



Grant Thornton

An instinct for growth™

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20 April 2017

Dear Madam,



Financial statements for the year ended 31 December 2016

During the course of our audit for the year ended 31 December 2016 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 LES administration fees

We have again noted a small discrepancy in LES administration fees (refer to note 2.1).

1.2 Income from grants

We are pleased to note that the council has rectified the release of grants during the year under review.

1.3 Deferred income from capital grants

We have again noted that the council did not account for the grant contracted for (refer to note 5.1).

1.4 Income from joint committee

The council did not receive any income from joint committee during the year under review.

1.5 Petty cash expenditure

We have again noted shortcomings in petty cash purchases (refer to note 3.1).

1.6 Procurement procedures

The council has rectified the issue during the year under review.

1.7 Expired contracts

We are pleased to note that the council is not utilising services from expired contracts.

1.8 Fixed asset register

We have again noted discrepancies between the net book value in the fixed asset register when compared to the books of accounts (refer to note 4.1).

1.9 Classification of assets in the fixed asset register

We again noted that the council is not classifying assets properly in the fixed assets register (refer to note 4.6).

1.10 Disposal of obsolete assets

We have again noted that some assets are included in the fixed asset register however not in good working order (refer to note 4.8).

1.11 Addition to fixed assets

We have again noted shortcomings in additions to fixed assets (refer to note 4.10).

1.12 Disposal of fixed assets

During the year under review the council did not dispose of any fixed assets.

1.13 Grant schedule

We are pleased to note that the council has presented the grant schedule in line with the income approach.

1.14 Income from grants on capital projects

We have again noted that the council did not properly account for income from grants on capital projects (refer to note 5.1).

1.15 Current and non-current portion of deferred income

We are pleased to note that the council has rectified the issue.

1.16 Wages reconciliation

We did not encounter any differences between the FS5's and the books of accounts.

1.17 FS5's and FS7 Reconciliation

We have noted a small discrepancy between the FS5 and FS7 (refer to note 6.1).

1.18 Trade payables

The council failed to obtain monthly statements from all suppliers (refer to note 7.1).

1.19 Long outstanding creditors

We have again noted long outstanding creditors in the books of accounts (refer to note 7.3).

1.20 Trade receivables

During our audit we again noted long outstanding balances in the debtors' list (refer to note 8.1).

1.21 Presentation of financial statements

We have again noted some shortcomings in the financial statements (refer to note 9.1).

1.22 Attendance at meetings

The council has rectified the issue during the year under review.

1.23 Groupings

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

1.24 Accounting software

The council rectified the issue during the year under review.

1.25 Electronic site

The council is not uploading documents on the electronic site within the stipulated period (refer to note 10.1).

1.26 Administration

We again noted a number of cheques which were not included in the schedule of payments (refer to note 11.1).

1.27 Investment in joint venture

We are pleased to note that the council obtained the audited financial statements for the joint venture dated 31 December 2016.

2 Income**LES administration fees**

2.1 During our audit fieldwork we tested income from LES administration fees by comparing the report 483 generated from the Loqus system and the figure in the financial statements. It was identified that the amount in the books of accounts is understated by €106. We did not propose an audit adjustment to correct this misstatement since the amount is immaterial and no explanation was forthcoming for the difference.

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

Annual Government allocation

2.3 During our audit we noted that the additional Government allocation amounting to €370 was erroneously posted as "other Government income" while it had to be posted as "annual Government income". In this respect we proposed an audit adjustment. The council approved to pass our proposed audit adjustment to correct the difference.

- 2.4 We remind to the council that correct classification is an integral part of the accounting system.

General Income

- 2.5 In the unaudited financial statements the council has classified income from the organic waste project of €14,342.77 as an "income from contributions" under general income instead of allocating it to the "other Government income". The reclassification has been properly reflected in the audited financial statements.
- 2.6 We reiterate our recommendation of 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 Expenditure

Petty cash expenditure

- 3.1 During our audit we found that the source document for most petty cash expenditure is a cash register chit. Some instances which were encountered during our audit fieldwork are the following:

Details	Supplier	Date	€
1 Flower arrangement	Ta' Grezzju Florist	03.02.2016	20.00
Cylinder knob for public convenience	Aluage Aluminium	27.06.2016	16.17
5 Lavazza coffee	Chain Supermarket	15.07.2016	12.75
Rubber mat for vehicle	Firm E Catania	15.09.2016	20.32
2 peat bags	PJ's	17.11.2016	23.00
1 bucket	Ivan Camilleri	15.12.2016	3.95

- 3.2 According to the Local Councils (Financial) Procedures, 1996, council supplies shall be bought only by the provision of a tax invoice/fiscal receipt issued in the name of the local council. Therefore, cash register chits do not satisfy this requirement.

Payment approval

- 3.3 Whilst performing our test on cheque payments we noted an instance where the council issued cheque number 6024 to Water Services Corporation for €1,179.49. Upon enquiry, the council staff explained that the council had approved this cheque back in December 2013.
- 3.4 The council should not approve schedules of payments based on invoices received. The schedules of payments should be approved when the actual cheque payment is being made.
- 3.5 In accordance with the Local Councils (Financial) Procedures, 1996, councils should prepare a schedule of payments for the council's approval. This schedule of payment should also include the type and method of payment being made.

Insurance policy

- 3.6 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and cost in nominal ledger.

Asset	Sum insured €	Cost in accounts €
Property office buildings	232,745	798,600
Urban improvements	199,048	210,483
Office equipment	33,192	32,681
Plant and machinery	5,959	15,186
Office furniture and fittings	61,481	52,406
Street signs	21,693	-
Total	554,118	1,109,356

- 3.7 In light of the above, it is advisable that the executive secretary updates the policy in accordance with the Local Councils (Financial) Procedures, 1996 to ensure that assets are not uninsured, over or under-insured

Travel

- 3.8 During the audit we noted that the council incurred expenses for the travelling to Croatia amounting to €2,236. The council did not submit a report to the Department of Local Government.
- 3.9 AL 144 of 2009 states the council should send a travel report to the Department of Local Government. The report should include travelling expenses incurred by the council together with the per diem allowance. Furthermore, the report must be submitted by the delegate by not later than one month after the visit.

4 Fixed assets

Fixed assets register

- 4.1 We have encountered the following difference between the fixed assets register and the asset nominal accounts:

	NBV in fixed asset register €	NBV in books of account €	Difference €
Construction	241,982.23	242,060.00	(77.77)
Plant and machinery	6,267.41	8,654.00	(2,386.59)
Office equipment	9,068.77	8,765.00	303.77
Furniture and fittings	20,468.95	18,041.00	2,427.95
Total	277,787.36	277,520.00	267.36

- 4.2 We recommend the council abides by circular 4/2017, which states that the fixed assets register must agree to the books of accounts and hence the council should reconcile the above differences.
- 4.3 We again noted that the fixed asset register does not contain all necessary details such as supplier details, invoice number and location.

- 4.4 We reiterate our recommendation to the council that the minimum level of information to be included in the fixed assets 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 An updated fixed asset register enables the council to exercise proper control over its assets. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

Classification of assets in the fixed asset register

- 4.6 While it was noted that during the year under review the photovoltaic cells were reclassified from furniture and fittings to plant and machinery (see also 4.14 below), it was again noted that a number of items were classified in the wrong category, such as the CCTV cameras allocated to computer equipment. These should have been categorised under office equipment.
- 4.7 We advise the council to review its fixed asset register and to reclassify all items which previously were allocated to the wrong category, thus ensuring the appropriate treatment of depreciation.

Disposal of obsolete assets

- 4.8 As a part of our audit procedures we reviewed the fixed asset register for obsolete items and we identified items which are broken or not in good working order but the council is still including such assets in its fixed asset register. For example, fire extinguishers bought in 1998 were replaced with fire extinguishers bought during 2016.
- 4.9 We recommend the council maintains an up-to date fixed asset register and ensures that items which are obsolete or not in good working order are removed from the register.

Additions to fixed assets

- 4.10 During our audit fieldwork we found that additions listed in the unaudited financial statements do not correspond with the additions listed in fixed assets register, namely:

Category	Additions in fixed assets schedule €	Additions in FAR €	Difference €
Furniture and fittings	-	319.00	(319.00)

- 4.11 Therefore we recommend that the council reviews the financial statements and compares these to the fixed asset register to ensure proper preparation of the financial statements.

Write off of fixed assets

- 4.12 During our audit fieldwork we could not verify the existence of a Hitachi cordless drill included in the register. Upon enquiry we were presented with the explanation that the stores of the council were flooded and damaged the above mentioned item. Hence the council had to write off the asset as approved during the council meeting number 67 held on 16 March 2017.
- 4.13 We recommend the council ensures that assets are stored properly in a safe place and claim insurance where possible.

Reclassification of fixed assets

- 4.14 As a part of our audit procedures we identified a discrepancy between the opening balances of fixed assets at cost as stated in nominal ledger when compared to the figure listed in the financial statements.

Category	Cost in nominal account as at 01.01.2016 €	Cost in financial statements as at 01.01.2016 €	Difference €
Furniture and fittings	61,001.65	62,879.00	(1,877.35)

- 4.15 Although the cost of assets in the nominal ledger did not agree to that of the financial statements, the net book value still agreed. The total net book value for both financials and books of accounts was stated at €28,297.
- 4.16 While reviewing the financial statements we noted that a disposal of furniture and fittings amounting to €10,472 was listed in the schedule of fixed assets. Upon enquiry, the council commented that there were no actual disposals during the year under review. The above stated amount was included as an addition to plant and machinery rather than as a reclassification. We also noted that the release of the depreciation on disposal amounting to €1,878 was stated in the notes to the financial statements while not being reflected in the nominal accounts. It was further noted that the accumulated depreciation for the asset being reclassified amounted to €2,428.89 as at 1 January 2016.
- 4.17 We established that the amount of €9,153, being the additions to plant and machinery during the year, included the cost of the reclassified photovoltaic cells of €8,913.99. The council has only reclassified the cost of the asset but failed to reclassify accumulated depreciation in its books of accounts.
- 4.18 We could not trace the remaining €1,558.01 which was reclassified in the financial statements. The council did not provide an explanation for such difference.
- 4.19 We recommend the council investigates the above stated discrepancies and ensures that all reclassifications are accounted for properly. We did not propose any audit adjustment due to the fact that we could not trace all the amounts stated in financial statements to the books of accounts.

Depreciation

- 4.20 Whilst performing audit procedures on depreciation, we noted that large pots and trees were depreciated at 100% depreciation rate with urban improvements. Although 0% applies to trees, large pots have a useful life and an appropriate rate should be used.
- 4.21 We recommend that the council uses depreciation rates specified in the procedures which should reflect the useful lives of assets in accordance with IAS 16.
- 4.22 During our reconciliation of the fixed asset register with the financial statements, the following variances were identified.

Construction	Amounts in financial statements €	Amounts in fixed asset register €	Difference €
Cost	798,600	798,600	-
Accumulated depreciation	(556,574)	(442,712)	113,862
Grants	-	(113,906)	(113,906)
Net book value	242,026	241,982	(44)

- 4.23 We recommend that note 11 to the financial statements should disclose Government grants separately rather than including with accumulated depreciation.

5 Grants

Income from grants on capital projects

- 5.1 Whilst checking the grant schedule we noted that the council had an agreement for a grant of €55,000 for Peppi Del Ceppo football ground. The council had only accounted for €41,250 (i.e 75% of the grant) which was actually received during the year under review. We have proposed an audit adjustment to account for €13,570 (i.e the remaining 25%) which has been agreed and will be received in the coming year. The council has amended the financial statements to include our audit adjustment.
- 5.2 We remind the council that income should be accounted for when contracted. The council should accrue for the income and defer it until the asset is finalised and ready for use.

Income from capital grants

- 5.3 During our audit, we noted that the council has been approved a capital grant of €50,000 with respect to "Best Permanent Measure to Promote Sustainable Green Mobility". Correspondence on the above grant was received on 26 April 2016, but to date no contract has been signed.
- 5.4 We have reviewed the documents supplied by the council and agreed with the council that until a formal agreement is signed, that the grant should not be recorded in the books of account.

6 Payroll

FS5's and FS7 reconciliation

- 6.1 Our audit revealed that the FS5s totals do not agree to the FS7 total by a minimal difference of €51.42. This difference could not be reconciled (refer to appendix 1).
- 6.2 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 We have again noted that the council failed to request monthly statements from all suppliers. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.
- 7.2 We recommend that suppliers' statements are essential, especially for those suppliers with whom the council trades most. The council should make sure that the creditor accounts agree to supplier statements on a regular basis and investigate and reconcile any differences.

Long outstanding trade creditors

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

Creditor	€
Banda Socjeta Filarmonika San Gorg	300.00
Romano Cassar	27.49
TCTC	42.60
Total	<u>370.09</u>

- 7.4 We advise the council to review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Debit balances in creditors' list

- 7.5 The council's creditors' list includes a debit balance of €18.46. This relates to one supplier and has remained unchanged since 2014. No audit reclassification was passed as the amount is not material.
- 7.6 We recommend separate disclosure of debit balances in the financial statements rather than a set off against trade creditors. Furthermore the council should investigate why this creditor's account is in debit.

Alternative procedures on creditors

- 7.7 During the audit we noted that the creditors' list shows €2,466.44 payable to WasteServ Malta Ltd but the supplier has provided the transaction history stating the amount payable to them is €2,310.69. This highlights a discrepancy of €155.75. We did not propose any audit adjustments as the difference could not be explained.

- 7.8 Circular 4/2017 points out that the council should reconcile creditors' balances on a regular basis, thus highlighting any differences as soon as possible.

Creditor write-off

- 7.9 We are pleased to note that the council has properly accounted for the creditor write-off for payables of €5,703.89 which have been long outstanding from the year 2000. The council has accounted for the write-off against the respective expense accounts.
- 7.10 The write-off of €5,703.89 was properly approved by the council in meeting 55.
- 7.11 Whilst reviewing creditors, we noted that the books of accounts include a number of balances due from and owed by various local councils, regional committees and LESA, namely:

	€
General	(35.08)
Birzebbugia	139.76
Fgura	46.65
Floriana	116.46
Pembroke	(23.29)
Marsa	23.29
Paola	23.29
Santa Venera	104.59
Ta' Xbiex	35.00
Zejtun	104.60
Attard	69.88
Mellieha	58.00
Rabat – Gozo	(58.00)
Gudja	(34.94)
Gharghur	(34.94)
Ghaxaq	(46.58)
Dingli	(23.29)
Zurrieq	23.29
Regjun Xlokk	(186.41)
Regjun Nofsinhar	(232.48)
Regjun Centrali	(314.47)
LESA	(294.34)
Unidentified deposits	(244.54)
Other payables	(0.23)
Total	<u>1,783.78</u>

It was also established that the above list includes unidentified deposits of €244.54 for which no explanation was provided.

- 7.12 We recommend that the council follows up with other local councils, regional committees and LESA to settle the above-mentioned balances.

8 Trade and other receivables

Long outstanding balances

- 8.1 Whilst reviewing receivables we noted the following overdue balances:

	€
Demis Darmanin	4,720.28
Green MT Ltd	4,340.00
Zebbug local council	535.74
	<u>9,596.02</u>

- 8.2 Upon enquiry with the council, it was identified that Demis Darmanin was managing the bar next to the Peppi del Ceppo football ground. However water and electricity bills were in the name of the council. Due to the fact that the former was not reimbursing the council with the amounts incurred in relation to water and electricity consumption, the council and Demis Darmanin verbally agreed that he will be paying the amount by monthly instalments of €100. However the last payment was made on 13 June 2016. On 14 February 2017 the council sent an official letter to Demis Darmanin requesting the latter to settle amounts pending up to the date of the letter.

- 8.3 We recommend that the council continues chasing Demis Darmanin as well as other debtors to evaluate whether the amounts are recoverable and if such amounts are in doubt, provide for them in full accordingly.

Prepayments

- 8.4 During our audit procedures we noted that the council failed to account for prepayments of €1,163.28 for the asset insurance paid in relation to 2017. In this respect we have proposed an audit adjustment to properly account for prepayments. The council has agreed to pass our proposed audit adjustment.
- 8.5 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 Financial statements

Presentation of financial statements

- 9.1 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.
 - Disclosure of related party transactions as required by IAS 24.
 - IFRS 7 *Financial Instruments: Disclosures*: the council has not disclosed an analysis of the provision for bad debts and the contractual maturity of the financial liabilities.
 - The council failed to disclose the liquidity risk analysis.
- 9.2 We necessarily had to qualify our audit opinion in light of the above departures from IFRS's.

10 Electronic site

- 10.1 During our audit field work, we noted the following shortcomings in relation to the electronic site:
- The council failed to upload the quarterly financial reports for periods January to October 2016 within the stipulated time frame.
 - To date of the audit fieldwork the council did not publish the quarterly financial report for October to December 2016.
 - To date the council failed to upload the business plan for years 2016-2018 and the annual budget for 2017.
 - The annual administrative report for 2015 was not uploaded by the 15 August 2016 as required by the procedures.
 - The council did not upload the following meeting minutes within two days after approval: 49, 50, 52, 54, 55, 56, 57, 58, 59, 60 and 61.
 - The following schedules of payments were uploaded late on the website: 11-2016, 10-2016, 09-2016, 08-2016 and 06-2016.
- 10.2 This contravenes the Local Councils (Financial) Procedures which point out specific timelines for these reports and minutes.

11 Administration

- 11.1 During our audit fieldwork we noted that the council has a number of cheques which were not included in the schedule of payments. Examples are the following:

Cheque number	Supplier	€
HSBC 6334	ARMS Ltd	107.21
HSBC 6080	Waste Collection Ltd	2,351.24
HSBC 6319	Sigma Coatings (Malta) Ltd	164.16
BOV 3276	Cash	226.43
BOV 3281	Cash	220.19

- 11.2 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.
- 11.3 Upon enquiry the executive secretary explained that the council is approving a payment upon receipt of the invoice, but not when the actual payment is made.
- 11.4 We advise the council to abide by section P1.11.c.c.01. of the Financial Procedures which states the amount of detail required on the schedule and a further memo issued by DLG which requires all cheque numbers to be inserted.

12 Capital commitments

- 12.1 When reviewing the budget for 2017 we noted a discrepancy of €77,816 between the capital commitments in the financial statements when compared to the 2017 budget. The financial statements show €36,034 while the budget has a figure of €113,850.

- 12.2 We recommend that the council discloses all capital commitment so that the financial statements and the annual budget 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.

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 Duncan Hall and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

