



Grant Thornton

An instinct for growth™

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Our ref ABC/mf/41217

18 April 2017

Dear Sir,

REGISTRY

25 APR 2017

NATIONAL AUDIT OFFICE

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 Income

We again encountered instances where custodial receipts were not deposited on a timely basis (refer to note 2.1).

We also identified a difference in the LES administration fees (refer to note 2.3).

We are pleased to note that wages refunded by Government were accounted for in the correct nominal account during the current year.

1.2 Property, plant and equipment

We again noted that the fixed asset register does not include all the details highlighted in notes 4.1 and 4.2.

The council yet again failed to dispose of obsolete assets (refer to note 4.3).

There are still discrepancies between the fixed asset register and the nominal ledger (refer to note 4.5).

1.3 Expenditure

We have again identified instances where inappropriate documentation was obtained for the petty cash expenditure (refer to note 3.1).

We also noted further irregularities with the petty cash payments (refer to notes 3.3 and 3.4)



We have noted an irregularity relating to procurement procedures (refer to note 3.6).

No issues were noted relating to the opening of tenders. However the council is still not obtaining the performance bond within the stipulated period (refer to note 3.10).

The use of expired contracts was again identified during our audit (refer to note 3.12).

The council's assets are still not adequately insured (refer to note 3.14).

No irregularities were noted with respect to the group personal accident insurance.

1.4 Trade payables

The council still did not resolve the matter of the long outstanding creditors (refer to note 7.1).

There were no material debit balances in creditors' list as at year end.

The council is still not obtaining suppliers' statements (refer to note 7.3).

The council is not discounting the PPP liability (refer to note 7.6).

We did not identify instances where accruals were not properly accounted for.

1.5 Trade receivables

The council once again failed to reconcile the amounts shown in report 622 to those shown in report 483 (refer to note 5.1).

The balance due from Water Services Corporation has still not been reconciled (refer to note 5.3).

We noted that the council correctly accounted for prepayments and accrued income in separate accounts.

1.6 Stock

The council did not have a stock balance as at year end, thus no irregularities were noted.

1.7 Bank and cash

The council has reversed the petty cash balance amounting to €37.32 as pointed out in the previous management letter.

1.8 Meetings

The council is still not binding the meeting minutes (refer to note 8.2).

One of the councillor's continues to attend less than one-third of the meetings called (refer to note 8.1).

The council is no longer manually inputting cheque numbers in the schedules of payments subsequent to the approval.



We were provided with the signed and approved budget for the year.

No differences were noted in opening balances.

1.9 Financial statements

We again identified certain shortcomings in the financial statements disclosures required by certain accounting standards (refer to note 10).

2 Income

Custodial receipts

- 2.1 During our testing of LES and Lands receipts, we encountered instances where deposits made by the council were not deposited on a timely basis. Examples are:

Details	Receipt date	Deposit date	€
LES receipt	25.11.2016	06.12.2016	23.29
LES receipt	21.12.2016	28.12.2016	23.29
Lands receipt	16.05.2016	24.05.2016	50.79
Lands receipt	16.08.2016	22.08.2016	100.00
Lands receipt	01.12.2016	16.12.2016	418.67

- 2.2 It is highly recommended that the council abides by the Local Council (Financial) Procedures and deposits its custodial receipts twice a week to avoid any cash being left unnecessarily on the council premises.

Income from LES administration fees

- 2.3 When reconciling the income from LES administration fees as shown in the accounts with the amounts shown in the report 483 of the Loqus system, we noted that the accounts are overstated by €37.54. Given that the difference could not be explained, no adjustment was proposed.
- 2.4 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.

3 Expenditure

Petty cash payments

- 3.1 Whilst testing petty cash payments, we noted that some petty cash payments are supported by a cash register chit not addressed to the council. Cases in point include:

Details	Supplier	Date	€
Sand	Big Beeper Ironmongery	20.01.2016	19.50
Rechargeable batteries	Giggy Stationery	04.05.2016	15.40
Coffee, squash, sugar	Save n Shop	19.07.2016	11.91
USB extension hub	Style Computer Services	11.10.2016	14.50



- 3.2 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 that supplies are only made on the provision of a valid tax receipt which is addressed to the council. To this end, we recommend that, where possible, the council obtains a VAT receipt appropriately addressed to the council for petty cash purchases to ensure the expense was incurred for the council's activities.
- 3.3 Furthermore we also noted that the petty cash vouchers for the above examples are not signed. We suggest that all petty cash vouchers are signed appropriately to ensure that the purchase has been authorised.
- 3.4 We encountered instances where the council obtained two or more separate bills for the same items in order not to exceed the €23.29 threshold. Below are the instances identified:

Date	Supplier	Details	€
02.06.2016	Department of Information	Advert in Govt Gazzette	9.32
		03.06.2016	
02.06.2016	Department of Information	Advert in Govt Gazzette	9.32
		03.06.2016	
02.06.2016	Department of Information	Advert in Govt Gazzette	9.32
		03.06.2016	
21.10.2016	Malta Post	88 Stamps for Jum il-Figura invitations	22.88
21.10.2016	Hompesch Stationery	88 Stamps for Jum il-Figura invitations	22.88

- 3.5 The Local Councils (Financial) Procedures 1996 state that only cash transactions for items of expenditure costing less than €23.29 in the aggregate may be paid through the use of petty cash.

Procurement procedures

- 3.6 During the year, the council made a payment of €708 to Twilight Ltd for the sound system provided in October 2016. We were not provided with a quotation for this payment during our audit. The council provided us with two quotations subsequently on 3 April 2017.
- 3.7 In accordance with the Local Councils Procedures, 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. Furthermore, the council is required to provide us with all requested information during our audit fieldwork as stipulated in circular 4/2017.

Capital expenditure

- 3.8 The council acquired a printer during the year, amounting to €1,964.99 which was expensed in profit and loss rather than being capitalised as a fixed asset. We proposed an audit adjustment of €1,964.99 to recognise this expenditure as a capital asset and an adjustment of €247.21 to account for the depreciation charge of the printer for the year. The adjustments were incorporated in the final financial statements.
- 3.9 We recommend that the council recognises capital expenditure in accordance with IAS 16, *Property, Plant and Equipment* which states that items of property, plant and equipment should be recognised as assets when it is probable that economic



benefits (services) associated with the asset will flow to the entity and the cost can be measured reliably.

Guarantee

- 3.10 We noted that in the case of tenders P&P-17-16 and CM-ARCH-17-16, the successful bidder failed to furnish the guarantee within the stipulated seven days.
- 3.11 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within seven days from the date of the letter of acceptance.

Expired contracts

- 3.12 We noted that the council is using expired agreements with respect to the following:

Supplier	Details	€
Joseph Gialanze	Office rent	3,494.00
Anthony Abdilla	Garage rent	1,920.00
Commissioner of Land	Patri Redent Gauci Garden	232.94
Total		5,646.94

- 3.13 The council should ensure that the rental of premises are always covered by a contract covering the current year specifying the rights and obligations of each party.

Asset insurance policy

- 3.14 We reviewed the council's insurance policies and noted the following discrepancies between the insurance cover and cost as per nominal ledger.

Asset	Sum insured €	Cost as per accounts €
Buildings	618,000	1,572,524
Office equipment	31,109	40,396
Plant and machinery	7,099	2,213
Furniture and fittings	33,000	34,674
	689,208	1,649,807

- 3.15 The above shows that some of the 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 councils' insurance coverage and ensure that the council's assets are not under/over insured.

4 Fixed assets

Details of fixed asset register

- 4.1 The fixed asset register does not include important information, such as suppliers' details, invoice number and location of assets. Although we appreciate that the council's accounting system allows the fixed asset register to be issued in various formats, the council is still unable to furnish a single fixed asset register report showing all necessary details.

- 4.2 We recommend that every possible effort should be made to prepare the fixed asset register and include at least the following details:

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

Disposal of obsolete assets

- 4.3 It was once again noted that various assets in the fixed asset register may not be in good working order such as the cassette walkman, telephone system and a polaroid camera.
- 4.4 In this regard, the secretary is required to create, maintain and control an up-to date inventory of the fixed assets held by the council, as required by the Local Council's (Financial) Procedures P1.16b. It is recommended that an exercise is performed and any obsolete items included in the fixed asset register are written off or if such assets are being scrapped, these are approved in a council meeting.

Reconciliation to fixed asset register

- 4.5 During our testing, we noted a discrepancy between the fixed asset register and the accounting records as follows:

Asset category	NBV in fixed asset register €	NBV in accounting records €	Difference €
Office equipment	6,643.21	6,458.48	184.73

We also noted that the financial statements disclose the net book value of these assets as €6,505.

- 4.6 We recommend that the discrepancy is investigated and any variances in the fixed asset register or accounting records are appropriately adjusted.

Depreciation of fixed assets

- 4.7 Our audit procedures revealed various discrepancies in the council's depreciation charge as follows:

Asset category	Depreciation as per council's depreciation €	Depreciation as per auditor's calculations €	Difference €
Construction works	61,686	47,764	13,922
Urban improvements	11,878	22,526	(10,648)
Office equipment	1,616	8,580	(6,964)
	75,180	78,870	(3,690)



- 4.8 In the case of construction works, if a rough estimate is taken by multiplying the NBV by the depreciation rate of 10%, the maximum depreciation for the year would amount to €48,880, which is below the depreciation charge accounted for in the accounts, i.e. €61,686.
- 4.9 In the case of office equipment, we noted that in accounting records, it also includes €46 relating to amortisation charge of the intangible asset. This was correctly presented in the financial statements. However, we proposed an audit adjustment to segregate the amortisation charge separately from depreciation charge in the nominal ledger. The council approved the audit adjustment.
- 4.10 We recommend that the depreciation is calculated in accordance with the Local Councils (Financial) Procedures which state that councils should depreciate fixed assets on a monthly basis using the reducing balance method, and ensure that depreciation is being calculated accurately by the system.

5 Trade receivables

Pre-regional LES debtors

- 5.1 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments as per report 622 was €1,878 which contrasts with the amount of €1,175 shown in report 483 for pre-regional contraventions paid during the year.
- 5.2 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend the council takes the matter up with Loqus to determine what this difference is.

Trade debtors

- 5.3 Water Services Corporation did not agree to the amount recorded in the council's book of accounts amounting to €1,414, but confirmed that the amount due to the council is nil. The council informed us that the balance relates to trenching permits performed from April 2015 up to November 2016. A breakdown of the trenching permits was obtained and were deemed to be in line with subsidiary legislation 441.05.
- 5.4 The council should discuss with Water Services Corporation for payment of the balance. It is recommended that amounts due from debtors are reconciled so as to avoid major discrepancies.

Prepayments

- 5.5 Our audit procedures revealed that the council's prepayment of insurance was understated by €546.06. We proposed an audit adjustment to correct the prepayment which the council passed in the audited financial statements.

Grants receivable

- 5.6 During our testing, we noted that the council had new grants receivable of €25,000 relating to the Civic Centre and another €2,000 relating to cultural activities which were accounted for under accrued income rather than Government grants receivable. It was noted that such amounts were disclosed as accrued income in the financial statements. Therefore, an adjustment was proposed to classify such amounts with Government grants receivable rather than with accrued income.



Furthermore note 17 is incomplete and does not give details of increases in and receipts of grants.

- 5.7 The council reflected the adjustment in the financial statements. However, note 17 in the financial statements was not corrected. The 'increase' of grants and 'received' grants should amount to €102,000 and €75,000 respectively and should not be grouped together as 'increase' of €27,000, as stated in the financial statements.

6 Bank and cash

Bank reconciliations

- 6.1 When testing bank reconciliations, we noted certain unpresented cheques which were issued in January 2017 but accounted for in the accounts in December 2016. No adjustment was proposed since the amount was not deemed to be material. The cheques in question were the following:

Cheque number	€
11079	69.22
11099	289.05
11100	66.24
	<u>424.51</u>

- 6.2 We recommend that when the council performs monthly reconciliations it ensures that, apart from checking for stale cheques, payments recorded in bank accounts and reconciliations relate solely to the cheques issued up to 31 December 2016.

7 Trade payables

Long outstanding creditors

- 7.1 Whilst scanning the aged list of creditors we noted, as in our previous management letter, the following creditors which are long outstanding:
- An amount of €300.40 due to Ozone Limited. The council informed us that the amount has not been settled due to the unsatisfactory quality of service provided by the supplier.
 - An amount of €3,691 due to Neville Montebello which has been in dispute since 2014. No compromise has been reached yet between the supplier and the council.

- 7.2 We advise the council to consider these creditors and, either settle them, or if no longer due, write them off after careful consideration and approval by the council.

Trade creditors

- 7.3 We again noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 7.4 Furthermore, in our reconciliation of the credit balance due to Polidano Brothers Ltd, we noted a difference between the council's books of accounts and the supplier's statement amounting to €100.00. We did not propose an adjustment due to the immateriality of the amount.

- 7.5 The Procedures require the council to request monthly statements from all suppliers. Memos and circulars issued by the DLG specifically state that the council should reconcile the books of account to supplier statements on a monthly basis.

PPP payables

- 7.6 The council is not discounting to present value the long term liabilities with respect to PPP agreement as stipulated by IAS 39, *Financial Instruments: Recognition and Measurement*.
- 7.7 We recommend that the council adheres to IAS 39, *Financial Instruments: Recognition and Measurement* and does carry out an exercise using a reasonable discount rate to determine if the net present value of the long term creditor is materially different from its carrying amount. If so, we recommend that an adjustment is passed to reflect the present value at the balance sheet date.

8 Meetings

Meetings

- 8.1 Whilst viewing the council meetings, it was noted that one councillor failed to attend more than one-third of the meetings called. The Local Councils Act stipulates that the Minister should have been informed of the absence and, if due to a justifiable cause, transmit its recommendation not to declare the seat vacant.

Binding of minutes

- 8.2 We observed that the minutes of the council were not bound.
- 8.3 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

- 8.4 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.
- 8.5 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.

9 Electronic site

- 9.1 We noted that the council did not approve and upload signed copies of the quarterly reports for periods July-September and October-December 2016 on the website of local councils within the required time frame.

- 9.2 Although not mentioned in memos 36/2011 and 2/2014, we would still suggest that the council uploads the signed documents to indicate that these are the final documents as approved by the council and have not been subsequently changed or updated.

10 Financial statements

Comparative figures

- 10.1 We noted that some comparative balances have been restated in the unaudited financial statements 2016 and are not in line with closing balances presented in signed financial statements 2015. The following are the differences identified:

	Comparative balance 2015 in unaudited financial statements 2016 €	Comparative balance in audited financial statements 2015 €	Difference €
Finance income	502	787	(285)
Finance cost	(76)	(361)	285
Total	430	430	-

- 10.2 Furthermore, the respective notes to the financial statements of the above balances have also been incorrectly restated.
- 10.3 The council should ensure that the comparative balances in unaudited financial statements are in line with last year's approved financials statements. Any changes to the comparative balances would require the approval of the change by the council. The council corrected the final financial statements in this regard.

Presentation of financial statements

- 10.4 We have identified the following shortcomings in the unaudited set of financial statements:
- Note 18 'Receivables', the council incorrectly disclosed the amount of 'Impaired and provided for' and 'Provision for doubtful debts' as €396,987, when the amounts according to the books of account is €395,398.
 - The maturity analysis of bank borrowings has been incorrectly disclosed and is inconsistent with the schedule provided by the council. The terms of the loan are not correctly stated and not in line with the sanction letter provided.
 - The maturity analysis of amount payable under PPP agreement has been incorrectly disclosed and is inconsistent with the schedules provided by the council.
 - The paragraph disclosed under note 21 'Amount payable under the PPP agreement' has not been updated to reflect 2016 figures.
- 10.5 The council has amended items i, ii and iii in the audited financial statements.

Cash flow statement

- 10.6 When reviewing the cash flow statements, the following shortcomings were observed:
- i. Movement in receivables should amount to an increase of €27,815 rather than €52,269 as disclosed in the statement of cash flows.
 - ii. In the cash flows from investing activities, the receipt of grant should amount to €75,000 rather than the €100,000 presented.
- 10.7 The council correctly reflected the above in the audited financial statements.

11 Change in executive secretary

- 11.1 In September 2016, Ms Beverly Saliba was appointed executive secretary of the council replacing Mr Christopher Cutajar. The incoming executive secretary did not request a mid-term audit to be carried out, which is contrary to the Local Councils (Procedures) Regulations.
- 11.2 We draw attention to section P2.02 of the Local Councils (Procedures) Regulations P2.04 under which a mid-term audit has to be carried out whenever there is a change in the executive secretary of the council. Section P2.04 of the Local Councils (Audit) Procedures further states that the mid-term audit must be conducted from the beginning of the financial year to the last day of employment of the outgoing executive secretary. This will serve as an independent administrative handover from one executive secretary to another.
- 11.3 Based on the foregoing, the council should adhere to these regulations for similar situations arising in the future, subject to the exemption in memo 14/2014, which relieves the council from the requirement of a mid-term audit whenever the change occurs not more than two months before or after the close of the financial year.

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 Ms Beverly Saliba and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

