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Our Ref MB/mf/92221

19 July 2021

Dear Madam,

## **Financial statements for the year ended 31 December 2020**

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### **1 Previous management letter**

#### **1.1 Income**

Once again, we noted shortcomings in general income (refer to note 2.1).

We still noted instances where the council did not deposit receipts in a timely manner (refer to notes 2.3 and 2.4).

We have once again identified shortcomings in accrued income (refer to notes 2.23 and 2.25).

Shortcomings were again noted in other Government income (refer to notes 2.6, 2.8 and 2.10).

We also identified irregularities in LES administration fees (refer to notes 2.12 and 2.14).

We again identified discrepancies in pre-regional LES debtors (refer to note 2.16).

We again encountered shortcomings in relation to the Zejtun tribunal premises (refer to note 2.18).

Once again, we were not provided with the audited financial statements from the Joint Committee (refer to notes 2.20 and 2.21).



## 1.2 Expenditure

We again identified instances where the council is using expired contracts (refer to notes 3.1 and 3.2).

We have again identified instances where petty cash purchases were not made in line with regulations (refer to note 3.4).

Irregularities were still identified with respect to procurement procedures of (refer to note 3.6).

We again identified shortcomings in the tendering procedures (refer to note 3.12).

The council is still not insuring its assets adequately (refer to note 3.15).

We still identified shortcomings in the council rent (refer to note 3.18).

## 1.3 Fixed assets

The council once again failed to reconcile the financial statements with accounting records (refer to notes 4.1, 4.2 and 4.3).

The council also failed to reconcile the fixed asset register with the financial statements (refer to note 4.7).

It was also noted that the fixed asset register still lacks some important information (refer to note 4.9).

We still identified shortcomings in Government grants (refer to note 4.14).

## 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).

We have once again noted overdue receivables (refer to notes 5.3 and 5.5).

We are pleased to note that we did not identify any discrepancies in debtors' alternative procedures.

## 1.5 Creditors

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

Once again, we noted long outstanding creditors (refer to note 6.3).

The council has once again failed to split the balance payable to Works and Infrastructure Department into short-term and long-term (refer to note 6.5).

We are pleased to note that we did not identify any unrecorded liabilities.

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



We still identified shortcomings in advance payments (refer to notes 6.7, 6.9, 6.11, 6.13, 6.14 and 6.15).

**1.6 Bank and cash**

We are pleased to note that we did not encounter any issues regarding cancelled cheques.

We again identified discrepancies in cash at the council premises (refer to note 7.1).

**1.7 Financial statements**

We still identified shortcomings in the financial statements (refer to note 8.1).

**1.8 Meetings**

We have once again identified instances where the council meetings lasted more than three hours (refer to note 9.1).

**1.9 Electronic site**

During the year under review the council did not address the issues of uploading documents on the council website (refer to notes 10.1, 10.2, 10.3, 10.4 and 10.6).

**1.10 Schedules of payments**

We again noted irregularities in the schedules of payments (refer to notes 11.1 and 11.2).

**2 Income**

**General Income**

2.1 On 1 January 2018, the council entered into a service agreement with Manucca Child Day Care Centre for the provision of administration, book keeping and payroll by the council. Whilst the council is still providing such services to the centre, it was noted that the agreement expired on 31 December 2019, and has not been renewed.

2.2 We would like to remind the council that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract.

2.3 Whilst conducting our audit, we noted that the council did not deposit its income on a regular basis.

Description	Receipt number	Receipt date	Deposit date	€
Lifter permit	27976	18.12.20	28.12.20	12
Crane permit	27881	26.11.20	04.12.20	17
Skip permit	27784	06.11.20	13.11.20	15
Lifter permit	27721	23.10.20	29.10.20	10
Crane permit	27087	24.06.20	01.07.20	15
High-up permit	26980	17.03.20	24.03.20	12



The above is in contravention of the relevant regulations. Moreover, leaving cash and cheques on the premises can raise security issues. We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedure.

**Custodial Receipts**

2.4 Similarly, we identified the following instances whereby Lands and LES custodial receipts were not deposited within the required timeframe.

Description	Receipt number	Receipt Date	Deposit date	€
Lands Department	966733	12.12.20	18.12.20	116
Lands Department	929222	13.07.20	21.07.20	36
Lands Department	916003	06.03.20	13.03.20	38
Lands Department	914857	19.02.20	25.02.20	171
LES Income	4487718	06.03.20	13.03.20	37

2.5 Once again we reiterate our recommendation mentioned in note 2.3 that the council abides by the relevant regulation.

**Other Government income**

2.6 During the prior year, the council was granted the amount of €1,015 in terms of Circular SPI 10/2019 - Financial scheme for the development of libraries. The amount was received by the council on 3 December 2019 and was recorded as an advance payment in the prior year. During the current year, the council reversed the advance payment and recorded this amount as income for the year under audit. Following discussion with the council, it was noted that as at year-end, the project had not started. Therefore, an audit adjustment was proposed to reverse the entry affected by the council and record this amount as an advance payment. Moreover, it was also noted that the agreement was not signed by both parties. The audit adjustment was approved by the council and was properly recorded in the audited financial statements.

2.7 The council should make sure that, 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. We also recommend that the council contacts the respective authority so that the agreement is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.

2.8 During the audit fieldwork, it was noted that the council was affecting payments for the salaries of the staff who worked at the Manucca Child Day Care Centre. These amounted to €24,482. The council was then being reimbursed for the payment of these salaries, which were recorded as other Government income. An audit adjustment was proposed to record this amount as general income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.9 We recommend that the council ensures that transactions are properly allocated to the correct revenue stream.



- 2.10 During the audit fieldwork, it was noted that the council erroneously accounted twice for €1,383, which is due to be received from the Malta Tourism Authority. Therefore, an audit adjustment was proposed to reverse the incorrect entry. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.11 We recommend that the council establishes whether an invoice would have already been recorded in the books of account, thus avoiding double posting.

### **LES administration fees**

- 2.12 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the figure in the financial statements. We found that the amount in the books of account is overstated by €865. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.
- 2.13 We recommend that the council regularly reconciles invoices with the 483 reports to ensure accuracy and completeness.
- 2.14 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

<b>Invoice month</b>	<b>Invoice date</b>
February 2020	03.04.2020
June 2020	24.07.2020
July 2020	19.08.2020
August 2020	18.09.2020
October 2020	16.11.2020
November 2020	07.01.2021

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

### **Pre-regional LES debtors**

- 2.16 During our review of pre-regional LES debtors, we noted that the amounts shown in report 483 for pre-regional contraventions amounted to €32, whilst income for pre-regional contraventions was not recorded in the books of account. No explanation for the difference was forthcoming and therefore no audit adjustment was proposed.
- 2.17 We reiterate our recommendation that the council should regularly reconcile invoices with the 483 reports to ensure accuracy and completeness.

### **Zejtun tribunal premises**

- 2.18 We have noted that the council is receiving income of €1,512 per month from Regjun Xlokk for renting out the tribunal premises situated in Zejtun. The total rental income included in the books of account was €18,144 whereas the contract states that the total for the year should be €11,647. This resulted in a difference of €6,497. No audit adjustment was proposed as we were informed that the rates in the contract provided are not the latest rates and that the amount invoiced is correct.



- 2.19 The council should ensure that the rental of premises is always covered by a contract covering the current year. This not only specifies the rights and obligations of each party but also verifies the rental charge.

### **Joint Committee**

- 2.20 We noted that the Zejtun Joint Committee, of which Zejtun local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2014.
- 2.21 The reserves of the committee at that date amount to €840,665. We were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 2.22 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the Joint Committee is liquidated and that the council receives any further income that may be due to it.

### **Accrued Income**

- 2.23 On 21 March 2019, the council was granted the amount of €2,168 in terms of the sports scheme 'Hajja ahjar permezz ta' Ezercizzju Fiziku u Sports'. As at year-end, the council had received the amount of €1,270. In the agreement it was noted that, the Department for Local Government is to fund 85% of the total expense incurred. The sports activity was held by the council on 21 September 2019, and the total expenditure incurred for the event amounted to €1,494, 85% of which amounts to €1,270. This amount is equivalent to the amount received by the council during the current year. Whilst testing, it was noted that the council is still recording as accrued income the remaining amount of €898. After confirming with the council that it is not due to receive this amount or any other funds in this regard, an audit adjustment was proposed to reverse this amount from accrued income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.24 We remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.
- 2.25 To date of the audit fieldwork the council did not have a signed agreement with the Department for Local Government for funds to be received from the Lifelong Learning scheme.
- 2.26 Once again, we reiterate that the council should contact the respective authority so that the agreement is signed by both parties.

## **3 Expenditure**

### **Expired contract**

- 3.1 During the year under review we noted that the council is using services provided by Nexos Street Lighting for street lighting in the locality of Zejtun even though the contract has expired. We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.
- 3.2 Furthermore, we noted that two tenders with reference 02/2015 and 03/2015 have expired in 2020 after a 12-month extension was provided in 2019. The council is



still using these services. We were notified that the council is in the process of issuing new tenders, however up to the date of the audit fieldwork no tender has been issued.

- 3.3 Once again we reiterate that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract.

**Petty cash payments**

- 3.4 We have noted the below instance whereby a petty cash payment was not supported by an itemised cash register chit or a petty cash voucher identifying the items being purchased.

Details	Suppliers	Date	€
Utilities	Pharmavet	12/03/2020	47

- 3.5 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. Therefore, we recommend that, in cases where the supplier is not issuing itemised receipts, all the details are included in the petty cash voucher and signed as approval of the purchase.

**Procurement procedures**

- 3.6 Our testing on cheque payments revealed the following irregularities:

Details	Supplier	€	Note
Chatterbox Oct to Dec 19	Stephanie Calleja	1,395	(a)
IT services, Replacements	C-Plant IT Solutions	2,139	(a, b)
Dog Park Equipment	Opal Outdoor Play and Leisure	2,300	(a)
Ghana Flokk Group	Michael Cutajar	1,200	(a)
Restoration of building abutting St Joseph Shrine in Marsxlokk Road	S Spagnol Constructions Ltd	9,282	(c)

- (a) The council did not obtain any quotations.
- (b) The council did raise a purchase order, but the amount did not tally with the amount on the cheque, and with the amount approved in the schedule of payments.
- (c) This payment relates to BOQs from S Spagnol Constructions Ltd with regards to the 'Restoration of building abutting St Joseph Shrine in Marsaxlokk Road'. It was noted that no tender was issued for such works. The council noted that S Spagnol Constructions Ltd were engaged due to the specialised work involved. The council did not obtain approval from the Department for Local Government prior to the engagement of this contractor.

- 3.7 In accordance with the Procurement Guidelines 2017 issued by the Department of Local Government the council should obtain at least three signed quotations for

purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but lower than €500, a direct order approved by the Executive Secretary is issued. We also draw your attention to section e.01 of the Local Councils (Financial) Procedures, 1996 which states that a similar purchase within four months is to be considered as one single purchase.

- 3.8 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. The 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.
- 3.9 We also recommend that the council ensures that all requests for direct orders are duly approved by the Department for Local Government. Furthermore, the services should only commence once the approval is obtained.

#### **Payment approval**

- 3.10 Whilst performing testing on cheque payments, we noted an instance whereby the cheque was issued prior to being approved by the council. Details of the payment are as follows:

<b>Supplier</b>	<b>Cheque no.</b>	<b>Cheque date</b>	<b>Approval date</b>	<b>€</b>
Marthese Zahra	14660	27/03/2020	06/04/2020	1,222.50

- 3.11 May we remind the council that no payments should be made without the approval of council members. The above payment has only been authorised by the cheque signatories, i.e. Mayor and Executive Secretary who do not constitute a quorum of members. All councillors should be aware of payments and purchases made in the name of the council.

#### **Tendering procedures**

- 3.12 Whilst reviewing the below tender documents we noted the following irregularities:

<b>Reference</b>	<b>Title</b>	<b>Note</b>
01/2020	Professional Services of a Contracts Manager	(a)
03/2020	Embellishment of Misrah Mikiel Anton Vassalli	(b)

(a) The contract agreement was only signed by the Executive Secretary and Mayor, and was not signed by the contracting party.

(b) The contractor did not issue a performance guarantee.

- 3.13 May we remind the council that contract agreements should be signed by all parties. This would ensure that all parties are abiding by the contract and that they are aware of what their rights and obligations are.
- 3.14 Furthermore, procurement policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 and €50,000 and a 10% guarantee for a purchase above €500,000. Also, the General



Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract.

#### **Asset insurance policy**

- 3.15 During our audit we identified the below discrepancies between the asset insurance cover and the net book value assets as per prior year audited financial statements:

Asset	Sum insured €	NBV in books of account €
Land and buildings	225,000	399,364
Office furniture and fittings	65,000	45,294
Office equipment	-	5,204
	<b>290,000</b>	<b>449,862</b>

- 3.16 It is evident that some of the fixed assets are over/under insured. May we advise the council to perform at least an annual review of its insurance policy to ensure that the council's insurance coverage is in line with current legislation.
- 3.17 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft, and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. However, since a significant number of assets have a nil net book value we recommend that the insurance at least covers the replacement value for assets.

#### **Rent Expense**

- 3.18 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €1,282 in the books of account. We noted that the council did not account this amount in accordance to IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.19 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

## **4 Property, plant, and equipment**

### **Reconciliation of financial statements with accounting records**

- 4.1 We identified several 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	1,125,395	1,051,795	73,600
Urban improvements	42,208	9,878	32,330
Assets under construction	103,609	209,542	(105,933)
	<b>1,271,212</b>	<b>1,271,215</b>	<b>(3)</b>

- 4.2 After discussing these differences with the council, it was identified that the amounts of €11,320 and €4,621 were recorded as 'assets under construction' when in actual fact these had to be recorded as 'special programmes'. Furthermore, it was also noted that the amounts of €10,771 and €13,360 were also recorded as 'assets under construction' when in actual fact these had to be classified as 'special programmes'. Moreover, the council also incorrectly recorded the amount of €32,333 as 'assets under construction' instead of 'urban improvements'. It was further noted that the council recorded the amount of €33,528 as 'assets under construction' when this had to be recorded as 'special programmes'. Audit adjustments were proposed in this regard to reclassify amounts to the proper asset categories. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 4.3 It was also noted that the council recorded the total cost of the restoration works which were performed on a shrine of St. Joseph located in Triq Marsaxlokk as 'assets under construction'. The council incurred €9,440 in 2019 and €9,282 in 2020. The works were certified as complete on 13 April 2020. An audit adjustment was proposed to reclassify these amounts to 'special programmes'. Furthermore, it was also noted that the council also recorded the grant which it received to cover the costs of these restoration works against 'assets under construction'. The grant amounted to €18,722. An audit adjustment was also proposed to record the grant against the cost of the asset in the 'special programmes' category. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 4.4 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 before closing the year end.
- 4.5 Moreover, upon further discussions with the council, it was identified that the council does not have ownership of the shrine on which restorations were carried out. To this end, we proposed an audit adjustment to reverse the total cost of the restoration from assets and record such costs as expenses. A further adjustment was also proposed to reverse the grant received from assets and record it as other Government income. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 4.6 We recommend that the council always evaluates whether works should be capitalised or expensed on a case-by-case basis.

### Reconciliation of financial statements with fixed asset register

- 4.7 We identified differences between the net book value of assets in the fixed assets register (FAR) and the net book value in the unaudited financial statements. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Property	396,072	396,325	(253)
Special programmes	1,125,395	1,129,021	(3,626)
Furniture and fittings	39,426	41,432	(2,006)
Urban improvements	42,208	26,335	15,873
Office equipment	3,969	3,295	674
Plant and machinery	248	266	(18)
	<b>1,607,318</b>	<b>1,596,674</b>	<b>10,644</b>

- 4.8 The Local Council Procedures state that the council is obliged to prepare a fixed asset register which reconciles with the nominal ledger. We recommend the council to identify where the discrepancies are coming from and adjust accordingly to have a fixed asset register reconciling to accounting records.

### Fixed asset register

- 4.9 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Furthermore, the description of the assets in the fixed asset register does not always contain the desired detail. Examples include:

Asset category	Asset code	Description	Purchase date	Net book value €
Trees	ZLC00181	Trees	01.03.1999	1,428
Furniture and fittings	ZLC00967	2 Wooden unit with glass sliders	04.02.2014	522
Urban improvements	ZLC01190	Aluminium Notice Boards	06.11.2019	625
Urban improvements	ZLC01191	12 benches	14.06.2019	938
Special programmes	ZLC01182	Supply and Installation Electrical	29.08.2019	17,908

- 4.10 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)

- Cost
- Depreciation rate
- Location of the asset
- Grants received

4.11 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 fully updated.

#### **Fixed asset additions**

4.12 During the audit fieldwork, it was noted that the council recorded architect fees pertaining to the rubble walls project amounting to €5,263, as fixed asset additions. Such asset was classified as 'assets under construction'. Following discussions with the council it was noted that the project was not going to take place. Therefore, an audit adjustment was proposed to show this amount as an expense. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

4.13 We recommend that the council ensures that all purchases are accounted for properly and that only purchases which are of a capital nature are recorded as fixed asset additions. This will also ensure that the depreciation charge is calculated correctly.

#### **Grants**

4.14 Whilst reviewing property, plant, and equipment, we noted that the council netted off the cost of the St. Joseph Shrine in Triq Marsaxlokk, amounting to €18,722 with the amount of the grant received, also amounting to €18,722, instead of recording the cost and grant amounts separately. Furthermore, the council also took the same approach when recording the grant received from 'Measure 19.2 – Rehabilitation and embellishment of a part of the central area of Gnien San Girgor' amounting to €32,796. Audit adjustments were proposed to record the grants separately. The audit adjustments were approved by the council and were properly presented in the audited financial statements.

4.15 We recommend that the council records the cost of the asset and the grant received separately. In this manner the cost of the asset would be clearly identifiable, whilst ensuring a clear trail as to which projects the amounts received were utilised for.

#### **Depreciation of fixed assets**

4.16 During the year under review, we noted that the council's depreciation charge for the year in the books amounted to €267,783, whilst the charge in the fixed asset register amounted to €259,699. This resulted in a discrepancy of €8,084.

4.17 We reiterate our recommendation that the fixed asset register is updated to agree to the books of account. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

#### **Obsolete assets**

4.18 During our audit fieldwork we scanned the fixed asset register for unusual items or exceptions. We identified that the register contains assets which are obsolete or no longer exist such a water dispenser which was bought in 2004 and was disposed of.

- 4.19 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain, and control an accurate and up-to-date inventory of council fixed assets. Therefore, we recommend that any disposals and obsolete items included in the fixed asset register are identified and written off. If the council scraps assets, the list of items scrapped or written off should be approved in a council meeting.

## 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 €312,004. No amount is 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 takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council's books.

### Overdue receivables

- 5.3 The council's books of account include the provision for doubtful debts of €16,321 for the below long-outstanding balances:

<b>Debtor</b>	<b>€</b>
Arts Council Malta	197
Care Malta	150
LESA	513
Water Services Corporation	725
Regjun Xlokk	1,709
WasteServ Malta Ltd	13,027
	<u>16,321</u>

- 5.4 The council should ensure that the balances are valid and, if so, pursue these debtors by sending them reminders for the long overdue amounts.
- 5.5 We have also noted some long-term receivables which have not been provided for. These are summarised below:

<b>Debtor</b>	<b>€</b>
Regjun Centru	17
Regjun Tramuntana	13
GreenPak	1,500
Regjun Xlokk	1,568
Social Security	310
WasteServ Malta Ltd	9,471
Water Services Corporation	71
	<u>12,950</u>

- 5.6 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings.

Furthermore, the council should send continuous reminders/statements to its debtors to ensure that it still has the right to collect the amounts due.

#### Confirmation of debtors

- 5.7 As part of our audit procedures we circularised confirmation letters to selected debtors. We noted the following discrepancy between the council's books of account and the confirmation letters which were received.

Debtor	Amount in council's books of account €	Amount in confirmation reply €	Difference €	Notes
WasteServ Malta Ltd	72,331	54,131	18,200	(a)
GreenPak	7,394	1,640	5,754	(b)

- (a) It was noted that invoices 195, 204, 205 and 209 which amounted to €19,550 were not included in the WasteServ Malta Ltd statement. These invoices were issued by the council to WasteServ Malta Ltd on 30 September, 31 October, 30 November, and 31 December 2019/, respectively. A discrepancy of €1,349 remained, for which no explanation was forthcoming.
- (b) The council failed to provide us with the reconciliation for the identified discrepancy.

- 5.8 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.

## 6 Creditors

### Supplier statements

- 6.1 It was noted that once again, the council did not obtain monthly and year end statements from all 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.
- 6.2 We understand that the council does make effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend that 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

- 6.3 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amount to €23,457 and have been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

<b>Supplier</b>	<b>In creditors' list €</b>
C-Planet IT Solutions Ltd	617
WasteServ Malta Ltd	22,840
<b>Total</b>	<u><u>23,457</u></u>

- 6.4 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.

#### **Balance payable to the Ministry for Transport, Infrastructure and Capital Projects**

- 6.5 In a judgement dated 17 June 2014, the council was found liable to pay the Ministry for Transport, Infrastructure and Capital projects the amount of €81,377 for the cost of works and other services which were provided to the council. The amount of €81,377 was paid off by the council by 26 April 2018. The council also incurred interest fees amounting to €96,026. On 4 December 2018, the council entered into an agreement with the respective Ministry to pay the amount due over ten years, affecting payments of €9,603 p.a. As at year-end, the council had a total amount due of €76,821. When performing our testing of creditors, we noted that the council is recording the full amount as current liability. In this regard, an audit adjustment of €67,218 was proposed to reclassify the long-term portion of the amount to long-term liabilities. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.6 We recommend that the council discloses separately any creditor balances which are of a long-term nature to have a clear view of the amounts which the council needs to pay within the following year and which amounts will be paid in subsequent years. We also recommend that trade creditors are distinguished from capital creditors. This will also aid in the preparation of the cash flow statement.

#### **Advance payments**

- 6.7 On 24 December 2018, the council signed a grant agreement with the Gal Xlokk Foundation in terms of "Measure 19.2 – Rehabilitation and embellishment of a part of the central area of Gnien San Girgor". The council was granted the total sum of €57,870. The council received the amount of €32,757 on 29 February 2020. Therefore, as at year-end, the council was still due to receive the total amount of €25,075. Whilst the council correctly recorded this amount as accrued income, it recorded the contra-entry against the cost of the asset. An audit adjustment was proposed to reverse the amount still due from assets and record it as advance payment. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.8 The council should correctly account for grants received and accrued income. We recommend that the council pays more attention to which grants are being deferred and then releases these grants in line with IAS 20. If the council has accrued grants, these should be recorded as advance payments and not against assets.
- 6.9 On 20 November 2019, the council entered into an agreement with the Department for Local Government whereby it was granted the total amount of €9,118 in terms of Circular SPI 7/2019, 'Finanzjament ta' Progetti Kapitali – Apparat ghall-Sistemi

ta' Irrigazzjoni'. During the year under audit, the council did not obtain a copy of the agreement which was signed by both parties.

- 6.10 We recommend that the council contacts the respective authority so that the agreement is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.
- 6.11 On 1 November 2019, the council received €45,059 in relation to the Rural Development Programme 2014-2020, Measure 4.4 – Support for non-productive investments. The council recorded the amount of €45,217 as an advance payment. Upon discussion with the council, it was identified that the project was not going to materialise, and it is reasonably possible that the council will have to return the funds. Therefore, an audit adjustment was proposed to reclassify this amount from advance payments to trade creditors. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.12 We recommend that the council considers the nature of the amounts before recording them as an advance payment. In this way, the council ensures that the books of account are always kept up to date.
- 6.13 During the audit fieldwork it was identified that the council received €3,200 as part of the LC Care grant scheme, which funds were utilised for the dog park project. Additionally, on 30 March 2020, the council also received €1,500 from GreenPak, which funds were also allocated to the same project. The council recorded these amounts as advance payments since the project is not yet finalised. An audit adjustment was proposed to reverse these amounts from advance payments and record them as a grant against assets under construction. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.14 Moreover, during 2019 the council received €30,000 in relation to the Greening Urban Areas Project. The council recorded these funds as advance payments. As at 31 December 2020, the council had recorded the amount of €27,960 as assets under construction. Therefore, an audit adjustment was passed to record the amount of €27,960 as a grant against assets under construction.
- 6.15 Similarly, during 2019 the council also received €9,118 in terms of the irrigation scheme, which amount was recorded as an advance payment. As at year-end, the council had recorded the amount of €7,616 as assets under construction. Therefore, an audit adjustment was proposed to record a portion of the amount received as a grant against assets under construction. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.16 We recommend that the council adheres to IAS 20 '*Accounting for Government Grants and Disclosure of Government Assistances*' and transfers deferred grants to fixed assets based on the percentage completion of the project.

## **7 Bank and cash**

### **Cash**

- 7.1 During our testing of cash balances, we noted that an amount of €186 is recorded as cash in hand in the books of account, however, this amount was not located at the council's premises. Upon enquiry, the council noted that this pertains to an



adjustment which was passed in prior years in relation to LES money held at the council which were deposited after year end.

- 7.2 We recommend that the council investigates exactly how this discrepancy arose and ensures that the cash reconciliation performed reconciles the cash in hand with the books of account to ensure that all transactions are being accounted for.

#### **LC Other Entities Account**

- 7.3 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of cash and subsequent transfers of the amounts due to entities such as LESA and the Lands Department. It was noted that the council continued to deposit cash receipts for LES and Lands in the council's bank account whilst recording the deposits as income and the subsequent transfers as expenses. The total deposits amounted to €54,522, whilst the total transfers amounted to €30,835. An audit adjustment was proposed to reverse these amounts from income and expenses and record the net amount as other payables. €1,458 of the total transfers amount pertained to an accrual which the council recorded for cash which was received during the year, but which was subsequently deposited and transferred after year-end. An audit adjustment was also proposed to reverse this accrual. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 7.4 Directive 5/2020 states that the council should open a bank account with the name 'LC Other Entities Account' so that the council can deposit funds and subsequently transfer funds to the appropriate entity. This legal notice came into force on 1 September 2020. To this end, we recommend that the council makes the necessary arrangements to be in line with this directive.

## **8 Financial statements**

### **Presentation of financial statements**

- 8.1 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's financial statements diverge from this requirement in the instances noted below:
- i) In note 2.3, 'Property, plant and equipment', the council is referring to the reducing balance method. The council accounts for depreciation using the straight-line method. Therefore, the note is inaccurate.
  - ii) The net cash generated from operations figure for 2019 in the Statement of Cashflows does not cross-cast to the figure in note 23 'Cash generated from operations'. Furthermore, it was noted that the figure for the beginning cash and cash equivalents amount for 2020 does not correspond to the 2019 cash and cash equivalents amount at year-end.
  - iii) In note 23, 'Cash generated from operations', the total for 2020 does not cast.
  - iv) In note 14.1, the total of the 2019 ageing analysis does not cast.
  - v) In note 16, 'Amounts payable under the PPP agreement', the non-current and current payable amounts for the penalty were stated incorrectly.



- vi) In note 17, 'Payables', the council listed the amount of €9,603 payable to the Ministry of Transport, Infrastructure and Capital Projects separately. This amount had already been accounted for in the general payables.
- vii) In note 18.1, 'Categories of financial instruments', the council stated the amount of cash and cash equivalents incorrectly.
- viii) In the same note, the council listed accruals and general payables together. These should be disclosed separately in the note.
- ix) There is no mention of the impact or lack of impact of IFRS 16 on the financial statements.

8.2 We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings have been properly amended in the audited financial statements.

## **9 Council meetings**

### **Meeting regulations**

- 9.1 We noted that meetings 1 and 11 lasted more than three hours.
- 9.2 We would like to remind the council 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 and minuted.

## **10 Uploading of documents on local council's website**

- 10.1 We noted that the council failed to upload the quarterly reports from January to December 2020, the 2021 annual budget and the 2020-2024 business plan within the required time frame.
- 10.2 Furthermore, the annual administrative report uploaded on the website was in Word format and was not indicated as signed.
- 10.3 It was also noted that the council did not upload the signed version of the 2019 audited financial statements.
- 10.4 Moreover, the council did not upload the management letter and the reply to the management letter for 2019 on the council website.
- 10.5 We recommend that the council uploads all documents in pdf format 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.

### **Uploading of management letter and other documents**

- 10.6 During our audit fieldwork, we noted that the council has failed to upload the 2019 Management Letter and reply in full in accordance with Circular 21 of 2019.
- 10.7 We would also like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that