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Our Ref MB/mf/97021

27 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**

We have once again identified shortcomings in accrued income (refer to note 2.21).

Shortcomings were again noted in other Government income (refer to note 2.7).

We are pleased to note that the council rectified the bad debts issue during the year under audit.

##### **1.2 Expenditure**

We are pleased to note that we did not identify that the council is using any expired tenders.

##### **1.3 Payroll**

We have again noted shortcomings in payroll (refer to notes 4.1, 4.3 and 4.5).

##### **1.4 Fixed assets**

We have once again noted shortcomings in the fixed asset register (refer to note 5.9).

Once again, we noted shortcomings in fixed asset additions (refer to notes 5.12, 5.13 and 5.14).



## 1.5 Debtors

We have once again noted overdue receivables (refer to note 7.5).

## 1.6 Creditors

The council is still not obtaining all supplier statements at the year-end (refer to note 9.1).

Once again, we noted long outstanding creditors (refer to note 9.3).

We are pleased to note that the council rectified the issue of other payables during the year under audit.

We have once again identified shortcomings in accrued expenditure (refer to notes 9.10 and 9.11).

We are pleased to note that the council has not exceeded the expenditure budget.

## 1.7 Bank and cash

We are pleased to note that we did not encounter any issues regarding bank reconciliations.

We again identified shortcomings in cash in hand (refer to note 8.1).

## 1.8 Financial statements

We still identified shortcomings in the financial statements (refer to note 10.1).

## 1.9 Meetings

Once again, we noted shortcomings in meetings (refer to note 11.1).

## 2 Income

### Other supplementary Government income

2.1 During the year, the council received the amount of €2,124 from the Department for the Adjustment Fund 2019. It was noted that the council recorded this amount as 'other supplementary Government income'. To this end, an audit adjustment was proposed to reclassify this amount to 'other Government income'. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We recommend that the council discloses all income received from Government, which is not part of the allocation, as 'other Government income', unless otherwise directed by the Department.

2.3 Whilst reviewing the statement provided by WasteServ Malta Limited, we identified that on 31 December 2020, a payment of €5,906 was made by the Department for Local Government to WasteServ Malta Limited on behalf of the council for 2019 tipping fees. It was noted that this transaction was omitted from the council's books of account since the council was notified about this after year-end. To this end, an audit adjustment was proposed to record this amount as other supplementary Government income and reverse it from creditors. The audit



adjustment was approved by the council and was properly presented in the audited financial statements.

- 2.4 We recommend that the council records income in the correct period as required by IFRS.
- 2.5 It was noted that the council recorded the amount of €24,289, pertaining to funds received from the LC care scheme and various schemes from Central Region as 'other supplementary Government income'. An audit adjustment was proposed from our end to record this amount as 'other Government income'. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.6 We would like to remind the council that correct classification is an integral part of the accounting system.

**Other Government income**

**General Income**

- 2.7 It was noted that the council recorded reimbursements amounting to €63,658 received from WasteServ Malta Limited for the collection of organic waste as general income. An audit adjustment was proposed to record this amount as other Government income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.8 We recommend that the council allocates its income to the appropriate accounts so that the income of the council is properly reported.
- 2.9 Whilst conducting our audit, we noted that the council did not deposit its income on a regular basis. Examples include:

Description	Receipt number	Receipt date	Deposit date	€
Crane permit	3088	03.12.20	11.12.20	10
Crane permit	2433	24.09.20	05.10.20	10
Crane permit	2125	24.08.20	09.09.20	15
Crane permit	1958	04.08.20	10.08.20	25
Crane permit	1370	08.06.20	17.06.20	15
Crane permit	1100	08.05.20	15.05.20	20
Crane permit	924	09.04.20	17.04.20	10
Crane permit	665	03.03.20	10.03.20	10
Crane permit	507	14.02.20	21.02.20	10
Crane permit	4	02.01.20	13.01.20	10

- 2.10 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.
- 2.11 Furthermore, it was noted that the council does not keep a copy of the G4S receipt which is provided to the council upon the collection of cash.
- 2.12 We advise the council to retain a copy of the receipt since this serves as a record of the collection of the money. Furthermore, the council should then reconcile the



amount collected to the bank statement to ensure that the amounts collected were deposited to the bank.

**Custodial Receipts**

2.13 We identified the following cases whereby Lands and LES custodial receipts were not deposited within the required timeframe.

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	915547	28.02.20	04.03.20	50
Lands Department	934981	28.07.20	06.08.20	29
Lands Department	928634	07.07.20	14.07.20	185
Lands Department	941140	21.08.20	03.09.20	96
Lands Department	953062	18.09.20	28.09.20	221
LES Income	4559204	23.07.20	28.07.20	58
LES Income	4530189	09.06.20	06.07.20	70
LES Income	4535616	18.06.20	24.06.20	23
LES Income	4564057	30.07.20	11.08.20	58
LES Income	4686851	21.12.20	05.01.21	23
LES Income	4659972	18.11.20	02.12.20	23
LES Income	4571941	10.08.20	17.08.20	35
LES Income	4579963	22.08.20	14.09.20	23
LES Income	4615804	03.10.20	12.10.20	12

2.14 Once again, we remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period since, apart from contravening the Procedures, it can give rise to security concerns.

**LES administration fees**

2.15 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 €1,063. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.

2.16 We recommend that the council regularly reconciles invoices with the 483 reports to ensure accuracy and completeness.

2.17 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

2.18

Invoice month	Invoice date
January 2020	11.02.2020
February 2020	10.03.2020
March 2020	09.04.2020
August 2020	10.09.2020
October 2020	09.11.2020
November 2020	09.12.2020



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**

- 2.19 During our review of pre-regional LES debtors, we noted that the amounts shown in report 483 for pre-regional contraventions amounted to €884, 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.
- 2.20 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.

### **Accrued Income**

- 2.21 On 30 December 2019, the council entered into an agreement with the LC Project Committee on behalf of the Ministry for the Environment, Sustainable Development and Climate Change. The council was granted the total amount of €7,452, which is equivalent to 80% of the total cost of the project which amounted to €9,315. As at year-end, the council had incurred the total cost of €5,289, 80% of which amounts to €4,231. By year-end, the council had received €4,000 out of the total payable amount, and therefore was still due to receive the amount of €232. It was noted that the council recorded accrued income of €1,289. Therefore, an audit adjustment of €1,058 was proposed to record the correct amount as accrued income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.22 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.

### **Joint Committee**

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

## **3 Expenditure**

### **Petty cash payments**

- 3.1 Our testing on petty cash payments revealed the following irregularities:



Details	Supplier	Date	€	Note
Mobile Card	The Drury Collection	09.06.2020	20.00	(a)
Refreshments	Best Choice	09.07.2020	35.02	(b)

- (a) The expense was not recorded in the correct account.
- (b) The cash payment was not supported by an appropriate authorised petty cash voucher identifying the items being purchased.

3.2 Once again, we remind the council that correct classification is an integral part of the accounting system. We recommend that the council allocates its expenditure to the appropriate accounts so that the expenses are properly recorded.

3.3 Moreover, 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. To this end, 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

3.4 Our testing on cheque payments revealed the following irregularities:

Details	Supplier	Date	€	Note
Planting of trees	Charlie Mifsud	24.03.2020	1,421	(a)
Street Signs stickers and metal sheets	Koperattiva Tabelli u Sinjali	28.04.2020	3,139	(a, b)
Trenching work & supply of items for works near Junior College	Silvar Construction Services Ltd	28.05.2020	4,810	(a)
Bowsers for watering parks & soft areas in Msida	Leonard Farrugia	28.05.2020	2,930	(a, c)
Fire Alarm System for Council's offices	Fire and Security Enginerring	30.06.2020	3,856	(a)
Paint for works carried out by FZTL	Oasis	31.07.2020	1,000	(a, b)
Wall calendars	Sive Star Printing Sevices	02.12.2020	998	(a)

- (a) The council did not obtain three quotations.
- (b) The purchase order raised was not numbered.
- (c) The council did not raise a purchase order.

3.5 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.



- 3.6 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but not €500, a direct order approved by the Executive Secretary is issued.

**Payment approval**

- 3.7 Whilst performing testing on cheque payments, we noted some instances whereby cheques were issued prior to being approved by the council. Details of the payments are as follows:

Supplier	Cheque no.	Cheque date	Approval date	€
Miraine Camilleri	14485	24.04.2020	27.04.2020	1,401
Alfred Galea	13702	08.06.2020	27.06.2020	4,104

- 3.8 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**

- 3.9 It was noted that the council failed to obtain the performance guarantee from Nexos Street Lighting within 15 days of contract agreement. The contract was signed on 31 August 2020 whereas the guarantee was only given to the council on 20 October 2020.
- 3.10 Procurement Policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for 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**

- 3.11 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 audited financial statements 2019
	€	€
Buildings	420,200	315,452
Office furniture and fittings	-	19,027
Plant and machinery	27,952	292
Office equipment	-	7,900
<b>Total</b>	<b>448,152</b>	<b>342,671</b>



Whilst reviewing the insurance policy, we also noted that the council is insuring property in the open for a value of €67,500. This is in breach of Directive 3/2017 which states that community assets should not be insured.

- 3.13 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.
- 3.14 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.

#### **Personal accident insurance**

- 3.15 We noted that the MIB combined insurance policy is covering instances of group personal accident on a worldwide basis instead of being limited to the Maltese territories. Should a council member require to go overseas on council business a separate policy should be taken out for the specific trip. Worldwide coverage for all personnel travelling abroad on personal rather than business activities may be construed as a benefit in kind.
- 3.16 We recommend that the council updates the insurance policy accordingly to limit coverage to the Maltese islands.

## **4 Payroll**

#### **Reconciliation between FS7 and FS5s**

- 4.1 We identified a difference of €377 between the FS5s and FS7 submitted to the Commissioner for Revenue. No reconciliation was provided to us during the audit (refer to appendix 1).
- 4.2 We recommend that all wages paid by the council are correctly reported to the Commissioner for Revenue.

#### **Reconciliation of wages between FS5s and books of account**

- 4.3 During the audit we noted a discrepancy of €604 between the wages accounts and the personal emoluments stated in the FS5 forms submitted to the Commissioner for Revenue (refer to appendix 1).
- 4.4 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Once again, we reiterate that the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

#### **Councillors' allowances**

- 4.5 During our audit fieldwork we noted that the council has erroneously classified part of the mayor allowance amounting to €200 in the employee wages and salaries account. An audit adjustment was proposed to rectify this. The adjustment was approved by the council and was properly presented in the audited financial statements.



- 4.6 We recommend that the council should allocate its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

## 5 Property, plant, and equipment

### Reconciliation of financial statements with accounting records

- 5.1 We identified some 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 €
Construction works	73,500	74,350	(850)
Urban improvements	-	(850)	850
	<b>73,500</b>	<b>73,500</b>	-

- 5.2 It was noted that the council recorded €850 in 'urban improvement's when this should have been recorded in 'construction works'. An audit adjustment was proposed to record this amount in the appropriate asset category. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 5.3 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.

### Reconciliation of financial statements with fixed asset register

- 5.4 We identified differences between the net book value of assets in the fixed assets register 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 €
Office furniture & fittings	18,112	18,190	(78)
Computer & office equipment	9,756	11,764	(2,008)
Urban improvements	-	8,161	(8,161)
Street signs, mirrors & lights	916	-	916
Construction works	73,500	65,777	7,723
	<b>102,284</b>	<b>103,892</b>	<b>(1,608)</b>

- 5.5 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.



### Classification of assets

- 5.6 Whilst reviewing the fixed asset register, it was noted that the council classified a road hump as 'street signs' rather than 'urban improvements'.
- 5.7 Furthermore, it was also noted that the fixed asset register included additions amounting to €1,888 with 'urban improvements', and additions amounting to €13,702 with 'street lights'. In the financial statements, these were both classified as 'construction works'.
- 5.8 We recommend that the council ensures that the fixed asset register is updated, with the various categories tying up to both the financial statements and the nominal accounts to have the correct net book value for tangible assets.

### Fixed asset register

- 5.9 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Examples include:

Asset category	Asset code	Description	Purchase date	Net book value €
Construction works	CONS028	Works at Triq it-Torri	13.10.2012	904
Urban improvements	UIMP087	Bollard and stainless steel plate	20.02.2.18	256
Office furniture	OFFURN35	Reception top including sign and logo	28.11.2018	2,411
Trees	TR015	Trees Misrah 5 ta' Ottobru Garden	06.07.2011	1,147

- 5.10 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

- 5.11 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

- 5.12 It was noted that the council capitalised professional fees amounting to €2,124 pertaining to projects which are not yet finalised. These include the extension to the council's building, the proposed flyover, and the pedestal of St. Joseph. An audit



adjustment was proposed to record this amount as assets under construction. These professional fees should then be capitalised once the projects are certified and finalised. An audit adjustment amounting to €18 was also proposed to reverse the depreciation charge. The audit adjustments were approved by the council and were properly reported in the audited financial statements.

- 5.13 Similarly, it was also noted that the council capitalised €105 with 'construction' for the development fees of the monument of St. Joseph. Given that the monument itself is not yet finalised and installed, an audit adjustment was proposed to record this amount as assets under construction. The depreciation charge of €4 was also reversed. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 5.14 Moreover, we also identified that the council capitalised professional fees amounting to €1,888 in relation to the afforestation project in Swatar. Upon discussion with the council, it was determined that the project is still in its initial stages and hence, an audit adjustment was proposed to record this amount as assets under construction. The depreciation charge of €16 was also reversed. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 5.15 We recommend that the council investigates invoices and ensures that all additions are accounted for properly.

## **6 Intangible Assets**

- 6.1 During our audit fieldwork we noted that the council paid €1,044 as a deposit for the design, building and publishing of the council website. Upon discussion with the council, it was noted that the website was finalised in March 2021. Therefore, an audit adjustment was proposed to record this amount as an advance payment and reverse it from asset additions. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.2 We recommend that the council assesses all its expenditure and establishes whether expenditure shall be capitalised in accordance with IAS 16 *Property, Plant and Equipment*.

## **7 Debtors**

### **Debtors' list**

- 7.1 It was noted that the debtors' list amounted to €121,796 whilst the council recorded total debtors amounting to €119,538 in its books of account. This resulted in a discrepancy of €2,258. Upon discussion with the council, it was noted that the difference pertains to an audit adjustment which was passed in 2018, whereby this amount was reversed from debtors. The council further noted that in 2019 this balance was written off from the debtors' list. Hence, this transaction was accounted for twice in the council's books of account. To this end, the council proposed an adjustment to reverse the double posting in the books. The adjustment was properly presented in the audited financial statements.
- 7.2 We recommend that the council ensures that the books of account are always kept up to date.



**LES receivables**

- 7.3 According to report 622 issued from Loqus, the council’s tribunal payments for the pooling period up to 31 August 2011 is €405,511. No amount is recognised as 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.
- 7.4 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**

- 7.5 We noted that the council’s debtors list still includes the following overdue receivables for which no provision was made in the books of account.

<b>Debtor</b>	<b>€</b>
Active Enterprises Ltd	1,284
Central Region	301
LESA	4,222
LESA Regjun Nofsinhar	9
WasteServ Malta Limited	17,940
	<u>23,756</u>

- 7.6 The council should regularly review overdue receivables for recoverability and, if so, chase these debtors by sending them reminders for the long overdue amounts. If recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining council approval in meeting.

**Confirmation of debtors**

- 7.7 As part of our audit procedures we circularised confirmation letters to selected debtors. It was noted that whilst the balance due from WasteServ Malta Limited included in the debtors’ list amounted to €81,841, the balance confirmed by WasteServ Malta Limited was of €45,326. This resulted in a discrepancy of €36,515. Upon further investigation, it was identified that as at date of audit fieldwork, WasteServ Malta Limited has not posted various invoices pertaining to 2019 and 2020 in its system, hence resulting in the difference identified.
- 7.8 We recommend that the council contacts Wasteserv Malta Limited and ensures that all invoices are approved and recorded in their books. The council should also chase for payment. Furthermore, the council should perform regular reconciliations with all debtors to promptly highlight any differences.

**Alternative confirmation procedures**

- 7.9 As at year-end, the council had a balance due from LESA amounting to €13,449 in its books of account. Upon testing, it was identified that the council received a payment of €867 after year-end. Furthermore, it was identified that invoices amounting to €14,281 were still outstanding at year-end. A discrepancy of €1,699 remained, for which no explanation was forthcoming.
- 7.10 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.



## **Other debtors**

- 7.11 It was noted that in its books of account, the council recorded the amount of €23,047 which is due from Infrastructure Malta for works carried out by the council's contractor in Rue d'Argens. The council has provided us with an email confirming that works will be paid by Infrastructure Malta. However, the email provided did not include the amount which is to be reimbursed.
- 7.12 As at year-end the council also had a receivable balance of €17,197 from Water Services Corporation, with respect to water pipe layering and works carried out in Rue d'Argens. During the audit fieldwork, the council noted that it was agreed that the latter amount would also be paid by Infrastructure Malta. The council failed to provide us with supporting documentation clearly stating the amount which will be reimbursed by Infrastructure Malta in this regard. To this end we have qualified our audit report as we could not confirm if this amount is receivable.
- 7.13 We recommend that the council contacts the respective authorities to draft a contact agreement which is to be signed by both parties. In this manner it is ensured that the contract is binding for both parties to the agreement, and it also ensures that each party is aware of its rights and obligations under the agreement.

## **Prepayments**

- 7.14 During our audit fieldwork it was noted that included with prepayments was an amount of €895 for online streaming services for the period January - July 2021. From supporting documentation obtained, it was identified that the invoice was issued for the period June 2020 – May 2021. Therefore, the council should have only calculated the prepayment for five months. The prepayments for the period should amount to €635. An adjustment of €260 was proposed to reverse the over prepaid portion. The adjustment was approved by the council and was properly reported in the audited financial statements.
- 7.15 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct period based on the accrual concept.

## **8 Bank and cash**

### **Cash in hand**

- 8.1 During the audit fieldwork, it was noted the council included €585 with cash in hand pertaining to income from permits received in 2021. Furthermore, we also noted that a further discrepancy amounting to €414 arose in the cash in hand due to a system importation error. Audit adjustments were proposed in this regard. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 8.2 We recommend that the council performs regular cash reconciliations to reconcile the cash in hand with the books of account to ensure that all transactions are being accounted for.

## **9 Creditors**

### **Supplier statements**

- 9.1 It was noted that 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.

- 9.2 We remind the council that suppliers' statements are essential, especially for those suppliers with whom the council trades most. The council should make sure that the creditor accounts agree to supplier statements on a regular basis and investigate and reconcile any differences.

**Long outstanding trade creditors**

- 9.3 The council's creditors' list includes a balance amounting to €21,617 due to Joseph Tabone which has been outstanding for more than one year.
- 9.4 We recommend that the council reviews this amount and, either settles it if still due, or else reverses it after having obtained approval from the council. Furthermore, decisions and discussions regarding this balance should be minuted during the council meetings.

**Confirmation of trade creditors**

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

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Wasteserv Malta Limited	5,195	(711)	5,906

- 9.6 Upon further investigation we noted that Council did not record the allocation paid directly to Wasteserv by the Department against 2019 invoices at the end of the year. As noted in note 2.3, an audit adjustment was proposed to account for this discrepancy.
- 9.7 We remind the council that circular 1/2021 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

**Other Creditors**

- 9.8 Whilst testing other creditors, it was noted that the council has long overdue balances amounting to €9,324 in relation to temporary permits issued by the council.
- 9.9 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.

**Accrued expenditure**

- 9.10 Our testing on accruals revealed that the council's provision for street lighting decorations was overstated by €3,000. An audit adjustment was proposed to reverse the over-accrual. The audit adjustment was approved by the council and was properly presented in the audited financial statements.



- 9.11 It was further noted that the accrual for the street lighting expense was understated by €2,324. We have proposed an audit adjustment to reflect the correct amount in the books of account. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 9.12 We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.

## **10 Financial statements**

### **Presentation of financial statements**

- 10.1 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) The council failed to update the 'application of new and revised International Financial Reporting Standards' note and the 'standards, interpretation and amendments to published standards as adopted by the EU that are not yet effective for financial periods beginning on 1 January 2019' note.
  - ii) In note 3 'Funds received from Central Government', the amounts for Government allocation and other supplementary income included in the financial statements do not agree to the amounts recorded in the books of account.
  - iii) The net current asset position in note 21 'liquidity risk' is incorrect.
- 10.2 We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.

### **Specimen chart of accounts**

- 10.3 It was noted that the account numbers in the trial balances do not agree to the specimen chart of accounts that is standard to local councils and regional committees.
- 10.4 We recommend that the chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will enhance comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

## **11 Meetings**

### **Length of meetings**

- 11.1 During the year under review we noted that meeting 10 lasted more than three hours without obtaining the required consensus.
- 11.2 This is contrary to memo 68/2009 and section 43(3) of the Local Councils Act which state that the duration of council meetings shall not exceed three hours

unless consensus is reached by all members and this should be noted in the minutes.

## **12 Schedules of payments**

- 12.1 Whilst performing audit procedures on the schedules of payments we noted that listed cheques were not in a sequential order.
- 12.2 Furthermore, it was also noted that the council issued cheques 13499 and 13562 which were not included in the schedules of payments.
- 12.3 May we remind the council that 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. In the case of payroll cheques, it is advisable to list cheque numbers together but add as a description 'payroll'. This will ensure that all cheques are approved. Furthermore, during 2020 the council adopted directive 4/2020 which enables the council to make online payments. We encourage the council to include payment date and transfer reference in the schedules of payments.

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

- 13.1 We noted that the council failed to upload the quarterly reports from January to December 2020 within the stipulated timeline. Furthermore, the council also failed to present these reports within the required timeframe. It was also noted that the quarterly report for the period October to December 2020 which was uploaded on the website was not noted as signed.
- 13.2 We also noted that the council did not upload the 2019 financial statements, management letter and its reply within the stipulated time.
- 13.3 The 2021 annual budget, 2021-2025 business plan and the 2019 annual administrative report uploaded on council website fail to indicate that the documents were signed.
- 13.4 We recommend 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**

- 13.5 During our audit fieldwork, we noted that the council uploaded the 2019 Management Letter and reply in full in accordance with Circular 21 of 2019.
- 13.6 We would 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 they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.



- 13.7 We therefore recommend that the council contacts the Department for clarification of this contradiction.

### **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 Alan Vella and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

