation of depreciation.

Fixed asset register

4.7 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 €
Office furniture and fittings	ZLC00508	Curtains	01.04.2014	463.67
Urban improvements	ZLC00585	24 complete new lanterns	17.12.2004	703.23
Construction works	ZLC00231	Resurface	31.12.1999	1,024.36
Office furniture and fittings	ZLC00828	1 canopy	17.06.2011	408.52
Office furniture and fittings	ZLC00689	Catwalk	31.08.2007	323.01

4.8 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
- Cost
- Depreciation method and rate
- Location of the asset

4.9 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.

4.10 It was once again noted that various assets in the fixed asset register may not be in good working order. An example is fans - the plant register includes 16 fans.

4.11 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 shown as disposals if no longer held by the council. The executive secretary should ensure that a list of these is approved in a council meeting.

Fixed asset additions

4.12 We noted that last year the council expensed the amount of €553.50 in relation to minor works in Street E. Attard. During the current year the local council capitalised the same invoice and recorded the corresponding entry in bank account. We have proposed an audit adjustment to rectify the issue. This adjustment was correctly reflected in the audited financial statements.

- 4.13 We recommend that prior to recording invoices, the council establishes whether invoices were already recorded in the books of account thus avoiding double posting. It is of utmost importance that the council evaluates whether works should be capitalised or expensed on a case by case basis.

5 Debtors

LES receivables

- 5.1 According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €318,917.67. This amount was not recognised as an LES receivable in the council's books of account and in the financial statements. We did not propose an audit adjustment to account for 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.
- 5.2 We recommend that the council records this significant amount and adjusts the books of account accordingly in a way that LES receivables and the provision at the reporting date reflect all adjudicated contraventions not yet paid.

GAL Xlokk membership

- 5.3 We have noted that the council is still a member of the GAL Xlokk Foundation. The council should obtain, as a member, 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 from GAL Xlokk Foundation but these have not yet been provided by the latter.
- 5.4 We would like to emphasise the importance of obtaining the audited financial statements of GAL Xlokk Foundation in order to perform cost/benefit analysis for this expenditure. Furthermore, as a member of the Foundation, the council should be entitled to view the financial statements.

Confirmation of trade receivables

- 5.5 As part of our audit procedures we circularised confirmation letters to selected debtors. We noted the following discrepancies between council's books of account and received confirmations:

Debtor	Amount in council's books of account €	Amount in confirmation reply €	Difference €	Note
Water Services Corporation	2,038.69	1,726.53	312.16	(a)
GreenPak Malta	11,223.97	6,970.00	4,253.97	(b)
Regjun Notsinhar	1,843.20	1,705.93	137.27	(c)
Regjun Xlokk	4,435.50	2,707.81	1,727.69	(d)

- (a) Upon inquiry the council provided us with the reconciliation showing that the council failed to record two invoices amounting to €53.59 in its books of account. The council proposed an adjustment of €335.46 to write off the overstatement in the debtor balance in the council's books of account. This was correctly reflected in the audited financial statements. This resulted in an unreconciled difference of €30.29. The council stated that this amount was erroneously not included in Water Services Corporation statement.
 - (b) The debtor identified that invoices amounting to €3,240 were omitted from its books of account. On the other hand the council erroneously issued the invoice of €1,013.97 to GreenPak Malta. The council proposed an adjustment to rectify this issue thus fully reconciling the balance between its books of account and the debtor statement. This adjustment was correctly reflected in the audited financial statements.
 - (c) The debtor erroneously accounted for an invoice amounting to €137.27 during 2018 financial year thus confirming that the amount stated in the trial balance of the local council is the correct figure.
 - (d) The council provided us with the reconciliation showing that the discrepancy between its books of account and Regjun Xlokk should be only €23. We recommend that the council contacts the debtor to resolve any discrepancies.
- 5.6 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences. We would like to remind the council that writing off of debtors should be approved during council meeting.

6 Grants

- 6.1 During the year under review the council recorded an increase in grants and corresponding deferred income from memo 5/2015 'Lifelong Learning' amounting to €940. This grant is a revenue grant and therefore should not be recognised as deferred income. We also noted that the local council received and correctly recorded €772.44 during 2016 with respect to the same memo, but in the current year council erroneously reversed this amount against grants received. We have proposed audit adjustments to rectify these issues. These adjustments were correctly reflected in the audited financial statements.
- 6.2 In accordance with instructions received from the NAO and IAS 20, grants received should be recognised as income to match the costs to which they are intended to compensate. Grants in respect of revenue expenditure should be recognised as income when the related expenditure has been incurred.

7 Creditors

Supplier statements

- 7.1 Contrary to the relevant Procedures and as stated in previous management letters, the council is still not obtaining monthly and year end statements from the suppliers. Memos and circulars issued from time to time by the Department specifically emphasise that every council should acquire monthly statements from all its suppliers.
- 7.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However we recommend the council keeps on chasing its

suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Long outstanding trade creditors

- 7.3 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amount to €91,196.50 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 €
Avantech Limited	156.84
Alexander Abela	120.00
Clean Away Service Limited	1,680.00
Anthony Cassar	40.00
Eugenio Buhagiar	335.00
Astrid Cacciatore	20.00
Group 4 Securities Limited	68.52
Information Technology Services *	342.20
JJ Schembri *	58.93
John Abela	250.00
Department of Agriculture	125.00
Dorothy Dalli	100.00
Works and Infrastructure Department (refer to note 7.8)	81,377.94
Koperattiva Tabelli u Sinjali *	1,105.21
Joe Farrugia and Veronique	200.00
Mario Zahra	118.00
MG Pulis	78.84
Seg. Permanenti OPM	37.50
Romina Vella	50.00
Pillow Space Frame Limited	1,072.79
Cleaning Services Department *	3,609.38
Ronald Bezzina Skips Services	186.51
Maltapost PLC	63.84
Total	<u>91,196.50</u>

- 7.4 We understand that four 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.
- 7.5 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 payables

- 7.6 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*.

- 7.7 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.

Balance payable to Works and Infrastructure Department

- 7.8 In the judgement given on 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 expenses and interest.
- 7.9 During audit fieldwork, we obtained supporting correspondence 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	93,812.48
Total	<u>175,812.63</u>

- 7.10 During 2018 the council agreed to pay the principal amount, but it is still objecting to the payment of the interest. We would like to remind the council that in the given judgement, it was clearly stated that the council is liable to pay the principal amount, legal expenses and interest.
- 7.11 We recommend that the council establishes a payment plan. Interest is accumulating and the longer payments are delayed, interest expenses will increase further.

Debit balances in creditors' list

- 7.12 The council's creditors' list at the end of the year includes debit balances amounting to €70,504.44.

Suppliers	€
Local Councils Association	510.00
Fire and Security Engineering	66.18
Michael Cumbo	950.00
Piscopo Gardens	100.00
Silvar Construction and Services Ltd (refer to note 7.14)	68,673.77
Smart Office Supplies Ltd	204.49
Total	<u>70,504.44</u>

- 7.13 We have proposed a reclassification to the council as well as recommended separate disclosure of debit balances in creditors' list rather than set off against trade creditors. It is the duty of the executive secretary to question why these creditors' accounts are in debit since these could lead to the identification of inefficiency in the controls in place.
- 7.14 We noted that the debit balance of €68,673.77 pertained to an advance payment made to Silvar Construction and Services Ltd in relation to resurfacing works at Triq Marsaxlokk. These works were certified in February 2018.
- 7.15 We recommend that the council shows similar amounts separately, as advance payments are not financial instruments and require separate disclosure.

Confirmation of trade creditors

- 7.16 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following discrepancies between council's books of account and obtained confirmation letters:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €	Note
WasteServ Malta Limited	57,956.28	43,361.19	14,595.09	(a)
Koperattiva Tabelli u Sinjali	1,105.21	191.73	913.48	(b)
Water Services Corporation	1,657.03	244.65	1,412.38	(c)
Hal Mann Limited	5,928.45	-	5,928.45	(d)
Paradise Bay Hotel Resort	2,217.00	-	2,217.00	(e)

- (a) The council provided us with the reconciliation and it was established that the council failed to record amounts paid to WasteServ Malta Limited by DLG amounting to €23,843.15 in relation to 2014 – 2016. This is clearly shown on the WasteServ statement. The council also failed to record invoices issued by WasteServ Malta Limited amounting to €9,248.06. We have proposed audit adjustments in this respect. These adjustments were correctly reflected in the audited financial statements.
- (b) The council did not provide us with a reconciliation and we could not propose audit adjustment as the difference could not be traced.
- (c) We noted that the council has discrepancies in the amount receivable from Water Services Corporation of €312.16 and amount payable of €1,412.38 which will leave us with the unreconciled difference of €1,100.22. We did not propose an audit adjustment as the difference could not be explained.
- (d) We received a confirmation letter from the supplier showing that as at year end there was no outstanding balance due from the council. The council requested us to pass an audit adjustment of €5,928.45 to reflect the supplier's confirmation. Due to the limitation of details listed in the fixed asset register (refer to note 4.7), we could not trace to which assets the outstanding balance referred and therefore the amount will be taken to profit and loss. We would like to remind the council that writing back of the liabilities should be approved during council meeting. This adjustment was properly recorded in the audited financial statements.
- (e) During our audit we received a confirmation letter from the supplier stating that as at year end there was no outstanding amount payable by the council. The council requested us to pass an adjustment of €2,217 to write back the amount payable and this was correctly recorded in the audited financial statements. We would like to remind the council that the writing back of the liabilities should be approved during council meeting.
- 7.17 It is of utmost importance that council reconciles creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

8 Wages and salaries

Mayors' honoraria

- 8.1 During our recalculation of the mayors' honoraria and allowances we noted that an amount of €958.21 was included with mayors' honoraria when it should have been included in mayors' allowances. In this regard an audit adjustment was proposed and was properly incorporated in the audited financial statements.
- 8.2 We remind the council that correct classification is an integral part of the accounting system.

9 Bank and cash

Final withholding tax

- 9.1 We noted that following bank accounts are subject to final withholding tax:
- BOV current account 40020566649
 - BOV current account 40021821040
 - BOV current account 40021826980
 - BOV savings account 40022052096
- 9.2 Upon enquiry with the council we were informed that during the year the council has, on numerous occasions, contacted the bank to rectify this issue. However we noted that the bank was still withholding tax at year end. Since the councils are exempt from income tax, we recommend that the council puts more pressure on the bank to resolve this situation.

10 Accounting function

- 10.1 The unaudited trial balance showed a profit of €155,259 which, after our proposed audit adjustments and adjustments requested by the council, increased to €178,277.
- 10.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2018 which did not present fairly the results and statement of financial position of the council at year-end. If interim accounts are prepared in the same way, the council may be misguided as to the performance and position of the council and may incorrectly rely upon inaccurate accounts for decision-making purposes and the budgeting process. Our audit findings, proposed audit adjustments and adjustments requested by the council, indicate that the accounting function needs to be taken more seriously by the council (refer also to note 11).
- 10.3 We recommend that greater attention is paid to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the council's results and state of affairs. The council should not rely on the year-end audit to reveal errors in the preparation of its accounts and reconcile any difference with trade creditors and trade debtors. May we also remind the council that in accordance with circular 3/2018 the council must ensure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should be up-to-date with the accounting standards and regulations.
- 10.4 We also remind the council that it is the responsibility of the executive secretary and local council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

11 Financial statements

Difference between trial balance and unaudited financial statements

- 11.1 The trial balance provided by the council did not agree to the unaudited financial statements approved by the council and submitted for audit. The below differences were identified:

Description	Balance in unaudited financial statements €	Balance in trial balance €	Difference €
Expenditure	897,673	899,636	(1,963)
Property, plant and equipment	2,439,856	2,446,352	(6,496)

- 11.2 The council informed us that year-end adjustments were reflected in the trial balance but erroneously not in the unaudited financial statements.
- 11.3 We also noted that in the unaudited financial statements, the council has included the amount of €15,726, being the current portion of Public Private Partnership (PPP) payable, with non-current portion of PPP payable and also included the same amount in the current portion, thus overstating total PPP payable by €15,726. In order to agree total amount of liabilities in the financial statements, the council decreased the general payables by the same amount of €15,726.
- 11.4 After approving and signing unaudited financial statements, the council erroneously passed a journal entry amounting to €72,126, thus decreasing by this amount deferred income and grants receivable. The council instructed us to pass an adjustment to rectify this issue and to agree to the unaudited financial statements. This was correctly shown in the audited financial statements.
- 11.5 The council should ensure that all year-end adjustments are reflected in the books of account and that the books are in agreement with the financial statements.

Presentation of financial statements

- 11.6 We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The council omitted the following note in its financial statements:

i. Disclosure of IFRS 16 'Leases'.

- 11.7 We recommend that the council gives more attention to the preparation of the financial statements.

12 Council meetings

Frequency of meetings

- 12.1 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 06/17	21.06.2017	24.04.2017
Meeting 08/17	18.09.2017	27.07.2017

12.2 We draw your attention to section 43(2) of the Local Councils Act which states that council 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.

Meeting regulations

12.3 We noted that meetings 1, 6, 10 and 11 lasted more than three hours.

12.4 We would like to remind you that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless the consensus of all those present to extend the meeting is obtained.

13 Uploading of documents on local council's website

13.1 We noted that the council did not upload the annual administration report for 2016 on the website.

13.2 The council also failed to upload the quarterly reports January to December 2017, audited financial statements and management letter for 2016 within the required time frame.

13.3 We recommend the council uploads all documents within the required timeframe. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

14 Schedules of payments

14.1 During our review of minutes, we noted that the schedules of payments were approved by the council but the schedules did not include a complete list of cheque numbers.

14.2 Furthermore we noted that when cheque numbers are inserted manually, the council did not include cancelled cheques on the schedule neither did it specify on the schedule that a particular cheque was cancelled. Examples of cancelled cheques are 12512, 12645, 12679, 12693 and 12888.

14.3 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.

14.4 We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payment.

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,

