



Grant Thornton

An instinct for growth™

The Mayor
Fgura Local Council
Dar il-Kunsill
Carmel Street
Fgura

Our ref ABC/mf/50618

24 April 2018



Grant Thornton
Fort Business Centre
Mrieħel Bypass
Birkirkara BKR 3000
Malta
T +356 20931000
www.granthornton.com.mt

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.

1 Previous management letter

1.1 Income

We did not encounter instances where custodial receipts were not deposited on a timely basis.

We did not identify any differences in the LES administration fees.

1.2 Property, plant and equipment

We again noted that the fixed asset register does not include all the details highlighted in note 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).

We are pleased to note that the council recorded the amortisation of intangible assets in a separate account rather than with tangible assets.

1.3 Expenditure

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

We also noted further irregularities in petty cash payments (refer to notes 3.4).



No issues were noted whereby the council obtained two or more separate bills for the same items in order not to exceed the threshold.

We have noted an irregularity relating to procurement procedures (refer to note 3.5).

We did not encounter instances where the council expensed fixed asset additions.

All guarantees were provided to the council within the stipulated time frame.

The use of expired contracts was again identified during our audit (refer to note 3.7).

The council's assets are considered to be adequately insured.

1.4 Trade payables

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

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

The council is still not discounting the PPP liability (refer to note 7.5).

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 did not identify instances where prepayments were not properly accounted for.

During our fieldwork we also noted that Government grants receivable were classified correctly.

1.6 Bank and cash

We did not encounter any instances of cheques described as unpresented at year end but which were issued in the subsequent year. However, we still encountered deficiencies in the bank reconciliation (refer to note 6.1).

1.7 Meetings

The council bound the meeting minutes.

We are pleased to note that councillors' attendance was in line with regulations.

1.8 Financial statements

We found shortcomings in the financial statements disclosures required by certain accounting standards (refer to note 10.1).

**2 Income****Income from LESA distribution**

- 2.1 The council has classified the receipt of €5,047.73 from LESA, with respect to the LESA contribution scheme, as other Government income. We proposed an audit adjustment to reclassify this amount to LES income. LES income should be disclosed as a separate line item in the financial statements.
- 2.2 We recommend that the council discloses income from LES administration fees and other LES income separately in the financial statements. The council has adjusted its financial statements and correctly presented the LESA distribution.

Supplementary Government income

- 2.3 During the year under review, we noted that the council has accounted for €41,469.13 as accrued supplementary Government income for tipping fees. We have reversed the amount as this was not approved for payment by the Department by the year end. The council approved our audit adjustment and included it in the final set of financial statements.
- 2.4 We recommend that the council records amounts when they have been approved for payment and are certain to be received.

3 Expenditure**Petty cash payments**

- 3.1 During the audit we found that cash register chits were still accepted in respect of petty cash expenditure. The following are instances which were encountered during the audit fieldwork:

| Details | Supplier | Date | € |
|--|------------------------|------------|-------|
| Acido liquido, dishwasher liquid, 3 small garbage bags, squeezer, pala, xkupa | Save n Shop | 24.01.2017 | 16.65 |
| 2 rombli kbar bil-lasta, 7 rombli zghar | Big Beeper Ironmongery | 04.05.2017 | 18.70 |
| 6 clipboards, register | Rosabel | 14.09.2017 | 20.00 |

- 3.2 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures, 1996 which state that supplies should only be 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 tax invoice or a VAT receipt addressed to the council to ensure that the expenditure is required for council activities.
- 3.3 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.
- 3.4 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.



Procurement procedures

- 3.5 During the year, the council made a payment of €375 to Cartridge World Malta for the purchase of HP toners in May 2017. No quotation was available during the audit for this purchase.
- 3.6 In accordance with the Local Councils (Financial) Procedures, 1996, the council should obtain at least one quotation for purchases between €23.29 and €1,165 and at least three quotations for all purchases in excess of €1,165 up to €4,658.

Expired contracts

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

| Supplier | Details | € |
|-----------------|-------------|----------|
| Joseph Gialanze | Office rent | 3,494.00 |

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

Tendering procedures

- 3.9 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.
- 3.10 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.

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 update 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 or possibly obsolete such as the cassette walkman, gas lamp 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 shown as disposals if no longer held by the council. The executive secretary should ensure that a list of these is approved in a council meeting.

Depreciation of fixed assets

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

| Asset category | Council's depreciation € | Auditor's calculations € | Difference € |
|------------------------|--------------------------------|--------------------------------|-----------------|
| Construction works | 51,498 | 49,199 | 2,299 |
| Furniture and fittings | 348 | 985 | (637) |
| Urban improvements | 23,615 | 21,479 | 2,136 |
| Office equipment | 779 | 4,733 | (3,954) |
| | 76,240 | 76,396 | (156) |

- 4.6 We recommend that 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 Sage system.

Assets under construction

- 4.7 During our fieldwork, we noted an invoice dated 05.12.2017 amounting to €14,499.84 relating to a lift for the civic centre was not accounted for. Owing to the continuing works in progress at the civic centre, this lift was not yet installed even though it was at the supplier's premises ready to be installed.
- 4.8 We recommend the council investigates invoices and ensures that all additions are accounted for properly. An audit adjustment was proposed to adjust for the missing invoice. This adjustment was correctly included in the audited financial statements.

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 in report 622 was €896.98 which contrasts with the amount of €663.98 shown in report 483 for pre-regional contraventions paid during the year. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 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 relates to.



Trade debtors

- 5.3 Water Services Corporation did not agree to the amount recorded in the council's book of accounts amounting to €22,451, but confirmed that the amount due to the council is €520. The explanation for the difference of €21,931 as given by the executive secretary was that Water Services Corporation did not enter the invoices issued in September 2017. These invoices relate to resurfacing of roads which was done due to the bad state of the road after trenching works. When reviewing the bill of quantities, it was noted that this invoice also included pavement works. In this regard, even though the council was informed by email that the works should be refundable, Water Services Corporation's confirmation of the balance indicates that it has not yet accepted such invoices. In view of this, our audit report is qualified.
- 5.4 The council should follow up with Water Services Corporation for payment of the balance. It is recommended that all amounts due from debtors are periodically reconciled with a supplier to avoid major discrepancies.

6 Bank and cash

Bank reconciliations

- 6.1 When testing bank reconciliations, we noted certain unpresented cheques which were stopped but were still being shown in the bank reconciliation. An adjustment was proposed to reverse these cheques from the bank. The adjustment was correctly included in the audited financial statements. The cheques in question were the following:

| Cheque number | € |
|---------------|---------------|
| 11448 | 250.56 |
| 11449 | 327.12 |
| | <u>577.68</u> |

- 6.2 We recommend that when the council performs monthly reconciliations it ensures that there are no stale or cancelled cheques.

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 €3,691.76 due to Neville Montebello which has been in dispute since 2014. No compromise has been reached yet between the supplier and the council.
 - An amount of €12,518.08 due to the council's architect which is also in dispute. No agreement has yet been reached about the amount and hence the council is not paying the creditor.
- 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 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.
- 7.4 We recommend that suppliers' statements are essential, especially for those suppliers with whom the council trades most. The council should regularly agree creditor accounts to supplier statements and investigate and reconcile any differences.

PPP payables

- 7.5 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*. In view of this fact, our audit report is qualified.
- 7.6 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 Wages and salaries

Mayor's honorarium

- 8.1 During our recalculation of the mayor's honorarium and councillors' allowances, we noted that an amount of €1,413.98 was included with mayor's honorarium when it should have been included in mayor's allowances. In this regard an audit adjustment was proposed to rectify the classification and it was properly reflected in the audited financial statements.
- 8.2 We remind the council that correct classification is an integral part of the accounting system.

9 Meetings

Approval of schedules of payments

- 9.1 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.
- 9.2 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.



10 Financial statements

Presentation of financial statements

- 10.1 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:
- i. 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.
 - ii. The council's financial statements do not give all the quantitative and qualitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*.

11 Electronic site

- 11.1 We noted that the council did not approve and upload the quarterly financial reports for 2017.
- 11.2 We recommend the council uploads all documents within three days of approval. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

12 Capital commitments

- 12.1 During the year under review we noted that the council has €930,000 capital commitments in the budget. However, this does not agree to capital commitments of €985,000 disclosed in the 'Depreciation of Property, Plant and Equipment' schedule in the budget. Furthermore, the council recorded contracted capital commitments of €757,762 in the financial statements.
- 12.2 We recommend council discloses all capital commitments correctly 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 at 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 Ms Beverly Saliba and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,