



Grant Thornton

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The Mayor
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Our ref MB/mf/54420

11 June 2020

Dear Sir,



Financial statements for the year ended 31 December 2019

During the course of our audit for the year ended 31 December 2019 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 Prior period adjustment

No prior period adjustment was included in the books of account during the current financial year.

1.2 Fixed asset register

The fixed asset register was compiled during the year; however we noted a shortcoming in this respect (refer to note 3.1).

1.3 Depreciation

We are pleased to note that the council has rectified the issue during the year under review.

1.4 Additions to fixed assets

We again noted various shortcomings in the addition to fixed assets (refer to note 3.6).

1.5 Grants

We have again encountered issues with respect to the grant Wied Blandun project (refer to note 3.8).

1.6 Income from Central Government

We have again identified a shortcoming in the income from Central Government (refer to note 4.1).

1.7 Other Government income

The council did not rectify the issue during the year under review (refer to note 4.3).

1.8 Income from LES administration fees

We still encountered shortcomings while performing testing on income from LES administration fees (refer to notes 4.5 and 4.7).

1.9 Investment income

We are pleased to note that the council has rectified the issue during the year under review.

1.10 Organic waste collection agreement

We did not encounter any issues with the organic waste collection agreement.

1.11 Petty cash expenditure

We are still encountering instances where the council is not adhering to the petty cash procedures (refer to note 5.1).

1.12 Tendering procedures

We again identified irregularities in tendering procedures (refer to note 5.6).

1.13 Insurance policy

We have again encountered a shortcoming in relation to the insurance policy (refer to note 5.12).

1.14 Travelling

The council once again did not submit the travel report to Department for Local Government (refer to note 5.15).

1.15 Rent expense

The council once again did not record the rent expenditure in the appropriate account (refer to note 5.17).

1.16 Christmas dinner

We again identified a shortcoming in the expenditure incurred in relation to the Christmas dinner (refer to note 9.20).

1.17 Schedules of payments

We again noted that the account numbers are not included on the schedules (refer to note 14.1).

1.18 Councillors' allowance

We have again noted shortcomings in the councillors' allowances (refer to note 6.11).

1.19 Payment of overtime

We did not encounter issue with the payment of overtime.

1.20 Pre-regional receivables

Debtors in the Loqus IT system are more than LES debtors recorded in the council's books of account (refer to note 7.1).

1.21 Overdue trade receivables

We again noted that the debtors' list is still showing amounts which are long overdue (refer to note 7.3).

We again identified a discrepancy between the debtor confirmation and the books of account (refer to note 7.5).

1.22 Accrued income

We again identified a shortcoming in accrued income (refer to note 7.7).

1.23 Prepayments

The council did not rectify the issue during the year under review (refer to note 7.11).

1.24 Petty cash reconciliation

We did not identify any shortcomings in the petty cash balance as at 31 December 2019.

1.25 Supplier statements

The council failed once again to obtain all supplier statements at year end to confirm the year end balances (refer to note 9.1).

1.26 Long-outstanding creditors

We have again noted long outstanding creditors in the books of account (refer to note 9.3).

1.27 PPP payables

The council once again failed to distinguish between trade creditors and capital creditors in the trial balance (refer to note 9.5).

1.28 Accruals

We have again encountered shortcomings in accruals (refer to note 9.14).

1.29 Presentation of financial statements

We have again identified a number of shortcomings in the presentation of financial statements (refer to note 11.1).

1.30 Electronic site

During the year under review the council did not address the issue of uploading documents on the council website (refer to note 12.1).

1.31 Uploading of management and other documents

We identified a shortcoming in the uploading of management and other documents (refer to note 12.3).

1.32 Budget

We are pleased to inform that the council approved the budget within the stipulated timeframe.

1.33 Attendance at meetings

The council did not rectify the issue in relation to the attendance at meetings for the 7th legislature (refer to note 13.1).

2 Accounting function

2.1 The unaudited financial statements showed a profit of €74,743 which, after our proposed audit adjustments, decreased to €67,054.

2.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2020 which did not present fairly the results and statement of financial position of the council at year-end. If interim accounts are prepared in the same way, the council may be misguided as to the performance and position of the council and may incorrectly rely upon inaccurate accounts for decision-making purposes and the budgeting process. Our audit findings and proposed audit adjustments indicate that the accounting function needs to be improved.

2.3 The council should not rely on the year-end audit to reveal errors in the preparation of its accounts. May we remind the council that in accordance with circular 1/2020 the council must make sure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should be up-to-date with accounting standards and regulations.

2.4 We also remind the council that it is the responsibility of the executive secretary and council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

3 Fixed assets

Fixed asset register

3.1 When reviewing the fixed asset register, we noted that relevant details like invoice number, location and depreciation for the year are missing. Examples include:

Asset category	Asset code	Description	NBV €
Computer system	COM001	Skyline Webcam	366
Office Equipment	OFFE002	Money detector	96
Furniture and fixtures	OFFR004	Chairs	424

3.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received.

3.3 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.

Reconciliation of financial statements with fixed asset register

3.4 We identified a difference between the net book value of assets in the unaudited financial statements and the net book value in the fixed asset register. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Trees	2,849	-	2,849
Construction and urban improvement	100,386	104,213	(3,827)
	103,235	104,213	(978)

3.5 Circular 1/2020 states that the council should ensure that the fixed asset register agrees to the nominal ledger. Any variances between the assets disclosed in the financial statements and the plant register need to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and compares the figures for fixed assets to the fixed asset register to ensure proper preparation of the financial statements.

Additions to fixed assets

3.6 As part of our audit procedures, we performed the fixed assets additions' testing and noted the following shortcomings:

- (a) During the year under review the council has reclassified an amount of €64,300 in relation to the paving works at Housing Estate at Triq Guze D'Amato from 'assets not yet capitalised' to 'construction and urban improvement' category. In accordance with the architect certificate issued on 16 January 2019 we established that the amount capitalised and reclassified was net of the retention money of €3,384. We have proposed an audit adjustment to record the retention money. The council has amended the financial statements to include our audit adjustment. Furthermore, the council during the year received a grant from Housing Authority with respect to the stated project. The grant received amounted to €67,684. The council has correctly recorded an amount of €64,300

using capital approach. However, the resulted difference of €3,384 was erroneously accounted for as other Government income. We have proposed an audit adjustment to account for €3,384 under capital approach. The adjustment was correctly included in the audited financial statements.

- (b) We also noted that the council capitalised addition of €5,251 relating to CCTV at Gnien D Mintoff as ‘office equipment’, rather than ‘urban improvements’. We have proposed an audit adjustment to rectify the issue and to allocate addition to appropriate category. The council has amended the financial statements to include our audit adjustment.

- 3.7 We recommend that the council ensures that the amount capitalised includes retention money as it is part of the cost of the asset. The council should ensure that received grants, which are of a capital nature, are accounted for under capital approach in line with Directive 1/2017 issued by the Department for Local Government. Furthermore, capitalised assets should be allocated to the correct categories thus ensuring appropriate depreciation charge.

Grants

- 3.8 As stated in last year’s management letter we noted that the ‘Wied Blandun’ project will not be carried out by the council but will be undertaken by Projects Malta. During 2016 the council signed an agreement with the Department for Local Government for the grant of €50,000 in respect of the same project. The council proposed to utilise this amount for the monument to be placed in ‘Wied Blandun’. In 2016 the council received first payment of €37,500 out of €50,000 approved whilst the remaining balance of €12,500 was accounted for as accrued income. During the year under review the council signed an extension to the original agreement with the Department for Local Government. In accordance with the extension to the original agreement, the council was granted an additional amount of €50,000 in respect to capital projects thus resulting in the total amount of €100,000 granted to the council. In 2019 the council received the second payment of €31,250. The following journal entry was recorded in the books of account and unaudited financial statements:

Account	Description	Dr €	Cr €
5007	BOV reserve cheque a/c 40014216879	31,250	
2112	Government Grant – Gnien Dom Mintoff (Wied Blandun)		31,250

However, in prior years the council already accrued for €12,500 against this grant. Thus, the above journal entry resulted in the overstating the grant and corresponding accrued income. We have proposed an audit adjustment to reduce accrued income by €12,500 against the amount received and to decrease grant which was erroneously accounted for twice. The council has included this adjustment in the final set of financial statements.

- 3.9 We recommend the council, prior to recording transactions in its books of account, establishes whether entries concerning the same transactions were already recorded in the books of account thus ensuring correct accounting treatment and avoiding possible overstatements.

- 3.10 Furthermore, as explained in note 3.8, during 2016 and 2019 the council received a total amount of €68,750 out of €100,000 approved by the Department for Local Government. The council failed to record the remaining amount of €31,250 as accrued income against the grant. We have proposed an audit adjustment to record accrued income. This was approved by the council and incorporated in the financial statements.
- 3.11 We recommend that the council records accrued income and corresponding grant when written agreement is signed by all parties and it is certain that the amount will be received.

4 Income

Income from Central Government

- 4.1 We noted that the unaudited amount for annual Government income was €719,120. Supporting documentation shows that the total allocation for the year was €720,234. The resulting difference of €1,114 is attributable to the deduction in respect to MITA service agreement. We proposed an audit adjustment to correct the error in this respect and advise the council to record all Government income before any deductions as required by circular 1/2020. The audited financial statements of the council reflect this adjustment.
- 4.2 We therefore recommend that the Government allocation is shown gross, that is, before deductions. Any deduction should be shown as an expense.

General income

- 4.3 In the unaudited financial statements the council has classified the following sources of income as general income, namely:

Description	€	Notes
LESA contraventions paid by cheque	306	(a)
Libraries scheme 2018	400	(b)
2019 Milied Party Anzjani	1,815	(c)
Library Scheme 2019	2,890	(d)
Organic waste scheme	47,847	(e)

- (a) The council erroneously has classified income in relation to LESAs to the 'general income'. We have proposed an audit adjustment to reallocate this amount to the 'income raised under Local Enforcement System'. The council has included this adjustment in the final set of financial statements.
- (b) We have noted that in January 2019 the council received an amount of €400 in respect to Library scheme. The following journal entry was recorded in the books of account and unaudited financial statements:

Account	Description	Dr €	Cr €
5007	BOV reserve cheque a/c 40014216879	400	
0066	General		400

Upon further testing it was established that amount of €400 in respect to Library scheme 2018 was recorded as accrued income in previous financial period. Thus, we have proposed an audit adjustment to reduce accrued income and corresponding general income by €400. Moreover, the income from library schemes should be allocated to 'other Government income'. The council has amended the financial statements to include our audit adjustment.

- (c) We noted that the income from Christmas party amounting to €1,815 was recorded in the 'general' income account rather than in 'social activities (organised by council)' account. We have proposed an audit adjustment to reallocate the income in the appropriate account and to conform with the last year classification. This has been incorporated in the financial statements.
 - (d) During the year under review the council accounted for €2,890 as income in relation to the library scheme as per Circular SPI 10/2019. After reviewing the agreement, we noted that this relates to the next financial year and therefore should be recorded as deferred income. We have proposed an audit adjustment to record €2,890 as deferred income. This was correctly amended in the audited financial statements.
 - (e) The council has classified income from organic waste collection amounting to €47,847 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate this amount to 'other Government income'. This has been incorporated in the financial statements. Furthermore, we noted that the council did not record income for the reimbursement of organic waste collection expense covering November and December 2019. We have proposed an audit adjustment to account for the accrued income for this period amounting to €7,619. The audited financial statements of the council reflect this adjustment.
- 4.4 We recommend the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported. Furthermore, we again remind the council that prior to recording transactions in its books of account, council should establish whether entries concerning the same transactions were already recorded in the books of account thus ensuring correct accounting treatment and avoiding possible overstatements. We recommend that the council adheres to the accrual basis of accounting and the income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements.
- Income from LES administration fees**
- 4.5 We obtained Loqus report 483 and reconciled to the LES administration fees and established that the council's income from LES administration fees for 2019 is understated by €91.
- 4.6 We did not propose an audit adjustment due to the immateriality of the amount. However we recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.
- 4.7 Furthermore we noted that council has disclosed in the unaudited financial statements an amount of €1,833 as 'fines re traffic contraventions from individuals'. The council could not confirm what it relates to.

- 4.8 We recommend that prior to recording income council obtains all supporting documentation and establishes the nature of the income and whether it pertains to the council.

5 Expenditure

Petty cash expenditure

- 5.1 During our audit fieldwork we noted that the following purchase items exceeded the €50 threshold:

Details	Supplier	Date	€
Wood	John Farrugia	23.01.2019	59
Detergents	Price Right	14.06.2019	54

- 5.2 Furthermore, we noted that that the council has purchased items from the same supplier on the same day and time exceeding the €50 threshold. Examples include:

Details	Supplier	Date	€
Works Bandli Sant' Antnin	Paris Ironmongery	15.04.2019	40
Works Bandli Sant' Antnin	Paris Ironmongery	15.04.2019	7
Works Bandli Sant' Antnin	Paris Ironmongery	15.04.2019	16

- 5.3 Directive 3/2017 and Legal Notice 269 of 2017 state that cash transactions paid through petty cash should not exceed €50. If expenditure surpasses the established threshold, then the council should obtain prior approval by means of a signed purchase order and make payment by cheque. The Local Councils (Financial) Regulations specify that no petty cash transaction shall be made for items of expenditure costing €50 or over in aggregate.

Procurement procedures

- 5.4 Our testing on cheque payments revealed instances where a purchase was not supported by appropriate number of quotations in accordance with the Procurement Guidelines 2017. Examples include:

Details	Supplier	€	Note
Wiring and installation of CCTV at Gnien D Mintoff	Farogroup Ltd	2,053	(a)
Architect service Gnien P Boffa San Alwigi	Jesmond Mugliett	2,950	(b)
Furniture for library	Invicta Limited	639	(b)

- (a) The council obtained two quotations.
(b) The council obtained one quotation.

- 5.5 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but not €500, a direct order approved by the executive secretary is issued.



Tendering procedures

5.6 Whilst reviewing the following tenders we noted that the contract agreements were signed by the executive secretary and contractor only, but not by the mayor:

Reference	Title
01/2019	Services of a contract manager for Paola local council
02/2019	Tender for the installation, servicing, and maintenance of a vertical garden as part of the urban greening project
03/2019	Services of an architect for Paola local council

5.7 We recommend that all contract agreements are signed by the mayor and executive secretary, who jointly have the power to bind and represent the council.

5.8 During the year under review the council issued tender PLC 02/2019 ‘Tender for installation, servicing and maintenance of a vertical garden as part of the urban greening project’. The tender was awarded for €21,480. However, the council failed to obtain the performance guarantee.

5.9 Procurement Policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for purchase above €500,000. Also, the General Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract.

Expired contract

5.10 During the year under review we noted that the council is using services provided by Nexos Street Lighting for street lighting in the locality of Paola even though the contract has expired. We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.

5.11 We would like to bring to the attention of the council memo 10/2013 which states that the council should not make use of expired contracts. Furthermore, the council should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires.

Insurance policy

5.12 The council provided us with the renewal notice of the insurance policy which was settled by the council. However, we were not provided with the insurance policy to establish whether the fixed assets are over/under insured. In our previous year management letter, we identified instances where assets were inadequately insured.

5.13 We recommend the council to obtain the insurance policy to establish the insured amount of the assets. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council’s insurance coverage is in line with current legislation.

5.14 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a ‘buildings and content’ insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement cost for assets.

Travelling

- 5.15 During the audit fieldwork we noted that the council incurred travelling expenses amounting to €217.80 in relation to ‘Study Visit on waste management: better collection and recycling of packaging waste and reduction of litter’ taking place in Brussels. Also, we noted that the council expended an amount of €835 pertaining to Efforts Annual Congress which was held in Brussels. The council did not submit the travel reports to the Department for Local Government for these trips. Furthermore, we have proposed an audit adjustment amounting to €1,052.80 to reclassify the amount from ‘conference expenses’ to ‘travelling – overseas subsistence’ expense account. The council has amended the financial statements to include our audit adjustment.
- 5.16 The council is required to prepare travel reports for each project or event which the council or delegates attend and submit this to the Director for Corporate Services as required by MF/5/2012. The report should be submitted to the Department for Local Government by not later than one month after the trip and needs to include the purpose of the visit and any remarks such as benefits achieved from such trips. Also, we recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

Rent expense

- 5.17 Whilst performing audit procedures on expenses we noted that the rent expense for the Civic centre amounting to €531 was erroneously included with account ‘community services’ rather than with account ‘rent’. We have proposed an audit adjustment to reallocate rent expenditure to the appropriate account. The council has included this adjustment in the final set of financial statements.
- 5.18 May we remind the council to allocate its expenditure to the appropriate account so that the expenses of the council are properly reported.
- 5.19 We also noted that the council did not record an accrual for the rent on the site in Paul Boffa Garden and rent on Paul Boffa Garden. To this end, we have proposed an audit adjustment amounting to €2,198 to record the rent expense against an accrual. The council approved our audit adjustment and included it in the final set of financial statements.
- 5.20 We recommend that the council accounts for expenses based on the accrual basis and ensures that all expenses are being reported in the correct period.

Cultural activities

- 5.21 The council incurred €4,209 for the locality day, thus exceeding the threshold of €3,596 by €613.
- 5.22 This contravenes memo 8/2011 which limits expenditure on the locality day to €3,500 or 0.5% of annual Government allocation (equivalent to €3,596), whichever is the higher.

Professional fees

- 5.23 During the audit, we noted that the council did not record for the month of November 2019 amounting to €1,026. We have proposed an audit adjustment amounting to €1,026 to record the omitted invoice. This has been reflected in the final set of financial statements.

- 5.24 We recommend that the council ensures that expenditure is accounted for when it is incurred so that expenses and liabilities are accounted for in the proper financial year.
- 5.25 We noted that during the year under review the council incurred professional fees pertaining to works of Gnien P. Boffa at Triq San Alwigi amounting to €2,950. We have proposed an audit adjustment amounting to €2,950 to capitalise the amount incurred for professional fees as these were directly in relation to the council's projects. The audited financial statements of the council reflect this adjustment.
- 5.26 We recommend that the council assesses all the professional fees and establishes which of them shall be capitalised in accordance with IAS 16 *Property, Plant and Equipment* and which should be expensed. IAS 16 specifies that items of property plant and equipment should initially be recorded as cost. Cost includes all necessary costs incurred to bring the asset to the working condition for its intended use. The total cost would include site preparation, delivery, handling, installation and related professional fees for architects and engineers. This exercise will avoid the understatement of assets in the council's books.

IFRS 16 'Leases' assessment

- 5.27 Whilst performing audit procedures we noted that the council has a rent expense amounting to €3,633 in the books of account. We noted that the council did not account this amount in accordance with IFRS 16 'Leases'. The council failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 5.28 We recommend the council to perform IFRS 16 assessment to establish whether the council has to account for the rent expense in accordance with IFRS 16 accounting treatment.

6 Payroll

Wages' reconciliation

- 6.1 Whilst reconciling the amounts declared in FS5 forms to that declared in the FS7 form of the council, we came across the following differences:

Description	Declared in FS5s	Declared in FS7	Difference
	€	€	€
Gross salary full-time	138,651	142,913	(4,262)
Gross salary part-time	2,899	1,200	1,699
FSS full-time	16,416	16,674	(258)
FSS part-time	438	180	258
Total	158,404	160,967	(2,563)

- 6.2 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

Payment of FSS and NI

- 6.3 During the audit we noted that the council did not submit payment for December 2019 for FSS tax and NI on time. Issued receipt is dated 14 February 2020.
- 6.4 The Final Settlement System Rules, 1998 state that the council is required to remit FSS tax and NI to the Commissioner for Revenue by the last working day of the month following that during which the council has paid the emoluments. It is highly recommended that FS5 forms are submitted on time to avoid any unnecessary penalties.

Declaration of councillors' allowances

- 6.5 When reviewing the FS3 forms for councillors, we noted that the council has incorrectly reported the allowance of one councillor under 'Part-Time Gross Emoluments'.
- 6.6 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.
- 6.7 We also noted that the council is not withholding tax from the allowances of four councillors. Should the relevant tax not be submitted to the Commissioner for Revenue, the council will be liable to pay the tax and any arising penalties.
- 6.8 We recommend that the council should start withholding tax on the councillors' allowances and remit to the Commissioner for Revenue within the required time frame as outlined in the FSS rules (S.L. 372.14).

Mayor Honoraria

- 6.9 Whilst reviewing the mayor honoraria for the year ending 2019, we noted that the mayor honoraria in the books of account is €142 more than the actual amount which had to be paid to the mayor.
- 6.10 We recommend that the council regularly reconciles its records with the regulations issued from time to time and ensures that the overpaid amount is deducted from the payments in the coming year.

Councillors' and mayor's allowances

- 6.11 Whilst reviewing FS3 forms of councillors and mayor we noted that the allowances in the books of account were understated by €133 when compared to the submitted FS3 forms.
- 6.12 We remind the council that FSS forms must be filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue and any discrepancies between the books of account and submitted forms have to be investigated immediately.

7 Trade and other receivables

Pre-regional receivables

- 7.1 When testing pre-regional receivables, we noted a balance of €144,957 in the council's books of account whilst report 622 shows a balance of €496,202. This

results in a difference of €351,245 for which the council could not provide us with any explanation. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.

- 7.2 We would like to remind the council that it is the council's responsibility to investigate and reconcile the movements in the Loqus reports.

Overdue receivables

- 7.3 We identified the following overdue receivables for which no provision was made in the books of account:

Debtor	€	Note
Gozo regional committee	102	
Northern regional committee	4	
Southern regional committee	8	
South East regional committee	650	(a)
	<u>764</u>	

- (a) We received a confirmation letter from South East regional committee stating that the outstanding balance should be €247 and not €650 (the total due from the debtor). Every effort should be made to reconcile this balance.

- 7.4 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council's books of account are correct by preparing a reconciliation of invoices and receipts. Otherwise if council still believes that amounts are unrecoverable, the former should evaluate the possibility of writing them off in the books of account after obtaining approval by council in meeting.

Confirmation of debtor

- 7.5 We have obtained a statement from Wasteserv Malta Limited showing a balance of €39,619 due to the council. However, the council's books of account indicate a balance of €47,847. The discrepancy of €8,228 is arising from invoices issued by the council for October to December 2018 which were not recorded by Wasteserv Malta Limited.
- 7.6 We recommend that the council contacts Wasteserv Malta Limited and ensures that all invoices are approved and recorded in their books. The council should also chase for the payment.

Accrued income

- 7.7 During the year under review, the council applied for the LC Care Project Grant Support Scheme with the Ministry for the Environment, Sustainable Development and Climate Change in relation to a fund for caring of animals in the residential environment. We were provided with the signed agreement dated 30 December 2019. In accordance with agreement, the funds being awarded amount to €8,000. The council should have been awarded 50% of the €8,000 upon signing the agreement. However, the council received the first interim payment amounting to €4,000 after year end. The agreement also states that the remaining amount shall be provided to the council upon certified completion of the project by the committee indicated in the LC Care Project Grant Support Scheme. Also, we noted that

council did not record any transactions in the books of account with respect to the agreement. We proposed an audit adjustment to record an accrued income in relation to this project. The council has amended the financial statements to include our audit adjustment.

- 7.8 May we remind the council that income should be accounted for when contracted. The council should accrue for the income and defer it until the project is finalised.
- 7.9 Furthermore we noted that Regjun Xlokk initiated a scheme in relation to the bins. In accordance with this scheme the council shall acquire and install 3 litter bins and on submission of the supporting documentation Regjun Xlokk will reimburse the council. Upon further enquires it was established that the council received cheque dated 23 December 2019 from the Regjun Xlokk. The cheque was cashed on 5 February 2020. Thus, we have proposed an audit adjustment amounting to €1,791 to account for accrued income and corresponding other Government income. This has been reflected in the final set of financial statements.
- 7.10 We recommend that the council records such amounts when they have been approved for payment and are certain to be received thus ensuring that the income is reported in the correct accounting period on the accrual basis.

Prepayments

- 7.11 Whilst performing audit procedures on the prepayments we noted that the council did not account for the prepayment of the maintenance of CCTV cameras. We have proposed an audit adjustment amounting to €442 to account for the prepayment and to reduce the corresponding expense for the year. The council has amended the financial statements to include our audit adjustment.
- 7.12 We also noted that expenditure of €713 for the insurance of the motor vehicle was erroneously classified as 'insurance coverage' rather than 'motor vehicle insurance'. Furthermore, council failed to account for the prepayment portion of €236 for the motor vehicle insurance thus overstating the expenditure for the current year. We have proposed an audit adjustment to correct the errors. The council has included this adjustment in the final set of financial statements.
- 7.13 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept. Furthermore, all the expenditure should be classified in the appropriate accounts.

8 Bank and cash

List of unrepresented cheques

- 8.1 During our testing on unrepresented cheques we noted that the BOV current account reconciliation includes a cancelled cheque 9544 amounting to €1,966 dated 4 September 2019.
- 8.2 On the basis of above finding, the council should prepare regular bank reconciliations to identify any exceptions on time. The reconciliations should be checked to ensure that there are no 'stale' or cancelled cheques.

9 Trade and other payables

Supplier statements

- 9.1 We again noted that the council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 9.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Long-outstanding creditors

- 9.3 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€	Note
Arms Limited	2,337	
Casha Florist	25	
Domlite Store	3,091	9.8
Efforts	50	
Environmental Landscapes Consortium	31,176	
Ghaqda Muzikali Kristu Sultan	80	
Kumitat Festi Kristu Re	100	
Noel	100	
A.Piscopo	74	
Saviour Mifsud	130	
Societa Filarmonika	3,050	
Sound Tech	1,239	
Virtuosi	250	
Vodafone Malta Ltd	47	
Wasteserv Malta Limited	3,906	
W.M Limited	400	
	46,055	

- 9.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

PPP payables

- 9.5 We again noted that the council did not distinguish between trade creditors and capital creditors in the trial balance. We have proposed an audit reclassification to reclassify PPP payables of €58,338 to a separate account.
- 9.6 We have also proposed an audit reclassification of €19,446 and €38,891 to distinguish between the short-term and long-term capital creditors respectively.

- 9.7 We reiterate our recommendation from our previous management letter that capital creditors are disclosed separately, especially when they are long term, to avoid taking incorrect figures when calculating liquidity and FSI ratios. Separate disclosure will also aid in the preparation of the cash flow statement.

Trade creditors

- 9.8 During our audit, we noted that Domlite Store creditor balance amounted to €3,091 as at year end. We noted that this balance is in relation to October to December 2018 invoices. We confirmed that the council already settled the amount of €3,091. Furthermore, in prior year the council debited the expense and credited the bank. To this end, we have proposed an audit adjustment to reverse the amount from the creditor outstanding balance as at year end since it was settled in 2018. This has been reflected in the audited financial statements.
- 9.9 We recommend that the council accounts for its expenses in the year to which they relate to ensure expenditure is reported in the appropriate period and avoids double accounting.

Confirmation of trade creditors

- 9.10 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following discrepancies between the amount in council's books of account and the amount in confirmation reply:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Arms Limited	3,030	1,260	1,770
Koperattiva Tabelli u Sinjali	56	5,426	(5,370)

- 9.11 The council provided us with an explanation for the difference of €1,770. The council explained that it issued a cheque amounting to €760 which was not cashed and hence reversed. This amount was not included in the supplier statement. Also, the council informed us that erroneously the invoice recorded in the books of account and its payment was not agreeing by €40. The council provided us with an adjustment to correct the amount of the invoice. The adjustment was correctly included in the audited financial statements. The revised difference amounts to €970 which relates to an invoice for Christmas street décor Pjazza de Paule which is not in the supplier statement. The council provided us with an adjustment to reverse the amount of €970. However, this was not passed since the council has to clarify whether such amount is due to the supplier.
- 9.12 For Koperattiva Tabelli u Sinjali discrepancy, the council provided us with the invoices amounting to €4,476 in total which were omitted from the council's books of account. We have proposed an audit adjustment amounting to €4,476 to record the omitted invoices. The council has amended the financial statements to include our audit adjustment. Also, the council provided us with an invoice dated 8 August 2019 amounting to €280 for which the council explained that the works carried out are not in relation to the locality of Paola. Thus, the council decided not to settle this amount. The revised difference is €614 which according to the supplier statement relates to invoice dated 17 February 2017, however the council did not

provide us with the invoice. Thus, the council has to liaise with the supplier to resolve this matter.

- 9.13 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and circular 1/2020 which state that councils should obtain monthly statements in order to reconcile balances with the accounts. Furthermore, decisions and discussions regarding the balance should be minuted during the council meetings.

Accruals

- 9.14 During accruals' testing we identified that the council recorded an accrual amounting to €4,050 in relation to organic waste collection for the month of December 2019. However, we noted that the invoice was dated 31 December 2019 amounting to €3,745. To this end, we have proposed an audit adjustment to correct the expense account and reclassify the amount to creditors. This has been reflected in the audited financial statements.
- 9.15 We recommend that the council distinguishes between accruals and creditors to correctly disclose liabilities in the financial statements.
- 9.16 The list of accruals includes amounts of €11,236 and €37,457 which relate to bulky refuse for the period covering March to December 2019 and road and street sweeping from March to December 2019, respectively. To date of audit, the council did not receive the invoices.
- 9.17 We recommend that the council should seek clarification on the matter from the suppliers and ensure that invoices are received on time.
- 9.18 During accruals' testing we noted that the council did not accrue for Christmas decorations awards and tokens amounting to €3,748. An audit adjustment was proposed to increase the expense and accruals as appropriate. This has been reflected in the final set of financial statements.
- 9.19 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.

Unrecorded liabilities

- 9.20 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted the following:

Invoice date	Supplier	Details	Cheque	Amount
30.12.2019	Venus Restaurant	Christmas staff dinner	9765	870
31.12.2019	Primavera Caterers	Hampers Christmas 2019	9782	1,164
31.10.2019	LESA	Community officers works in October 2019	9854	404
30.01.2020	Ghq Soc Muzikali K. Sultan	Milied 2019 Armar Vjal Kristu Re	9819	500
30.01.2020	Ghaqda Nar u Armar ta' Lourdes	Milied 2019 Armar Lourdes Area	9820	500
30.01.2020	Societa Filarmonika 11 ta' Frar	Milied 2019 Armar Telghet Rahal Gdid	9821	700



15.01.2020	Ghq Soc Muzikali K. Sultan	Milied 2019 Street Décor Pjazza Ant De Paule etc.	9848	1,300
19.12.2019	Prison Thrift Shop	Cleaning services Pjazza Ant. De Paule for November & December 2019	9751	600

9.21 To this end, we have proposed audit adjustments to record the above amounts against creditors, accruals, and bank. The council has amended the financial statements to include our audit adjustments.

9.22 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

10 Capital commitments

10.1 During the year under review we noted that the council included capital commitments amounting to €1,002,000 in the 2020 budget and in the cashflow budget. However, the financial statements do not include capital commitments.

10.2 We recommend that the financial statements should adequately disclose the council's future capital expenditure plans, if any, as disclosed in the budget and business plan. Where appropriate, it is advisable to explain how such capital expenditure is to be funded.

11 Financial statements

Presentation of financial statements

11.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards and Financial Procedures. During our audit we pointed out that the council's unaudited financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS). Below are some of the non-compliance issues identified:

- i. Note 2, sub-header 'New and amended standard adopted by the local councils' was not updated for the financial year ended 31 December 2019.
- ii. Note 2, sub-header 'New and amended standards adopted by the council' relates to Directive 1/2017 which was applied in previous year.
- iii. Note 2, the sub-header 'New important standards and amendments not yet adopted' includes IFRS 16 'Leases'. This should be included in the standards adopted by the council during the current year.
- iv. Note 2, includes irrelevant disclosures. Cases in point include IAS 2 'Inventories' and IAS 38 'Intangible Assets'
- v. Note 2, sub-header 'Government grants' states that during the year the council changed the accounting of government grants from the income to capital approach however, this was applied during previous year.
- vi. Note 20, sub-header liquidity risk includes incorrect amount of the net asset position which following audit adjustment has to be updated.
- vii. The council failed to include the accounting policy in relation to IFRS 16 'Leases'.

- viii. Council disclosed a net asset position rather than the current net asset position in the liquidity risk note 20 of the financial statements.
- 11.2 The council correctly amended points i to vi in the audited financial statements, however the council did not amend point vii and viii.
- 11.3 The following shortcomings were also identified in the unaudited financial statements of the council:
 - i. Page 2 – ‘the notes on pages 6 to 23’ should read pages 6 to 22.
 - ii. The financial year in the header of page 4 should read 31 December 2019 and not 31 December 2018.
 - iii. Note 12 includes a casting error in the charge for the year for grants and other reimbursements.
- 11.4 The council correctly amended points i to iii in the audited financial statements.
- 11.5 We recommend that the council gives more attention to the preparation of the financial statements.

12 Electronic site

- 12.1 We identified the following shortcomings in the uploaded documents on electronic site. The following are some examples:
 - (a) Quarterly financial reports for January to September 2019 were not uploaded within the publishing time limits. Furthermore, uploaded documents were not the signed versions.
 - (b) Quarterly financial reports for October to December 2019 were not uploaded.
 - (c) The audited financial statements 2018 were not uploaded within the publishing time limits.
 - (d) The council did not upload the reply to the management letter 2018.
 - (e) The annual budget 2019 was uploaded within stipulated timeframe but was not signed.
 - (f) The council did not upload the annual budget 2020 within the stipulated timeframe.
- 12.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required time period. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

- 12.3 During our audit fieldwork, we noted that the council has uploaded the 2018 Management Letter in full in accordance with Circular 21/2019.
- 12.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that

there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.

- 12.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

13 Meetings

Attendance at meetings

- 13.1 We noted that four councillors did not attend more than one-third of the meetings called within a period of six months. The Local Councils Act stipulates that the Minister should have been informed of the absence and, if due to a justifiable cause, transmit its recommendation not to declare the seat vacant.
- 13.2 The council did not abide by Circular 17/2016, which states that the council must inform the Minister of the list of absenteeism of councillors from the council meetings.

Minutes of meetings

- 13.3 The published minutes of meeting 58 on the council's website were not signed by the executive secretary and the mayor.
- 13.4 We recommend that the council abides by the directive given in memo 02/2014 which states that all meeting minutes, schedules of payments and specified documents must be uploaded on the council's site within three days of approval. The "iffirmat" on the pdf documents is confirmation that the uploaded documents are the approved and correct ones.

14 Schedules of payments

- 14.1 During our review of schedules of payments, we noted that the account numbers are not included on the schedules. This is not in accordance with the template issued by the Department for Local Government.
- 14.2 The council should fill in all details in schedules of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedules of payments and the expenses included in the books of account.
- 14.3 We noted that in schedule of payments 04, there was an instance where the council included the details of a payment but did not include the cheque number.
- 14.4 May we remind the council that the schedule of payments is compiled to approve all payments made by the council. All cheque numbers should be included in the schedule of payments to ensure proper approval. Memo 10/2016 provides the schedule of payments template. The cheque number is required by the same template.



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 Kurt Scerri and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink that reads "Grant Thornton".