



Grant Thornton

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06/5/18

The Mayor
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Our ref ABC/mf/53418

23 April 2018

Dear Sir,

Financial statements for the year ended 31 December 2017

During the course of our audit for the year ended 31 December 2017 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

Previous management letter

1.1 Audit opinion

The audit opinion is once again qualified for the year ended 31 December 2017 (refer to note 2).

1.2 Books of account

The council has made an effort to improve the accounting system.

1.3 Income

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

We did not note any instances in which income was not recorded in the period to which it relates to.

The council is still recognising a revenue grant from the European Union and is not deferring that part which relates to future periods (refer to note 3.4).

The council is still not depositing general and custodial receipts twice weekly (refer to notes 3.7 and 3.9).

The council provided us with all requested LES reports and bank deposit slips.



We were pleased to note that the council was able to provide us with the signed contract for the lease of a garage.

We again identified a difference when reconciling LES administration fees to reports 483 of the Loqus system (refer to note 3.11).

1.4 **Payroll**

No differences were noted between the FS5s and the FS7 submitted during the year.

We were pleased to note that all receipts from the Inland Revenue Department were provided to us during the audit.

We have again identified irregularities in councillors' allowances (refer to notes 4.4, 4.6 and 4.7).

We did not note any instances in which councillors' allowances were being taxed under the part-time rules.

The council is still paying overtime without obtaining approval in council meetings (refer to note 4.9).

1.5 **Expenditure**

It was once again noted that various petty cash purchases were not supported by appropriate documentation (refer to notes 5.1 and 5.4).

The council is still not including all necessary details in the petty cash summaries (refer to note 5.7).

The council implemented the Imprest system to account for petty cash movements.

We again identified various purchases for which the necessary quotations and purchase orders were not obtained (refer to note 5.9).

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 5.11).

We still encountered an instance where the council did not provide us with a performance bond for a tender (refer to note 5.15).

Certain details in the schedules of payments, such as the purchase order and account number were still missing for various items (refer to note 5.19).

Moreover, various cancelled cheques during the year were not included in the schedules of payments (refer to note 13.7).

We did not encounter instances where cheque payments were approved in council meetings after the cheques have already been issued.

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 5.21).

We noted that the council changed the insurance coverage from worldwide basis to a locality basis.

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 5.24)

1.6 Fixed assets

The accounting records are again not reconciled to the figures in the unaudited financial statements (refer to note 6.1).

The fixed asset register has not yet been compiled (refer to note 6.3).

During the year under review, we were still not provided with information regarding the assets under construction (refer to note 6.6).

Various irregularities were noted when testing fixed asset additions (refer to note 6.8).

The council's assets are still not tagged (refer to note 6.10).

1.7 Cash and cash equivalents

The council once again did not provide us with a bank reconciliation and statement as at year end of the APS savings account (refer to note 7.1).

Mr Emmanuel Farrugia is still listed as one of the representatives for a BOV account (refer to note 7.6).

Various irregularities were noted when testing unpresented cheques (refer to note 7.8).

We did not note any issues with council outstanding deposits as at 31 December 2017.

The council is still making use of pre-signed cheques (refer to note 7.11).

The council is still using two nominal accounts for petty cash (refer to note 7.16).

1.8 Trade and other receivables

The council did not investigate the long outstanding trade debtors (refer to note 8.1).

We did not identify a discrepancy between the books of account and third party confirmations.

The council is still accounting for the five regional committees in one debtor account (refer to note 8.4).

The council still has a credit balance in debtors' list of €1,439.51 due to Green MT Ltd (refer to note 8.8).

The council is still accounting for a provision for bad debts of €1,060.49 (refer to note 8.12).

The council did not rectify the issue of the other receivables (refer to note 8.14).

We have again identified differences between the LES receivables and the Loqus report 622 (refer to note 8.16).

No supporting documentation was provided in relation to accrued income amounting to €41,585 (refer to note 8.18).

We did not encounter any instance of omitted accrued income.

We again noted instances where the council did not account for any prepayments (refer to note 8.20).

1.9 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' statements were noted.

During our testing of unrecorded liabilities, issues were once again noted (refer to note 9.9).

We did not identify any further irregularities in accrued expenditure except for the points mentioned in unrecorded liabilities (refer to note 9.9).

The council once again failed to rectify the issue of long-outstanding creditors (refer to note 9.12).

The council is abiding by repayment terms for amounts due to the Commissioner of Inland Revenue.

1.10 Grant accounting

We are pleased to note that the council prepared a grants schedule. However, the council was still not in a position to provide any supporting documentation for all deferred grants (refer to note 10.2).

The council did not rectify the issue of grants accounted for under the capital approach (refer to note 10.5).

1.11 Opening balances

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

We did not identify differences between the trial balance as at 31.12.2016 and amounts disclosed in signed financial statements of 2016.

1.12 Financial statements

The unaudited financial statements presented to us had a number of shortcomings (refer to note 12).



1.13 Meetings

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

The council also failed to obtain consensus for meetings lasting more than three hours (refer to note 13.3).

The council is also not binding the minutes at the end of each financial year or legislature (refer to note 13.5).

1.14 General

We are pleased to note that the council prepared the financial budget for 2018.

The council once again did not upload all required reports on the website (refer to note 15.1).

We again identified discrepancies between the capital commitments listed in the financial statements and the capital commitments listed in the budget (refer to note 14.1).

1.15 Financial position

The council is still facing liquidity problems and the financial situations indicator is still less than the required ten per cent (refer to note 16.1 and note 16.3).

1.16 Change in executive secretary

No change in executive secretary occurred during the year and so no mid-term audit was required during the year.

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 our audit fieldwork. 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 recognised any audit adjustment.

3 Income

Government allocation

3.1 The council's income from Central Government, as disclosed in the financial statements, did not agree to the stipulated annual allocation. We noted that an amount of €35,000 relating to special initiatives was recognised in 'annual Government income' rather than in 'other Government income'.

3.2 We also 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'.

3.3 We recommend that the Government annual allocation is agreed to correspondence received from the DLG whilst any other income which does not form part of the Government annual allocation, but is received from the Government, is allocated to its correct account.

Grant from European Union

- 3.4 During the year, the council received funds in its bank account relating to the SOLIDA project. The amount received was €5,520 which equates to 40% of the total amount due to the council for the project.
- 3.5 This grant received was immediately recognised in the income statement during the year. Furthermore, whilst reviewing the provided grants list, we noted that part of the above-mentioned grant is not included in the list. This shows that the council is not deferring the grant in accordance with the signed agreement and based on the number of meetings held. In the case of this project, the council will be making eight trips in total, one meeting being held in Malta. During 2017 two events were organised, which means that the council should have released €3,514 from the grant and the remaining €2,006 should have been deferred. In view of this, we have modified our audit opinion.
- 3.6 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, grants are recognised in profit and loss on a systematic basis over the period necessary, to match them with the related costs.

General income

- 3.7 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	€
009537	Permits	30.01.2017	13.02.2017	50.00
009617	Permits	10.03.2017	17.03.2017	23.29
009922	Permits	03.08.2017	10.08.2017	139.00
010323	Permits	18.12.2017	28.12.2017	10.00
000048	Donation	02.02.2017	17.03.2017	50.00
000049	Donation	15.05.2017	14.12.2017	800.00
009803	Donation	26.06.2017	14.12.2017	500.00

- 3.8 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. In particular, the council should investigate why the last two items were deposited after six months.

Custodial receipts

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

Details	Receipt no.	Receipt date	Deposit date	€
LES receipt	3628628	02.05.2017	10.05.2017	34.94
LES receipt	3724513	21.08.2017	29.08.2017	50.00
Lands receipt	722316	16.01.2017	24.01.2017	127.60
Lands receipt	733442	08.04.2017	17.04.2017	210.00
Lands receipt	769732	09.10.2017	16.10.2017	210.00
Licence receipt	1960132981	12.05.2017	31.05.2017	442.53
Licence receipt	1960135224	17.05.2017	31.05.2017	209.74



- 3.10 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 fees

- 3.11 When reconciling the income from LES administration fees as shown in the accounts with the amount shown in report 483 of the Loqus system, we noted that the accounts are overstated by €71.03. We were not provided with an explanation for this difference.
- 3.12 Furthermore, we noted that amounts received from pre-regional contraventions are included with administration fees. This should be recorded separately and any amounts received from pre-regional fees should be reflected in LES debtors and corresponding provision (refer to note 8.16).
- 3.13 We once again recommend that the council investigates why such differences are arising and identifies whether this is due to a mistake in the invoices issued to the regional committees and LESA or a misposting in the accounts.

Income from CIES Scheme

- 3.14 Whilst testing other Government income we noted that the council did not include the January to March 2017 advance of €1,164 in the correct account. Upon enquiry we were notified that the council erroneously netted off the amount in account 1200 'employee wages'.
- 3.15 We remind the council that correct classification is an integral part of the accounting system.
- 3.16 We also noted that the council has accrued income of €5,744.43 for the CIES scheme. When traced to the supporting documentation we identified that the remaining amount to be received by the council was €723.22. In view of this, we have modified our audit opinion.
- 3.17 We recommend that the council records accrued income based on the declared amounts in FS3s less amounts already received.

4 Payroll

Wages' reconciliation

- 4.1 During the audit we noted a discrepancy of €2,219.63 between the wages' accounts and the personal emoluments found in the FS7 form sent to the Inland Revenue Department. This difference is mainly coming from an amount of €3,291 under accrued in prior year and an amount of €1,164 relating to income from the CIES scheme which was netted off against wages (refer to note 3.14). We remind the council that this income cannot be netted off against expenses but has to be shown separately. In view of this, we have modified our audit opinion.
- 4.2 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.
- 4.3 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.

**Councillors' allowances**

- 4.4 During the audit fieldwork we noted that the councillors' allowances for the year declared in FS3s amounted to €6,040. We further noted that the books of account show councillors' allowances of €6,400 thus resulting in a difference of €360. We noted that the council passed reclassifications on 31 December 2017 from employees' salaries to councillors' allowances.
- 4.5 We recommend that the council ensures that the councillors' allowances are properly separated from employees' wages and salaries and ensures expenses are in line with what is actually being paid.
- 4.6 We noted that in two instances the council has deducted the allowance for councillors even though excuse letters were presented to the council justifying their absence. These excuse letters were also approved during the council meetings.
- 4.7 In another instance, it was noted that a councillor was officially excused for three council meetings, another case where the letter of excuse was not approved during the council meeting and in another instance he was absent without an explanation. Since the council held sixteen meetings during the year, the councillor should have had €150 deducted from his allowance. The council however deducted €210 which resulted in an over deduction of €60.
- 4.8 Circular 17/2016 states that the councillors' allowance is to be paid in accordance with article 32 (2) of the Local Councils Act that is, based on the number of meetings attended in proportion to the number of meetings held in a calendar year. The circular further explains that where valid reasons in writing are put forward for the absence from meetings, these should be considered by the council and a copy of the letter kept with the minutes.

Payment of overtime

- 4.9 The council is still paying overtime without obtaining prior approval in council meetings. Overtime payments made in 2017 totalled to €2,311.34.
- 4.10 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

5 Expenditure**Petty cash expenditure**

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

Date	Details	Supplier	€
06.04.2017	Helu	Chetwyn Confectionery	14.00
25.05.2017	Thinner	Mifsud Ironmongery	11.20
02.10.2017	Wipers	Leli Doublet	10.00
10.11.2017	Stamps	Highlight Stationery	14.82
20.11.2017	Detergents	Mille Profumi	15.36

- 5.2 We advise the council to obtain fiscal receipts that are addressed to the council in order to comply with the requirements established by the Local Councils (Financial) Procedures, 1996 which state that supplies must be made only on provision of a valid invoice/fiscal receipt which is addressed to the council.



- 5.3 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchaser and the executive secretary. This legal notice came into force on 1 January 2018.
- 5.4 We also encountered instances where the council obtained two separate bills for the same items on the same day which in aggregate exceeded the threshold of €23.29 imposed by the Local Councils (Financial) Procedures, 1996. Below are the instances identified:

Date	Supplier	Details	€
02.03.2017	Hanut tal-Laham	Halib	5.21
02.03.2017	Hanut tal-Laham	Halib, zokkor, kafe, te	21.29
11.07.2017	Mille Profumi	Detergents	19.81
11.07.2017	Mille Profumi	Detergents	20.12
11.07.2017	Mille Profumi	Detergents	16.40

- 5.5 Section P1.08b of the Local Councils (Financial) Procedures emphasises that only cash transactions amounting to less than €23.29 in the aggregate may be paid through petty cash. If expenditure surpasses the established threshold, then the council should obtain prior approval by means of a signed purchase order and make payment by cheques
- 5.6 Directive 3/2017 and LN 269 of 2017 state that the threshold for petty cash payments amounts to €50. This legal notice came into force on 1 January 2018.

Petty cash summary

- 5.7 The 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.
- 5.8 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

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

Supplier	Details	€
Louis Darmanin	Two hand painted plates with Birgu emblem	210.00
John Farrugia	Transport for AVEC Conference	1,020.70
B. Grima & Sons Ltd	Supply and installation of sleeping policeman and end caps	932.79
Mifsud Garage	Transport services	413.00
Giljan Azzopardi	Patching works and other road maintenance	1,264.40



- 5.10 In accordance with the Local Councils (Financial) Procedures, 1996, councils should obtain at least one signed quotation for purchases exceeding €23.29 but not exceeding €1,165 and at least three quotations for all purchases in excess of €1,165 up to €4,658.

Expired contracts

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

Supplier	Date	Cheque no.	€
Saviour Mifsud	04.02.2017	3343	12,600.16
Saviour Mifsud	05.05.2017	3493	13,385.16
Saviour Mifsud	28.07.2017	3551	12,600.16
Gordon Reed	19.05.2017	9638	4,804.48

- 5.12 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.
- 5.13 In the case of Gordon Reed, the council obtained two quotations for plastering works. This job was given to Gordon Reed having made the cheapest offer. In this regard, no tender was issued.
- 5.14 This contravenes the Local Councils (Financial) Procedures, 1996 which state that a public call for tenders is required for expenditure in excess of €4,658 and that once accepted, a formal contract should be drawn up and signed by both parties. We also draw your attention to section e.01 of the Local Councils (Financial) Procedures, 1996 which state that similar purchases within four months are to be considered as one single purchase and hence a public call for tenders is still required in this case.

Tendering procedures

- 5.15 In the case of tender BLC-0004-2017 for the provision of lighting services for Birgufest 2017, the successful bidder failed to furnish the council with a performance guarantee.
- 5.16 The above contravenes the requirements established by the Local Councils (Tendering) Procedures, 1996 and new legislation in the ePPS system, which require the council to request a performance guarantee from the successful tenderer.
- 5.17 We are pleased to note that the council has successfully implemented the ePPS system when issuing a call for tenders. We would like to mention that the existing Tendering Procedures and Regulations remained in force until the end of 2017. These still require certain additional documents which are not included in the ePPS system, such as a bid bond and non-collusive agreement which, under the existing Procedures/Regulations, should have been obtained.
- 5.18 We appreciate that there are differences between the requirements of the EU directive regarding the new system and requirements prescribed by the previous legislation regarding tendering procedures. We recommend that any concerns you may have are addressed to the Department.

**Schedules of payments**

- 5.19 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:
- Account numbers are not included on the schedules of payments.
 - Purchase orders are not listed on the schedules of payments.
 - 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.

- 5.20 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.

Asset insurance policy

- 5.21 A review of the council's asset insurance policy was performed to determine whether assets are insured adequately. The following discrepancies were noted:

Asset	Cost in accounts €	Sum insured €	Under (over) insured €
Office and computer equipment	63,648	-	63,648
Office furniture and fittings	108,765	52,500	56,265
Construction	776,193	-	776,193
Assets under construction	89,724	-	89,724
Buildings	-	99,033	(99,033)
Urban improvements	482,584	12,500	470,084
Total	1,520,914	164,033	1,356,881

- 5.22 The above shows that council's assets are not adequately insured. The council must comply with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 and carry out a periodic review to assess the adequacy of the council's insurance coverage and ensure that the council's assets are not under/over insured.
- 5.23 Directive 3/2017 and Legal Notice 269 of 2017 state that assets must be insured on the asset value as included in the financial statements. The council should not insure any 'community assets'. This notice has an effective date of 1 January 2018.

Travelling expenses

- 5.24 The council travelled to Spain, Italy, France, Croatia and Serbia during the year. The expenses amounted to €7,143 which include subsistence allowance, flights and accommodation. Not all reports were prepared for submission to the Department for Local Government.
- 5.25 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 for purpose of the visit and any remarks such as benefits achieved from such trips.

6 Fixed assets

Reconciliation of financial statements to accounting records

- 6.1 We identified a number of differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV in financial statements €	NBV in nominal ledger €	Difference €
Construction	120,149	28,148	92,001
Office furniture and fittings	66,044	70,667	(4,623)
Urban improvements	104,506	101,849	2,657
Plant and machinery	-	2,935	(2,935)
Assets under construction	2,623	89,724	(87,101)
	293,322	293,323	(1)

- 6.2 The council should investigate and reclassify accordingly the variances identified between asset categories in the financial statements and the nominal ledger. In view of the above, we have modified our audit opinion.

Fixed asset register

- 6.3 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, memo 3/2018 specifically requires the executive secretary to furnish the auditor with a fixed asset register that agrees to the nominal ledger.
- 6.4 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 method and rate
 - Location of the asset
- 6.5 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

- 6.6 Whilst reviewing the fixed asset schedule we noted that this 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.

- 6.7 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

- 6.8 During the audit we noted that the council has purchased 'Bust ta' San Guzepp' for the amount of €450 for which no VAT invoice or receipt was provided
- 6.9 This contravenes the Local Council (Financial) Procedures. We would like to emphasise that it is of utmost importance that the council is obliged to obtain a valid tax invoice or receipt addressed to the council for all purchases.

Tagging of fixed assets

- 6.10 The council's assets are still not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 6.11 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.

7 Cash and cash equivalents

Bank reconciliation

- 7.1 The council did not provide the bank reconciliation and a bank statement as at 31 December 2017 for the APS savings account.
- 7.2 Furthermore, the 2016 APS bank letter reply revealed that the bank account had a balance of €30.26 when it was closed on 10 June 2016. In 2017 the books of account still show a balance of €70.
- 7.3 From the 2017 BOV bank reply, we noted that account no 16505406012 was not included in the books of account. This bank account had a balance of €0.31 as at year end.
- 7.4 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.
- 7.5 We recommend that the council follows this up with the bank and after investigation, adjusts the bank balance to agree to the cash available at the bank.

Bank account representative

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

List of unrepresented cheques

7.8 During our testing of unrepresented cheques, we noted various irregularities.

- i. The list of unrepresented cheques includes cheques which were cancelled. These payments were not reversed in the books of account.

Cheque number	Date	€
HSBC 9574	07.07.2016	40.00
BOV 3175	11.10.2016	200.00
BOV 3286	07.12.2016	1,004.64
BOV 3305	27.12.2016	600.00
BOV 3306	27.12.2016	600.00

- ii. The list of unrepresented cheques also includes cheques which are stale and were not yet reversed in the books of account.

Cheque number	Date	€
BOV 3434	14.03.2017	714.00
BOV 3476	26.04.2017	105.00
BOV 3477	26.04.2017	44.00

- iii. The list also includes BOV 3544 issued on 15 June 2017 amounting to €2,576.77 against which a stop payment was issued.

7.9 Based on the above findings, we noted that the reconciliations do not represent the correct bank balances in the financial statements.

7.10 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.

Cheque books

7.11 While reviewing cheque stubs, we noted that several cheques were pre-signed by the mayor and/or the executive secretary, without any payee and amount written on them (i.e. blank cheques).

7.12 The mayor and executive secretary should not sign blank cheques before all details have been included on the cheque. Furthermore, the council should make sure that all payments are approved during council meetings prior to any payments being made.

Debit card

7.13 During our fieldwork, we noted that the council has a debit card which is in the name of the mayor. This is being used for the purchase of flights for travelling.

7.14 This is in contravention to memo 32/2002 which state that a debit card can be used only to deposit money in the account and no expenses can be paid from such cards. The debit card has to be issued in the name of only one person, ideally the executive secretary and the council also has to inform the Department for Local Government, with the name of the person authorised to use it and the date when the debit card expires.



- 7.15 We recommend that the council either cancels the card, or otherwise starts using the card as instructed in memo 32/2002.

Petty cash

- 7.16 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 7.17)	73.00
5010	Petty cash account (note 7.18 and 7.19)	3,402.82
Total		<u>3,475.82</u>

- 7.17 Following our audit procedures, we counted the cash of the council on 4 April 2018 and reconciled back to cash in hand as at 31 December 2017. This procedure highlighted an excess of €27.85 in the accounting records. The council had no explanation for the discrepancy.
- 7.18 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 council could not provide us with an explanation for the remaining difference of €52.82.
- 7.19 We also noted that the council failed to account for €2,512 for permits issued in 2017. This amount was deposited in bank after year end. The council should have accounted for the above receipts as cash in hand.
- 7.20 In view of the discrepancy identified above, we recommend that the council performs cash counts on a regular basis and reconciles to the petty cash account. The Local Councils (Financial) Procedures, 1996 requires that the executive secretary establishes adequate controls over all cash held by the council.

8 Trade and other receivables

Overdue trade receivables

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

Debtor	€
LES Regions- administration fees (refer to note 8.4)	988.93
Medea	966.50
Mira Motors Ltd	1,000.00
Heritage Malta	500.00
Malta Council for Culture and Arts	100.00
South Eastern region	744.29
Total	<u>4,299.00</u>

- 8.2 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.



- 8.3 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

- 8.4 When testing receivables, we noted an amount of €988.93 which includes transactions with various regional committees. Given that the council did not separate the receivable balances, we could not test this balance.
- 8.5 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.

8.6 Aged receivables

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.

- 8.7 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.

Credit balance in debtors' list

- 8.8 During our testing of debtors, we noted that the aged debtors' list includes a credit balance amounting to €1,439.51 due to Green MT Ltd.
- 8.9 Upon enquiry, we were informed that, in 2016, the council received an amount of €2,500 relating to "final payment of sponsorship". The balance receivable, recognised in the council's accounts amounted only to €1,060.49; thus after the payment was recorded, the balance resulted as a credit of €1,439.51.
- 8.10 The council did not recognise any income amounting to €1,439.51 in 2015 nor in 2016. No further explanation was provided in this regard.
- 8.11 We recommend the council investigates why the above mentioned amount was received and, if applicable, accounts for this income appropriately.

Provision for bad debts

- 8.12 The council is recognising a provision for bad 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.
- 8.13 We recommend that the council investigates the issue highlighted in point 8.9, and reverses the provision for bad debts, if the balance has been settled.

**Other receivables**

- 8.14 The council's other receivables include two debtors which were brought forward from prior years. The council could not provide any information on these accounts. Thus we could not verify the existence and whether the amounts are recoverable. In view of this, we have had to modify our audit opinion. Details of the accounts are as follows:

Nominal code	Account name	€
0209	Line50 Other debtors	7,435
0272	Recoverable Exp- Other EU projects	14,994
Total		22,429

- 8.15 We reiterate our recommendation to the council to determine how these amounts originated and if they are not valid or no longer recoverable, the council should obtain approval in meeting to make a provision or write them off.

Provision for LES debtors

- 8.16 According to report 622 generated from the Loqus system, tribunal pending payments as at 31 December 2017 were €97,414.12. The council has not reflected this movement in its books of account, which are showing €107,142. During our testing, we also noted that the council is not recording money received from pre-regional contraventions against amount shown as LES debtors. During the year, an amount of €267.87 was paid in contraventions for pre-regional contraventions as per report 483; however no movement in LES debtors was recorded.
- 8.17 We would like to remind you that it is the council's responsibility to investigate and reconcile the movements with Loqus.

Accrued income

- 8.18 The council did not provide us with a list of accrued income. Furthermore, accrued income of €36,803, brought forward from 2016 increased to €41,585 in 2017. No explanations were forthcoming for the movement except for an increase of €5,744.43 as stated in note 3.16. We could not perform any audit tests due to the lack of information. In view of the limitations encountered, we necessarily had to modify our audit report.
- 8.19 We reiterate our recommendation to the council to investigate this balance and determine whether income was received or whether it is no longer receivable. It is also imperative that in, future, the council always keeps a detailed listing of accrued income that agrees to the financial statements.

Prepayments

- 8.20 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 €1,110.60 and €163.99 respectively.
- 8.21 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 2017, trade payables amount to €59,539. The balance disclosed in the trial balance as trade payables amount to €59,464, that is a difference of €75. The council was unable to reconcile the above-mentioned difference.
- 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.

Trade creditors

- 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 that the council should reconcile the books of account to supplier statements on a monthly basis.

Suppliers' alternative procedures

- 9.5 From the creditors' alternative testing performed, we noted that the council is still showing a creditor balance of €2,330 with Lornit Ltd. During 2016, Lornit Ltd issued two credit notes against this balance so the creditor balance should be nil. We were not provided with an explanation for this difference. Our audit report has been modified to this respect.
- 9.6 We recommend the council obtains creditors' statements on a monthly basis and reconciles accounting records accordingly to ensure that all entries were posted.

Other creditors

- 9.7 Included with other creditors is a balance amounting to €4,217 which the council stated is 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. Our audit report has been modified to this respect.
- 9.8 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.

Unrecorded liabilities

- 9.9 During our testing of payments after year end, we noted invoices issued by Clinton Debono for services offered in 2017. The total of the invoices was €2,200 and this amount was not included in accruals as at year end. Another invoice dated 15 December 2017 from the Planning Authority amounting to €4,450 was not included in creditors.
- 9.10 When testing invoices pending after year end, we noted that an invoice dated 27 January 2017 from Genista Research Foundation and another invoice dated 7 March 2018 amounting to €1,345.24 were not included in accruals as at year end.



- 9.11 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.

Long-outstanding creditors

- 9.12 When analysing the aged creditors' list provided by the council, we noted that €16,370 balances were older than 180 days.
- 9.13 It is evident that the council is not settling the overdue balances possibly due to liquidity issues (refer to note 17.1).

10 Grant accounting

Deferred income brought forward

- 10.1 It is obligatory for the council to prepare a list of deferred income and grants with all the supporting workings which are to be provided to the auditors as required by circular 3/2018.
- 10.2 The information provided by the client did not include grants received in 2017. We also noted that various details, such as how the grants are released, were not provided. When asked for supporting documentation for the grants mentioned in the list, we were not provided with documentation for grants amounting to €125,500. Our audit report has been modified to this respect.
- 10.3 From the information provided, we re-calculated what should have been released to profit and loss in prior years and in 2017, as well as the amount which should be deferred. The deferred income amount in our workings amounts to €155,976 whilst the council is showing deferred income of €176,503. This shows a discrepancy of €20,527 between the trial balance and our testing. Furthermore, when we calculated the grants that should have been released in 2017, we calculated that an amount of €17,331 should have been released whilst in the books of account an amount of €19,611 was released which resulted in a discrepancy of €2,280.
- 10.4 We once again urge the council to go through all past agreements relating to grants and ensure that these are treated under the income approach as required by IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Grants under this approach are recognised as income based on the useful lives of assets, that is, in accordance with the annual depreciation charge.

Grant on Auberge d'Angleterre

- 10.5 In prior year's management letter it was pointed out that the council received an approval for a grant of €65,000 for the restoration of the Auberge d'Angleterre project which was accounted under the capital approach. No prior year adjustment, relating to this grant, was passed.
- 10.6 As from 1 January 2018, Directive 1/2017 states that the council has to start accounting for grants using the capital approach.

11 Opening balances

- 11.1 Once again we noted differences between the council's trial balance as at 31 December 2016 and the council's opening balances as at 1 January 2017.

The following are the differences noted:

Details	Trial balance as at 31.12.2016 provided during audit 2016 €	Trial balance as at 01.01.2017 provided during audit 2017 €	Amounts disclosed in signed financial statements 2016 €
Retained earnings	76,381	76,213	76,381
Trade payables	145,851	146,019	145,851

- 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.
- 11.3 The council should ensure that the accountant properly updates the books of account, particularly ensuring that all adjustments accepted by the council are included before closing off the year end and accounted in the correct account.

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:
- Disclosure of the list of all relevant new and amended IFRS's that have been adopted by the council in the preparation of the financial statements.
 - In note 5 to the financial statements 'Cash and cash equivalents', the breakdown between bank balances and cash in hand is not accurate as an amount of €3,403 was included with bank when it related to cash.
 - In note 6 to the financial statements 'Deferred Income', the ageing classification is not in accordance with IFRS
 - Note 10 in the financial statements 'Income raised from Local Enforcement System' is erroneously showing income from LESA distribution as pre-regional funds.

Cash flow statement

- 12.2 When reviewing the cash flow statement of the council, we noted an amount of €15,962, relating to grants written back. This amount was included with cash used in investing activities yet it is not a cash movement.
- 12.3 We recommend that the cash flow statement represents the council's actual cash inflows and outflows in accordance with IAS 7: *Statement of Cash Flows*.

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.



- 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.
- 13.3 In addition to the above, meetings 27 and 39 lasted more than three hours.
- 13.4 We would like to remind you that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless the consensus of all those present to extend the meeting is obtained.

Binding of minutes

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

Approval of schedules of payments

- 13.7 We identified multiple instances where cheque numbers are not listed in sequential order and some cheque numbers have been omitted from the schedules of payments. During our testing we confirmed that the omitted cheques were cancelled before the approval of schedule of payments. Examples include cheque numbers 3273, 3385 and 3436.
- 13.8 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. 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 on the schedule of payments.

14 Financial budget

Capital commitments

- 14.1 When reviewing the budget for 2018 we noted that the capital commitments disclosed amounted to €54,157. On the contrary, the financial statements disclose authorised and contracted capital commitments amounting to €692,834. We were unable to verify contracts for €346,417.
- 14.2 We recommend that the council discloses all capital commitments so that both the financial statements and the annual budget agree and accurately reflect the council's future capital commitments. Thus, the council provides a more complete and consistent disclosure of its future expenditure plans in accordance with the Procedures and IFRSs, as well as informing users of the financial statements of the council's intentions. It is important to note that capital commitments should be classified into those that are authorised and those that are contracted for.



15 Electronic site

- 15.1 We noted that the council did not upload the annual budget 2018, business plan 2018 - 2020 and audited financial statements for 2016. Furthermore, the council did not upload the quarterly financial reports January – December 2017 within the required time frame.
- 15.2 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.

16 Liquidity position

Net current liabilities

- 16.1 It was noted that the council has closed off 2017 with current liabilities €22,423 more than the current assets as at year end. However, when calculating the liquidity position, the council was in a net current asset position of €3,968. This is because when calculating the liquidity position of the council, we have eliminated deferred income.
- 16.2 When compared to the prior year's figures the council's liquidity position has improved. However the council may still encounter difficulties in meeting all its obligations as they fall due.

Financial Situations Indicator

- 16.3 At the end of the financial year under review the council's Financial Situation Indicator (FSI) was less than the minimum positive balance of ten per cent of the annual Government allocation.
- 16.4 The Local Council (Financial) Regulations, 1999, binds the council to maintain a positive balance of ten per cent from the annual Government allocation. In such a situation the executive secretary must explain the actions to be taken to remedy the situation.

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	5,669.59	1,140.90
February	7,000.61	1,033.92
March	8,333.98	1,033.92
April	5,847.37	1,033.92
May	6,563.51	1,305.85
June	9,548.64	1,044.68
July	6,160.34	1,305.85
August	6,190.65	1,053.80
September	6,644.40	1,053.80
October	7,018.46	1,317.25
November	6,857.39	1,053.80
December	9,798.11	1,053.80
	<u>85,633.05</u>	<u>13,431.49</u>
Add 1/2 of total NI	<u>6,715.75</u>	
Total	<u><u>92,348.80</u></u>	

As per FS7

Gross salary	85,632.00
Add 1/2 of total NI	<u>6,715.75</u>
Total	<u><u>92,347.75</u></u>
Difference	<u><u>- 1.05</u></u>

As per Accounts

Account Number	Account Name	Amount (€)
1100/000	Mayor's allowance	7,345.20
1200/000	Employees' salaries	46,439.78
1300/000	Executive secretary's salary	29,055.79
1400/000	Councillors' allowance	6,400.00
1500/000	FSS Tax / NI Contribution	6,796.68
1700/000	Overtime	2,311.34
	Community worker invoices	- 1,943.90
	Add opening accruals	3,183.72
	Less closing accruals	<u>- 5,021.23</u>
		<u>94,567.38</u>
	Difference	<u><u>- 2,218.58</u></u>
	Total difference	<u><u>-2,219.63</u></u>