



Grant Thornton

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The Mayoress
Floriana Local Council
15, Pjazza E.S.Tonna,
Floriana FRN 1483

Our ref ABC/mf/49618

18 April 2018



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Dear Madam,

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 income was netted off against expenses. However, we still noted some minor irregularities (refer to note 2.1).

We have again noted that the LES administration fees are not being invoiced in the stipulated time frame (refer to note 2.3).

We did not identify any differences between reports 483 of the Loqus system and the LES administration fees.

The HSBC savings account is still subject to a 15% final withholding tax (refer to note 2.5).

1.2 Payroll

The wages declared in the monthly FS5s agreed to the FS7 report.

We did not encounter any overtime payments being made without obtaining approval from the council.

We are pleased to note that a valid reason was given for the absence of one councilor for the council meeting.

1.3 Expenditure

We again identified instances where cash register chits not addressed to the council were obtained (refer to note 3.1).

The council's petty cash reconciliation provided included all the necessary details.

We again noted payments which were not supported by a quotation (refer to note 3.4).

We did not encounter instances where the cheques were issued before being approved in the council meetings.

We also did not find any irregularities in the schedules of payments. All cancelled cheques were correctly shown as cancelled on the schedules.

1.4 Fixed assets

The financial statements figures still do not agree to those in the nominal ledger (refer to note 4.1).

The depreciation charge is still overstated when compared to our workings (refer to note 4.3).

The fixed assets classified in the books of account do not agree to the classification in the financial statements (refer to note 4.5).

No irregularities were noted with respect to fixed assets additions not supported by purchase orders or quotations.

The fixed asset register is still not properly updated with relevant details such as invoice number and location which are still missing (refer to note 4.7).

1.5 Intangible assets

We have once again identified a difference between the net book value of the asset in the financial statements and the net book value in the nominal ledger (refer to note 5.1).

1.6 Debtors

The council followed up with D J S Trading Limited yet it did not receive any of the funds due in 2017. We also identified another old debtor balance (refer to note 6.3).

The long-term receivable balance from Water Services Corporation was written off during 2017.

We have once again identified old debtors which have not been provided for (refer to note 6.8)

1.7 Inventory

The council is still not recognising inventory at the net realisable value (refer to note 7.1).

1.8 Trade and other payables

During our testing, we again noted that not all suppliers' statements are being obtained (refer to note 8.1).

1.9 Electronic site

We are pleased to note that the council uploaded on the website the audited financial statements, but documents are still not being uploaded in the required time frame (refer to note 9.1).

Income

Accounting for income

2.1 During the year, the council generated an income of €136.61 from the sale of inventory, such as books and CDs. However, €69.62 of this income related to the sales carried out at the 'Genna ta' Gonna' activity held in 2016. This 2016 revenue was accounted for in 2017. We did not recommend a restatement due to the immateriality of the amount.

2.2 We recommend that the council ensures that revenue is recorded in the year earned as required by IFRS.

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
January 2017	21.02.2017
February 2017	13.03.2017
March 2017	13.04.2017
June 2017	11.07.2017
August 2017	27.09.2017

2.4 In accordance with memo 91/2011 local councils are required to issue invoices to the regional committees and LESA in the first week of the following month.

Interest income

2.5 We again noted that the HSBC savings account is subject to a 15% final withholding tax.

2.6 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

Contributions

2.7 During 2017 the council has reversed an old receivable balance from Water Services Corporation amounting to €3,300 for invoices which were not accepted by WSC. This resulted in the revenue account 'Contributions' presenting a debit balance of €1,200.

- 2.8 We recommend that write-offs of receivable balances should be accounted for as debtor write-offs in a separate expense account.

Accrued income

- 2.9 During the year, the council carried out an exercise which resulted in 84 unregistered advertisement billboards. The council accounted for accrued income of €9,783.48 relating to such billboards. As of date of fieldwork the council has still not identified to whom these billboards pertain and as such could not raise the appropriate invoice.
- 2.10 We recommend the council investigates to whom these billboards belong so that it can raise the appropriate invoices on time. Should this not be possible we recommend the council passes a provision against this revenue balance. In view of the fact that the existence and recoverability is uncertain, our audit opinion is qualified.

Income from LESA distribution

- 2.11 The council has classified the receipt of €15,648.13 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.
- 2.12 We recommend that the council discloses all LES income separately in the financial statements. The council has adjusted its financial statements and correctly presented the LESA distribution.

3 Expenditure

Petty cash expenditure

- 3.1 We have noted that most petty cash payments are still supported by a cash register chit that is not addressed to the council. Examples include:

Date	Supplier	Details	€
09.01.2017	General Bazaar	Stamps	13.00
01.03.2017	Vilhena Pharmacy	Pharmaceuticals for first aid	21.50
02.05.2017	General Store	Milk and coffee	18.27
03.07.2017	Vilhena Pharmacy	Sun block	16.95
08.11.2017	Magri Auto Care	VRT	20.27

- 3.2 We advise the council to obtain fiscal receipts that are addressed to the council in order to comply with the requirements established by the Local Councils (Financial) Procedures, 1996, which state that supplies must be made only on the provision of a valid invoice/fiscal receipt which is addressed to the council.
- 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.

Procurement procedures

- 3.4 Our testing on cheque payments revealed the following irregularities:

Details	Supplier	€	Note
Transport: Floriana - Cirkewwa	Smart Transport Ltd	212.40	(b)
Drone Filming Festa and Festival	Steve Zammit Lupi	250.00	(b)
10 Kaptelli telgha tal-kurcifiss	Dion Galea	519.20	(a)
Maintenance of council vehicle	Michael Gatt Garage	276.71	(a)

- (a) The council raised a purchase order for these payments. However, quotations were not obtained with the explanation received from the council that whenever quotations were requested in the past these suppliers were always the cheapest. Hence, the council continued using the same suppliers.
- (b) The council did raise the purchase order, but no quotation was obtained.

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

Tendering procedures

- 3.6 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.
- 3.7 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

Reconciliation to fixed asset register

- 4.1 During our fieldwork, we again 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	445,600	438,43	7,168
Office furniture and fittings	20,027	19,473	554
Urban improvements	177,173	159,944	17,229
Office equipment	10,191	9,695	496
Plant and machinery	10,495	10,052	443
Computer equipment	1,655	1,515	140
Computer software	1,658	1,579	79
	666,799	640,690	26,109

- 4.2 We recommend that the council investigates these variances and updates the fixed assets register and/or accounting records accordingly.
- 4.3 Moreover, when testing depreciation for reasonableness, we noted that the council's depreciation charge for the year is overstated by €6,428 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 the higher values in the fixed asset register.
- 4.4 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 accounting estimate.

Reconciliation of financial statements to accounting records

- 4.5 We have again 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	20,027	19,473	554
Plant and machinery	10,495	10,052	443
Office equipment	10,191	9,695	496
Urban improvements	151,068	159,944	(8,876)
Construction	445,600	438,432	7,168
Computer equipment	1,655	1,515	140
	639,036	639,111	(75)

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

Details of fixed asset register

- 4.7 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 €
Construction works	PA001	Pavements	02.03.2016	901.31
Urban improvements	UI047	Cast iron lamp posts	31.03.2004	4,351.70
Urban improvements	UI198	Iron grids for culvert	15.02.2011	1,652.32
Computer equipment	PE019	Personal computer	01.03.2016	213.75
Office furniture and fittings	OF088	6 Door filing cabinet	12.05.2017	1,106.75

4.8 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

5 Intangible asset

Reconciliation of financial statements to accounting records

5.1 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	1,658	1,579	79

5.2 The council should investigate and adjust accordingly the variance identified between asset category in the financial statements and the nominal ledger.

6 Debtors

Trade receivables reconciliation

6.1 According to the council's debtors' list as at 31 December 2017, trade receivables amounted to €48,974. The balance disclosed in the trial balance as trade receivables amounted to €49,114, resulting in a difference of €140. The council proposed an adjustment to reconcile this difference. This has been correctly incorporated in the audited financial statements.

6.2 We recommend that the council reconciles the debtors' list with the debtors' control account. According to the Local Councils (Financial) Procedures, 1996, records and ledgers should be reconciled at least monthly.

Long outstanding receivables

6.3 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
Mediatrendz	3,959.60
	<u>13,399.60</u>

6.4 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.

- 6.5 We would like to reiterate that the council should establish its right to claim against the organiser by seeking legal advice. We have noted that the council has commenced court proceedings against the organiser.
- 6.6 The council is also in communication with Mediatrendz to recover the overdue balance of €3,959.60.
- 6.7 We recommend the council follows up this outstanding debtor for payment and ensure that all amounts are received.

Collection of overdue receivables

- 6.8 The council's debtors' list shows receivables amounting to €23,902.19 which have been outstanding for over 120 days. This balance also includes the two debtors pointed out in note 6.1.
- 6.9 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 balances and, if deemed appropriate, makes a provision.

7 Inventory

Net realisable value of inventory

- 7.1 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 96 books which were not in the stock list anymore, 87 were given on a complimentary basis.
- 7.2 We recommend that 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 this 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*.
- 7.3 We would also like to point out that memo 7/2004 requires the council to expense stocks if they are not held for resale.

8 Trade and other payables

Trade creditors

- 8.1 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.
- 8.2 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.

Accrued expenditure

- 8.3 Our test on accruals revealed that the council did not accrue for water and electricity for the local council premises. This amount had not yet been invoiced by year end and therefore an estimate was calculated by the council and proposed an adjustment amounting to €2,424.24. This has been correctly incorporated in the audited financial statements.
- 8.4 The council should make adequate provisions for accruals so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

9 Electronic site

- 9.1 During our audit work, we noted that the council was not uploading documents on time. The following are some examples:
- (a) To date of the audit the council has not uploaded the quarterly financial reports for January to June 2017.
 - (b) Quarterly financial reports July to December 2017 were not uploaded within the required time frame.
 - (c) The business plan 2018 - 2020 and audited financial statements for 2016 were not uploaded on time on the council website.
- 9.2 We recommend that the council abides by the directive given in memo 02/2014 wherein it is stated that all meeting minutes and schedules of payments must be uploaded on the council's site within three days of approval. The signing of the documents is confirmation that the uploaded documents are the approved and correct ones.

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,

