



# Grant Thornton

An instinct for growth™

The Mayor  
Bormla Local Council  
'The Rest'  
2a, Misrah Santa Margerita  
Bormla BML 1202  
Malta

Our ref ABC/scl/028916  
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Dear Madam,

## Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### 1 Previous management letter

#### 1.1 Income account classification

We encountered one instance where income has been incorrectly classified (refer to note 2.8).

#### 1.2 General income

We are pleased to note that the council has rectified this issue and has taken appropriate measures to deposit cash in a timely manner.

#### 1.3 Custodial receipts

Custodial receipts are now being deposited in a timely manner.

#### 1.4 Petty cash expenditure

We noted that the council has not rectified the issue (refer to note 3.1).

#### 1.5 Procurement

During our testing on procurement procedures we again noted deficiencies (refer to note 3.4).

#### 1.6 Expired contracts

The council has not rectified the situation and has used an expired contract (refer to note 3.7).

REGISTRY

29 APR 2016

NATIONAL AUDIT OFFICE

Certified Public Accountants

Member firm of Grant Thornton International Ltd

A list of partners and directors of the firm is available at Tower Business Centre, Suite 3, Tower Street, Swatar BKR 4013, Malta

**1.7 Tender procedures**

Whilst performing our audit procedures we were pleased to note that we did not encounter irregularities regarding tender procedures.

**1.8 Inappropriate documentation**

We only encountered one instance of inappropriate documentation (refer to note 3.4).

**1.9 Donations**

We did not encounter instances where the council has given donations.

**1.10 Asset insurance**

Asset insurance policies are in line with the councils cost of assets.

**1.11 Insurance policy document**

The council has rectified the issue during the year under review and has adequately insured the correct persons.

**1.12 Travelling expenses**

We did not encounter any instances during the course of our audit.

**1.13 Street lighting**

The council has rectified the situation and joined the South East Region Committee in a multiparty tender.

**1.14 Fixed asset register**

We again encountered issues with the fixed assets register (refer to notes 4.1 and 4.3).

**1.15 Tagging of fixed assets**

We are pleased to note that the council has made every effort to tag its assets where possible.

**1.16 Classification of assets in the fixed asset register**

Whilst reviewing the register we again encountered instances where the council has wrongly classified fixed assets (refer to note 4.6).

**1.17 Disposal of obsolete assets**

We noted that the council has performed an exercise to identify obsolete items in the fixed asset register. However, during the audit procedures we identified more obsolete items (refer to note 4.8).

**1.18 Grant schedule**

We again noted that the grant schedule provided is not in line with council requirements (refer to note 5.1).

**1.19 Pjazza Tony Coleiro Project**

The issue has been suitably rectified in last year's financial statements.

**1.20 Live streaming system**

We noted that the live streaming grant has been correctly released during the year under review.

**1.21 Income from grants on capital projects**

We noted that the council has addressed the issue and has correctly released the grants on capital projects.

**1.22 Current and non-current portion of deferred income**

We again encountered the issue (refer to note 5.5).

**1.23 Cash count**

We are pleased to note that the council has rectified the issue and cash counts are being performed periodically.

**1.24 Trade payables**

During the field work we noted that the council has again failed to obtain monthly statements from all the suppliers (refer to note 7.1).

**1.25 Long outstanding trade creditors**

We noted that the issue of outstanding creditors is still not being addressed by the council (refer to note 7.4).

**1.26 Accruals**

We did not encounter instances where the accruals have not been correctly recorded.

**1.27 Trade receivables**

During our audit we noted that the doubtful trade receivables have been provided for during the year under review.

**1.28 WSC receivable**

The issue regarding the Water Services Corporation still needs to be addressed (refer to note 8.3).

**1.29 Prepayments**

We did not encounter any issues regarding unrecorded prepayments.

**1.30 Accrued income**

We did not encounter instances where the council did not record accrued income.

**1.31 Presentation of financial statements**

During our audit we again noted deficiencies in the presented financial statements (refer to note 9.1).

**1.32 Contingent liability**

The guarantee to MEPA is no longer in force.

**1.33 Cash flow statement**

We did not encounter issues regarding the cash flow statement.

### 1.34 **Binding of minutes**

We are pleased to note that the council has bound last year's minutes. We also noted that this has been done retrospectively and minutes for previous years have also been bound.

### 1.35 **Vacation leave balances**

We did not encounter any carry forward of leave balances during the year under review.

### 1.36 **Groupings**

The council has again failed to provide us with the groupings of expenses (refer to note 11.1).

### 1.37 **Accounting software**

We again noted that the council did not rectify this issue (refer to note 12.1).

### 1.38 **Books of account**

During our audit fieldwork we did not encounter instances where the trial balance did not agree to the financial statements.

### 1.39 **Investment in joint venture**

The council has in part addressed the issue and obtained the audited financial statements of the joint venture for the year ended 31 December 2014. However the issue is not completely resolved (refer to note 13.1).

### 1.40 **Financial situation indicator**

We are pleased to note that the council has addressed the financial situation and is now in line with the Local Councils (Financial) Regulations.

## **2 Income**

### **LES administration fees**

2.1 We tested income from LES administration fees by obtaining report 483 for the year ended 2015 from the Loqus system and noted that it is overstated by €140 in the financial statements. No adjustment was proposed to correct this misstatement since we could not determine how the difference arose.

2.2 We recommend that the council investigates the difference and determines if the discrepancy relates to a mistake in the invoices issued to the regional committees and LESA or an accounting error.

### **Income from grants**

2.3 During our audit we noted that the council has been approved a revenue grant in respect of the activity organised during the festive season, 'Christmas at the Dock', amounting to a maximum of €5,000. We also noted that the corresponding expenses exceeded this amount and hence it is expected that the full amount of the grant will be received.

2.4 In view of the above we proposed an audit adjustment to recognise the revenue grant and book it as accrued income. The council approved our audit adjustment and the audited financial statements reflect this adjustment.

### Deferred income from capital grants

- 2.5 During our audit we noted that the council has been approved two different but related capital grants in respect of the European Mobility Week. On the 6 March the council received correspondence stating that it is being awarded a total grant of €10,000 which will be given in the form of an electric quadricycle. Further to this the council has also won first place for the European Mobility Week 2015. The first prize is a capital grant amounting to €50,000 which will be given in the form of an electric vehicle.
- 2.6 In view of this we reviewed the documents supplied by the council and noted that they are not formal agreements and as yet the council has not received the grant.
- 2.7 The grant will be awarded on the condition that the council buys an electric vehicle. Based on this condition, we recommend to apply prudence and refrain to recognise the amount of €60,000 as accrued income. We suggested that this is recorded when the electric vehicle is purchased and the grant conditions are satisfied. Meanwhile the matter is disclosed in note 20 to the financial statements.

### Income from joint committee

- 2.8 We noted that the council received a distribution amounting to €3,020 from the joint committee, after the committee discontinued the operation of the authorised officer. The council recorded this receipt as general income rather than income from Local Enforcement System. The council approved, in the audited financial statements, to recognise the amount as income from the Local Enforcement System by means of our proposed audit reclassification.
- 2.9 It is important that the council records receipts properly to ensure that, in this case, income from the Local Enforcement System is correctly stated.

## 3 Expenditure

### Petty cash expenditure

- 3.1 Whilst performing our audit procedures we identified that a number of the source documents for most petty cash expenditure is a cash register chit. Some instances encountered during our audit are the following:

Details	Supplier	Date	€
Stone balustrades	Saviour Calleja	14.01.15	16.00
Postage stamps	Fiona Bazaar	03.03.15	15.60
Broom and spade	Ivan Camilleri	19.05.15	6.70
Diesel	Nica Ltd	30.06.15	20.00
BOV safe bags	BOV	07.08.15	4.95
Plywood sheet	John Farrugia Ltd	25.09.15	15.50
Table cloth	Modatex Ltd	17.11.15	10.00

- 3.2 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 which state that supplies are only made on the provision of a valid invoice which is addressed to the council. We reiterate that where possible, the council should obtain a tax invoice or a VAT receipt addressed to the council to ensure that the expense is in the normal course of the council's activities.
- 3.3 We have also noted that the council prepares a petty cash analysis sheet which is approved by the council in meeting but does not include details about the allocation in nominal accounts. We recommend that the council includes this information to

facilitate the extraction of the monthly total of each category of expense and allocation to the correct account.

### Procurement procedures

- 3.4 Our testing on cheque payments revealed that the council did not obtain at least one quotation and accepted inadequate receipts which did not satisfy fiscal financial requirements. These include the following purchases:

Supplier	Details	€	Note
Fiona Stationary	Supply of newspapers	144.20	a/b
Leli Doublet	4 new tyres for KBI323	278.00	a/b
Gordon Bonello	Show for Xmas by the Dock	354.00	a

- a) It was noted that the council did not obtain a quotation for the purchased items.
- b) Furthermore it was also noted that in these cases the council did not obtain a valid fiscal invoice.

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

- 3.6 In accordance with the VAT regulations, the provision of a computer-generated invoice or receipt does not satisfy the requirements of the Financial Procedures, which state that councils must obtain a valid tax invoice for all its purchases.

### Expired contracts

- 3.7 During our testing on cheque payments we determined that the council is still utilising services from V&A Services Limited (collection of mixed household waste) although the contract agreement with this supplier expired in June 2014. The executive secretary informed us that the reason is that this tender was undergoing legal procedures. We were also informed that the case is now decided and a new contract has been signed on 1 March 2016.

## 4 Fixed assets

### Fixed asset register

- 4.1 We again identified a difference of €401 between the fixed asset register and the asset nominal accounts. This difference is analysed below:

	NBV in fixed asset register €	NBV in books of account €	Difference €
Office equipment	8,657	8,256	401

- 4.2 Once again we recommend that the council investigates and reconciles this difference and ensures that the fixed asset register agrees to the books of accounts in line with the requirements of memo 3/2016.
- 4.3 During our review of the fixed asset register, we noted that relevant details such as supplier details, invoice number and location are missing.

4.4 We again remind the council that the minimum level of information to be included in the fixed asset register is the following:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation method and rate
- Location of the asset.

4.5 A complete 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.

#### **Classification of assets in the fixed asset register**

4.6 Whilst reviewing the fixed asset register we noted that certain assets are allocated to the wrong categories. A case in point is the CCTV cameras allocated as computer equipment. These should be categorised under office equipment.

4.7 We recommend the council updates its fixed asset register and categorises assets appropriately. This is essential to ensure the appropriate treatment of depreciation.

#### **Disposal of obsolete assets**

4.8 During our audit work we identified items which are broken or not in a good working order and the council is still including these as assets in its fixed asset register. For example, the register is still including four angle grinders which were bought in different years while the council bought another one in the year under review.

4.9 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain and control an accurate and up-to-date inventory of council fixed assets.

4.10 We recommend that the executive secretary abides by the Procedure and seeks to maintain the register accurately updated. Any obsolete items included in the fixed asset register should be written off. The executive secretary should prepare a list of the obsolete or damaged items and get approval from the council meeting to write them off.

#### **Addition to fixed assets**

4.11 Whilst performing our audit we noted that additions disclosed in the fixed asset schedule in the council's unaudited financial statements differs from additions in the fixed asset register as follows:

Category	Additions as per fixed assets schedule €	Additions as per FAR €	Difference €
Furniture and fittings	1,877	2,349	472

- 4.12 Therefore we recommend that the council carefully reviews the financial statements for any differences from the books of account and ensure that the financial statements have been prepared correctly.
- 4.13 We also noted that the council failed to obtain a receipt addressed to the council for a Delonghi coffee machine bought from JS Households.
- 4.14 We remind the council that cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 which state that supplies are only made on the provision of a valid invoice which is addressed to the council. We recommend that where possible, the council obtains a tax invoice or a VAT receipt addressed to the council.

#### **Disposal of fixed assets**

- 4.15 Whilst reviewing meeting 38 minutes, held on 26 March 2015, we noted that the council approved to dispose of a list of items having a net book value amounting to €1,203.66. The council declared the amount of €1,355.81 in its minutes while the net book value amount stated in the unaudited financial statements is €722. We did not propose an adjustment for this since the fixed assets register needs to be reviewed thoroughly to address other issues noted and mentioned in the points above.
- 4.16 We recommend that the council checks whether fixed assets disposed of were correctly accounted for in the books of accounts and ensures that disposals are reflected in the financial statements accordingly.
- 4.17 We also noted that the asset in the course of construction has been written off to profit and loss during the year under review. This has not been reflected in the schedule of assets as prepared in note 14 to the financial statements.
- 4.18 We remind the council that it is required to prepare financial statements in conformity with International Financial Reporting Standards. Therefore the transfer should have been presented in the fixed asset schedule to enable users to follow the release of this asset to profit and loss.

## **5 Grants**

### **Grant schedule**

- 5.1 During the course of our audit procedures, we noted that the grant schedule as provided to us by the council is not appropriately apportioning the grant over the useful life of the asset in accordance with the depreciation rate of the asset concerned. To this end, we recommend that the council complies a schedule of deferred grants that is in line with IAS 20.
- 5.2 Memo 3/2016 clearly states that the council is to prepare and provide the auditors with a schedule of grants prepared using the income approach in accordance with IAS 20.

### **Income from grants on capital projects**

- 5.3 Whilst reviewing and recompiling the grant schedule we noted that an amount of €476.31 has not been released due to the incorrect approach applied. We proposed an adjustment and this was correctly reflected in the audited financial statements.
- 5.4 We remind the council that, in accordance with IAS 20, the release of grants from income should be in line with the depreciation charge. To this end, we recommend



that the council compiles a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate and method required of the assets concerned.

#### **Current and non-current portion of deferred income**

- 5.5 We noted that the council did not properly apportion deferred income into its short-term and long-term components and thus the disclosures in the notes to the financial statements are misleading. The basis of apportionment should be based on the period within which the income from the grant is expected to be released. We have proposed an adjustment to reclassify deferred income into the correct short and long-term portions. The council has included the above mentioned reclassification in the audited financial statements.

### **6 Payroll**

#### **Wages' reconciliation**

- 6.1 Our reconciliation of payroll expenditure in the general ledger to FSS forms revealed a small difference of €347.60.
- 6.2 We recommend that the council agrees employees' salaries to FS5s on a regular basis and investigates and reconciles any resulting differences.

#### **FS5's and FS7 reconciliation**

- 6.3 Our audit revealed that the FS5s totals do not agree to the FS7 total by a difference of €751. This difference could not be reconciled by the council.
- 6.4 We recommend that the council prepares a reconciliation at least on an annual basis and makes every possible effort to reconcile the differences identified between the nominal ledger and the FSS forms submitted to the CIR.

### **7 Trade and other payables**

#### **Trade payables**

- 7.1 The council did not request monthly statements from all suppliers. Memos issued from time to time by the DLG specifically state that the council should obtain monthly statements.
- 7.2 We remind the council that these statements are important for a sound accounting system to ensure that creditors are correctly recorded in the accounts. Statements from suppliers will highlight any differences from recorded accounts. Any differences should be promptly investigated.
- 7.3 We recommend that the council reconciles creditor accounts with supplier statements on a regular basis as this process is beneficial in identifying any differences or disputes which can then be tackled promptly.

#### **Long outstanding trade creditors**

- 7.4 During our testing we noted the council's trade creditors' list includes the following balance, which have been outstanding for more than one year.

<b>Creditor</b>	<b>€</b>
ARMS Ltd	2,105.05
Agius & Agius Ltd	110.41
Abela Stafrace & Associates	116.47

Bir Mula Heritage	46.47
Silvar Construction & Services Ltd	1,014.56
Enemalta Corporation	632.36
Erin Serracino Inglott Girls Secondary	45.52
Fgura Joint Committee	20.00
Holistic research and development	358.72
Kunsil Malti għall-isports	79.59
Melita Cable	110.87
Midsea Books Ltd	87.50
Fankie Mifsud Electrical	442.58
Montanaro and Scerri Ferrante Solicitors	314.47
Public Broadcasting Services	446.33
Piscopo Gardens	67.55
Portelli and Brincat	351.73
Public Works Department	485.78
Retina Telecommunications	28.96
RGD Ltd	78.24
Sound Vision print	92.36
Southern Harbour District Joint Committee	45.57
Style Computer Services	27.49
Video On Line	561.96
Where's Everybody	137.43
<b>Total</b>	<b><u>7,807.97</u></b>

- 7.5 In respect of the above balances, we recommend that the executive secretary investigates why these have not been paid and considers if these amounts are actually due and, if not the case, adjusts the books of account after careful consideration. Any decision taken should be discussed during the council meetings, approved by the councillors and included in the minutes.

## **8 Trade and other receivables**

### **Trade receivables**

- 8.1 During our audit procedures we noted that the council embraced our recommendations and considered the recoverability of the amounts due and provided for the amounts in doubt in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.
- 8.2 We remind the council that the Financial Procedures state that it must be ensured that income due or owed to the council is received on time and the executive secretary must maintain, review and monitor information on the current state of the debtors.
- 8.3 From the confirmation received, we noted that the Water Services Corporation is not agreeing to the amount of €8,956.86 in the council's books claiming it owes nothing to the council. The council is not providing for this amount and during our audit we were provided with correspondence dated November 2015 whereby the council is still in dispute over these amounts.
- 8.4 The council should follow up the outstanding amounts with the Corporation for payment and possibly refer the matter to the LCA for collection in line with an agreement made by WSC and the latter some years ago.

## **9 Financial statements**

### **Presentation of financial statements**

- 9.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards and Financial Procedures. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS). Below are some of the non-compliance issues identified.
- i. Disclosures of a reconciliation of provision for doubtful receivables in line with IFRS 7.
  - ii. Disclosures regarding liquidity risk are incorrect since no contractual maturities are shown.
  - iii. Disclosure of the list of all relevant new and revised IFRS's that have been adopted by the council in the preparation of the financial statements relates to the previous year.
- 9.2 We necessarily had to qualify our audit opinion in light of points i and ii above.
- 9.3 In addition to the above, we found the following deficiencies in the financial statements:
- i. There is no note disclosing capital commitments.
  - ii. Note 21 in the financial statements should be removed. The bank guarantee in favour of MEPA is no longer in force.

## **10 Meetings**

### **Attendance at meetings**

- 10.1 We noted that two councillors were paid a full year's allowance even though they failed to attend some of the meetings. We did not trace a letter of excuse attached to the council's minutes to justify the councillors' absences although it was stated in the minutes that these were excused.
- 10.2 We refer to memo 89/2009 which states that the councillors' allowance is to be paid in proportion to the number of meetings attended in a calendar year. Memo 89/2009 further explains that no deductions should be made only where valid reasons in writing are put forward for the absence from meetings. These should be considered for acceptance by the council and a copy of the letter kept with the minutes.
- 10.3 We would also like to refer you to section 18 of the Local Councils Act which requires that in the event that a councillor is absent from a meeting, the mayor shall insert an item on the council's agenda to discuss whether the absence of such councillor was due to a justifiable cause.

## **11 Groupings**

- 11.1 We were not provided with a list of groupings. Furthermore, expenses are not being classified consistently from year to year.
- 11.2 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

**12 Accounting software**

- 12.1 We determined that the council is using two separate accounting software packages (Sage). This resulted in differences amounting to €403 between the fixed asset register and the final trial balance.
- 12.2 We recommend the council uses one software package and transfers the fixed assets register into the accounting package used for the everyday running of the council. This should be reviewed for its content and reconciled with the respective nominals.

**13 Electronic site**

- 13.1 During our audit work, we observed that the council did not upload on time the quarterly financial report for April-June, annual budget 2015, business plan 2015-2017, annual administration reports 2014 and financial statements 2014.
- 13.2 This contravenes the Local Councils (Financial) Procedures which point out specific timelines for these reports. We remind the council that quarterly financial reports should be presented within two weeks after the end of each fiscal quarter. Annual budgets should be published by the end of March each year. A business plan should be reviewed as often as necessary, but at least once every year not later than the 15 April. Annual administration reports and audited financial statements should be uploaded by 15 August.

**14 Administration**

- 14.1 During our audit we noted that cheque number 5448 has been listed twice, in, schedule of payments 36 and schedule of payments 40 having two different payees with different amounts.
- 14.2 We also noted that all schedules of payments did not include all cheque numbers and, as a result, we could not ensure that all cheque payments were included.
- 14.3 We remind the council of the importance to abide by the Local Councils (Financial) Procedures section P1.11 and present accurate schedules of payments. The executive secretary is to ensure the correctness of documentation prior to each council meeting.

**15 Investment in joint venture**

- 15.1 The council did not obtain the audited financial statements for the year ended 31 December 2015 of the joint venture relating to the football pitch, which is administered jointly with Vassallo Builders Group Limited. However we were provided with the audited financial statements of the joint venture from 1 January 2012 up to 31 December 2014. The executive secretary informed us that the football pitch is no longer in use.
- 15.2 We note that the joint venture did not prepare audited accounts for the period 28 July 2006 to 31 December 2011 and that this is in contravention of the joint venture agreement. We also note that the financial statements of the joint venture as at 31 December 2014 show that the accumulated fund amounted to € 2,039. No distributions had been made for the year ended 31 December 2014 from the joint venture and no amounts have been recognised as income in the accounting records of the Council.

- 15.3 We recommend that the council ensures that the audited financial statements for the periods from 28 July 2006 until 31 December 2011 and for the year ended 31 December 2015 are prepared to comply with the joint venture agreement. It should also consider whether the joint venture is to be discontinued and if so, final dissolution accounts should be prepared. Finally we recommend that the council determines the correct accounting treatment that should be applied to the interest in the joint venture held by the council and to the distributions made prior to 1 January 2014.

### Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr Joseph Caruana and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

