



# Grant Thornton

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Our ref ABC/mf/76417

30 November 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 from Central Government**

Income relating to Government allocation was accounted properly in accordance with section 55 of the Local Councils Act, 1993.

#### **1.2 Other supplementary government income**

The council has accounted for tipping fees received during the year under review. However, the council passed an adjustment in the other supplementary Government account to adjust the difference noted in the creditors list (refer to note 4.3).

#### **1.3 LES administration fee**

We still encountered differences between the books of account and the LES administration report 483 (refer to note 4.4).

#### **1.4 General income**

We noted that the council failed to address the deposits' issue (refer to note 4.8).

#### **1.5 Custodial receipts**

We still came across instances where the council failed to deposit its custodial receipts on time (refer to note 4.10).

#### **1.6 Income from grants**

The council failed to properly account for the live streaming grant during the year under review (refer to note 4.1).

**1.7 Income account classification**

We again encountered an instance where the council has incorrectly classified income related to live streaming as other supplementary Government income (refer to note 4.1).

**1.8 Wages' reconciliation**

We again found a difference in the wages' reconciliation (refer to note 5.1).

**1.9 Statutory liabilities**

The council did not have any statutory liabilities as at year end.

**1.10 Declaration of councillor allowances**

We again noted that the council is reporting councillor allowances under 'Part Time Gross Emoluments' in FS3's (refer to note 5.4).

**1.11 Performance bonuses**

The council has again failed to disclose performance bonuses in a separate account (refer to note 5.8).

**1.12 Fixed asset register**

The council has still not prepared a fixed asset register (refer to note 6.1).

**1.13 Tagging of fixed assets**

The council has again failed to tag fixed assets in accordance to The Local Councils (Financial) Procedures, 1996 (refer to note 6.4).

**1.14 Assets under construction**

The council still did not rectify the issue during the year under review (refer to note 6.6).

**1.15 Depreciation of fixed assets**

The council's depreciation of fixed assets was not overstated during the year under review.

**1.16 Petty cash expenditure**

We again identified that most petty cash expenditure is supported by cash register chits (refer to note 7.5).

The council is not using the Imprest system as required by the Local Council (Financial) Procedures, 1996 for petty cash expenses (refer to note 7.1).

**1.17 Contract agreements**

We noted that the council still did not address the issue of providing a contract for each tender accepted (refer to note 7.11).

**1.18 Legal services**

During the year under review the council did not exceed the direct order threshold for legal services. No tender was required for such service.

**1.19 Asset insurance**

We noted that council did not address the issue (refer to note 7.16).

**1.20 Use of mobile phone**

We noted that the council did not rectify the issue during the year under review (refer to note 7.18).

**1.21 Reimbursement**

We still noted shortcomings in the reimbursement of expenses (refer to note 7.20).

**1.22 Procurement**

We were not provided with all purchase orders supporting council purchases (refer to note 7.24).

**1.23 Expired contracts**

The council is still utilising an expired contract with Environmental Landscapes Consortium (refer to note 7.14).

**1.24 Expenditure for locality day**

The council has again failed to address the issue (refer to note 7.26).

**1.25 Cleaning services**

No call for quotations was issued with respect to cleaning services (refer to note 7.28).

**1.26 LES receivables**

We noted certain irregularities between the gross carrying amount of LES debtors and the reports generated from the LES system (refer to note 8.1).

**1.27 Overdue receivables**

The debtors' list is still showing amounts which are long overdue (refer to note 8.3).

**1.28 Trade receivables**

We identified variances between debtor confirmation letters and debtors' list (refer to note 8.5).

**1.29 Accrued income and grants**

During the audit we noted that the council did not address the issue of accrued income (refer to note 8.10).

**1.30 Stale cheques**

We did not encounter any stale cheques in the bank reconciliation.

**1.31 Unpresented cheques**

We did not encounter instances where the amount presented in the bank reconciliation did not agree to the amount written on the cheque image.

**1.32 Creditors' list**

The council did not reconcile the creditors' list to the creditors' control account in the books of account (refer to note 10.1).

**1.33 Trade creditors**

The council has again failed to obtain supplier statements and reconcile supplier balances (refer to note 10.1).

**1.34 Debit balances in creditors' list**

The council did not reclassify debit balances in creditors' list to other debtors (refer to note 10.10).

**1.35 Long outstanding creditors**

The creditors' list still includes long outstanding creditor balances which have been brought forward from previous years (refer to 10.12).

**1.36 Deferred income brought forward**

The release of grants to profit and loss is incorrect (refer to note 11.1).

**1.37 Uploading of meeting minutes and schedule of payments on website**

The council did not upload meeting minutes and schedule of payments within the required timeframe (refer to note 12.1).

**1.38 Quarterly financial report**

The council again failed to present the quarterly financial report for September to December 2016 (refer to note 12.3).

**1.39 Accounting function**

The council passed significant accounting adjustments for which no supporting documentation was provided (refer to note 3.1).

**1.40 Liquidity position**

The council's liquidity position did not improve during the year being audited (refer to note 14.1).

**1.41 Financial Situation Indicator**

We again noted that the FSI is negative (refer to note 14.2).

**1.42 Presentation of financial statements**

We again noted issues in the presentation of financial statements (refer to note 17.1).

**1.43 Capital commitments**

We still encountered discrepancies for capital commitments between the financial statements and budget for 2017 (refer to note 17.1).

**1.44 Prior year adjustment**

We again encountered unexplained or incorrect prior year adjustments made during the year under review (refer to note 16.1).

## 2 Audit opinion

We have issued a qualified audit report, for the year under review, stating that we are unable to form an audit opinion because of significant matters encountered during our audit fieldwork. Further explanations are given in this management letter to enable the council to better understand the reason for the disclaimer of opinion.

This management letter is based on our findings when testing the figures shown in the financial statements approved on 9 February 2017.

## 3 Books of accounts

- 3.1 On 9 February 2017 the local council approved and signed the first set of financial statements for the year ended 31 December 2016. After our audit fieldwork, we were presented with a second set of financial statements approved and signed on 12 April 2017.

	Financial statements approved on 9 February 2017 €	Financial statements approved on 12 April 2017 €	Difference €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	175,052	181,909	(6,857)
<b>Current assets</b>			
Trade and other receivables	33,834	1,505	32,329
Cash and cash equivalents	55,285	55,285	-
	89,119	56,790	32,329
<b>Total assets</b>	264,171	238,699	25,472
<b>Reserves and liabilities</b>			
Retained earnings	10,274	(10,844)	21,118
<b>Non-current liabilities</b>			
Trade and other payables	34,260	30,943	3,317
<b>Current liabilities</b>			
Trade and other payables	219,637	218,600	1,037
<b>Total liabilities</b>	253,897	249,543	4,354
<b>Total reserves and liabilities</b>	264,171	238,699	25,472
<b>Profit for the year</b>	26,337	9,695	16,642

- 3.2 The council failed to provide an explanation for the above movements in the financial statements. Furthermore, the adjustments passed in the second set of financial statements were not supported by appropriate documentation. Our tests were carried out using the financial statements approved on 9 February 2017. The shortcomings, weaknesses, errors found and lack of supporting documentation resulted in a modified audit report.

#### **4 Income**

##### **Other supplementary Government income**

- 4.1 During the year under review, the council received €849.25 from the DLG for the live streaming grant. We noted that the council has treated the income as supplementary Government income instead of grant received. No audit reclassification has been proposed.
- 4.2 The council should ensure that transactions are properly allocated to the correct account.
- 4.3 Amounts confirmed by WasteServ Malta Ltd for shortages received in 2016 amount to €21,119.78. Included in the same account we noted that the council has passed a prior year adjustment of €30,448.59 to correct the creditors' control account for tipping fee shortages (refer to note 16.1). We were not provided with an explanation for the above adjustment.

##### **LES administration fees**

- 4.4 During the audit we noted that the LES administration fees, when checked against the Loqus reports 483, are overstated by €74. No adjustment was proposed to correct this difference.
- 4.5 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there have not been any mispostings.

##### **Income from regional committees**

- 4.6 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

<b>Invoice month</b>	<b>Invoice date</b>
January 2016	09.02.2016
February 2016	10.03.2016
April 2016	09.05.2016
May 2016	23.06.2016
September 2016	11.10.2016

- 4.7 In accordance with memo 91/2011 local councils are required to issue the regional committee invoices in the first week of each of the following month.

##### **General income**

- 4.8 We came across instances where the council failed to deposit receipts on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
High-up permit	02893	11.02.16	22.02.16	10.00
Cherry picker permit	02951	05.04.16	06.05.16	2.33
Kiosk permit	03074	01.07.16	26.07.16	69.87
Kiosk permit	03088	08.07.16	02.08.16	46.58
Crane and ready mix permit	03099	20.07.16	02.08.16	20.00
Crane permit	03130	22.07.16	06.09.16	2.33
Litter and truck permit	03183	13.09.16	11.10.16	4.66
Heavy vehicle permit	03265	02.11.16	21.12.16	10.00

- 4.9 We recommend that the council deposits its receipts at least twice a week to ensure that no cheques or cash are left on the council premises longer than necessary.

#### Custodial receipts

- 4.10 The following shortcomings were noted during the course of our audit work on the council's custodial receipts of Lands Department and LES fines:

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	676493	20.04.16	06.05.16	75.50
Lands Department	670103	13.03.16	23.03.17	139.76
Lands Department	664370	28.01.16	08.02.16	165.96
LES receipts	3174131	21.12.15	04.01.16	116.47
LES receipts	3267808	29.03.16	06.04.16	23.29

- 4.11 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period of time since, apart from contravening the Procedures, it can give rise to security concerns.

## 5 Payroll

### Wages' reconciliation

- 5.1 During the audit we noted a discrepancy of €798.35 between the wages' accounts to the personal emoluments found in the FS7 form sent to the Inland Revenue Department. This difference remained unreconciled.
- 5.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the CIR are correctly declared.
- 5.3 We recommend that the council reconciles the wages and salaries on a monthly basis and investigates any identified differences immediately.

### Declaration of councillors' allowances

- 5.4 During the financial year under review we noted that the council is still taxing councillor allowances under the part-time rules at the rate of 15%.

- 5.5 We would like to remind the council that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under 'Gross Emoluments' (FSS Rules). We recommend that the council adheres to these regulations.

#### **Councillors' allowances**

- 5.6 During the audit fieldwork we noted that the councillors' allowances for the year should total to €6,400. We further noted that the books of account show councillor allowances of €5,770 thus resulting in a difference of €630. This difference could not be traced to the wages and salaries account.
- 5.7 We recommend that the council classifies councillor allowances separately from that of employees wages and salaries.

#### **Performance bonuses**

- 5.8 It was again noted that the council did not distinguish between employee bonuses and wages and salaries.
- 5.9 We reiterate our recommendation to keep separate accounts for bonuses and employee wages and salaries for ease of extraction.

#### **Overtime**

- 5.10 During the audit we noted that the council has classified overtime of €225.63 as other expense.
- 5.11 We recommend that the council keeps a separate account for overtime. This should be included in the wages reconciliation and declared in the council's FS5s.

### **6 Fixed assets**

#### **Fixed asset register**

- 6.1 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which states that every council is to create, maintain and control an accurate and up-to-date fixed asset register. This is strengthened by memo 03/2016 stating that councils must have a fixed asset register which agrees to the nominal ledger for the period ending 31 December 2016. The above was not provided to us.
- 6.2 We strongly recommend that the council prepares a fixed asset register comprising 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



- 6.3 We reiterate our recommendation to the council to prepare a fixed asset register since this, apart being a requirement in line with the above stated regulations, is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and conditions. Additionally, the information contained above allows any disposals to be correctly accounted for.

#### **Tagging of fixed assets**

- 6.4 We should also point out that furniture, fittings, office and computer equipment are not tagged.
- 6.5 The Local Councils (Financial) Procedures, 1996 required assets to be tagged (where applicable) and referenced to the fixed assets register.

#### **Assets under construction**

- 6.6 During our audit fieldwork we noted that assets under construction at year end amounting to €63,325 remained unchanged from the prior year. In our previous management letter, we pointed out that the above stated amount was included in the financial statements but no supporting documentation was available. The only information obtained was that these assets have been brought forward from prior years.
- 6.7 In accordance with IAS 16, *Property, Plant and Equipment* when an asset is completed then it should be transferred to the respective fixed asset accounts. Based on the information obtained from the executive secretary there are no fixed assets which are still under construction. No audit adjustment was proposed with respect to this issue since no further explanation was provided.

#### **Additions to fixed assets**

- 6.8 We would like to bring the attention of the council to the fact that the additions to fixed assets of €1,360 acquired during the year were not supported by a purchase order or quotation approved during council meetings. Furthermore, asset additions could not be traced to the meeting minutes held during the year.
- 6.9 According to the Local Councils (Financial) Procedures, 1996, all council purchases are only valid if they are initiated through properly authorised written council purchase orders, contracts or purchase agreements.
- 6.10 We recommend that the council issues a purchase order, quotation or tender for each asset purchased and this purchase should be approved during council meetings.

### **7 Expenses**

#### **Petty cash expenditure**

- 7.1 We have again noted that the council did not yet employ the Imprest system for petty cash. Cheques are continuously being issued in the name of the executive secretary for the settlement of petty cash expenditure.
- 7.2 We would like to bring council's attention to the clause in the Local Councils (Financial) Procedures, 1996, which states that the executive secretary should institute an Imprest system for petty cash and thus control can be implemented over such payments.

- 7.3 We also traced an instance where reimbursement was given from petty cash for which a VAT receipt was issued for the purchase of flowers amounting to €15. However the amount was not included on the VAT receipt.
- 7.4 We have encountered occasions where no supporting receipts were readily available. Some instances which were encountered during our audit fieldwork are the following:

Details	Supplier	Date	€
Toiletries	Mals Discount Store	01.07.2016	20.32
Groceries	Bighi Confectionery	01.04.2016	10.76
Repairing of flag	Grech	14.07.2016	20.00

- 7.5 Moreover throughout the audit fieldwork we discovered that a significant number of petty cash expenses are only supported by cash till chits that are not addressed to the council. Below are some examples:

Details	Supplier	Date	€
Groceries for office	Mals Discount Store	01.07.2016	20.32
Groceries for office	Mals Discount Store	03.07.2016	20.04
Detergents	Soap +	08.01.2016	20.55
Toiletries	Soap +	08.01.2016	12.05
Stamps	MaltaPost	19.01.2016	19.50
Toiletries	Soap +	13.02.2016	4.75
Toiletries	Soap +	13.02.2016	20.68
Toiletries	Soap +	03.03.2016	21.95
Toiletries	Soap +	04.04.2016	16.85
Groceries	Soap +	04.04.2016	26.95
Refund fuel	Lourdes Service Station	30.04.2016	20.00
Refund to Maria Sultana	Upper Barrakka Kiosk	06.05.2016	18.00
Registered mail	MaltaPost	30.08.2016	9.86
Registered mail	MaltaPost	30.08.2016	19.72
Registered mail	MaltaPost	30.08.2016	19.72
Registered mail	MaltaPost	30.08.2016	18.92
Fuel refund	Nica Ltd.	23.08.2016	20.00
Gozo Channel Ferry	Gozo Channel	06.11.2016	15.70
Fuel refund	Attard Service Station	05.11.2016	20.00
Stamps	MaltaPost	14.11.2016	19.50
Registered mail	MaltaPost	14.11.2016	22.04
Toiletries	Bighi Confectionery	01.04.2016	10.76
Amenities for chapel	Pavia Hardware Store	24.11.2016	19.00
Amenities for chapel	Pavia Hardware Store	26.11.2016	17.30
Groceries	Mals Discount Store	21.12.2016	19.00

- 7.6 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures, 1996 that supplies should only be made on the provision of a valid invoice 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.

- 7.7 During our audit fieldwork we encountered instances where petty cash purchases were made on the same day from the same supplier and therefore exceeding the threshold of €23.29.

Details	Supplier	Date	€
Toiletries	Mals Discount Store	01.07.2016	20.32
Groceries for office	Mals Discount Store	01.07.2016	20.32
Detergents	Soap +	08.01.2016	20.55
Toiletries	Soap +	08.01.2016	12.05
Toiletries	Soap +	13.02.2016	4.75
Toiletries	Soap +	13.02.2016	20.68
Toiletries	Soap +	04.04.2016	16.85
Groceries	Soap +	04.04.2016	26.95
Registered mail	MaltaPost	30.08.2016	9.86
Registered mail	MaltaPost	30.08.2016	19.72
Registered mail	MaltaPost	30.08.2016	19.72
Registered mail	MaltaPost	30.08.2016	18.92
Stamps	MaltaPost	14.11.2016	19.50
Registered mail	MaltaPost	14.11.2016	22.04

- 7.8 Section P1.08b of the Local Councils (Financial) Procedures specifies that only cash transactions costing less than €23.29 in the aggregate may be paid through petty cash. If expenditure exceeds this amount, then the council must obtain prior approval by means of a signed purchase order.
- 7.9 We also observed that the petty cash vouchers prepared by the council do not include details of the nominal account to which the expenses were allocated.
- 7.10 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

#### **Tendering procedures**

- 7.11 Whilst testing tenders, we have noted the following irregularities:

Tender	Nature	Irregularity
KLC/T06/15	Provision of services for a qualified accountant to Kalkara Local Council.	<ul style="list-style-type: none"> <li>- No contract agreement was signed by the council and contractor.</li> <li>- Executive secretary did not sign the schedule of offers.</li> </ul>
KLC/T05/15	Tender for the services of EU projects co-ordinator for 3 years programme at Kalkara Local Council.	<ul style="list-style-type: none"> <li>- No contract agreement was signed by the council and contractor.</li> <li>- Non-collusive agreement was not included by the council in the tender document and hence this was not provided by the supplier.</li> <li>- Executive secretary did not sign the schedule of offers.</li> </ul>

<b>Tender</b>	<b>Nature</b>	<b>Irregularity</b>
KLC/T03/15	Tender for service maintenance and installation of traffic signs, mirrors, and road markings for the Kalkara Local Council.	<ul style="list-style-type: none"> <li>- Non-collusive agreement was not included by the council in the tender document and hence this was not provided by the supplier.</li> <li>- Executive secretary did not sign the schedule of offers.</li> </ul>
KLC/T04/15	Tender for street/ pavement, sweeping, weeding and cleaning of soft area, gardens and playing fields for Kalkara Local Council.	<ul style="list-style-type: none"> <li>- Non-collusive agreement was not included by the council in the tender document and hence this was not provided by the supplier.</li> <li>- Executive secretary did not sign the schedule of offers.</li> <li>- The performance bond was not provided to the council within seven days from the date of the letter of acceptance.</li> </ul>

- 7.12 We recommend that the council adheres to the Tendering (Procedures) 1996, which state that the executive secretary together with two councillors especially appointed by the council will be entrusted to open the tender box on the appointed date and time.
- 7.13 We remind the council that the Tendering (Procedures) 1996, state that the successful tenderer shall furnish the performance bond within seven calendar days of the issue of the letter of acceptance.

#### **Expired contracts**

- 7.14 The council is utilising an expired contract agreement with Environmental Landscapes Consortium (upkeep of parks and gardens). The contract has been expired in 2008.
- 7.15 We would like to remind the council that the extension of expired contracts is strictly prohibited according to memo 10/2013 issued by the Department. It also states that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts.

#### **Asset insurance**

- 7.16 Whilst reviewing the asset insurance policy with AIB Insurance, we noted the following exceptions:

	<b>Sum insured €</b>	<b>Cost as per records €</b>	<b>NBV as at 31.12.2016 €</b>
Buildings/furniture and fittings	26,000	22,020	6,528
Computer equipment	4,500	17,378	2,726
Office equipment	14,000	9,296	2,936
Plant and machinery	-	6,935	2,887

- 7.17 May we recommend that council annually reviews the appropriateness of the insurance exposure as required by the Local Councils (Financial) Procedures, 1996.

#### **Use of mobile phone**

- 7.18 In our previous management letter we emphasised that the council was paying the executive secretary's mobile phone expenditure. During the current year the situation remained unchanged.
- 7.19 May we remind you that Local Council's Procedures and memo 21/2013 have established guidelines on the use of mobile phones by the council. The council is required to obtain a new contract in the name of the council and purchase a new mobile number.

#### **Reimbursement**

- 7.20 During the audit it was established that council is still giving €20 per week to the IPSL workers for fuel. This contradicts the Local Council Procedures affirming that fuel expenses should be reimbursed on a mileage basis once being approved by the council in meetings (see also note 7.23).
- 7.21 On the other hand it was noted that expenditure incurred during the year included €70 for the taxi services rendered to the mayoress.
- 7.22 Moreover, we would like to bring to the attention of council the fact that the mayoress receives an annual allowance of €1,600 for all costs sustained in executing council related duties. May we strongly recommend that the council should observe memo 107/2010 which clearly states that the councillors and mayoress have no right to claim any other expenditure in relation to performing their council duties apart from the honorarium and the allowance.
- 7.23 Furthermore we feel it necessary to point out that council could not explain the significant increase in fuel expenses for the year which rose from €730 in 2015 to €2,313 in 2016.

#### **Procurement**

- 7.24 In some instances cheque payments were not supported by a purchase order/ quotation in accordance with the Procedures. The following are cases which we came across during the audit fieldwork:

Supplier	Details	€
Fremy Investments Ltd	Playing field material & supply	752.00
Alka Ceramics Ltd	Street name plaque	152.22
The Computer Training Course	Computer lessons for children	1,150.00

- 7.25 May we remind to the council that it is required by the Local Councils (Financial) Procedures, 1996 to issue purchase orders and to obtain one quotation for all purchases between €23.29 and €1,165. Moreover, three quotations must be attained if the expenditure is within the €1,165 and €4,658 threshold. Memo 1/2010 states that all quotations should be published in the Government Gazette and in any local newspaper.

**Expenditure for locality day**

- 7.26 During the audit we noted that the council spent €4,129.53 on locality day activities. May we remind the council that memo 8/2011 specifically states that the cost of the council's locality day should not surpass the higher of €3,500 or 0.5% of the annual allocation.
- 7.27 We strongly recommend that the council carefully budgets the locality activity and ensures that expenses do not exceed the thresholds specified in the memo.

**Cleaning services**

- 7.28 We again noted that the council did not issue a call for quotations for cleaning services. Although the executive secretary had raised the issue with the council the latter rejected making a call for quotations.
- 7.29 We reiterate our recommendation that the council should issue a call for quotations as required by the Local Councils (Financial) Procedures.

**Rental of properties**

- 7.30 During the audit we noted that the council erroneously included the amount of €2,654 for the rental of the library premises in the library account instead of the rent account. No reclassification was proposed in this respect.
- 7.31 The total rental expense included in the books of accounts was €3,994 whereas contracts state that the total for the year should be €7,120. This resulted in a difference of €3,126 out of which €2,654 was included with library expenses. There remains an unreconciled discrepancy of €472.
- 7.32 We recommend that the council should ensure that transactions are properly allocated to the correct account and all expenses are accounted for on the accrual basis.

**8 Receivables****LES receivables**

- 8.1 The Loqus report 622 stated that LES receivables pertaining to the pooling period up to 31 August 2011 amount to €62,734.76. LES debtors as at year end in the financial statements amount to €82,777.22. When compared to the amount stated in the books of accounts this resulted into a difference of €20,042.46.
- 8.2 We reiterate our recommendation that the council investigates this significant difference and adjusts the LES receivables at the reporting date to reflect all adjudicated contraventions not yet paid once a satisfactory explanation is received.

**Overdue receivables**

- 8.3 During our audit fieldwork we noted that receivables from Maltacom plc (now Go plc) amounting to €1,237.86 and from Water Services Corporation amounting to €647.58 have been outstanding for more than five years. However, the above stated receivables are provided in full. We have obtained the debtor confirmation letter from Water Services Corporation stating that the Corporation does not have any outstanding payments.

- 8.4 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts. Otherwise if council still believes that amounts are unrecoverable, the former should evaluate the possibility of writing them off in the books of accounts after obtaining approval in meeting.

#### **Trade receivables**

- 8.5 An unreconciled discrepancy of €125.84 was identified when comparing the balance confirmed by south regional committee with the council's books of accounts.
- 8.6 We recommend that the council performs regular reconciliations of amounts due by debtors to promptly highlight any differences.

#### **Credit balances in debtors' list**

- 8.7 The council's debtors' list includes a number of credit balances. This has been reflected in the below table:

<b>Creditor</b>	<b>€</b>
Central regional committee	49.08
North regional committee	60.58
	<u>109.66</u>

- 8.8 We recommend that the council presents debit balances separately from creditors as other debtors in the financial statements.
- 8.9 Further to the above, the council should investigate all credit balances in debtors' list as these could indicate payments allocated to the wrong debtor account, invoices not recorded or overpayments.

#### **Accrued income and grants**

- 8.10 As also reported in our previous management letters, the council's accrued income includes the below amounts for which no explanation or supporting documentation was provided to us.

	<b>€</b>
Kalkara boat house	2,500
Uniking	20,620
	<u>23,120</u>

- 8.11 We reiterate our recommendation that the council investigates these balances brought forward and obtains supporting documentation. If these balances are invalid or no longer receivable, the accrued income should be reversed against the appropriate account.

#### **Prepayments**

- 8.12 During the year under review it was noted that the prepayments for the combined insurance policy have been omitted from the list of prepayments. This has resulted in an understatement of €245.27. No audit adjustment has been proposed to this respect.
- 8.13 We recommend that prepayments are properly accounted for so as to reflect expenditure based on the accruals concept.

## 9 Bank and cash

### Cheques

- 9.1 While performing our fieldwork we have encountered the following cases where cheques were issued to suppliers and dated prior to approval:

Cheque number	Cheque date	Supplier	€
6076	01.06.2016	AID Ltd	849.25
6101	14.07.2016	Koperattiva Tabelli u Sinjali	991.31
6122	14.07.2016	Nexos Lighting	2,007.59
6127	14.07.2016	Fremy Investments Ltd	725.00
6143	14.07.2016	Pitty's rent-a-car Ltd	40.00
6178	27.09.2016	Heritage Enterprise Consultancy Ltd	875.00
6179	27.09.2016	Darren Camilleri	400.00
6202	13.10.2016	Alka Ceramics Ltd	152.22
6207	13.10.2016	Thebes Holding Ltd	477.95
6217	13.10.2016	The Computer Training Course	1,150.00
6245	07.11.2016	Paul Aquilina	645.00
7183	08.02.2016	Sandra Mallia	210.00

- 9.2 The council's attention should be brought up to the fact that Local Councils (Financial) Procedures, 1996 require councils first approve schedules of payments/cheques and only afterwards issue cheques to respective suppliers.

## 10 Payables

### Trade payables' reconciliation

- 10.1 According to the council's creditors' list as at 31 December 2016, trade payables amount to €182,570. The balance disclosed in the trial balance as trade payables amount to €168,394, that is a difference of €14,176. The council was unable to reconcile the above-mentioned difference.
- 10.2 We recommend that the council reconciles the creditors' list with the creditors' control account. According to the Local Councils (Financial) Procedures, 1996, records and ledgers should be reconciled at least monthly.
- 10.3 The council has passed a prior year adjustment in relation to trade and other payables of €6,253 against retained earnings. The prior year adjustment was passed in order to agree supplier balances to the creditors' confirmations received (refer to note 16.1). The council did not investigate the differences which arose.
- 10.4 The council did not provide us with supporting reconciliations on which the above journal entry was based. Our audit opinion has been modified in this respect.
- 10.5 We 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.



### Trade creditors

- 10.6 A number of exceptions were identified in our testing of creditor balances:
- (a) We noted that the creditor balance of WasteServ was understated by €229.39.
  - (b) The creditor balance for Go Plc was overstated by €26.89.
  - (c) Saviour Mifsud has provided the confirmation letter stating the amount payable to him by the council is €91,032.71. €76,608.40 was included in the creditors' list and €32,209.36 in the list of accruals. Thus the books of accounts show an overstatement of €17,785.05. We were not provided with any explanation for the difference and the amount has not yet been reconciled.
- 10.7 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and memo 3/2016 which state that councils should obtain monthly statements in order to reconcile balances with the accounts.

### Unrecorded liabilities

- 10.8 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted an invoice from JG Iron Works dated 07.03.16 for €1,180. No audit adjustment has been proposed in this respect.
- 10.9 We recommend that the council records expenditure when it is incurred such that liabilities are recorded in the correct financial year.

### Debit balances in creditors' list

- 10.10 The council's creditors' list at the end of the year includes debit balances amounting to €520.63 which have arisen in the current year. Details of the debit balances are presented below:

Debtor	€
Greenlines Environmental	127.44
Johan Aquilina	300.27
Kenneth Hardware Store	57.14
St. Margaret College Kalkara	0.08
Merlin Library	35.70
	<u>520.63</u>

- 10.11 We recommend that the council investigates all debit balances in the creditors' list since they may arise from overpayments or omitted invoices. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

### Outstanding invoices

- 10.12 Whilst reviewing the supplier activity it was noted that the council is making supplier payments on account and not on specific invoices. In this respect we were unable to identify the long-outstanding creditor invoices. However we noted that some balances have been brought forward from the previous year.
- 10.13 We reiterate our recommendation in the prior year management letter stating that the council should issue payments against specific invoices. In this way the council will be able to reconcile creditor balances and identify any differences on time. Payments should be allocated to the specific invoices in order to identify any misallocation immediately.

## **11 Grant accounting**

### **Deferred income brought forward**

- 11.1 During the performance of our audit the council has provided us with the deferred income workings. In the previous year the council did not have any workings and supporting documentation for the deferred income recognised in the financial statements. The council failed to provide us with information and supporting documentation about the grants listed in the deferred income schedule.
- 11.2 The council has passed a prior year adjustment of €27,311 to deferred income against retained earnings. We were not provided with any supporting documentation regarding this adjustment.

It was also noted that in previous management letters, the predecessor auditor pointed out that the deferred income was being recognised under the capital approach. In this case the prior year adjustment passed by the council is incorrect and should not have been passed through retained earnings.

- 11.3 We urge the council to analyse all past grant agreements and prior year management letters to ensure that grants are treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with this standard, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge.
- 11.4 In view of the above we were unable to perform audit procedures with respect to deferred income.

## **12 Electronic site**

### **Uploading of meeting minutes and schedules of payments on website**

- 12.1 During our audit work we noted that the council is not uploading schedules of payments, meeting minutes, business plan, audited financial statements and annual administration report in accordance with memos 36/2011 and 01/2014. Some examples are listed below:
- Audited financial statements for 2015 and annual administration report for 2016 were uploaded late on the council website.
  - To date of the audit fieldwork the council did not upload the business plan covering 2016-2018.
  - Meeting minutes 3-16, 5-16, 12-16 and 2-17 were not uploaded on the website within the required time frame.
  - Schedules of payments 5.16, 12.16 were not uploaded on the electronic site of local councils within two working days from their approval.
  - Schedule of payments number 2.16 was still not uploaded at the time of the audit.
  - During the fieldwork we noted that two cheques, being 6045 and 7170, were omitted from the respective schedule of payments. However it was confirmed that at the same time the cheques were not cancelled but omitted from the schedules.
  - In meeting minutes 2-16, 3-16 and 4-16, the council did not mention that the respective schedule of payments have been approved during the meeting.

- 12.2 We reiterate our recommendation that the council should abide by the directive given in memo 02/2014 where it is stated that all meeting minutes and schedules of payments must be uploaded on the electronic site of local councils within two days of approval in council meeting.

#### **Quarterly financial report**

- 12.3 It came to our attention that the quarterly financial report for October to December 2016 was not prepared by the council.
- 12.4 We reiterate our recommendation that the council should present the quarterly report within two weeks after the end of each fiscal quarter in line with the Local Councils (Financial) Procedures.

### **13 Meetings**

#### **Binding of minutes**

- 13.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 13.2 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.

### **14 Liquidity position**

#### **Liquidity position**

- 14.1 It was again noted that the council has closed off 2016 with a negative cash liquidity position. Current liabilities were €131,146 more than the current assets as at year end. This reveals that the council will find difficulty in meeting its current obligations as they fall due in the coming year.

#### **Financial Situations Indicator**

- 14.2 At the end of the financial year under review the council's Financial Situation Indicator (FSI) was negative. This is taken based on the minimum positive balance of ten per cent of the annual Government allocation.
- 14.3 The Local Council (Financial) Regulations, 1993, binds the council to maintain a positive balance of ten per cent from the annual Government allocation. If below this, the executive secretary must explain the actions to be taken to remedy the situation.

### **15 Opening balances**

- 15.1 Whilst testing opening balances we noted that the council passed adjustments in its books of accounts after the audited financial statements were finalised. The below difference were noted:

Account description	Opening balances in books of accounts	Opening balances in audited financial statements	Difference
	€	€	€
Creditors control account	(209,066.51)	(208,993.66)	(72.85)
BOV current account 5003	104.34	127.63	(23.29)
BOV current account 4010	31,197.93	31,101.79	96.14

15.2 Whilst testing opening balances it was further noted that the council had a difference of €78 in retained earnings. This difference was then found in the bank charges account. No audit reclassification has been proposed to adjust the above mentioned difference.

15.3 The council should ensure that the accountant properly updates the books of accounts, particularly ensuring that all audit adjustments accepted by the council are included before closing off the year end and accounted in the correct account.

## 16 Prior year adjustment

16.1 The unaudited financial statements showed a prior year adjustment of €33,564 of which €27,311 pertains to deferred income and €6,253 to the creditor balance adjustment.

16.2 As mentioned earlier in point 11, the deferred income adjustment is posted incorrectly in the prior year adjustment. When passing the creditor adjustment the council did not consider investigating the differences encountered when receiving the creditor confirmation letter.

16.3 As outlined in IAS 8, a material prior year error should be corrected retrospectively in the first set of financial statements authorised for issue after its discovery by restating the comparative amounts for the prior period presented in which the error has occurred. In addition to this, IAS 1 adds that when a retrospective restatement of items in the financial statements is made, as a minimum, three statements of financial position, two of each of the other statements and related notes should be presented in the financial statements.

16.4 We would like to inform the council that prior year adjustments should only be used in rare circumstances and not to pass any omissions due to poor accounting.

16.5 The preparation of reliable and timely accounting information is essential to the efficient operation of a council. A number of the points mentioned in this management letter indicate that there are serious shortcomings in the updating of the council's accounting records and preparation of financial statements.

## 17 Financial statements

### Presentation of financial statements

17.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).

- i. No disclosures were given relating to the reconciliation of the provision of doubtful LES receivables which is required by IFRS 7.
- ii. The council failed to disclose all capital commitments as required by IAS 16, *Property, Plant and Equipment*.

17.2 In addition to the above, we identified further shortcomings in the council's financial statements:

- i. Notes to the financial statements are not numbered in sequential order.
- ii. The note numbers as presented in the statement of comprehensive income do not agree to the numbers in the notes to the financial statements.
- iii. Casting errors were noted in note 4 to the financial statements: trade and other receivables.
- iv. The joint committee expenses as disclosed in note 15 to the financial statements are incorrect.
- v. The IFRS included in note 2b should be those which are applicable to the council. They should not include all amendments or changes made to IFRSs; for example IAS 41 which relates to bearer plants in agriculture and IFRS 2 which refers to share based payments.

17.3 We further recommend that the cash flow statement is prepared correctly and reflects actual cash movements in accordance with IAS 7, Cash Flow Statements.

### 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 Elaine Caruana and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

