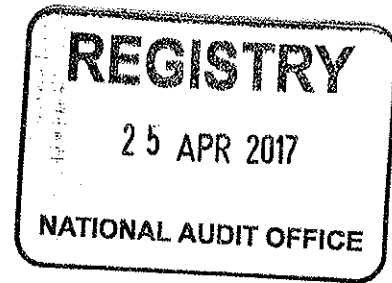




Grant Thornton

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Our ref ABC/mf/41917

19 April 2017

Dear Sir,

Financial statements for the year ended 31 December 2016

During the course of our audit for the year ended 31 December 2016 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We did not identify any income which was not classified accordingly.

We again encountered receipts for which we were unable to trace to the bank deposit slip (refer to note 2.3).

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 again noted irregularities while testing procurement procedures (refer to note 3.3).

We identified an instance where the council did not obtain performance bond within stipulated seven days (refer to note 3.7).

The council's group accident insurance policy is on a worldwide basis (refer to note 3.11).

We did not identify instances where the council is issuing cheque payments prior to obtaining council's approval.

The schedules of payments still do not include a complete list of cheques (refer to note 7.3).



1.3 Fixed assets

Once again, we identified discrepancies between the net book value disclosed in the financial statements and the accounts (refer to note 4.3).

Government grants are still being wrongly classified under urban improvements rather than with construction works (refer to note 4.1).

The depreciation charge was correctly calculated and disclosed in the financial statements.

The fixed asset register is once again lacking information as requested by the Local Councils (Financial) Procedures, 1996 (refer to note 4.6).

We noted that the council started process of tagging its fixed assets thus resulting in assets being easily identified.

However, it was noted that the fixed asset register still includes old and obsolete items (refer to note 4.10).

1.4 Receivables

We did not identify any discrepancies between the amounts as disclosed in the accounts and the confirmation letters provided by the debtors.

We again noted various irregularities relating to income from Green MT (refer to note 5.3).

The debtors' list does not include any overdue trade receivables.

1.5 Cash and cash equivalents

No stale cheques were noted during our testing.

No differences were noted in disclosure of cash balance in financial statements to that disclosed in the books of accounts.

We did not encounter any instances where bank withheld tax.

1.6 Trade and other payables

The council is still not obtaining suppliers' statement at or near year end (refer to note 6.1).

We identified a discrepancy between a supplier's statement and the creditors' list (refer to note 6.3).

We did not identify instances where the council did not classify liabilities appropriately.

1.8 Financial statements

No shortcomings were identified in the financial statements.

No shortcomings in the statement of cash flows were noted.

**1.9 Council meetings**

Council meeting minutes 2015 were bound.

We still identified instances where the council meeting lasted for more than three hours (refer to note 7.1).

2 Income**Contracts**

2.1 In April 2016, the council entered into an agreement with the Social Welfare Services for the rental of the LEAP Centre. However the contract was not signed by the lessee. Total rental income generated from this contract amounted to €610 during the year.

2.2 It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

Custodial receipts

2.3 During our audit we noted that the council did not have copies of the deposit slips available and hence we could not trace the date when these receipts were deposited. The cases identified were the following:

Receipt number	Receipt date	Amount €
661887	19.01.2016	148.75
683351	07.07.2016	50.79

2.4 We recommend the council keeps all supporting documentation relating to receipts and when the amounts were deposited so as to ensure that the Financial Procedures are being adhered to.

3 Expenditure**Petty cash payments**

3.1 During the audit we found that cash register chits were still accepted in respect of petty cash expenditure. The following are instances which were encountered during the audit fieldwork:

Details	Supplier	Date	€
Consumables (coffee etc)	St Thomas Self Service	19.01.2016	17.98
Paint gel	B&G Hardware Store	04.03.2016	17.11
Consumables	Racs Bargain Spot	14.04.2016	22.03
Sunblock for RSS workers	St James Pharmacy	27.07.2016	17.90
Lamination pouches	Fenbros Store	07.09.2016	13.75
Maintenance of flags	Needs stationery	14.10.2016	12.00

3.2 The Procedures point out that all supplies should have a valid invoice/receipt which is addressed to the council. Furthermore, the Procedures specifically require that supplies are supported by a proper tax invoice. We highly recommend that the council obtains tax invoices or VAT receipts which are addressed to the council,

whenever possible, to support petty cash payments, thus ensuring that payments are in the normal course of the council's activities.

Procurement procedures

- 3.3 During the audit we noted that some cheque payments did not have a supporting purchase order/ quotation in accordance with the Procedures.
- 3.4 The following are examples where the council did not prepare purchase orders nor obtain quotations:

Supplier	Details	€
TCTC	Learn It agreement 2016	1,150.00
Correct Termination Ltd	Streaming October 2016- September 2017	1,044.30

- 3.5 The following are examples where the council only prepared a purchase order; however no quotation/s were obtained:

Supplier	Details	€
Bonnici Brothers Ltd	Cold asphalt	1,146.96
Opal	10 dog litter bins	1,160.00
C.E.B Metals Ltd	Road repair compound	988.84
General Ecological Services Co Ltd	Cleaning of rain water culverts	1,160.00

- 3.6 The Local Councils (Financial) Procedures, 1996, state that purchase orders and one quotation must be raised for all purchases between €23.29 and €1,165. Furthermore, three quotations should be obtained if the expense is within the €1,165 and €4,658 threshold.

Performance bond

- 3.7 We noted that, in the case of tender KLM2016/01, the successful bidder failed to furnish the guarantee within the stipulated seven days,
- 3.8 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within seven days from the date of the letter of acceptance.

Rent

- 3.9 During the year under review, the council commenced renting another single room which is not covered by the existing rental agreement. The rental expense of the room amounted to €840 in 2016 and the executive secretary explained that this was a verbal agreement between the lessor and the council. The executive secretary further explained that this room is being rented out to Social Welfare Services, an entity which is renting out part of the premises from the council (refer to note 2.1).
- 3.10 Subsequently to presenting the draft management letter to the council we were provided with the agreement signed on 18 April 2016.

Insurance policy

- 3.11 We are again noting that the council's group personal accident policy is on a 24 hour worldwide basis. Although the present coverage does not give rise to additional premium cost, should a claim occur, this will lead to a higher insurance premium cost.



- 3.12 We recommend that the coverage for personal accident insurance is limited to cover Malta only. In cases where the council is travelling abroad, the members going abroad should take overseas coverage for all potential losses for the period they will be abroad.

4 Fixed assets

Classification

- 4.1 As already pointed out in prior years' management letters, the council is still classifying Government grants amounting to €157,421 relating to construction with urban improvements. An audit adjustment was proposed to show this grant with the relevant asset. The council approved our proposed audit adjustment.
- 4.2 Although this is correctly disclosed in financial statements, we recommend the council passes the proposed adjustment in the books of accounts so as to show all grants under the correct asset.
- 4.3 We identified differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in nominal ledger €	Difference €
Plant and machinery	18,849	18,037	812
Computer software	2,522	3,335	(813)
	21,371	21,372	(1)

- 4.4 Upon further analysis of the above discrepancies between the accounts and the unaudited financial statements, we noted that the depreciation for computer software was included with the plant and machinery, and in this regard an audit adjustment was proposed to adjust this discrepancy.
- 4.5 We recommend the council passes the proposed adjustment and ensures that any amortisation is accounted for separately from depreciation so as to have the correct net book value for both tangible and intangible assets. The council approved our proposed audit adjustment.

Details of fixed asset register

- 4.6 When reviewing the fixed asset register, we noted that certain details like invoice numbers and suppliers details are missing. For example:

Asset category	Asset code	Description	Purchase date	Net book value €
Computer equipment	KLM001484	New laptop- executive secretary	01.02.2016	462.98
Office equipment	KLM001215	photocopier IR2520/M0420	23.05.2010	426.95
Office equipment	KLM001366	1800btu Air conditioner- inverter	09.08.2013	459.48
Office equipment	KLM001492	Kyocera colour laser	26.05.2016	588.03
Plant and machinery	KLM001368	Tamper rammer	15.05.2013	976.22



- 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.
- 4.9 During our testing we noted that the following fixed assets are included in the fixed asset register, however were not situated at the council's premises:
- Rex Rotary fax machine
 - ASUS laptop
- 4.10 We were informed that the fax machine was scrapped as it was not in working order. In the case of the laptop, it is being used by the mayor and thus is not at the council's premises.
- 4.11 The secretary is required to create, maintain and control an up-to-date inventory of the fixed assets held by the council, as required by the Local Council's (Financial) Procedures P1.16b. It is recommended that an exercise is performed and any obsolete items included in the fixed asset register are written off or if such assets are being scrapped, such scrapped assets are approved in a council meeting.
- 4.12 Furthermore, the Local Council (Financial) Procedures state that the council must keep all the assets on the council premises. The procedures also state that the removal of council assets outside of the council's buildings must be authorised in writing by the executive secretary.

5 Trade and other receivables

GAL Xlokk membership

- 5.1 We have noted that the council is still a member of the GAL Xlokk Foundation. The council should obtain, as members, the financial statements from GAL Xlokk so that it is able to assess the cost/benefit of this membership. However we were not provided with the above. We were notified by the executive secretary that the council requested the financial statements of GAL Xlokk Foundation but these were not yet provided by the latter.
- 5.2 We would like to emphasise the importance of obtaining the financial statements of GAL Xlokk Foundation in order to perform cost/benefit analysis for such



expenditure. Furthermore as a member of the Foundation, the council should be entitled to view the financial statements.

Green MT

- 5.3 When testing the Green MT balances, we noted that the 2014 accrued income amounting to €2,631.88 was transferred directly to income during the year under review. The council never issued an invoice regarding this income, and thus did not transfer the balance to debtors' control account.
- 5.4 We recommend that the council invoices all amounts due by Green MT and also ensures that any amounts recognised in accrued income are transferred to debtors prior to Green MT settling such amounts.
- 5.5 The 2014 accrued income was settled by Green MT in kind, whereby Green MT purchased 10 benches for the council, instead of issuing a payment directly to the council. In view of the accounting treatment involved, it would have been preferable for the council to receive the cash directly from Green MT rather than receiving a payment in kind.
- 5.6 Furthermore, we noted that the accrued income relating to 2014 was under accrued by €742.36. Hence this amount is shown in the 2016 income since this amount was settled in 2016.
- 5.7 In 2016, accrued income of €2,400 for Green MT was recorded in the accounts. This accrued income was based on the 2015 waste collection report. During our audit fieldwork the council obtained the 2016 report from Green MT amounting to €2,517.95. No audit adjustment was proposed as the difference of €117.95 is not deemed material.
- 5.8 When reviewing the agreement between the council and Green MT, it was noted that the agreement was only signed by the local council and not by Green MT. The agreement is dated 25 October 2016.
- 5.9 We recommend the council ensures that all agreements are signed by both parties so as to make the agreement binding for both parties.

6 Trade and other payables

Trade payables

- 6.1 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.
- 6.2 This is contrary to the relevant Procedures, which require the council to request monthly statements from all suppliers. Memo 3/2016 issued by the DLG specifically state that the council should reconcile the books of account to supplier statements on a monthly basis.

Supplier's confirmation

- 6.3 During our audit, we obtained a direct confirmation from ARMS, stating that as at year end the council owes them €11,214. This contradicts the council's records which state €5,477. We were informed that the difference of €5,737 is due to the invoice



being contested by the council (refer to note 6.5) and some invoices which were omitted from ARMS' statement.

- 6.4 We strongly recommend the council discusses the above differences with the supplier to reach an agreement on the amount due. In future, the council should obtain statements on a regular basis in order to regularly reconcile any discrepancies and thus avoid material differences from being accumulated.

Accruals

- 6.5 During audit fieldwork we were informed that on 27 August 2016, the council received a bill and a letter from ARMS amounting to €10,178.12. The letter from ARMS states that the bill relates to the electricity meter at Zonqor playing field which was charged from 2 March 2000 to 1 June 2016.
- 6.6 The council contested the amount and sent a reply to ARMS stating that they are willing to pay the charges for the past five years only. Accordingly the council accrued for an estimate amounting to €3,500.
- 6.7 On 4 April 2017, the council received a reply from ARMS, whereby ARMS agreed to bill the council for the past five years only, amounting to €5,434.50. The executive secretary informed us that no adjustment is to be made to increase the accrual to the full amount until this letter is discussed in the council meeting.
- 6.8 The council should make adequate provisions for accruals supported by documentary evidence so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

7 Council meetings

Duration of meetings

- 7.1 From the minutes of the council, we noted that meetings 41, 45 and 47 lasted more than three hours.
- 7.2 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 unless consensus is reached by all members.

Approval of schedules of payments

- 7.3 We identified multiple instances where cheque numbers are not listed in sequential order and some cheque numbers have been omitted from the schedules of payments. During our testing we confirmed that the omitted cheques were cancelled before the approval of schedule of payments. Examples include:

Cheque number	€
11792 ✓	131.06
11795 ✓	106.09
11857 ✓	100.00
11883 ✓	129.73
11891 ✓	4,397.42
11917 ✓	500.00
11932 ✓	51.33
11768 ✓	204.00
	<u>5,619.63</u>



- 7.4 We also noted that the schedule of payments include cheque number 11796 amounting to €997.91. This cheque, however, was cancelled and replaced by cheque number 11800 with the same amount. This was not reflected in the schedule of payments.
- 7.5 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council.

8 Electronic site

- 8.1 During our audit work we found that the council did not upload the annual administration reports in accordance with memos 36/2011 and 01/2014. Furthermore, the business plan 2016- 2018 which was uploaded on the council's website, is not signed or indicated as being signed.
- 8.2 We recommend that the council abides 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 council's site within two days of approval. The "iffirmat" on the documents are the confirmation that the uploaded documents are the approved and correct ones.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr Josef Grech and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,