



Grant Thornton

An instinct for growth™

The Mayor
Marsa Local Council
Pont San Tumas,
Marsa

Our ref ABC/slc/028716

20 April 2016

Grant Thornton
Tower Business Centre, Suite 3
Tower Street
Swatar BKR 4013
Malta

Level 2
Regional Business Centre
University Heights
Msida MSD 1751
Malta

T +356 21320134
F +356 21331161
www.grantthornton.com.mt

Dear Sir,

Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 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 Local enforcement system income

The council has disclosed the LES income separately from general income in the financial statements.

1.2 General income

The council did not address the issue to deposit cash receipts twice a week (refer to note 2.4).

1.3 Custodial receipts

The council did not address the deposits' timing issue (refer to note 2.6).

1.4 Receipt book sequence

We did not encounter instances where receipt books were not in sequence.

1.5 Payment of FSS and NI

The council did not address the issue of submitting the FSS and NI payment by due date (refer to note 3.1).

1.6 Tender irregularities

We encountered shortcomings in the tender procedures (refer to note 4.1).

1.7 Petty cash expenditure

The council has not addressed the issue in the year under review (refer to note 4.4).

1.8 Asset insurance

We noted that the asset insurance has again not been reviewed (refer to note 4.6).

1.9 Accruals

We did not encounter instances where accruals were understated.

1.10 Street lighting

The council is still using an expired contract (refer to note 4.12).

1.11 Fixed asset register

The council did not transfer its fixed asset register to Sage (refer to note 5.1).

1.12 Tagging of fixed assets

The council did not address the issue of tagging its fixed assets (refer to note 5.3).

1.13 Reclassification of fixed assets accounts

During the audit we again noted that the council did not classify computer equipment and office equipment in the correct accounts (refer to note 5.6).

1.14 Deferred income on PPP scheme

The council has adjusted the deferred income issue in the year under review.

1.15 Cash in hand

The council has rectified the issue in the year under review and kept cash in hand in accordance with the Procedures.

1.16 Pre-regional receivables

The council has again not addressed the matter (refer to note 7.1).

1.17 Overdue receivables

The council has not fully rectified the issue of overdue receivables (refer to note 7.3).

1.18 Presentation of financial statements

During the year under review we have noted that the council has addressed a number of issues except from those mentioned in note 8.1.

1.19 Other shortcomings in financial statements

During the audit we noted that the council did not address these issues (refer to notes 8.6 and 8.7).

1.20 Financial disclosure requirements

The unaudited financial statements of the council were not fully compliant with the Financial Regulations (refer to note 8.3).

1.21 Capital commitments

The council has again failed to ensure that the capital commitments note in the financial statements is in line with the budgeted capital expenditure stated in the 2016 budget (refer to note 8.3).

1.22 Contingent asset

We are pleased to note that the council has addressed this issue in the year under review.

1.23 Binding of minutes

The council failed to bind the minutes at the end of the financial year (refer to note 9.1).

1.24 Numbering of minutes

The council has addressed the issue in the year under review and numbered the minutes in sequence.

1.25 Councillors' allowance

We encountered instances where councillors did not present letters of excuse (refer to note 9.3).

1.26 Electronic site

During the year under review the council did not address the issue of uploading documents on the council website (refer to note 9.5).

1.27 Comparison with the annual budget

The council failed to address the issue (refer to note 10.1).

1.28 Prior year adjustment

During our audit we noted that the council did not pass a prior year adjustment.

1.29 Adjustment on imputed interest on PPP payables

We are pleased to note that the council has rectified the issue.

2 Income

Income from LES administration fee

2.1 We tested income from LES administration fees by reference to Loqus report 483 and noted that the council's income from LES administration fees for 2015 is overstated by € 619.

2.2 During the audit we also noted that a receipt for the income of €221.48 earned from the pre-regional non-pooling has not been recorded. It is recommended that the council reconciles the income and Loqus report.

2.3 We recommend that the council generates the Loqus report more frequently and ensures that administration fees are reconciled and accounted for properly.

General Income

2.4 During our audit we noted that the council did not deposit its income on a regular basis in some instances. Below are instances which were encountered during the audit:

Description	Receipt number	Receipt date	Deposit date	€
Machinery permit	RC 104767	07.01.2015	27.01.2015	4.66
Aerobics classes	RC 104880	27.02.2015	16.04.2015	10.00

Machinery permit	RC 104989	07.05.2015	02.06.2015	58.24
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- 2.5 We recommend that the council deposits cash twice weekly, primarily to comply with the procedures and also for security purposes.

Custodial receipts

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

Details	Receipt date	Deposit date	€
Local Enforcement System	07.12.2015	18.12.2015	58.00
Local Enforcement System	13.11.2015	26.11.2015	58.00
Lands Department	17.12.2015	28.01.2015	732.59
Lands Department	23.10.2015	27.10.2015	49.40
Lands Department	12.10.2015	21.10.2015	168.75

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

Accrued income

- 2.8 Whilst reviewing the accrued income schedule it was noted that the council is still reporting accrued income of €950 from WSC. No communication was presented with regards to this item and we were unable to identify whether such income is receivable or not.
- 2.9 We recommend that the council reviews long outstanding items and adjust for items having a low probability of being received.

3 Personal emoluments

Payment of FSS and NI

- 3.1 During our audit it was noted that the council is not paying FSS tax and NI on time. Payments for the following months have been paid late; January, February, March, June, August and December.
- 3.2 The Final Settlement System Rules, 1998 state that the council is required to remit FSS tax (and NI) to the Commissioner of Inland Revenue by the last working day of the month following that during which the council has paid the emoluments. It is highly recommended that FSS's are submitted on time to avoid any unnecessary penalties.

4 Expenditure

Tender procedures

- 4.1 During the year under review, the council made the following calls for tenders, for which we identified the following irregularities:

Number	Nature	Irregularity
KLM 02/2014	Provision of health insurance scheme	Only the executive secretary signed the schedule of offers.

KLM 03/2014	Collection of mixed household waste in an environmentally friendly matter	The performance bond was not submitted to the council within seven days of letter of acceptance.
KLM-02/2015	Street cleaning and sweeping in racecourse area.	The performance bond was not submitted to the council within seven days of letter of acceptance.
KLM-04/2015	Cleaning and maintenance of parks and gardens	Only the executive secretary and one councillor signed the schedule of offers.
KLM-05/2015	Upkeep and maintenance of soft areas.	Only the executive secretary and one councillor signed the schedule of offers.
KLM-06/2015	Christmas light decorations	Only the executive secretary and one councillor signed the schedule of offers.

4.2 The Local Councils (Tendering) Procedures, 1996 councils specifically state that:

- i. the successful tenderer shall furnish the performance bond within seven calendar days of the issue of the letter of acceptance. The purpose of the performance bond is to secure the faithful performance of the contract and the payment of all obligations arising thereunder.
- ii. a schedule of offers is to be drawn up and signed by the executive secretary and two councillors.

4.3 We recommend the council follows the Local Councils (Tendering) Procedures and avoids such shortcomings in future tender calls.

Petty cash expenditure

4.4 We reviewed the council petty cash expenditure and noted that most of petty cash documents were cash register chits. Some instances which were encountered during our audit fieldwork are the following:

Details	Supplier	Date	€	Note
Milk, Dettol, Hygiene	Traffic lights	19.01.15	11.03	a
Toilet paper	Traffic lights	23.02.15	5.20	a
Milk, Vileda mop refill	Traffic lights	25.05.15	5.12	a
Skimmed milk	Traffic lights	04.06.15	8.10	a
Printing for tender docs	The Office	18.09.15	36.00	a/b
Surgical spirit	Trinity Pharmacy	09.11.15	2.78	a

- a) These petty cash payments were supported by cash register chits and not by invoices addressed to the council.
- b) This payment exceeded the limit of €23.29 imposed by the Local Councils (Financial) Procedures, 1996.

4.5 We understand that, in some instances, only a cash register chit can be obtained for purchases. However, we still recommend that an invoice should be addressed to the council to ensure that the items purchased are for the local council's use. A cash

register chit has no address and therefore there is no assurance that the purchase is made in the course of the council's business operations.

Asset insurance

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

Asset	Sum insured €	Cost as per accounts €
Property	472,000	323,229
Plant and machinery	25,000	54,493
Office, furniture and fittings	95,000	135,757
Electronic equipment	21,000	3,517
	613,000	516,996

- 4.7 The council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind the council that the executive secretary is bound by the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the council's insurance coverage.

Personal accident insurance

- 4.8 Whilst reviewing the personal accident insurance policy we determined that the council has not updated this policy with the current councillors, since it includes previous councillors of the council.
- 4.9 We recommend that the council reviews its policy to make the necessary amendments.

Health insurance

- 4.10 During the audit we noted that the council made a payment of €4,520.67 to Gasan Mamo Insurance for a health insurance policy for the members of the council.
- 4.11 We recommend that the council seeks approval from the Local Council Department as to whether the said policy is within the parameters laid down for councils' health insurance schemes.

Street lighting

- 4.12 During our audit we noted that the council continued using the expired contract of JF Mallia for the services of street lighting repairs and maintenance under the same terms and conditions.
- 4.13 We recommend the council issues a call for tenders for the services of street lighting repairs as the use of an expired contract contravenes memos 10/2013 and 34/2013.
- 4.14 We remind the council that it should not make use of expired contracts and should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires.

Travel expenditure

- 4.15 A councillor travelled to Brigwater, south of England, for seven days to attend a conference. Brigwater is the twinned city of Marsa local council. The acting executive secretary informed us that the council did not prepare a travel report.

- 4.16 We recommend that the council prepares the travel report in accordance with MF circular 05/2015 and the Twinning Regulations.

5 Fixed assets

Fixed asset register

- 5.1 Memo 106/2010 states that the council is obliged to prepare a fixed assets register which reconciles with the nominal ledger. The council maintains a fixed asset register on Excel workbooks and not on Sage. Consequently depreciation is also calculated using Excel and not through a Sage register.
- 5.2 During the audit it was noted that the fixed asset register did not contain adequate details such as invoice numbers, suppliers' details or location of assets thereby rendering difficulty in the identification of specific assets.

Tagging of fixed assets

- 5.3 Local Councils (Financial) Procedures, 1996 requires that the councils' fixed assets are tagged (where applicable). During the audit it was noted that none of the fixed assets has been tagged.
- 5.4 We recommend that the council tags its fixed assets (where applicable) in the coming year. This would enable individual assets to be identified and their physical existence verified once the plant register is compiled.

Depreciation

- 5.5 Whilst testing depreciation, we noted that the council is still computing depreciation manually. This is in contrary of the Local Councils (Procedures) Regulations, 1996 which states that councils are required to calculate depreciation by using the end of month facility in the Sage accounting package.

Reclassification of fixed asset accounts

- 5.6 During the audit it was noted that the office equipment depreciation was posted in the wrong asset category. Furthermore, the depreciation for the current year for computer equipment has been posted as office equipment depreciation. We have therefore proposed a reclassification of €1,010 to rectify the error. This reclassification is reflected in the councils' financial statement.

Existence of old assets

- 5.7 As part of our audit procedures, we scanned the fixed asset register for unusual items or exceptions. We found that the council has office equipment dating back to 1996, for example a television acquired in 1996.
- 5.8 Furthermore, the council is still showing software dating back to 2003. The council has purchased a new version of the same software.
- 5.9 We strongly recommend that the council carries out periodic inspections to ensure existence of all its assets and whether they are in good working order. If such assets are found, the council should approve the write off of these assets.

6 Grants

- 6.1 During the period ended 31 December 2015, the council received grants amounting to €2,300 from DLG in respect of the acquisition of live streaming equipment. The

council has erroneously taken the full amount of the grant as income for the year. We have proposed an audit adjustment to defer the income based on the useful life of the asset. This adjustment has been incorporated in the final set of the financial statements.

- 6.2 In accordance with instructions received from the NAO and IAS 20, grants received should be recognised as income to match the costs to which they are intended to compensate. Grants in respect of revenue expenditure should be recognised as income when the related expenditure has been incurred. Meanwhile, grants to acquire items of property, plant and equipment should be treated as deferred income and income is recognised on a systematic and rational basis in accordance with the useful life of the asset (i.e the depreciation charge).
- 6.3 During our audit, we noted that the council has been approved two different capital grants, one of €50,000 for works in Triq it-Tigrija and another one of €20,000 for works in Triq Is-Sajjieda.
- 6.4 In view of this, we reviewed the documents supplied by the council and noted that these are not formal agreements and consequently the council cannot be certain that the grant will be received.
- 6.5 We recommend, that these should not be recognised as accrued income of €70,000 for both grants. We suggest that these will be recorded when the contracts are signed.

7 Trade and other receivables

Pre-regional receivables

- 7.1 The council's LES receivables pertaining to the period up to 31 August 2011 amounts to €95,560.72 as per Loqus report 622. This results in a difference of €881.28 when compared to €96,442 as disclosed in the financial statements. However we did not propose an audit adjustment to reduce the LES debtors because it has no effect on the financial statement since these are fully provided for.
- 7.2 We recommend that the council investigates this difference and adjusts the LES receivables at the reporting date to reflect all adjudicated contraventions not yet paid once the correct balance is established.

Overdue receivables

- 7.3 The council's overdue receivable relates to WSC of €21,296.68. The council has already provided for some of the outstanding balance.
- 7.4 We recommend that the council should investigate these amounts and if no longer due, write them off after careful consideration and approval by the council.

8 Financial statements

Presentation of financial statements

- 8.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS).

Below are some of the non-compliance issues identified:

- i. The council's financial statements do not give all the quantitative and qualitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*.
 - ii. Finance costs are not disclosed separately in the statement of comprehensive income. This is required by IFRS 7.
- 8.2 We necessarily had to qualify our audit opinion in light of the above departures from IFRS's.

Capital commitments

- 8.3 The council's financial statements do not anticipate any capital commitments over the next financial period. This contradicts the council's financial budget for 2016 which estimates capital expenditure of €4,000 for improving website and €61,296.06 in road resurfacing amounting to a total of €65,296.04.
- 8.4 We recommend that the financial statements should adequately disclose the council's future capital expenditure plans, if any, as agreed to the budget. Where appropriate it is advisable to give an explanation of how such capital expenditure is to be funded.
- 8.5 We would also like to mention that costs incurred in improving the website should be expensed since capitalisation of such expenditure is only permitted if it gives rise to future economic benefits. In this case no future economic benefits would accrue to the council.

Other shortcomings in financial statements

- 8.6 The financial statements include "new and amended standards" which have been effective for a number of years and therefore should be removed. In addition the council should only include "new standards and amendments not yet adopted by the EU" which are relevant to the council's activities
- 8.7 The accounting policy for the Local Enforcement System is incorrect.

9 Meetings

Binding of minutes

- 9.1 Whilst reviewing the minutes of the council we observed that these are properly filed but are not bound at the end of each financial period.
- 9.2 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.

Councillors' allowance

- 9.3 When reviewing the minutes for meetings held during 2015, we noted that three councillors did not attend all meetings and did not supply a valid reason for their absence but still received the full allowance. We were unable to trace a letter of excuse giving reasons for their absence.

- 9.4 For the councillors who did not provide a valid reason for their non-attendance, the council should have deducted their allowance on a pro rata basis. This was not done by the council, thus the council is in breach of memo 89/2009 which outlines that councillors should be paid in accordance with article 32(2) of the Local Councils Act, based on the number of meeting attended in proportion to the number of meeting held per calendar year. Furthermore, the memo states that valid reasons should be presented in writing to the council and a copy of the letters must be kept with the minutes.

Electronic site

- 9.5 During our audit work we noted that the council is not uploading the quarterly financial reports on time. Furthermore, the council did not upload the business plan for 2015-2017 on its website.
- 9.6 Memo 36/2011 states that all reports must be uploaded on the council's website within three days after approval. All documents uploaded must be signed by the mayor and the executive secretary.
- 9.7 During the audit we noted that cheques listed in the schedule of payments are not in sequence. Furthermore, we noted that cancelled cheques were not added to the schedule of payments.
- 9.8 We recommend that the council maintains the sequence of cheques issued on the schedule of payments to ensure completeness of the cheques issued.

10 Reports

Comparison with the annual budget

- 10.1 We noted that some expenditure incurred in 2015 exceeded the budgeted amounts as follows:

	Budget	Actual	Difference
	€	€	€
Income			
Raised under local council bye-laws	8,500	20,667	12,167
Expenses			
Operations, maintenance and administration	(420,153)	(561,317)	(141,164)

- 10.2 We recommend that the council compares budgeted figures to actual figures at least on a quarterly basis to keep track of the expenditure with the budgeted amounts. The council should apply due care and diligence when compiling the budget figures as required by the Financial Regulations.

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 Mr Adrian Attard, Mr Kenneth Brincat and their staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

