



Grant Thornton

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Our ref ABC/mf/48219

29 April 2019

Dear Sir,

Financial statements for the year ended 31 December 2018

During the course of our audit for the year ended 31 December 2018 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.

Previous management letter

1.1 Audit opinion

The audit opinion is once again qualified for the year ended 31 December 2018 (refer to note 2).

1.2 Income

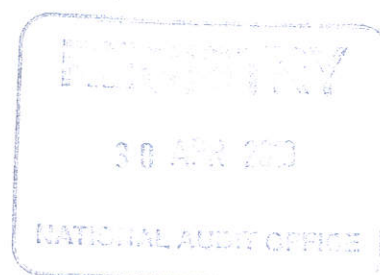
We have again identified differences between the Central Government allocation and the stipulated annual allocation (refer to note 3.1).

We again identified deficiencies in the accounting in relation to the SOLIDA project (refer to note 3.7)

The council is still not depositing general and custodial receipts twice weekly (refer to notes 3.10 and 3.21).

We again identified discrepancies between Report 483 of the Loqus system and the books of account (refer to note 3.23).

We did not encounter issues with income from CIES scheme; however we still identified deficiencies in account allocations (refer to note 3.13)





1.3 Payroll

We have again identified a discrepancy in the wages reconciliation (refer to note 4.3)

We did not identify irregularities in councillors' allowances.

We did not identify any payments of overtime without obtaining approval in council meetings.

1.4 Expenditure

We again identified instances where petty cash purchases were not made in line with the new directive (refer to note 5.1).

The council is still not including all necessary details in the petty cash summaries (refer to note 5.3).

We again identified various purchases for which the necessary quotations and purchase orders were not obtained (refer to note 5.5).

During the year under review, we again noted that large cheque payments were not backed up by a call for tenders, as recommended in our prior year's management letter (refer to note 5.9).

We again identified shortcomings in the tendering procedures (refer to note 5.13).

Certain details in the schedules of payments, such as the purchase order and account number were still missing for various items (refer to note 5.15).

Moreover, various cancelled cheques during the year were not included in the schedules of payments (refer to note 5.17).

In our testing of asset insurance, we noted once again a number of discrepancies between the books of account and the asset insurance policy (refer to note 5.19).

We again noted that the council had various travelling expenses during the year. These expenses were once again not backed up by a report which needs to be submitted in accordance with MF5/2012 (refer to note 5.26)

1.5 Fixed assets

The accounting records are again not reconciled with the figures in the unaudited financial statements (refer to note 6.3).

The fixed asset register has not yet been compiled (refer to note 6.5).

During the year under review, we were still not provided with information regarding the assets under construction (refer to note 6.8).

Various irregularities were noted when testing fixed asset additions (refer to notes 6.10 and 6.12).

The council's assets are still not tagged (refer to note 6.14).



1.6 Cash and cash equivalents

The council once again did not provide us with all bank reconciliation and statement as at year end (refer to note 7.1).

Mr Emmanuel Farrugia is still listed as one of the representatives for a BOV account (refer to note 7.5).

Various irregularities were noted when testing unpresented cheques (refer to note 7.7).

We did not encounter any pre-signed cheques during our fieldwork.

We are pleased to note that the council has stopped using the debit card.

The council is still using two nominal accounts for petty cash (refer to note 7.9).

We have once again identified a bank guarantee included in petty cash (refer to note 7.11)

1.7 Trade and other receivables

The council did not investigate the long outstanding trade debtors (refer to note 8.4).

The council is still accounting for the five regional committees in one debtor account (refer to note 8.7).

We have once again noted that the aged receivables' analysis is not correctly compiled (refer to note 8.9)

We are pleased to note that the council did not have any credit balances in the debtors' list.

The council is still accounting for a provision for doubtful debts of €1,060.49 (refer to note 8.11).

The council did not rectify the issue of the other receivables (refer to note 8.13).

We have again identified differences between the LES receivables and the Loqus report 622 (refer to note 8.15).

We have once again identified deficiencies in accounting for accrued income (refer to notes 8.19 and 8.21).

We again noted instances where the council did not account for any prepayments (refer to note 8.23).

1.8 Trade and other payables

During our testing we identified a discrepancy between the creditors' list and the trade payables disclosed in the financial statements (refer to note 9.1).

The council once again failed to obtain suppliers' statements as at year end (refer to note 9.3).



No exceptions between the council's books and the creditors' alternative testing were noted.

We again identified an old balance with Water Service Corporation where the council could not provide with an explanation (refer to note 9.5).

We again identified irregularities when testing for unrecorded liabilities (refer to note 9.9).

The council rectified the issue of long-outstanding creditors.

1.9 **Grant accounting**

We again identified irregularities in grant accounting (refer to note 10.1).

1.10 **Opening balances**

We again identified discrepancies in the opening balances (refer to note 11.1).

1.12 **Financial statements**

The unaudited financial statements presented to us had a number of shortcomings (refer to note 12.1).

1.13 **Meetings**

The council once again failed to set the date of the next meeting in some instances (refer to note 13.1).

We did not identify any meetings lasting more than three hours.

The council is also not binding the minutes at the end of each financial year or legislature (refer to note 13.3).

1.14 **Electronic site**

The council once again did not upload all required reports on the website (refer to note 14.1).

1.15 **Financial position**

We are pleased to note that the council's financial situations indicator is more than the required ten per cent.

2 Audit opinion

Similarly to the prior year, we have disclaimed our opinion since we are unable to form an audit opinion because of significant matters encountered during the current and previous audits. Further explanations are given in this management letter to enable the council to better understand the reason for the disclaimer of opinion. In view of this, we have not proposed any audit adjustments.



3 Income

Government allocation

- 3.1 The council's income from Central Government, as disclosed in the financial statements, does not agree to the stipulated annual allocation. We noted that the Government allocation prior to deductions amounted to €296,648. However the amount recorded in the books is €296,628 thus resulting in understatement of €20. Furthermore we established that this difference is attributable to an incorrectly recorded annual deduction of €1,236 in the council's books of account. The council has recorded this deduction as €1,216 rather than €1,236 and it resulted in the stated above difference of €20.
- 3.2 We recommend that the Government annual allocation is agreed to correspondence received from the DLG.
- 3.3 We also noted that an amount of €35,000 relating to Capital and Cities Fund was recorded in books as 'supplementary Government income' rather than in 'other Government income'. Furthermore, this amount was included with the Government allocation in the financial statements.
- 3.4 We recommend that the council records income obtained from the Department through various schemes as other Government income, unless otherwise directed by the Department. Financial statements should agree to the books of account thus any reclassifications should have been passed in the books.

Other Government income

- 3.5 During the year under review, the Department paid the amount of €2,774.21 to WasteServ Malta Limited relating to tipping fees incurred in previous years. The council recorded this transaction in 'other Government income' rather than allocating it to 'other supplementary Government income'.
- 3.6 In accordance with circular 2/2019 this income should be disclosed with 'other supplementary Government income'.

Grants from European Union

- 3.7 In the 2017 management letter we stated that the council received €5,520 in its bank account relating to the SOLIDA project. This equates to 40% of the total revenue grant due to the council for the project.
- 3.8 The 40% received during 2017 was immediately recognised in the income statement in 2017. The council was not deferring the grant in accordance with the signed agreement and based on the number of meetings held. In 2017 this grant was accounted for on a cash basis. In 2018 the council has accrued for the remaining 60% balance amounting to €8,280 thus not being consistent with prior year accounting treatment.
- 3.9 We recommend the council analyses the grants received and ensures they are treated as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with this standard, revenue grants are recognised in profit and loss on a systematic basis over the period necessary, to match them with the related costs. Furthermore we recommend that the council accrues for its income based on the signed agreements and when it is certain that this income will be received by the council.

General income

- 3.10 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples are:

Receipt number	Details	Receipt date	Deposit date	€
11095	Permits	04.07.2018	13.07.2018	489.09
10948	Permits	14.05.2018	22.05.2018	10.00
10730	Permits	27.02.2018	06.03.2018	3.48
12006	Permits	10.12.2018	19.12.2018	16.16
11288	Permits	05.09.2018	14.09.2018	2.33

- 3.11 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We again recommend that the council implements procedures so that all receipts are deposited at least twice weekly.
- 3.12 During the prior year audit we noted that an amount of €15,000 relating to accrued income for cultural activities was disclosed with 'general income' instead of allocating it to 'other Government income'. During the year under review the council has received €15,000 and accordingly reversed accrued income against general income in line with the prior year journal entry. We also noted that the council has accounted for the receipt of the funds against general income thus the net effect on income is nil.
- 3.13 Furthermore we noted that in 2018 the council received €2,677.02 from the Planning Authority to replace benches in the locality. This income was classified as 'general income' rather than taken against 'other Government income'.
- 3.14 We reiterate our recommendation from the previous management letter that the council should allocate income receivable to the appropriate accounts so that the income of the council is properly reported.
- 3.15 We also noted that in 2018 the council also passed the following journal entries against general income:

Details	Amount €	Note
Paid by Government ARMS bills	7,563.77	(a)
Credit notes Lornit	2,330.00	(b)
Credit note Neriku	553.70	(c)
MF Electrix	2,576.77	(d)
December deposits	11,373.91	(e)

- (a) The council informed us that in prior years council received bills from ARMS for the street lighting which does not fall within the remittance of the council as the project was carried out by another governmental entity. The council failed to provide us with the calculation of this amount and signed agreement between council and third party confirming that this balance is not due from the council. This was also not approved during council meeting.

- (b) During the year under review the council received two credit notes from Lornit. The council reversed the amount due to the creditor but erroneously passed it against general income rather than corresponding expense account.
 - (c) The council stated that this entry was passed to clear a creditor balance. However this was not approved during council meeting.
 - (d) In 2017's bank reconciliation there was included a 'stale' cheque BOV 3544 of €2,576.77. We have identified that the council sent instructions to stop the cheque payment to the bank but it was still included in the bank reconciliation of 2017. During the year under review the council reversed this cheque against general income. The balance with the creditor was nil as at 31 December 2017 and 31 December 2018. The council failed to provide further explanation on this reversal of 'stale' cheque.
 - (e) We have identified that the council recorded under general income the amount of €11,373.91 with the narrative 'December deposits'. Whilst testing these deposits we identified that the council accounted twice for the income of €10,643.91 with respect to cultural activities, i.e. it was recorded in 'general income' and 'other Government income'. On 25 April 2017, the council provided us with an updated trial balance. The council reversed the double posting in the new trial balance provided, thus this was correctly reflected in the audited financial statements (refer to note 7.3).
- 3.16 We recommend the council seeks the Department's advice to establish whether bills issued by ARMS are due by the council or another governmental entity. The council should obtain written agreement confirming that the bills due are to be settled by another party or otherwise by the council.
- 3.17 We remind the council that credit notes received from suppliers should be reversed in the books of account against expense accounts where it was initially recorded.
- 3.18 We recommend that the council prior to recording amounts received ensures that this entry was not already recorded in its books of account and to identify these discrepancies before finalising the financial statements and adjusts the books of account accordingly. Furthermore, decisions and discussions regarding these balances should be minuted during council meetings.

Expired contract

- 3.19 During the audit we noted that the council received income of €538.71 from the rental of the garage to San Lawrenz band club. The rental agreement expired on 9 January 2018. We were not provided with the new rental agreement.
- 3.20 We recommend that the council obtains a contract agreement for all properties being rented out by the council. This ensures that the rights and obligations of each party are clear.

Custodial receipts

- 3.21 The council also failed to deposit cash on a timely basis for LES contraventions and lands receipts. Examples include:

Details	Receipt no.	Receipt date	Deposit date	€
LES receipt	3973254	09.05.2018	15.05.2018	23.29
LES receipt	3894514	12.02.2018	20.02.2018	34.94
LES receipt	4151484	10.12.2018	19.12.2018	36.65
LES receipt	4137255	21.11.2018	28.11.2018	11.65
LES receipt	3952868	17.04.2018	07.05.2018	23.29
Lands receipt	792115	12.03.2018	20.03.2018	83.86
Lands receipt	793960	05.04.2018	13.04.2018	200.00
Lands receipt	800458	05.05.2018	22.05.2018	53.75
Lands receipt	826917	03.09.2018	11.09.2018	107.50
Lands receipt	840112	10.12.2018	19.12.2018	69.88

- 3.22 We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.

Income from LES administration fee

- 3.23 We obtained Loqus report 483 and reconciled to income from LES administration fees and established that the council's income from LES administration fees for 2018 is overstated by €23.39.
- 3.24 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.
- 3.25 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

Invoice month	Invoice date
June 2018	10.07.2018
August 2018	11.09.2018

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

4 Payroll

Forms submitted to Inland Revenue

- 4.1 To date of the audit fieldwork the council failed to submit the FS7 to the Inland Revenue Department.
- 4.2 May we remind the council that the FSS rules specify that employers must submit the FS7 together with employee FS3's by the 15 February of each financial year.

Wages' reconciliation

- 4.3 During the audit we noted a discrepancy of €1,165.06 between the wages' accounts and the personal emoluments found in the FS5 forms sent to the Inland Revenue Department. This difference is mainly coming from an amount of €1,164 relating to income from the CIES scheme which was netted off against wages in 2017.

- 4.4 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts and that amounts payable to the CIR are correctly declared. We also recommend the council ensures that precise wages' accruals are calculated so as to show expenditure in the correct accounting period based on the accrual concept.
- 4.5 We remind the council that it is of utmost importance to reconcile the wages and salaries on a monthly basis and investigate any identified differences immediately.

5 Expenditure

- 5.1 Throughout the audit we discovered shortcomings in petty cash expenditure. Below are some examples:

Details	Supplier	Date	€	Note
4 spiral binding	Ahead Stationery	16.01.2018	7.00	a
40 stamps	Kids Heaven	06.02.2018	11.96	a
Metal polish	Mifsud Ironmongery	23.03.2018	2.60	a, b
Detergents	Mille Profumi	11.04.2018	44.51	a, b
CD sleeves	Scan Computers	17.05.2018	3.20	a
2 tea and coffee	Hanut tal-Laham	18.06.2018	5.94	c
Ramel by 6	Tal Milord	18.07.2018	14.16	c
Stamps by 76	Highlights Stationery	16.08.2018	19.76	c
Milk by 2	Hanut tal-Laham	07.09.2018	2.38	c
5 toilet fresheners	Mille Profumi	22.10.2018	19.90	c
2 plugs 13A	Mifsud Ironmongery	28.11.2018	10.15	c
Orange squashes	Old Tommy's Confectionery	12.12.2018	21.00	c, d

- (a) The council failed to obtain the signature of the cash received in petty cash voucher.
- (b) The petty cash voucher was not signed by the executive secretary.
- (c) The council has included the name of the supplier instead of obtaining the signature from the purchaser for the petty cash voucher.
- (d) Council failed to list the account number in petty cash list.
- 5.2 We advise the council 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 includes all details pertaining to the goods being purchased. Furthermore, all petty cash vouchers should be signed by the purchaser and the executive secretary. This is in accordance with Directive 3/2017 and LN 269 of 2017.

Petty cash summary

- 5.3 Some petty cash summaries do not include all necessary details, such as account numbers and petty cash voucher reference numbers. This lack of information makes it difficult to identify which petty cash expenditure was included in the summaries.
- 5.4 We recommend the council includes all necessary information in the petty cash summaries to ensure no payments are omitted or double posted in the summaries and the council has a clear view of its petty cash expenditure.

**Procurement**

- 5.5 Our testing on cheque payments revealed instances where the council did not obtain quotations and, in most cases, we observed that a purchase order was not raised. Examples include:

Supplier	Details	€	Note
Anton Zarb	6 recycled plastic benches	2,677.02	a, c
Neriku Catering	Reception for Birgu 4 walks book	497.49	a, c
H & C Installation	CCTV camera Triq it Torri	1,470.00	a, b, d
Campa Limited	Accommodation expenses Solida Project	2,115.00	a, b
Silvar Construction	Works at Triq Nestu Laviera	3,300.22	b, e
F. Zammit Nursery	Pots, soil and plants	292.50	a
Ronald Pisani	Pedestal bust San Guzepp	700.00	a, b
Eugenio Buhagiar	Hiring of chairs Birgu fest	106.20	b, f
Dr Mark Anthony Cutajar	Court case appeal- Antonia Belfiore	850.00	a, b, c
H & C Installation	Installation of CCTV Triq Emma Attard	1,550.30	a, f
Anton Zarb	6 benches Triq ix-Xatt	2,667.02	a, b
Edwin Camilleri	Hampers and bottles of water	449.00	a

- (a) The council failed to obtain any quotation.
- (b) No purchase order was prepared.
- (c) The account number was not included in the schedule of payments.
- (d) The council did not include the invoice number on the schedule of payments.
- (e) The council only obtained 2 quotations.
- (f) The council obtained 1 quotation.

- 5.6 May we remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. 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.
- 5.7 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should raise purchase orders for all purchases above €50. Furthermore, the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000.
- 5.8 We remind the council that in accordance with the Procurement Guidelines 2017, councils are specifically required to make a public call for quotations for expenditure in the range of €5,000 to €10,000 and issue a call for tenders for expenditures above €10,000. We also draw your attention to section c.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.

**Expired contracts**

- 5.9 The following payments were not supported by active contract agreements and/or call for tenders:

Supplier	Date	Cheque no.	€
Saviour Mifsud	05.04.2018	4105	12,600.16
Saviour Mifsud	10.05.2018	4150	6,300.08
Saviour Mifsud	01.06.2018	4193	12,600.16
Saviour Mifsud	18.07.2018	4270	6,300.08
Saviour Mifsud	31.08.2018	4333	6,300.08
Saviour Mifsud	23.10.2018	4447	6,300.08
Saviour Mifsud	13.11.2018	4481	6,300.08

- 5.10 We were not provided with an active contract agreement between the council and Saviour Mifsud. The executive secretary informed us that the supplier renewed the performance bond up to May 2019 but council still failed to issue a call for tenders.
- 5.11 The council should not make use of expired contracts, since this is prohibited by memo 10/2013 which states that councils should issue a new call for tenders before the expiry date of existing contracts.
- 5.12 We recommend that the council obtains three quotations for all purchases made below the €5,000 threshold as required by the Procurement Guidelines 2017 issued by the Department for Local Government.

Tendering procedures

- 5.13 During the year under review we noted the below shortcomings to tendering procedures:

Tender no.	Details	Note
BLC01/2018	Tender for professional services of an architect to Birgu Local Council	a
BLC04/2018	Tender for street sweeping	a
BLC05/2018	Tender for the collection of household waste	a, b

- (a) The council failed to sign the opening of tenders for the tender as required by the Procurement Guidelines.
- (b) The evaluation report was not signed by the accountant, lawyer and architect.

- 5.14 We recommend that the council adheres to section 15.1 of the Procurement Guidelines 2017 issued by Department for Local Government which states that the council shall nominate members to sit on a committee to evaluate the bids received. The council should make sure that all evaluators sign the report in order to obtain approval and ensure the completeness of the report. The council should ensure that the opening of tenders is signed by the opening staff in conformity with the ePPS Guidelines.

Schedules of payments

5.15 During our review of the schedules of payments, we noted various deficiencies relating to the amount of detail shown in the schedules. Some instances include:

- i. Account numbers are not included on the schedules of payments.
- ii. Purchase orders are not listed on the schedules of payments.
- iii. Invoice number details are not listed on all the schedules.

This is not in accordance with the template schedule of payment issued by the Department for Local Government.

5.16 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.

5.17 During our testing, we also noted that cheque numbers HSBC 9730 and HSBC 9731 amounting to €45 and €1,091.30 respectively were omitted from the schedule of payments number 36. Furthermore, we confirmed that the omitted cheque HSBC 9730 was cancelled and erroneously not included in the schedule of payments.

5.18 We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council. We also recommend that if a cheque payment is cancelled this should be approved and properly indicated as such on the schedule of payments. We further recommend that cancelled cheques should be retained as evidence of their cancellation

Insurance policy

5.19 During our audit we identified the stated below discrepancies between the asset insurance cover and net book value of assets included in the 2017 audited financial statements:

Asset	NBV in accounts* €	Sum insured €	Under (over) insured €
Buildings	-	95,000	(95,000)
Property in the open	-	11,500	(11,500)
Plant and machinery	2,935	10,000	(7,065)
Furniture and fittings	43,010	33,000	13,010
Other trade contents	-	5,000	(5,000)
Glass – loss limit	-	5,500	(5,500)
Total	45,945	160,000	(114,055)

* NBV is at 31.12.2017 before adjusting grants and depreciation.

5.20 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 in order to ensure that the council's insurance coverage is in line with current legislation.

- 5.21 Whilst reviewing the insurance policy we noted that the council is insuring property in the open amounting to €11,500. This is in breach of Directive 3/2017 which states that community assets should not be insured.
- 5.22 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, in view of the fact that last year a significant number of assets had a nil net book value (because of the change in depreciation and inclusion of grants) we recommend that the insurance at least covers the replacement value for assets.

Motor vehicle insurance policy

- 5.23 During the audit we noted that the councils' motor vehicle insurance covers 'third party fire and theft'. May we remind the council that as from 1 January 2018, motor vehicles should be insured as 'fully comprehensive'. The council must also ensure that drivers are aged 25 and over as included in the insurance policy.
- 5.24 We also noted that the motor vehicle value is higher than the average market value of the vehicle. The council should ensure that the vehicle value is correct and thus not paying additional insurance. The insurance company will only reimburse the council with the average market value at the time of the loss.
- 5.25 We recommend that the council amends its insurance policy and ensures that the motor vehicle insurance is 'fully comprehensive' to be in line with LN 269 of 2017.

Travelling expenses

- 5.26 The council travelled to Spain, Italy, France, Poland, Greece, Slovenia, Portugal and Hungary during the year. The expenses amounted to €17,401 which include subsistence allowance, flights and accommodation. The council failed to prepare and submit travel reports to the Department for Local Government.
- 5.27 The council is required to prepare travel reports for each project or event which the council or delegates attend and submit this to the Director for Corporate Services as required by MF/5/2012. The report should be submitted to the Department for Local Government by not later than one month after the trip and needs to include the purpose of the visit and any remarks such as benefits achieved from such trips.

Subsistence allowance

- 5.28 Whilst reviewing travel expenses we noted that the mayor travelled for the Alda General Assembly from the 2 to the 5 May 2018. The council has paid flights and accommodation for the above trip. Also the mayor was given 75% subsistence allowance. This allowance should have been 50% in accordance with the Manual on Transport and Travel Policies and Procedures.
- 5.29 May we remind the council to adhere to the above procedures and ensure that any additional cash received by the Mayor will be refunded to the council.

Expenditure for locality day

- 5.30 During the year under review we noted that the council spent €16,491 on locality day activities. The council received a grant of €10,000 from the Department for Local Government. In this case the net cost was of €6,491. May we remind the council that memo 8/2011 specifically states that the cost of the council's locality day should not surpass the higher of €3,500 or 0.5% of the annual Government allocation (equivalent to €1,483).
- 5.31 We strongly recommend that the council carefully budgets the locality activity and ensures that expenses do not exceed the thresholds specified in the memo.

6 Fixed assets

Prior period adjustment

- 6.1 During our fieldwork, we noted that the council reflected the Directive 1/2017 adjustment in the financial statements. However, it failed to account for this adjustment in the books of account. The council provided us with a second trial balance after our fieldwork, including the Directive 1/2017 adjustment. However, the council failed to provide us with supporting documentation on how the council split the grants in the proper category. We could therefore not obtain assurance whether the grants were allocated appropriately.
- 6.2 We remind the council that the financial statements should reflect the books of account. Furthermore, we recommend that prior period adjustment should be carefully calculated by the council in appropriate workings and confirmed to supporting documentation to establish the accuracy of this adjustment.

Reconciliation of financial statements to accounting records

- 6.3 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 €
Construction	18,119	13,216	(4,903)
Office furniture and fittings	38,537	43,010	(4,473)
Office and computer equipment	2,539	2,687	(148)
Urban improvements	3,814	1,157	(2,657)
Plant and machinery	-	2,935	(2,935)
Assets under construction	2,623	2,626	(3)
	65,632	65,631	1

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

Fixed asset register

- 6.5 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which states that every council is to create, maintain and control an accurate and up-to-date fixed asset register. Furthermore, Circular 2/2019 specifically requires the executive secretary to furnish the auditor with a fixed asset register that agrees to the nominal ledger.
- 6.6 We recommend that the council prepares a fixed asset register and includes 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
- 6.7 A fixed asset register is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and condition. Furthermore, the information contained above allows any disposals to be correctly accounted for.

Assets under construction

- 6.8 Whilst reviewing the fixed asset schedule we noted that this once again includes a balance of €2,623 for assets under construction. The executive secretary informed us that there are no assets which are not completed. The council did not present a list of assets included in this account together with any other supporting documentation. Audit procedures could not be carried out due to the lack of information. In view of this, we had to modify our audit opinion.
- 6.9 We reiterate our recommendation from the last year's management letter that the council should investigate the balance for assets under construction and transfer the assets to the respective asset account if completed.

Fixed asset additions

- 6.10 During our testing of fixed asset additions, we noted that in the books of account the council has purchased a door to be installed in Couvre Port amounting to €1,947. Upon reviewing the supporting documentation and after querying the council, it was mentioned that such asset was installed in 2019. The council accounted for this as an addition in 2018 and classifying the addition in office furniture and fittings.

- 6.11 This contravenes the Local Council (Financial) Procedures. We would like to emphasise that it is of utmost importance that the council ensures that proper cut-off procedures are in place and to account for all purchases in the year liability becomes due.
- 6.12 Upon review of the nominal ledger, we also identified amounts which were expensed but which relate to fixed assets. Cases identified include the installation of CCTV cameras in Triq Emmanuel Attard Bezzina amounting to €1,550, benches amounting to €8,031 and bollards amounting to €1,200. No audit adjustment was proposed due to our disclaimer of opinion.
- 6.13 We recommend the council ensures that all purchases are accounted for properly and ensures that if any of the purchases relate to fixed assets, these are capitalised.

Tagging of fixed assets

- 6.14 The council's assets are still not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 6.15 Assets should be tagged, where applicable, and referenced to a fixed asset register in accordance with the Local Councils (Financial) Procedures, 1996. This would enable the council to identify assets and verify their physical existence and condition.

Depreciation

- 6.16 During the year under review the council had to adopt a change in accounting estimate from reducing balance method to straight line method. When computing depreciation the council worked out depreciation retrospectively from pre 2008 onwards using the straight line method. This is not in line with the Directive issued by the Department nor in accordance with IAS 8 which states that a change in accounting estimate should be applied prospectively. The council during 2018 erroneously took the difference between the net book value in the books of account and the resulting net book value when depreciation was worked out retrospectively as an impairment in the financial statements.
- 6.17 May we remind the council that Directive 1/2017 specifies that the depreciation should be worked out prospectively. Also the Department for Local Government has issued guidelines with the steps to be addressed for the depreciation of councils which do not have a fixed asset register.

7 Cash and cash equivalents

Bank reconciliation

- 7.1 The council did not provide us with the bank reconciliations and bank statements as at 31 December 2018 for the APS savings account and BNF account of €70 and €150.86 respectively. The above balances could not be confirmed.
- 7.2 The council should ensure that it obtains bank statements on a regular basis. Furthermore, any movements in the bank account should be recorded accordingly in Sage. The council must ensure that it obtains all bank statements dated as at 31 December.
- 7.3 Furthermore we noted the following discrepancies in the provided bank reconciliations:



Description	Amount in books of account €	Amount in bank confirmation €	Unpresented cheques €	Difference €
5000 HSBC Malta plc Current account	9,732.57	11.65	883.00	10,603.92
5001 HSBC Malta plc Savings account	55,032.12	54,992.15	-	39.97
	64,764.69	55,003.80	883.00	10,643.89

We noted that the identified difference of €10,643.89 relates to the fact that the council accounted for the income for cultural activities received from the Department twice therefore overstating bank balances in its books of account. As noted in note 3.15, the council provided us with an updated trial balance which incorporated the reversal of the above error.

- 7.4 The council should ensure bank reconciliations are properly compiled and that the book balances reconcile to bank statements.

Bank account representative

- 7.5 Whilst reviewing the BOV bank letter we noted that one of the representatives for BOV account 16505406041 is Mr Emmanuel Farrugia.
- 7.6 We recommend that the council instructs the bank to update the account representative.

List of unpresented cheques

- 7.7 During our testing of unpresented cheques, we noted that the list of unpresented cheques includes a cheque which was cancelled. This payment was not reversed in the books of account.

Cheque number	Date	€
HSBC 9574	07.07.2016	40.00

- 7.8 We again reiterate our recommendation that the council should ensure bank reconciliations are properly compiled and that the book balances reconcile to bank statements at the reporting date. Discrepancies should be flagged immediately for investigation.

Petty cash

- 7.9 We noted that the council uses two nominal accounts to account for petty cash transactions:

Account number	Description	€
5015	Cash held at BLC office (note 7.10)	73.00
5010	Petty cash account (note 7.11)	3,258.62
Total		3,331.62

- 7.10 Following our audit procedures, we counted the cash of the council on 27 March 2019 and reconciled back to cash in hand as at 31 December 2018. This procedure highlighted an excess of €46.47 in the accounting records. The council had no explanation for the discrepancy.
- 7.11 Upon enquiry to the council we noted that petty cash account 5010 included a bank guarantee of €3,350. This should have been taken into a separate account and not included as part of petty cash. Furthermore, the amount recorded in the books as at year end was understated by €91.38 compared to the original value of guarantee. Council stated that this discrepancy is attributable to difference between the expenses of the council paid in cash and the amount of transfer from bank account to petty cash account. No further reconciliation was provided to us. We also noted that this amount was included with at bank in the financial statements. We recommend the council to adjust its books accordingly.
- 7.12 We also noted that the council uses this nominal account to post income from permits and 10% administrative fees. These items should have been posted in the cash in hand account and upon deposit transferred to the bank account.
- 7.13 In view of the discrepancies identified above, we recommend that the council performs cash counts on a regular basis and reconciles to the petty cash accounts. The Local Councils (Financial) Procedures, 1996 requires that the executive secretary establishes adequate controls over all cash held by the council. May we remind the council that the petty cash account should include only petty cash payments and receipts.

8 Trade and other receivables

Confirmation of debtor

- 8.1 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 received confirmation letter:

Debtor	Amount in council's books of account €	Amount in confirmation reply €	Difference €
South East Regional Committee	817.21	885.80	(68.59)

- 8.2 The council failed to provide us with the reconciliation.
- 8.3 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.

Overdue trade receivables

- 8.4 The council's receivables include the following amounts which have been long overdue:



Debtor	€
LES Regions- administration fees (refer to note 8.7)	988.21
Medeea	966.50
Malta Council for Culture and Arts	100.00
Mira Motors Ltd	1,000.00
Heritage Malta	500.00
South Eastern region	748.46
Total	<u>4,303.17</u>

8.5 The council did not make a provision for the above overdue balances. We were also informed that the council is not sending statements to the above debtors to claim the balances.

8.6 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 the council still has the right to collect the amounts due.

Regional committees

8.7 When testing receivables, we noted an amount of €988.21 which includes transactions with various regional committees. Given that the council did not separate the receivable balances, we could not test this balance.

8.8 The above situation makes it difficult for the council to keep an audit trail for each region, to identify mistakes, allocate receipts, reconcile differences and determine the balance due by each committee. In light of all this, we strongly recommend that over the coming year the council investigates this balance and transfers the receivable balances to separate accounts.

Aged receivables

8.9 We noted that the aged receivables' analysis is not correctly compiled. The ageing does not show movement on receivables. This implies that invoices and receipts are not included in the aged analysis and therefore the council does not have a summary of all debtor receipts and invoices, together with their age for the year.

8.10 We recommend that the aged receivable analysis is properly updated since this is a useful management tool. This will ensure that the council's receivable can be monitored.

Provision for bad debts

8.11 The council is recognising a provision for doubtful debts amounting to €1,060.49 in its books of account. This balance was brought forward from the prior year and relates to a balance receivable from Green MT. In 2016, the receivable balance was settled but the provision was not reversed in the books of account.

8.12 We recommend that the council investigates this and reverses the provision for doubtful debts the balance has been settled.

Other receivables

- 8.13 In prior years the council's other receivables included two debtors which have been brought forward for a number of years. During prior year audit we could not verify the existence and whether the amounts are recoverable. Details of the accounts are as follows:

Nominal code	Account name	Balance in 2018 books of account €	Balance in 2017 books of account €	Note
0209	Line 50 - Other debtors	7,435	7,435	(a)
0272	Recoverable Exp-Other EU projects	-	14,994	(b)
Total		7,435	22,429	

- (a) The council could not provide any information on this account.
- (b) During the year under review the council has written off this amount in its books of account against the expense account. The council failed to approve the write off during the meeting and to provide us with any supporting documentation.
- 8.14 We reiterate our recommendation to the council to determine how the receivable amount originated and if it is not valid or no longer recoverable, the council should obtain approval in meeting to make a provision or write it off. It is strongly recommended that write off of each balance in the council's books of account is approved during the meeting and minuted.

Pre-regional receivables

- 8.15 When testing the pre-regional receivables, we noted a balance of €107,142.41 in the council's books of account whilst report 622 shows a balance of €97,367.52. This results in a difference of €9,774.89 for which the council did not provide us with any explanation.
- 8.16 We again recommend that the council investigates this difference with Loqus which produces the data. Once discrepancy can be resolved, the council should be in a position to include the correct figure for the outstanding tribunal pending payments.

Organic Waste Collection

- 8.17 We noted that the council during 2018 entered into an agreement with WasteServ Malta Limited for the recharge of the expenditure incurred for the collection of organic waste. However, WasteServ had to re-call the agreement to amend it with respect to management fees. Therefore, the council did not accrue for this source of income. Furthermore, the council informed us that on 28 March 2019 the agreement was signed by both parties.
- 8.18 We recommend that the council prior providing service obtains final signed agreement to ensure proper accounting treatment and regularise the positions of both parties.

Accrued income

- 8.19 During last year the council did not provide us with a list of accrued income. This year the council has provided us with the list of accrued income tying up to the books of account. Furthermore we noted the following credit entries passed in the accrued income account:

Details	Amount €	Note
Reversal of 3 cheques	2,204.64	(a)
Reversal opening accrued income	21,273.05	(b)
Reversal of unsupported accrued opening income	12,358.72	(c)
Old balance accrued income	1,439.51	(d)
Clear creditor	960.50	(e)

- (a) The council has reversed 'stale' cheques against accrued income. No further explanation was provided.
- (b) The council provided us with the following breakdown of the journal entry:

Details	Amount €	Note
Income for cultural activities	15,000.00	(b1)
Benches	5,334.04	(b2)
CIES	939.01	(b3)
Total	<u>21,273.05</u>	

- (b1) The council has received this income during the year under review (refer to note 3.12).
- (b2) The council has received the amount of €5,334.04 during the year under review with the respect to the accrued income in prior year. The council has reversed opening accrued income against other Government income and therefore the above payment was correctly taken to other Government income so the net effect on income is nil.
- (b3) The council has received the amount of €803.17 with the respect to the accrued income in prior year. The council has reversed opening accrued income against other Government income and therefore the above payment was correctly taken to other Government income so the net effect on income is nil.
- (c) The council wrote off brought forward accrued income of €12,358.72 for which no supporting documentation was provided in 2017. This was not approved during council meeting.
- (d) The council has incorrectly reversed a credit balance in the debtors' list against accrued income in 2018. This was not approved during council meeting.



- (e) Similarly to the above the council has incorrectly cleared an old outstanding creditor balance in its books of account against accrued income. This was not approved during council meeting.
- 8.20 We recommend that the council obtains proper documentation, explanations and approval from the council regarding any reversals made in the books of account. Furthermore all reversal entries in the books of account should be posted in the appropriate accounts against which the initial entries were taken.
- 8.21 Furthermore we noted that in the provided list of accrued income was included the balance of €2,657 for the installation of benches. Upon enquiry the council stated that this amount of accrued income was provided for in the prior year. This could not be confirmed as the council failed to provide us with the list of accrued income during 2017.
- 8.22 We reiterate our recommendation that it is imperative that council always keeps a detailed listing of accrued income that agrees to the financial statements. Any movements in the accrued income has to be appropriately recorded in the books of account and reflected in the list.

Prepayments

- 8.23 During the year under review, the council did not account for any prepayments. Whilst reviewing the expense accounts we noted that the council should have accounted for rental and insurance prepayments amounting to €203.61 and €2,125.36 respectively.
- 8.24 We recommend that the council accounts for expenses based on the accrual basis and ensures that all expenses are being reported in the correct period.

9 Trade and other payables

Trade payables' reconciliation

- 9.1 According to the council's creditors' list as at 31 December 2018, trade payables amount to €30,261. The balance disclosed in the second trial balance provided by the council, amounts to €28,811, that is a difference of €1,450. The council did not provide us with an updated creditors' list tying up to the books of account.
- 9.2 We recommend that the council reconciles the creditors' list with the creditors' control account. According to the Local Councils (Financial) Procedures, 1996, records and ledgers should be reconciled at least monthly.

Creditor statements

- 9.3 During our testing of trade creditors, it was noted that the council is not obtaining at or near year-end statements from suppliers to confirm the balance as at year end. Thus the council is not ensuring completeness of creditors in the books of account.
- 9.4 The council is not adhering to the relevant Procedures, which require that monthly statements are obtained from all suppliers. The DLG specifically states in memos and circulars that the council should reconcile the books of account to supplier statements on a monthly basis.

Other creditors

- 9.5 Included with other creditors is a balance amounting to €4,217 payable to Water Services Corporation. However this amount has been long outstanding. When queried as to what this amount relates to, no explanation could be provided.
- 9.6 We advise the council to review this amount, and either settle the balance or, if not due, reverse this after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Accruals

- 9.7 During our testing of accruals, we noted that the council included an amount of €1,947 in relation to fixed asset additions (refer to note 6.10) and an amount of €1,403 in relation to social events. Upon reviewing supporting documentation, we noted that these should have been recorded in 2019 since they did not relate to 2018.
- 9.8 We recommend that the council only includes accruals of amounts which relate to 2018 but for which the council has not yet been invoiced.

Unrecorded liabilities

- 9.9 During our testing of payments after year end, we noted invoices issued by Clinton Debono, Edmond Jackson and Giljan Azzopardi for services provided in 2018. The invoices amounted to €3,500, €300 and €472 respectively. These expenses were not included in accruals as at year end.
- 9.10 We recommend that the council ensures that expenditure is accounted for when it is incurred so that expenses and liabilities are shown in the proper financial year.

10 Grant accounting**Deferred income**

- 10.1 During our fieldwork, we noted that the council had an amount of €176,502 in deferred income. Upon enquiry with the council, we were notified that these relates to grants received by the council which should have been allocated to their respective asset category due to the change in accounting policy from the income approach to the capital approach. The council also informed us that they reflected the adjustment in the financial statements, but this was not reflected in the books of account. The council provided us with an updated trial balance after fieldwork, reflecting this adjustment in the books of account (refer to note 6.1).
- 10.2 We recommend that the council ensures that the books of account are always kept up to date.

11 Opening balances

- 11.1 Once again we noted differences between the council's trial balance as at 31 December 2017 and the council's opening balances as at 1 January 2018.

The following are the differences noted:

Details	Trial balance as at 31.12.2017 provided during audit 2017 €	Trial balance as at 01.01.2018 provided during audit 2018 €	Amounts disclosed in signed financial statements 2017 €
Retained earnings	132,291	131,816	132,291
Trade payables	59,464	59,939	59,464

- 11.2 However it was noted that the closing balances between the trial balance and the closing amounts disclosed in the financial statements are agreeing. This shows that during the year the council passed an adjustment to rectify the above stated discrepancies.

12 Financial statements

Presentation of financial statements

- 12.1 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:
- The council failed to disclose that 2017 balances are restated.
 - 2017 statement of cash flows was not restated after passing the prior period adjustment.
 - The accounting policy for property, plant and equipment includes the percentage rather than range of years or percentages due to change in the depreciation method.
 - The note to the financial statements should include the change in accounting estimates.

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

IFRS 9 'Financial Instruments'

- 12.3 The financial statements do not include all the disclosures required by IFRS 9. The standard required additional disclosures regarding financial instruments' impairment and expected credit losses.
- 12.4 We recommend that the council ensures that its accountant is fully up to date with all IFRS's and includes all accounting treatments and disclosures required by new and existing the accounting standards.

Contingent liabilities

- 12.5 Whilst reviewing bank letter we noted that the council has a contingent liability of €3,350 with the beneficiary being Planning Authority. This was not disclosed in the unaudited financial statements (refer also to note 7.11).
- 12.6 We also noted that during the year the council had a court case which was decided against the council. This was appealed and in 2019, the appeal was lost. The council is liable to pay the amount of €1,288.50. This was not disclosed in the unaudited financial statements.

- 12.7 We recommend the council to disclose these contingent liabilities in the financial statements in accordance with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'.

13 Meetings

Meeting regulations

- 13.1 We have observed that the date of the next meeting is not being set at the end of every meeting and in three instances, the meeting date set was not adhered to.
- 13.2 According to the Local Councils (Meeting) Procedures, 1996 at the end of every meeting the council must set the next council meeting which shall be fixed. If no unanimous agreement is reached, the councillors are to vote and decide according to the majority. This shall not be changed for any reason. Therefore we recommend that these requirements are followed.

Binding of minutes

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

14 Electronic site

- 14.1 We noted that the council did not upload the quarterly financial reports January – December 2018, business plan 2018-2020, management letter and the annual administrative report for 2017 within the required time frame.
- 14.2 We recommend that the council abides by the directive given in memo 02/2014 which states that all approved minutes and schedules of payments must be uploaded on the council's site within two days of approval. All other reports; audited financial statements and management letter must be uploaded within the specified time frame.

Uploading of management letter and other documents

- 14.3 Memo 7/2016 required the council to upload the management letter on the website. We have noted that the council uploads the management letter on the website whilst other do not do so. We would like to point out the Local Councils (Audit) Procedures, P2.10.06b states that "such correspondence would not be made public ...".
- 14.4 We therefore recommend that the council contacts the Department for clarification of this contradiction.
- 14.5 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 they do not contravene GDPR prior to uploading on the website.



15 Business plan

- 15.1 We have noted that the council failed to prepare the business plan for 2019 - 2021 in accordance with the Local Councils (Financial) Procedures.
- 15.2 We remind the council that the executive secretary should prepare and present the business plan to the council for its consideration. The business plan must be reviewed as often as necessary, but at least once every year prior to the budgeting process to evaluate the council's performance and adjust the business plan as appropriate. The executive secretary must forward a copy of the business plan to the Minister by the fifteenth day of November of each year and make the final draft by the end of December.

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 the executive secretary Ms Lara Mascena and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Birgu Wages Reconciliation

Appendix 1

As per FS5's

Month	Gross (€)	SSC (€)
January	6,534.96	1,299.94
February	7,834.08	902.90
March	6,233.23	960.08
April	8,532.31	1,200.10
May	5,996.78	960.08
June	9,911.38	1,016.08
July	6,438.80	1,330.55
August	6,729.22	1,070.90
September	5,699.62	862.12
October	5,933.57	1,155.70
November	7,218.61	1,003.72
December	9,408.58	1,194.30
	<u>86,471.14</u>	<u>12,956.47</u>
add 1/2 of total NI	6,478.24	
Maternity contribution fund	<u>98.12</u>	
Total	<u><u>93,047.50</u></u>	

As per FS7

To date of the fieldwork the council failed to submit the FS7

Gross Salary	
add 1/2 of total NI	
Total	<u><u>0.00</u></u>

As per Accounts

Account No. & Name	Amount (€)
1100/000 (Mayor's allowance)	7,464.00
1200/000 (Employees'	42,388.28
1300/000 (Exec. Secretary's Salary)	29,708.56
1400/000 (Councillors' Allowance)	6,325.00
1500/000 (FSS Tax/NIC)	6,598.92
1600 Allowances	421.12
1700/000 (Overtime)	0.00
1800 Community workers	<u>1,453.39</u>
	<u>94,359.27</u>
Adjustments made in 2018	-1,522.33
Add opening accruals	5,021.23
Less closing accruals	<u>-3,645.61</u>
	<u><u>94,212.56</u></u>
Difference	<u><u>-1,165.06</u></u>