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The Mayor
Marsaskala Local Council
228, Triq is-Salini,
Marsaskala, MSK 3314

Our ref ABC/scl/028416

14 April 2016

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 Income

We identified an instance where the council did not record income according to its nature (refer to note 2.1).

1.2 Expenditure

Petty cash purchases were found to be supported by cash register chits not addressed to the local council (refer to note 3.1).

We only identified one instance where the council split a bill not to exceed the €23.29 threshold. However this was prior our recommendation in the prior year's management letter. No other instances identified.

Following our recommendation the council issued a call for quotation for printer cartridges.

Schedule of payments included the details required by the Financial Procedures.

The council continued using the expired contract with Nexos Street Lighting until new tender was adjudicated by the joint committee during the year.

The insurance policy correctly includes all names of persons insured.

The council's group accident insurance policy is on a worldwide basis (refer to note 3.8).

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29 APR 2016

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Travel report was prepared in accordance with MF circular 05/2015.

We still identified instances where the council issued payments prior approval (refer to note 3.10).

1.3 **Fixed assets**

We again identified differences when reconciling net book value disclosed in the financial statement to that in the books of accounts (refer to note 4.1).

Computer software amortisation was correctly recorded in computer software accumulated amortisation account.

Construction government grant is correctly disclosed as construction grant in the financial statements however this was not reclassified in the books of accounts (refer to note 4.1).

Depreciation charge is correctly disclosed in the financial statements.

We again noted a difference in depreciation charge (refer to note 4.4).

The fixed asset register lacks necessary details (refer to note 4.6).

Fixed assets are still not tagged (refer to note 4.9).

The council's fixed asset register includes old and obsolete fixed asset items (refer to note 4.11).

Fixed asset register agrees to the unaudited financial statements.

1.4 **Receivables**

The council has accrued income relating to Green MT (refer to note 5.5).

We did not identify instances where deferred income was classified as accrued income instead.

Accrued income is not overstated.

1.5 **Inventories**

The council has correctly recorded stock at the lower of their cost and their net realisable value.

1.6 **Bank accounts**

The council provided all bank statements as at year end.

Cash float was decreased and is now in accordance with the Local Councils (Financial) Regulations.

1.7 **Creditors**

We were again not provided with all supplier statements (refer to note 7.1).

The council accrued for expenses incurred in 2015.



Non-current deferred income was correctly reclassified to a separate account in the books of accounts.

1.8 Financial statements

We still identified shortcomings in the financial statements (refer to note 8.1).

1.9 Council meetings

Council meeting minutes are not bound (refer to note 9.1).

We still identified instances where the council meeting lasted for more than three hours (refer to note 9.3)

1.10 Other reports

We are pleased to note that after our recommendation the council approved and published quarterly financial reports within the required time frame.

Business plan 2016 – 2018 was prepared and approved by the council within the required time frame.

1.11 Budget

The council's expenditure for the year did not significantly exceed budgeted amounts.

2 Income

Classification of income

2.1 The council has classified Government grant income of € 1,932, received from the Youth Agency as general income instead of other Government income. We proposed to reclassify this income under the proper heading in the financial statements.

2.2 In addition, whilst testing LES administration fees with reference to Loqus report 483, we identified a difference of € 1,075. The difference is the result of two classification errors as follows:

- i. Part of the difference consists of € 1,000 received from Regjun Xlokk with respect to the termination of the authorised officer contract. A reclassification was proposed to reclassify LES income to a separate account and disclose separately in the financial statements.
- ii. The remaining difference of € 75 pertains to income from craft courses which was erroneously recorded in LES administration fees account. A reclassification was proposed to reclassify cultural activities income to the appropriate account.

2.3 We recommend that income is allocated to the appropriate line item in the financial statements.

Deposit of receipts

2.4 During our audit we noted that the council did not keep the BOV bank security bag deposit slips for deposits made in 2015. To this end we could not determine the deposit date and the amount of cash deposited by the council.



- 2.5 May we remind you that the council must keep all deposit slips on file as the council may need to refer to them again in the future. To this end we recommend the council attaches the bank deposit slip to the receipt as sufficient proof that the money has been satisfactorily deposited.
- 2.6 We also recommend the council prepares a detailed daily report of all cash received during the day, including a reconciliation between deposits and the relevant receipts as required by the Financial Procedures.

3 Expenditure

Procurement procedures

- 3.1 When testing petty cash and cheque payments we noted that most of the former are supported by cash register chits. Examples include:

Details	Supplier	Date	€
Coffee, detergents	St Thomas Self Service	05.01.2015	19.14
Consumables, refuse bags	St Thomas Self Service	05.01.2015	19.73
Coffee, refuse bags	St Thomas Self Service	19.02.2015	19.53
Coffee, detergents	St Thomas Self Service	18.05.2015	20.39
Coffee, refuse bags	St Thomas Self Service	13.08.2015	15.30
Flowers	Grezzju Azzopardi	30.10.2015	20.00
Food, refuse bags, detergents	St Thomas Self Service	13.10.2015	19.48
Coffee, detergents	St Thomas Self Service	02.12.2015	15.06

Cheque payments

Local newspaper advert	C. Mifsud Graphics	19.05.2015	272.20
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- 3.2 Furthermore, the council did not obtain a valid tax invoice from Mr Ronald Briffa with respect to garage rent expense of € 1,106.25.
- 3.3 We understand that, in some instances, only a cash register chit can be obtained for petty purchases. Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 because they do not have the name of the addressee and therefore there is no assurance that the purchase is in the normal course of the council's operations. To this end, we recommend that where possible the council obtains a valid tax invoice or a VAT receipt addressed to the council to ensure the transaction is in the normal course of the council's business.

Quotation procedures

- 3.4 The council did not follow the quotation requirement for the following purchases:

Supplier	Description	€
Toni Wines and Spirits	Beverages	200
Solid base	Determination of air content in fresh concrete	236

- 3.5 This is in contravention of the Local Councils (Financial) Procedures, 1996 which state that councils should obtain at least one quotation for purchases not exceeding € 1,165.

**Tendering procedures**

- 3.6 During 2015, the council paid € 40,134.96 on works carried out for the Embellishment of the 'Bidni' area in Marsaskala with respect to Tender KLM2014/04. However, during our tender procedures we noted that the original quoted price by the bidder was of € 33,536, hence a variation of 19.67% from the invoiced amount.
- 3.7 We refer to Appendix P3.IX.47 to the Local Councils (Tendering) Procedures stating that in the event that the variation in contracted work is more than 10%, the council reserves the right to terminate the contract and issue a fresh call for tenders. The minutes of the council do not state that it approved the significant variation in the contract.

Insurance policy

- 3.8 As mentioned in the prior year's management letter, the council's group personal accident policy is on a 24 hour worldwide basis. Thus all council's employees and members are even insured outside of their council duties. We understand that the present coverage does not give rise to additional premium cost. However, should a material claim occur, this will lead to a higher insurance premium cost.
- 3.9 We recommend that the council insures the council members and employees solely when performing their council duties.

Approval of payments

- 3.10 We identified instances where the council issued cheques before they were approved in council meetings.

Name of supplier	Cheque number	Date of cheque	Date of approval	€
Melita p.l.c.	11449	07.08.15	17.08.15	48.48
Melita p.l.c.	11417	13.07.15	17.08.15	36.06
Melita p.l.c.	11033	08.05.15	18.05.15	9.99
Melita p.l.c.	11078	21.05.15	23.06.15	70.12
Arms Ltd	11074	18.05.15	23.06.15	442.87
Matthew Attard	11077	19.05.15	23.06.15	1,403
Arms Ltd	11794	30.12.15	31.01.16	1,051.82

- 3.11 We understand from the minutes that there were instances when approval was given earlier. However, we could not trace approval for the above urgent payments in the minutes. 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 we reiterate our recommendation to the council to approve payments prior approval.
- 3.12 We also noted that the council did not issue cheque payments in a sequential order. In one instance we noted that cheque numbers 11011 to 11300 were skipped in schedule of payments 34, only to discover that these were already issued and approved in 2014.



- 3.13 Moreover, the council did not ratify cancelled cheques since these were completely omitted from the schedules of payments.
- 3.14 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 its cancellation.
- 3.15 We also recommend that the council issues all cheques in a sequential order as required by the Local Councils (Financial) Procedures.

4 Fixed assets

Reconciliation of financial statements to accounting records

- 4.1 Whilst performing our reconciliation of net book values disclosed in the financial statements and those recorded in the nominal ledger we noted the following differences:

Details	NBV as per financial statements €	NBV as per nominal ledger €	Difference €
Tangible assets			
Construction works	760,956	913,210	(152,254)
Urban improvements	482,409	329,487	152,922
Plant machinery and equipment	22,982	23,012	(30)
Office furniture and fittings	11,781	12,419	(638)
	1,278,128	1,278,128	-

- 4.2 The council should investigate and reclassify accordingly the variances identified between asset categories in the financial statements and the nominal ledger.
- 4.3 As pointed out last year, the council is wrongly classifying Government grants of € 157,421 treated under the capital approach separately in the books of account and not against the respective fixed asset account for construction works. We proposed an audit adjustment to allocate grant in the appropriate asset category.

Depreciation

- 4.4 When testing depreciation for reasonableness we found a difference of € 6,615 between the depreciation charge as per our workings and that presented in the financial statements. We were unable to ascertain what the difference pertains to as the council is using the Sage facility to calculate depreciation. No audit adjustment was proposed to correct the discrepancy since it is an accounting estimate based on the estimated useful lives of assets.
- 4.5 We recommend that the council checks if Sage is automatically calculating the depreciation on a monthly reducing balance method. If not the council should communicate with Sage support to remedy the shortcoming.

Details of fixed asset register

- 4.6 We would also like to highlight the fact that the fixed asset register does not include important information like location of assets and asset codes in order to enable the tracing of a specific asset.
- 4.7 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
- 4.8 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

Tagging of fixed assets

- 4.9 We again noted that the council's assets have not yet been tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 4.10 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified once the plant register is compiled.

Upkeep of the fixed asset register

- 4.11 We noted that the fixed asset register is overstated since it includes some assets which are obsolete or unusable. Examples are listed below:

Asset category	Details €	Purchase date €	NBV €
Construction	Pavement Triq La Sengle	10.08.2002	7,489.64
Construction	Resurfacing Triq La Sengle	11.08.2002	4,497.51
Computer equipment	PC P/Bell Imedia 4280 Athlon	27.10.2004	90.93
Computer equipment	PC AC MS Window XP	17.11.2004	28.20
Computer equipment	Monitor P/Bell Crt 17 CC700	07.07.2005	6.96
Computer equipment	PC AC MS Windows XP Pro	07.07.2005	7.65
Computer equipment	PC P/Bell Imedia 4280 Athlon	07.07.2005	27.82
			<u>12,148.71</u>

- 4.12 The register should provide a checklist of assets held. Periodically the council should carry out a physical inspection of assets listed in the register to obtain assurance of existence and working condition. Disposal of assets should be approved during the council meetings.

5 Trade and other receivables

Trade receivables

- 5.1 The trade debtors' confirmation procedures unfolded a difference of € 35.13 between the amount claimed by Water Services Corporation Malta and the debtor's control in the council's books of accounts. We noted that the difference pertains to a set-off which was not included in the council's books of accounts.
- 5.2 We recommend that reconciliations of debtors' balances are carried out regularly, preferably monthly.

Overdue trade receivables

- 5.3 The council's other debtors' balance includes an amount of € 3,982.50 receivable from Kirkop Local Council. A provision was created against this balance in prior years to write its carrying amount to nil.
- 5.4 We understand that the council has contacted this debtor. However, we still recommend that the council contacts the debtor to press for payment and if it remains unlikely that they will be settled, these should be considered for a complete write off. In doing so, the council should obtain prior approval in meeting and document the decision in its minutes.

Green MT

- 5.5 At the year end the accrued income due from Green MT stood at € 5,085.33. This is made up of accrued income of € 2,631.88 for 2014 and € 2,453.65 for 2015. We have been informed by the executive secretary that the 2014 balance is to be settled in 2016 by Green MT with benches purchased by this supplier for the council. We were provided with a photocopy of a cheque for € 3,374 prepared by Green MT in favour of the bench supplier.
- 5.6 Our review of the minutes revealed that the council approved the purchase of benches but did not specify that this would be in the nature of a "barter" with Green MT.
- 5.7 We recommend that this transaction is approved by the council in meeting since this is not a normal commercial transaction.
- 5.8 In addition, we would like to remind the council that the value of the benches to be included in the books of account and fixed asset register should be € 2,631.88 that is the amount being settled by the bench acquisition. This is what the cost is to the council and the correct accounting treatment.
- 5.9 In view of the accounting treatment required, it would be preferable to receive the cheque directly from Green MT so that the transaction can be recorded at the supplier's value of the benches in both fixed assets and as a credit to accrued income for 2014.

6 Cash and cash equivalents

Stale cheques

- 6.1 Whilst performing unpresented cheques testing we noted that some of the reconciling cheques listed were not lodged within six months from the date of issuance. Identified cheques are listed below:

Date	Cheque number	€
15.07.2015	BOV 11392	100
15.07.2015	BOV 11398	234.09
27.07.2015	BOV 11429	10
24.07.2015	BOV 11442	92.80

- 6.2 Further enquiries revealed that cheques numbered 11429 and 11442 were in fact cancelled during the year and a replacement cheque was re-issued. However the council did not cancel these cheques from the books of accounts. The other two cheques have not yet been presented and nor cancelled.
- 6.3 It is important that the council investigates 'stale' cheques and reverses them against the respective expense account or supplier's account, if the cheques are unlikely to be cashed or has been replaced.

Books of account

- 6.4 The cash balance of € 467 disclosed in the unaudited financial statements did not agree to that in the books of accounts by € 108. The difference pertains to a transaction which was recorded in the books but which was not reflected in the financial statements.
- 6.5 We recommend that the council keeps the two sources in agreement so that the trial balance reflects the amounts included in the nominal ledger.

FWT on bank interest

- 6.6 We noted that multiple bank accounts held by the council are taxable. These are BOV current account 40022551225, BOV current account 40022850042 and HSBC savings bank account 049003288050.
- 6.7 We recommend that the council instructs the bank not to withhold tax from interest on deposits held, since councils are exempt from income tax.

7 Trade and other payables

Suppliers' statements

- 7.1 We acknowledge that the council has made an effort to obtain supplier statements to confirm the year-end balances with suppliers. However, statements were not available for all of the suppliers which we selected for audit testing.
- 7.2 We again recommend that the council adheres to directions issued by the Local Councils Department and requests statements from all suppliers, not only at year-end but also on a monthly basis. These should be reconciled on a regular basis to identify any differences between amounts claimed and the accounting records.

Discrepancies in trade payables

- 7.3 The council did not record an invoice received from Home and Industry Supplier Ltd relating to doggy bins purchased in 2014. The unrecorded balance amounts to € 216. We did not propose an audit adjustment to account for the expense since the amount is not material.
- 7.4 The situations noted above highlight the importance of reconciling creditor balances to statements such that discrepancies are identified and corrected on a timely basis.

Classification of liabilities

- 7.5 On 21 March 2012 the council entered into an agreement with the Paying Agency within the Ministry for Resources and Rural Affairs. The Paying Agency is the competent authority entrusted with the execution of the rural development entitled 'Measure 313- Encouragement of Tourism Activities'. The Paying Agency grant the amount of € 249,247 for the leisure park project. In 2015, the project was completed and the council still had € 39,382 in bank which were unutilised. This balance will be withdrawn by the Paying Agency to be refunded back to the European Commission in the future.
- 7.6 The council has treated this remaining balance as deferred income. Since the grant received will be refunded back to the European Commissions, we proposed a reclassification to transfer the payable amount to other creditors as appropriate.

8 Financial statements**Shortcomings in financial statements**

- 8.1 The following shortcomings were identified whilst reviewing the unaudited financial statements:
- i. Disclosed financial liabilities in notes 16 and 20 to the financial statements include non-financial liabilities, namely accrued statutory liabilities.
 - ii. Comparative figure in note 10: Administration and other expenses does not cast.
- 8.2 We recommend that the council addresses these issues when preparing financial statements and makes the necessary adjustments. The council has amended the audited financial statements as recommended.

Cash flow statement

- 8.3 We reviewed the cash flow statement of the council and noted that the cash flow outflows and inflows were not disclosed in accordance with IAS 7, *Statement of Cash Flows*. Examples are:
- i. cash payments to acquire property, plant and equipment includes capital creditors
 - ii. cash inflow from bank interest includes accrued interest
 - iii. Government grants released are disclosed as working capital movement instead of non-cash adjustments
 - iv. Non-cash adjustments include a grant reversal of € 39,382. However this should be disclosed as a cash flow in working capital with other payables.

- v. Upon analysing BOV bank letter, it transpired that one of the accounts, namely bank account 40020566050 has blocked funds amounting to € 39,372.28. As mentioned in note 7.6, these funds will be withdrawn by the Paying Agency in the future. Until then, these funds have been restricted by the bank. The council did not disclose a note with respect to the restricted cash in accordance with IAS 7: *Statement of Cash Flows*.

8.4 The cash flow statement was amended after our notification..

9 Council meetings

Binding of minutes

- 9.1 We still noted that the council did not bind the prior year's minutes of meetings.
- 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.

Duration of meetings

- 9.3 From the minutes of the council, we noted that meetings 29, 30, 31, 32, 33, 34, 35 and 39 lasted more than three hours.
- 9.4 This is contrary to memo 68/2009 and section 43(3) of the Local Councils Act which state that the duration of council meetings shall not exceed three hours. They also state that meetings shall not start before 5.30 pm unless agreed by the whole council. In this regard, we advise the council to abide by these instructions.

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 Josef Grech and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

