

The Mayor
Paola Local Council
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28 July 2021

Dear Sir,

Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 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 Accounting function

We did not identify any shortcomings with respect to the accounting function during the year under review.

1.2 Fixed asset register

The fixed asset register does not include all necessary information (refer to note 2.1).

1.3 Reconciliation of unaudited financial statements with fixed asset register

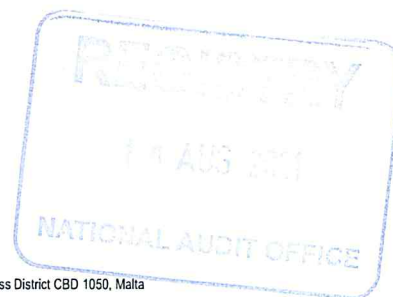
We noted discrepancies when reconciling the unaudited financial statements with the fixed asset register (refer to note 2.6).

1.4 Additions to fixed assets

We again noted shortcomings when testing fixed asset additions (refer to note 2.8).

1.5 Grants

We again encountered issues with respect to the grant of Wied Blandun project (refer to note 2.14).



1.6 Income from Central Government

We identified a shortcoming in the income from Central Government (refer to note 3.1).

1.7 General income

There were no issues with respect to general income.

1.8 Income from LES administration fees

Discrepancies were noted between Report 483 Loqus system and the books of account (refer to note 3.5).

1.9 Petty cash expenditure

We again encountered instances where the council is not adhering to the petty cash procedures (refer to note 4.1).

1.10 Procurement procedures

We again identified shortcomings in procurement procedures (refer to note 4.5).

1.11 Tendering procedures

Irregularities were identified during our testing on tendering procedures (refer to notes 4.9, 4.11 and 4.13).

1.12 Expired contracts

We noted that the council is still utilising expired contracts (refer to note 4.15 and 4.17).

1.13 Insurance policy

We again encountered shortcomings in relation to the assets insurance policy (refer to note 4.21).

1.14 Travelling

We did not identify any shortcomings with respect to travelling.

1.15 Rent expense

The council rectified the issue in relation to the rent expenditure allocation in the appropriate account. However, the council failed to record an accrual in relation to rent (refer to note 4.26).

1.16 Cultural activities

We did not identify any issues in relation to cultural activities.

1.17 Professional fees

We again identified an issue with respect to professional fees (refer to note 4.30).

1.18 IFRS 16 'Leases' assessment

The council failed to provide us with IFRS 16 'Leases' assessment (refer to note 4.34).

1.19 Wages' reconciliation

We have again noted a discrepancy between the amounts declared in FS5 forms and FS7 form (refer to note 5.1).

1.20 Payment of FSS and NI

We are pleased to inform that the council submitted payments for FSS tax and NI on time.

1.21 Declaration of councillors' allowance

We did not identify any shortcomings in the declaration of councillors' allowance.

1.22 Mayor honoraria

We did not identify any discrepancies with respect to mayor honoraria.

1.23 Councillors' and mayor's allowance

We did not identify any shortcomings in councillors' and mayor's allowances.

1.24 Pre-regional receivables

We again noted that debtors in the Loqus IT system are more than LES debtors recorded in the council's books of account (refer to note 6.1).

1.25 Overdue trade receivables

We again noted that the debtors' list is still showing an amount which is long overdue (refer to note 6.3).

1.26 Confirmation of debtor

We again identified a discrepancy between a debtor confirmation and the books of account (refer to note 6.5).

1.27 Accrued income

We did not identify any issues with respect to accrued income.

1.28 Prepayments

We did not identify any issues in relation to prepayments.

1.29 List of unrepresented cheques

We are pleased to note that we have not identified any issues in relation to the list of unrepresented cheques.

1.30 Supplier statements

Despite the council's efforts, not all supplier statements as at year end were obtained to confirm the balances as at 31 December 2020 (refer to note 7.1).

1.31 Long-outstanding creditors

We again noted long outstanding creditors in the council's books of account (refer to note 7.3).

1.32 PPP payables

The council once again failed to distinguish between trade creditors and capital creditors in the trial balance (refer to note 7.5).

1.33 Trade creditors

We again identified an issue with respect to confirmation of trade creditors (refer to note 7.8).

1.34 Confirmation of trade creditor

We again identified a discrepancy between the amount in council's books and the amount in creditor confirmation (refer to note 7.8).

1.35 Accruals

We have again encountered shortcomings in accruals (refer to note 7.10).

1.36 Unrecorded liabilities

We did not identify any issues with regards to unrecorded liabilities.

1.37 Capital commitments

We again identified a shortcoming in the disclosure of capital commitments (refer to note 9.2).

1.38 Presentation of financial statements

We again noted various shortcomings in the presentation of financial statements (refer to notes 10.1 and 10.2).

1.39 Electronic site

The council failed to upload all required documents on the council's website (refer to note 11.1).

1.40 Uploading of management and other documents

The council did upload the management letter in accordance with memo7/2016. However, we have also noted that this is in contradiction with SPI7/2018 (refer to note 11.3).

1.41 Attendance at meetings

The council rectified the issue in relation to the attendance at meetings.

1.42 Minutes of meetings

We did not identify an issue with respect to minutes of meetings.

1.43 Schedules of payments

We again identified shortcomings in the schedule of payments (refer to note 12.1 and 12.3).

2 Fixed assets

Fixed asset register

- 2.1 When reviewing the fixed asset register issued from the council's accounting software, 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 | COMP002 | Projector, screen, sound system | 2,556.67 |
| Office equipment | OFFE006 | CCTV | 454.05 |
| Furniture and fixtures | OFFR005 | Chairs | 389.30 |

We were provided with the fixed asset register details on excel. These were not included in the council's accounting software.

- 2.2 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.

- 2.3 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.

Tagging of fixed assets

- 2.4 We noted that the council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 2.5 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 with the plant register.

Reconciliation of unaudited financial statements with fixed asset register

- 2.6 We identified the following discrepancies between the net book value of assets in the unaudited financial statements and the net book value in the fixed asset register:

| Asset category | NBV in unaudited financial statements € | NBV in fixed asset register € | Difference € |
|---------------------------------------|---|-------------------------------------|-----------------|
| Trees | 2,849 | - | 2,849 |
| Office equipment | 6,680 | 7,730 | (1,050) |
| Construction and urban improvement | 43,758 | 49,918 | (6,160) |
| | 53,287 | 57,648 | (4,361) |

- 2.7 Circular 1/2021 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

- 2.8 During the year under review, the council capitalised an amount of €25,771 in relation to 'green walls' with 'urban improvements' rather than with 'trees'. It was also noted that the council had a grant pertaining to this amount. Therefore, we have proposed an audit adjustment to allocate the addition to the appropriate category, reverse the depreciation charge for the year amounting to €2,577 and allocate the respective grant of €25,771 against the addition. The council has amended the financial statements to include our audit adjustments.
- 2.9 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.
- 2.10 Whilst performing testing on fixed assets' additions we noted that the council capitalised the amounts of €2,750 and €3,750 in relation to 'maintenance work De Paul lower fountain'. We have proposed an audit adjustment to the council to account properly for the expense as repairs and maintenance and to reverse the respective depreciation of €650. This has been incorporated in the financial statements.
- 2.11 The council should not capitalise costs which are of an expense nature. IAS 16 states that the asset purchased should provide future service potential. In these cases, the expenses were incurred to maintain their use rather than to add economic benefits or service potential.

Depreciation

- 2.12 We noted that the depreciation rate for computer equipment is 20% rather than 25% resulting in a discrepancy of €590. This is not in line with depreciation rates established in S.L 363.12 Local Council (Procedures) Regulations. We did not propose an audit adjustment since depreciation is an estimate.
- 2.13 We recommend that the council follows the depreciation rates established within S.L 363.12 Local Council (Procedures) Regulations.

Grants

- 2.14 In 2019, we noted that the 'Wied Blandun' project will not be carried out by the council as it was 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 'Don Mintoff' monument to be placed in 'Wied Blandun'. In 2016 the council received the first payment of €37,500 out of €50,000 approved whilst the remaining balance of €12,500 was accounted for as accrued income. In 2019 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 a total amount of €100,000 granted to the council. In 2019 the council received the second payment of €31,250. Therefore, during 2016 and 2019 the council received a total amount of €68,750 out of €100,000 approved by the Department for Local Government whilst €31,250 are recorded as accrued income. To date the council is carrying forward the amount received however no extension agreement was provided for 2020.
- 2.15 We recommend the council to obtain an extension agreement as this will establish the rights and obligations of each party.

3 Income

Income from Central Government

- 3.1 The council received an amount of €3,200 in relation to the 'adjustment fund for decrease in allocation from 2019'. This was incorrectly recorded with the Government allocation account rather than other Government income. We have proposed an audit adjustment to rectify the issue. The council has included this adjustment in the final set of financial statements.
- 3.2 The council should ensure that transactions are properly allocated to the correct account.

Other Government income

- 3.3 The books of account include accrued income of €26,987 in relation to the organic waste collection for the period covering June to December 2020. We noted that an invoice was issued by the council on 5 March 2021 amounting to €27,733. Thus, the accrued income was understated by €746. We have proposed an audit adjustment amounting to €746 to record accrued income in line with the invoice. The council approved our audit adjustment and included it in the final set of financial statements.
- 3.4 We remind the council that the books of account should reflect the actual amounts received or still to be received. Furthermore, the agreement signed between the council and Wasteserv Malta Limited stipulates that the invoice should be sent to the latter in the first week of each of the following month.

Income from LES administration fees

- 3.5 We obtained Loqus report 483 and reconciled to the LES administration fees and established that the council's income from LES administration fees for 2020 is understated by €405. We were not provided with an explanation for the difference.

- 3.6 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

Joint committee

- 3.7 We noted that the Zejtun Joint Committee, of which Paola Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2014.
- 3.8 The reserves of the committee at that date amount to €840,665. We were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 3.9 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated, and that the council receives any further income that may be due to it.

4 Expenditure

Petty cash expenditure

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

| Details | Supplier | Date | € |
|---------------------------|------------------|-------------|----------|
| Water transport | Leonard Farrugia | 22.01.2020 | 60 |
| Sterile cleaning products | Clean 4 U | 12.03.2020 | 63 |

- 4.2 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.
- 4.3 We noted that the petty cash summaries do not include all necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts it should be allocated.
- 4.4 We recommend the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

Procurement procedures

- 4.5 Our testing on cheque payments revealed instances where purchases were not supported by appropriate number of quotations in accordance with the Procurement Guidelines 2017. Examples include:

| Details | Supplier | € | Note |
|--|-----------------------------------|-------|-----------|
| Organisation of Paola carnival 21.02.20 | Leon Promotions | 3,555 | (a) |
| 3 stainless steel flag poles council office Paola | Charles Schembri | 991 | (b) |
| Air sanitizer | Wurth | 1,357 | (b) |
| Development and hosting of live | Infinite Fusion Technology Ltd | 1,416 | (c and d) |

- (a) The council obtained one quotation.
 (b) The council obtained two quotations.
 (c) The council did not obtain any quotations.
 (d) No purchase order was provided.

4.6 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.

4.7 May we remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier.

4.8 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should raise purchase orders for all purchases above €50.

Tendering procedures

4.9 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 |
|-----------|--|
| 01/2020 | Tender for street sweeping and community cleaning in an environmentally friendly manner in Paola |
| 02/2020 | Tender of collection of household waste from locality of Paola using low emission service vehicles |
| 03/2018 | Maintenance of traffic signs and road markings Paola Local Council |

4.10 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.

4.11 We noted that the date of signature was not stipulated in the contract agreement for the following contracts:

| Reference | Title |
|-----------|--|
| 01/2020 | Tender for street sweeping and community cleaning in an environmentally friendly manner in Paola |
| 02/2020 | Tender of collection of household waste from locality of Paola using low emission service vehicles |

The date of contract agreement is important to identify when the contract comes into effect as well as the exact date of contract termination. As a result, we could not establish whether the performance bond had been submitted to the council within 15 days of the receipt of the contract, in line with the General Conditions for Service Contracts V.2.0.

- 4.12 In accordance with Procurement Guidelines 2017, all contracts entered by the council should clearly specify the date of signature of the contract.
- 4.13 The evaluation report for contract PLC 03/2018 'Maintenance of traffic signs and road markings Paola Local Council' was not signed by all members. Furthermore, the evaluation reports for tenders PLC 01/2020 'Tender for street sweeping and community cleaning in an environmentally friendly manner in Paola' and PLC 02/2020 'Tender for the collection of household waste from the locality of Paola using low emission service vehicles' were not noted as signed.
- 4.14 We recommend that the council adheres to section 15.1 of the Procurement Guidelines 2017 issued by Department for Local Government which states that the council shall nominate members to sit on a committee to evaluate the bids received. The council should make sure that all evaluators sign the report to obtain approval and ensure the completeness of the report. The council should ensure that the opening of tenders is signed by the opening staff in conformity with the ePPS Guidelines.

Expired contract agreements

- 4.15 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.
- 4.16 Whilst reviewing the list of rental agreements we noted that the contract agreement in relation to the site in Gnien Paul Boffa (local council offices and playground) has expired. This was also the case with respect to the rental agreement for the Civic centre.
- 4.17 We noted that the tenders for street sweeping expired and the collection of mixed household waste expired on 16 October 2020. The council issued the tenders in 2020 for both services. We further noted that the Street Sweeping agreement covered period 1 February 2021 to 31 January 2025 whereas the waste collection agreement covered period 1 February 2021 to 31 January 2022.
- 4.18 We would like to remind the council that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract.

CCTV maintenance agreement

- 4.19 During the year under review, the council entered into an agreement with Faro Group for the maintenance and servicing of CCTV Cameras at Gnien Duminku Mintoff. We have been provided with a copy of this agreement, however we noted that this was not signed by the mayor and executive secretary.
- 4.20 May we remind the council that all contract agreements entered into shall be approved and signed by both by the mayor and the executive secretary.

Insurance policy

- 4.21 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and NBV in the 2019 audited financial statements:

| Asset | Sum insured € | NBV in audited financial statements 2019 € |
|---------------------------|------------------|---|
| Property office buildings | 82,000 | 85,024 |
| Furniture and fittings | - | 11,624 |
| Office equipment | - | 6,680 |
| Computer system | - | 5,268 |
| Plant and machinery | - | - |
| Total | 82,000 | 108,596 |

- 4.22 It is evident that the fixed assets are under insured. 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.
- 4.23 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.

Health Insurance

- 4.24 During the prior year the council had a change in the council members. The council failed to update the health insurance policy to include the new members, while the previous members were still listed on the insurance policy for the period covering 1 January 2020 to 16 December 2020. However during our audit fieldwork we noted that the new insurance policy covering period 17 December 2020 to 16 December 2021 has been updated.
- 4.25 We recommend that the council ensures that appropriate council members and employees are insured as part of the scheme.

Rent expense

- 4.26 Whilst reviewing the rent expense we 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 €3,098 to record the rent expense against an accrual. This has been incorporated in the financial statements.
- 4.27 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.

Expenses for 2019 recorded in 2020

- 4.28 During our audit fieldwork we noted that the council accounted for 2019 cleaning expenses amounting to €8,959.04 in 2020. No accrual for the above service was included in prior year financial statements.

- 4.29 We recommend that the council records expenses as they arise and ensure that expenses are reported in the correct accounting period on the accrual basis.

Professional fees

- 4.30 We noted that during the year under review the council incurred professional fees of €5,942 in relation to re-design of new garden at 'Telgħa ta' Raħal Ġdid'. We have proposed an audit adjustment to capitalise the amount incurred for professional fees. The council has included this adjustment in the final set of financial statements. This has been incorporated in the financial statements.

- 4.31 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.

Library project

- 4.32 We noted that the council incurred an amount of €3,349 in relation to the library project for 'redbox VR5 headset' which was incorrectly expensed. We have proposed an audit adjustment to capitalise this amount and record the depreciation charge for the year of €767.
- 4.33 We remind the council that costs incurred on items which are of a capital nature with future economic benefits must be capitalised as fixed assets and depreciation over their expected useful life according to the council's depreciation policy.

IFRS 16 'Leases' assessment

- 4.34 Whilst performing audit procedures we noted that the council has a rent expense amounting to €3,629.17 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.
- 4.35 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.

5 Payroll

Wages' reconciliation

- 5.1 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 | 152,729 | 155,147 | (2,418) |
| Gross salary part-time | 2,415 | - | 2,415 |
| FSS full-time | 19,743 | 20,108 | (365) |
| FSS part-time | 365 | - | 365 |
| Social security | 20,466 | 21,037 | (571) |
| Total | 195,718 | 196,292 | (574) |

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

6 Trade and other receivables

Pre-regional receivables

- 6.1 Whilst 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 €493,172. This results in a difference of €348,215 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.
- 6.2 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

- 6.3 The council's debtors' list includes a balance of Wasteserv Malta Limited amounting to €23,771 which is an overdue receivable.
- 6.4 We would like to recommend once again that the council should pursue this debtor by sending reminders for the long overdue amounts and establish whether the amount recorded in the council's books of account is correct by preparing a reconciliation of invoices and receipts. Otherwise, if council still believes that amount is unrecoverable, the former should evaluate the possibility of writing the amount off in the books of account after obtaining approval by council in meeting.

Confirmation of debtor

- 6.5 We have obtained a statement from Wasteserv Malta Limited showing a balance of €19,505 due to the council. However, the council's books of account indicate a balance of €28,232. The discrepancy of €8,819 is arising from invoices issued by the council for October to December 2018 amounting to €8,229 and an invoice issued during the current year amounting to €590 which were not recorded by Wasteserv Malta Limited.
- 6.6 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.



7 Trade and other payables

Supplier statements

7.1 Despite the council’s efforts, we again noted that there were various suppliers for which the council did not obtain statements as at or near year-end 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.

7.2 We understand 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

7.3 The council’s creditors’ list includes the following balances which have been outstanding for more than one year:

| Creditor | € |
|-------------------------------|---------------|
| Casha Florist | 25 |
| De Paule Band Club | 100 |
| Efforts | 50 |
| Ghaqda Muzikali Kristu Sultan | 80 |
| Koperattiva Tabelli u Sinjali | 4,476 |
| Kumitat Festi Kristu Re | 100 |
| Societa Filarmonika | 500 |
| Noel | 100 |
| Saviour Mifsud | 130 |
| Socjeta Filarmonika Antoine | 3,050 |
| Sound Tech | 1,239 |
| SRF | 16,794 |
| V&C Contractors | 38,892 |
| Virtuosi | 250 |
| Wastserv Malta Limited | 23,330 |
| W.M Limited | 400 |
| | 89,516 |

7.4 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

7.5 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 €38,892 to a separate account.

7.6 We have also proposed an audit reclassification to distinguish between the short-term and long-term capital creditors. In doing so, we proposed that the amount of €19,446 is posted to each account respectively.

- 7.7 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.

Confirmation of trade creditor

- 7.8 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following discrepancy 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 € |
|-------------------------------|---|---|-------------------------|
| Koperattiva Tabelli u Sinjali | 4,476.11 | - | 4,476.11 |

We were not provided with an explanation for the difference.

- 7.9 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and circular 1/2021 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

- 7.10 During accruals' testing we identified that the council recorded an accrual amounting to €8,099.22 in relation to mixed household waste for the month of December 2020. We noted that the invoice received by the council was dated 31 December 2020 and amounts to €4,049.61. To this end, the council has over provided by €4,049.61. We have proposed an audit adjustment to reverse the over provision and reclassify the amount to creditors. The council approved our audit adjustments and included them in the final set of financial statements.
- 7.11 We recommend that the council distinguishes between accruals and creditors to correctly disclose liabilities in the financial statements and properly record accruals in accordance to the invoice.

Advance payments

- 7.12 Whilst testing advance payments, we noted that the council had a balance of €37,637 recorded as advance payments in relation to the Infrastructural Projects Scheme issued by the Department for Local Government for the cleaning and maintenance of various areas. The grant was utilised during the year under review. To this end, we have proposed an audit adjustment to release the grant against other government income. This adjustment has been correctly incorporated in the audited financial statements.
- 7.13 We remind the council that in accordance with IAS 20, revenue grants should be taken based on the expenses incurred. Thus, income must be matched with the relevant expense.

8 Reports

Comparison with annual budget

- 8.1 When comparing the budgeted figures with the actual figures of the year under review, we identified the following differences:

| | Actual € | Budget € | Difference € |
|-----------------------------------|----------------|----------------|-----------------|
| Expenditure | | | |
| Personal emoluments | 171,487 | 152,111 | 19,376 |
| Administrative and other expenses | 248,554 | 328,793 | (80,239) |
| Total | 420,041 | 480,904 | (60,863) |

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

9 Capital commitments

- 9.1 During the year under review we noted that the council included capital commitments amounting to €350,000 in the 2021 cash budget and cashflow budget. However, the unaudited and audited financial statements do not include capital commitments.
- 9.2 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.

10 Financial statements

Presentation of financial statements

- 10.1 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 council' and 'New and amended standard adopted by the council' are not updated for the financial year ended 31 December 2020.
 - ii. Note 2, sub-header 'Government grants' is not updated. The note is referring to note 26 however there is no note disclosed in the unaudited financial statements.
 - iii. Council disclosed a net asset position rather than the current net asset position in the liquidity risk note 20 of the financial statements.

The council has amended points i to ii and failed to amend point iii.

- 10.2 The following shortcomings are also identified in the unaudited financial statements of the council:
- i. Page 2 – Funds received from Central Government was referring to note 3a when it should have been note 3.
 - ii. Page 3 – Property, plant and equipment is referring to note 12 however the comparative figures are disclosed in note 11 whilst property plant and equipment 2020 is note 12.
 - iii. Page 3 – ‘long-term third-party loan’ does not cross cast with note 16.
 - iv. Page 11 – note 5 for ‘Fees from bye laws’ should be note 4.
 - v. Page 16 – note 12 ‘property, plant and equipment’ includes year 2019 however these should be for year 2020.
 - vi. Page 22 – current and non-current liabilities include a casting error.
 - vii. Th council failed to update note 24 as the note is referring to companies not council.
- 10.3 We recommend that the council gives more attention to the preparation of the financial statements. The council has correctly amended points i, iii, iv to vii however the council failed to amend point ii.

11 Electronic site

- 11.1 We identified the following shortcomings in the uploaded documents on electronic site. The following are some examples:
- (a) Quarterly financial reports for January to March 2020, April to June 2020 and October to December 2020 were not uploaded within the publishing time limits.
 - (b) Quarterly financial reports for July to September 2020 were not uploaded.
 - (c) Business plan 2020 – 2024 was not uploaded within the publishing time limits.
 - (d) Financial Statements 2019, management letter 2019 and reply to the management letter 2019 were not uploaded within the publishing time limits.
- 11.2 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.

Uploading of management letter and other documents

- 11.3 During our audit fieldwork, we noted that the council has uploaded the 2019 Management Letter in full in accordance with Circular 21/2019.
- 11.4 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.
- 11.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

12 Schedules of payments

- 12.1 During our review of schedules of payments, we noted that the account numbers were not included on the schedules for the period covering January to May 2020. This is not in accordance with the template issued by the Department for Local Government. However, it was noted that the council rectified the issue for the period covering June to December 2020.
- 12.2 We recommend the council to 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.
- 12.3 We noted that the cheques 9921 and 9922 amounting to €250 and €100, respectively were approved during meeting minutes 09. However we noted that these cheques were cancelled.
- 12.4 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. We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments.

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,

