



Grant Thornton

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12 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 Income

We are pleased to note that the council commenced accounting for income appropriately. However we still noted a minor irregularity where income was netted off against an expense account (refer to note 2.1).

We did not identify any omitted income during our testing.

The council is correctly classifying income in the financial statements.

The council started depositing custodial receipts regularly.

We again noted a minor difference when reconciling administration income to the 483 report (refer to note 2.5).

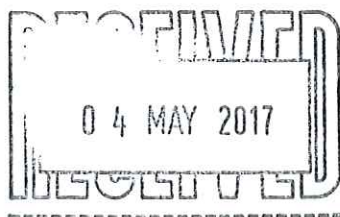
1.2 Payroll

The council provided us with a correct wages reconciliation as at year end. However we noted some misclassifications (refer to note 3.1).

The council correctly classified personal emoluments in the financial statements.

We again noted that overtime payments are being made without obtaining approval from the council. (refer to note 3.3).

We are pleased to note that the councillors' allowances are being taxed under full-time rules.



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We noted that full allowances were again paid to councillors who did not attend all the meetings (refer to note 3.5).

1.3 Expenditure

In the sample selected for petty cash payments, we noted that these were not all supported by a receipt addressed to the council (refer to note 4.1).

We again also noted payments which were not supported by a quotation (refer to note 4.5).

We did not identify any expired contracts being used during the year.

We are pleased to note that the council limited the geographical coverage for accident insurance to Malta only.

We did not encounter instances where council paid parking permit fees on behalf of employees.

The council abode to all tendering procedures during the year.

No offsetting of expenses was noted during our testing.

1.4 Property, plant and equipment

The fixed asset register still does not agree to the financial statements (refer to note 5.1).

We did not encounter instances where street signs and litter bins were not accounted for on a replacement basis.

The fixed assets classified in the books of account do not agree to the classification in the financial statements (refer to note 5.5).

No irregularities were noted regarding disposals of fixed assets since there were no disposals made during the year.

1.5 Debtors

There were no differences noted in reconciliations of debtors.

No differences were noted between the council's LES debtors at year-end and the tribunal pending payments as extracted from report 622 of the Loqus system.

No irregularities were noted with respect to prepayments.

The council did not follow up on D J S Trading Limited and Water Services Corporation (refer to note 7.1).

The creditors' list did not include any material debit balances.

1.6 Inventory

No differences were noted between the stock list as at year end and the books of accounts.

The council is still not recognising inventory at the net realisable value (refer to note 8.1).



1.7 Bank and cash

The council provided us with correct bank statements as at year end.

We were also provided with all bank reconciliations as at year end.

We did not identify any 'stale' cheques during our testing of unrepresented cheques.

We are pleased to note that the council's petty cash is reconciled.

1.8 Trade and other payables

We are pleased to note that no balances older than one year were identified.

During our testing, we again noted that not all suppliers' statements are being obtained (refer to note 9.1).

Our testing did not show any misstatements in the accrued expenses for the year.

1.9 Grant accounting

No irregularities were found during our testing of grants.

1.10 Financial statements

No shortcomings were identified in the financial statements.

The statement of cash flows was correctly presented.

We did not identify any blocked funds by the bank during our audit testing.

No irregularities were noted with respect to contingent assets.

The capital commitments disclosed in financial statements agree to the budgeted capital expenditure.

1.11 Schedule of payments

The schedules of payments did include all cheque numbers.

1.12 Administration

We are pleased to note that there were no instances where meetings lasted more than three hours.

1.13 Annual administrative report

The council prepared the annual administrative report.

1.14 Annual budget

The actual expenditure figures did not exceed budgeted figures.

1.15 Quarterly financial reports

We are pleased to note that the council published the quarterly financial reports on the council's website.

1.16 Books of account

The trial balance provided for the year ended 31 December 2016 agrees to the unaudited financial statements.

2 Income

Accounting for income

- 2.1 During the year, the council generated €176.98 from the sale of inventory, such as books and CDs. However only €43.66 was classified as income in the books of accounts. The remaining sales, amounting to €133.32 were netted off against the expenses account. We did not recommend an adjustment due to the immateriality of the amount.
- 2.2 We recommend the council discloses income and expenditure gross and does not net them off.

Invoicing of LES administration fees

- 2.3 The council is not issuing LES administration fees' invoices to the regional committees and LESA in the first week of the following month. The following are some instances identified during our audit fieldwork:

Month	Invoice date
February 2016	17.03.2016
March 2016	11.05.2016
April 2016	11.05.2016
July 2016	27.08.2016

- 2.4 In accordance with memo 91/2011 local councils are required to issue invoices to the regional committee and LESA in the first week of the following month.
- 2.5 Furthermore, while testing LES administration fees with reference to report 483 of the Logus system, we noted that fees are understated by €19. No audit adjustment was proposed due to the immateriality of the difference.
- 2.6 We recommend the council checks all receipts and invoices to determine whether the above mentioned LES administration fees were accounted for twice or whether these were completely omitted in the current or prior years.

Interest income

- 2.7 During the year, the council accounted for interest income received in HSBC savings account from 2014 up to 2016 amounting to €7.73
- 2.8 The council should account for the interest income in the year it is received.
- 2.9 Furthermore we noted that the HSBC savings account is subject to a 15% final withholding tax.
- 2.10 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

3 Payroll

Reconciliation of wages between FS5s and FS7

- 3.1 We found that wages declared in FS5s and those declared in the FS7 do not agree. Although total gross emoluments, FSS and social security balances agree, we noted the following differences:



	Total FS5s	Total FS7	Difference
	€	€	€
Full time gross emoluments	83,293	87,051	(3,758)
Part time gross emoluments	13,759	10,000	3,759
Full time FSS	8,242	9,994	(1,752)
Part time FSS	3,252	1,500	1,752
	108,546	108,545	1

- 3.2 We remind the council that the FS5s and FS7 should always be in agreement. If any mistakes are discovered in an FS5 after it has been duly submitted, the council should notify the Commissioner of Inland Revenue accordingly and make the necessary corrections.

Payment of overtime

- 3.3 It came to our attention that, in some instances, the council paid overtime to employees without obtaining prior approval. Overtime payments made in 2016 totalled to €2,798.64.
- 3.4 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

Councillors' allowance

- 3.5 During the audit we noted that the council did not receive a valid reason for the absence of one of the councillors for the meeting held on 9 June 2016. However, the councillor was still given the full allowance. This is in breach of memo 89/2009 and circular 17/2016 which state that councillors should be paid based on the number of meetings attended in proportion to the number of meetings held in a calendar year.
- 3.6 We recommend that the council abides by the circular 17/2016 and obtains valid reasons in writing for all absences from council meetings. We would also like to remind the council that letters of excuse should be appended to the minutes and this should also be discussed in the minutes to determine that the councillor's excuse is justified.

4 Expenditure

Petty cash payments

- 4.1 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	€
Van supplies	Pitstop	28.01.2016	23.00
Box for material in council van	Firm Lorenzo Ellul	02.03.2016	16.10
Fuel for van	Pitstop	29.03.2016	20.00
Toiletries	General store	09.05.2016	10.88
Mosquito protection spray and sun cream	Vilhena Pharmacy	10.06.2016	22.90
Water for clean up day	General store	29.09.2016	23.00
Card and vinegar	St Anne Emporium	25.11.2016	2.65

- 4.2 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 invoice

or fiscal 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.

- 4.3 We also noted that all petty cash summaries did not include the date and amount of the top up for the month. Furthermore, the summaries were not signed to evidence approval of the expenditures.
- 4.4 We suggest that the date and amount topped up is listed on the summary so that at any point in time, the council would have a clear idea of what the amount in the petty cash should be and be able to reconcile accordingly. The summary should also be signed by the appropriate signatories during the council meeting so as to gain assurance that such expenses were all approved.

Procurement procedures

- 4.5 During our testing, we identified a number of purchases which were not backed up by at least one quotation. We identified the following instances:

Details	Supplier	€
End of season trophies	Marindex Ltd	450.00
Repair of gazebo	George Brincat	550.00

- 4.6 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. In addition, as stated in memo1/2010, all calls for quotations must be published on the Government Gazette and another local newspaper.

Expenses' approval

- 4.7 When testing procurement procedures, it was also noted that the council was approving payment schedules after cheques were already issued. Examples include:

Cheque number	Details	€	Payment date	Approval date
13219	Purchase of van	1,150.00	22.01.2016	03.02.2016
13271	Street lighting	114.01	14.03.2016	13.04.2016
13342	Review of planning applications	47.48	04.04.2016	13.04.2016
13441	Art course flyers	105.00	17.04.2016	16.05.2016
13565	End of season trophies	450.00	07.07.2016	20.07.2016
13730	Open and close of gardens	745.00	25.10.2016	28.11.2016
13747	CCTV camera & installation	1,360.00	26.10.2016	28.11.2016

- 4.8 This is in contravention of the Local Councils (Financial) Procedures, 1996 which state that payments in excess of €23.29 must be approved by the council in meetings. The existing procedure of issuing payments prior to their approval could present the council with a risk of making payments for unapproved purchases or uncertified work. To this end the council should approve payments prior to their being made.

Cancelled cheques

- 4.9 We also noted that cheques numbered 13525 and 13290, amounting to €900 and €950 respectively were cancelled but listed as payments in the schedules of payments, rather than being marked as “cancelled”.
- 4.10 We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheque should be retained in the cheque book as evidence of cancellation.

5 Fixed assets

Reconciliation to fixed asset register

- 5.1 During our fieldwork, we noted that the fixed asset register does not agree to the accounting records. The following is a summary of the differences

Asset category	NBV in fixed asset register €	NBV in accounting records €	Difference €
Construction	429,738	422,677	7,061
Office, furniture and fittings	17,546	17,089	457
Urban improvements	194,997	178,097	16,900
Office equipment	12,445	12,058	387
Plant and machinery	12,781	12,337	444
Computer equipment	2,207	2,017	190
Computer software	1,336	1,258	78
	671,050	645,533	25,517

- 5.2 We recommend that the council investigates these variances and updates the fixed asset register and/or accounting records accordingly.
- 5.3 Moreover, when testing depreciation for reasonableness, we noted that the council’s depreciation charge for the year is overstated by €11,134 according to our workings. Our calculation was based on the net book value presented in the financial statements whereas that of the council was based on higher values in the fixed asset register.
- 5.4 We recommend that assets are allocated to the proper asset class according to their nature. This is important not only to give proper disclosure in the financial statements but also to compute depreciation correctly in accordance with the depreciation policy of the council. No adjustment has been proposed since this is an estimate.

Reconciliation of financial statements to accounting records

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

Asset category	NBV in financial statements €	NBV in nominal ledger €	Difference €
Office, furniture and fittings	17,545	17,089	456
Plant and machinery	12,781	12,337	444
Office equipment	12,445	12,058	387
Urban improvements	169,484	178,097	(8,613)
Construction works	429,738	422,677	7,061
Computer equipment	2,208	2,017	191
	644,201	644,275	(74)

- 5.6 The council should investigate and reclassify accordingly the variances identified between asset categories in the financial statements and the nominal ledger.

Fixed assets additions

- 5.7 We found additions which were not supported by a purchase order and quotation/s in accordance with the Procedures. We were not provided with any evidence of the relevant purchase orders/quotations during our fieldwork. Examples include:

Details	Supplier	€
Benches model XBB31	Mario Mallia	1,094.99
Purchase of a van	Carmelo Zammit	1,150.00

- 5.8 In accordance with the Local Councils (Financial) Procedures, 1996 the council should raise purchase orders for all purchases of more than €23.29. Furthermore the council should obtain at least one signed quotation for purchases not exceeding €1,165 and at least three quotations for all purchases in excess of this amount up to €4,658.

Details of fixed asset register

- 5.9 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Examples are:

Asset category	Asset code	Description	Purchase date	Net book value €
Urban improvements	UI221	Bollards	30.04.2012	673.84
Urban improvements	UI011	Benches	01.10.2000	710.76
Office, furniture & fittings	OF057	Flag	15.12.2005	301.71
Office, furniture & fittings	OF067	Chairs - fabric	11.08.2010	647.12
Computer equipment	OE065	Personal computer	22.08.2011	174.09

5.10 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

6 Intangible asset

Reconciliation of financial statements to accounting records

6.1 We identified a difference between the net book value of the asset in the financial statements and the net book value in the nominal ledger

Asset category	NBV in financial statements €	NBV in nominal ledger €	Difference €
Computer software	1,336	1,258	78

6.2 The council should investigate and reclassify accordingly the variance identified between asset categories in the financial statements and the nominal ledger.

7 Debtors

Long outstanding receivables

7.1 Included with trade debtors are the following which have been outstanding for more than one year:

Debtor	€
D J S Trading Limited	9,440.00
Water Services Corporation	3,621.51
	<u>13,061.51</u>

7.2 As outlined in the previous management letter, the council is alleging that D J S Trading Limited did not pay one of the main artists for his performance in an event held a few years back. The council is claiming back the amount paid to the organiser so that it can pay the artist. We are not aware of the reason why the contractor did not pay the performer.

7.3 We would like to reiterate that the council should not act as an advocate or arbitrator on behalf of third parties. Since the council's contract was with D J S Trading Limited and not with the performer, the council has no legal right to enforce payment by the contractor to the performer. Any claims or proceedings against the contractor can only be initiated by the performer with whom he has the agreement.



- 7.4 It is also advisable that the council discusses this matter in a meeting as well to assess the recoverability of this balance and, if deemed appropriate, make a provision for the amount.
- 7.5 Water Services Corporation did not agree to the amount recorded in the council's book of accounts but only confirmed an amount due of €321.54. The executive secretary explained that the difference of €3,300 results from trenching works performed in prior years which have not been verified and certified by Water Services Corporation.
- 7.6 The council should follow up with the WSC for payment and refer the matter to LCA for collection in line with the agreement made by WSC and the latter some years ago.

Collection of overdue receivables

- 7.7 The council's debtors' list shows receivables amounting to €30,213.94 which have been outstanding for over 120 days. This balance includes the two debtors pointed out in note 7.1.
- 7.8 The council did not provide for the above balances. It is advisable that the council discusses long outstanding debtors in a meeting and assesses the recoverability of the balance and, if deemed appropriate, make a provision.
- 7.9 The council should also consider, that the council's Financial Situation Indicator as at 31 December 2016 is 10% of the annual Government allocation, which is the minimum stated in the Local Council (Financial) Regulations, 1993. Should the provision for bad debts be necessary, the council will not meet the FSI requirements.

8 Inventory

Net realisable value of inventory

- 8.1 As highlighted in previous management letters, the council's inventory comprises books, CD's and DVD's where a large portion of them are given on a complimentary basis rather than sold. During our testing, we noted that from the 51 books which were not in the stock list anymore, 23 were given on a complimentary basis.
- 8.2 We recommend the council assesses whether such assets are being carried at the lower of cost and net realisable value in the financial statements as required by generally accepted accounting principles. Provision or write-off of such inventory might be considered if the council sees that such inventory is slow-moving or the intention of such stock is not to be sold in accordance with IAS 2, *Inventories*.
- 8.3 We would also like to point that memo 7/2004 require the council to expense stocks if they are not held for resale.

9 Trade and other payables

Trade creditors

- 9.1 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.



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

10 Electronic site

- 10.1 During our audit fieldwork we noted that the council has not uploaded the audited financial statements 2015.
- 10.2 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.

11 Change in executive secretary

- 11.1 On 23 September 2016, Ms Marie Lourdes Lautier was appointed executive secretary of the council replacing Mr Svetlick Flores. The council did not carry out a mid-term audit in line with P2.04 of the Local Councils (Procedures) Regulations.
- 11.2 We draw attention to section P2.04 of the Local Councils (Procedures) Regulations, which requires a mid-term audit to be conducted from 1 January 2016 to the last day of employment of the outgoing executive secretary. This will serve as an independent handover from one executive secretary to another.

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 Marie Lourdes Lautier and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,