

The Mayor
Safi Local Council
40, Dar il-Kunsill,
School Street,
Hal Safi, SFI1404
Malta.

Grant Thornton
Fort Business Centre
Triq l-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.grantthornton.com.mt

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22 October 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 Tagging of fixed assets

We have once again noticed that the council is not tagging its fixed assets (refer to note 5.1).

1.2 Pre-regional receivables

We have once again noted an issue with respect to pre-regional LES debtors (refer to note 6.1).

1.3 Adoption of IFRS 9

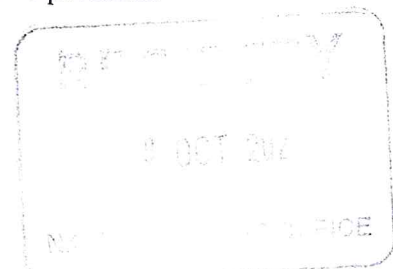
The council again failed to calculate an expected credit loss (refer to note 14.1).

1.4 Accrued Income

We have once again identified shortcomings with respect to the council's accrued income (refer to note 2.19, 2.20 and 2.22).

1.5 Cash and cash equivalents

We did not identify any irregularities in cash and cash equivalents.



1.6 Trade payables

The council once again failed to obtain all statements from suppliers (refer to note 8.1).

The creditors' list provided by the council again included a number of debit balances (refer to note 8.5).

1.7 Procurement of expenses

During our audit, we have once again noted that there were shortcomings in procurement procedures (refer to note 3.3).

1.8 Payroll

Similar to previous year, we noticed that there were differences between FS5 forms and the figures reported in the FS7 form (refer to note 4.5).

1.9 IFRS 16 'Leases'

The council once again failed to account for leases under IFRS 16, 'Leases' (refer to note 3.20).

1.10 Variations with budgeted figures

We are pleased to note that no variations from budgeted figures have been identified.

2 Income

Government allocation

2.1 The council received an amount of €1,079 in relation to adjustment fund for decrease in allocation from 2019. This was incorrectly recorded with Government allocation rather than other Government income. We have proposed an audit adjustment to rectify the issue. The adjustment was approved by the council and incorporated in the audited financial statements.

2.2 We recommend that the council discloses all income received from Government, which is not part of the annual allocation, as other Government income, unless otherwise directed by the Department.

Other Government Income

2.3 During the year, the council received funds amounting to €1,500 in relation to the Achievers Grant Scheme. The council recorded all income immediately in the income statement. From our testing we noted that during 2020, a total amount of €668.93 was spent out of the total funds received, which means that the council should have deferred €831.07. The council failed to defer this amount. An adjustment was proposed to defer the unutilised portion of €831.07. The council has amended the financial statements to include the audit adjustment.

2.4 We also noted that the council received an amount of €4,000 in relation to the LC Care Project. No amounts have been utilised by 31 December 2020 from the funds received, however the council failed to defer this amount. We have therefore proposed an adjustment to defer the full amount received. The adjustment was approved by the council and incorporated in the audited financial statements.

- 2.5 We recommend that the council analyses the grants received and ensures they are treated as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with this standard, grants are recognised in profit and loss on a systematic basis over the period necessary, to match them with the related costs.

General income

- 2.6 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples are:

Receipt number	Details	Receipt date	Deposit date	€
5462	Junior Science Club	14.08.2020	31.08.2020	80.00
5467	Junior Science Club	18.08.2020	31.08.2020	80.00
5468	Junior Science Club	18.08.2020	31.08.2020	80.00
5481	Junior Science Club	21.08.2020	31.08.2020	80.00
5488	Adverts on council magazine	24.08.2020	31.08.2020	42.00
5488	Adverts on council magazine	15.09.2020	30.09.2020	42.00
5540	Use of council hall	22.09.2020	30.09.2020	100.00
5567	Library services	07.10.2020	20.10.2020	547.39
5738	Library services	30.12.2020	14.01.2021	302.29
5119	Crane permit	08.01.2020	15.01.2020	10.00
5309	High-up permits	20.05.2020	02.06.2020	10.00
5326	Crane permit	03.06.2020	02.07.2020	10.00
5365	Lifter permit	22.06.2020	02.07.2020	10.00
5438	Lifter permit	03.08.2020	31.08.2020	10.00
5617	Hire of football pitch	31.10.2020	06.11.2020	325.00
5715	Hire of football pitch	14.12.2020	23.12.2020	200.00

- 2.7 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the council implements procedures so that all receipts are deposited at least twice weekly.
- 2.8 During our testing, we noted that included under general income was an amount of €1,284.60 from Regjun Nofinshar as part of 'Skema Facilitajiet ghall-Infurzar Lokali Festi'. This amount was also included with accrued income. Upon further investigation we noted that only €330.40 was received by the council in March 2021 with respect to this scheme. We have therefore proposed an audit adjustment of €954.20, to reverse the income and related accrued income from the books of account, in line with the actual funds received. Our proposed adjustment was incorporated in the audited financial statements.
- 2.9 Furthermore, we also noted that the council included an amount of €5,000 under 'general income', as part of the 'Slow Streets & Planning Development Fund' scheme by Regjun Nofsinhar. This amount was also included within accrued income. We have traced the amount received in March 2021 in relation to this scheme, and it transpired that the council only received €3,964.80. An adjustment of €1,035.20 was therefore proposed to reverse the difference from the income and accrued income accounts. The adjustment was correctly included in the audited financial statements.

- 2.10 We recommend that the council correctly accounts for re-imburements received and accrued income.
- 2.11 The council has classified income of € 10,782.01 received from Local Regions and income of €8,963.80 received from Wasteserv Malta Ltd in relation to the collection of organic waste under 'general income'. An adjustment was proposed to include these amounts under 'other Government income'. The council has included this adjustment in the final set of financial statements.
- 2.12 The council should ensure that transactions are properly allocated to the correct account.
- 2.13 During the course of our audit, we also obtained the council's organic waste collection agreement with Wasteserv Malta Ltd for the period covering 1 January 2020 up to 31 December 2020. However, we have noted that this agreement was not signed by either party.
- 2.14 It is essential for the council to make sure that all contracts entered into are signed by both parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

Income from LES administration fee

- 2.15 We obtained Loqus report 483 and reconciled to income from LES administration fees and established that the council's income from LES administration fees for 2020 is overstated by €1,016.57. We did not propose an audit adjustment to correct this misstatement since no explanation was forthcoming for the difference.
- 2.16 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

Custodial receipts

- 2.17 We came across the following instances whereby the council failed to deposit custodial receipts on a timely basis:

Description	Receipt number	Receipt date	Deposit date	€
Lands department	918264	13.04.2020	11.05.2020	44.84
Lands department	923027	21.05.2020	02.06.2020	20.10
Lands department	923242	25.05.2020	02.06.2020	23.29
Lands department	930239	14.07.2020	05.08.2020	93.01
Lands department	940849	20.08.2020	31.08.2020	22.84
Lands department	953943	23.09.2020	30.09.2020	17.74
Lands department	967169	17.12.2020	23.12.2020	46.59
LES income	4451279	24.01.2020	03.02.2020	34.94
LES income	4493998	16.03.2020	30.03.2020	11.65
LES income	4514421	07.05.2020	11.05.2020	11.65
LES income	4520453	20.05.2020	01.06.2020	34.94
LES income	4561635	27.07.2020	04.08.2020	100.00
LES income	4607301	25.09.2020	30.09.2020	34.94
LES income	4657417	16.11.2020	27.11.2020	46.65
LES income	4669473	30.11.2020	23.12.2020	23.29

- 2.18 We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.

Accrued Income

- 2.19 Whilst reviewing the council's accrued income we noted that an amount of €2,074.37 for tipping fees shortages was included within this account. On 31 January 2021, a settlement of €1,279.66 in relation to these shortages was made by the Department for Local Government to Wasteserv Malta Ltd. An adjustment of €794.71 was proposed to correct the books of account in line with the actual amount received. The council has amended the financial statements to include our audit adjustment.
- 2.20 Included within the council's accrued income is also an amount of €243.05 for 'Skema attivitajiet u inizjattivi kulturali'. The council failed to provide us with supporting documentation for this balance. Up to date of the audit fieldwork, this amount was not yet received by the council. No adjustment was proposed since we could not determine whether this amount is receivable by the council or not.
- 2.21 We re-iterate our recommendation that the council correctly accounts for reimbursements received and accrued income.
- 2.22 During our testing, we also noted that an amount of €1,802.64 was received by the council from Regjun Nofsinhar in relation to CCTV cameras installed during 2020. This amount was not included within accrued income as at 31 December 2020. To this end we have proposed an adjustment to include this in the books of account. The council has included this adjustment in the final set of the financial statements.
- 2.23 We recommend that the council records income when it is earned such that the books of account reflect the appropriate amounts in the respective financial year.

3 Expenditure

Reimbursements

- 3.1 The council is reimbursing €100 per month to two workers for fuel, both providing repairs and maintenance services around the locality.
- 3.2 This contradicts the Local Council Procedures affirming that fuel expenses should be reimbursed on a mileage basis once approved by the council in meetings.

Procurement procedures

- 3.3 Our testing on cheque payments revealed the below irregularities for the following listed purchases:

Supplier	Details	€	Note
Toyland	Toys for children	455.60	(a,b)
Ctronics	Internet infrastructure and cabinet	755.74	(a,b)
Top Choice	Fridge and washing machine for the local council	470	(a,b)
Tower ironmongery	Tools	553.77	(a,b)
Joseph Briffa	Provision of 87,500gallons Gnien ta' Ball	600	(a,c)

(a) The council did not raise a purchase order.

(b) The council failed to obtain any quotations.

(c) The council obtained only one quotation.

3.4 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. Furthermore the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000.

3.5 We would also like to remind the council that in accordance with the Procurement Guidelines 2017, councils are specifically required to make a public call for quotations for expenditure in the range of €5,000 to €10,000 and issue a call for tenders for expenditures above €10,000. We also draw your attention to section e.01 of the Local Councils (Financial) Procedures, 1996 which states that a similar purchase within four months is to be considered as one single purchase.

Petty cash purchases

3.6 We noted that the petty cash summaries did not include details of the nominal account to which the expenses were allocated.

3.7 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

3.8 We recommend the council includes all necessary information in the petty cash summaries to ensure no payments are omitted or double posted in the summaries and the council has a clear view of its petty cash expenditure

Tendering procedures

3.9 During the year under review we noted the below shortcomings to tendering procedures:

Tender no.	Details	Note
T/SFI 1/2020	Tender for reconstruction and restoration to rubble walls - Hal Safi Under Measure 4.4 of the European Agricultural fund for rural development.	(a, b, c)

T/SFI 2/2020	Tender for the supply and installation of an irrigation system - Gnien ta' Ball Hal Safi Tender for restoration of Hal Safi Parish Church: Lantern and Dome under measure 19.2 of the European Agricultural Fund for Rural Development.	(a, b, c)
T/SFI 3/2020		(a, b, c, d)

- (a) The council failed to include the contract date on the tender contract and therefore we could not determine whether the bank guarantee was issued within 10 days from the contract date.
- (b) Opening staff did not sign the opening minutes.
- (c) There was no third evaluator appointed according to the evaluation report provided.
- (d) Tender contract was not signed by the executive secretary, it was only signed by the Mayor and the contractor.

3.10 May we remind the council that in accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should compile the opening minutes and evaluation report. The reports must be signed by all parties indicating the approval of these reports.

3.11 May we also remind the council that in accordance with the Local Councils (Tendering) Procedures, councils are specifically required to enter into a formal contract which should have a specified date upon which the contract had been signed and should be signed by the supplier, the Mayor and the executive secretary.

Expired contracts

3.12 During our testing we noted that the last call for tender for accountancy services was issued in 2018, with the original contract covering the period from January 2018 up to December 2018. Furthermore, the tender for street sweeping expired in October 2019, with the last call for tender issued in 2014. The council, to date, is still operating with these suppliers with an expired contract.

3.13 We have also noted that the tenders for cleaning of local council office and cleaning of public convenience both expired during the year under review. The council, to date, is still operating with these expired contracts.

3.14 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.

Asset insurance

3.15 During our audit fieldwork we identified the stated below discrepancies between the asset insurance cover and net book value of assets included in the prior year audited financial statements:

Asset	Sum Insured €	NBV in books of account €
Buildings including landlord's fixtures	311,296	224,609
Trade furniture fixtures & fittings	41,385	14,052
Photovoltaic system	6,278	1,727
Electronic equipment	15,055	1,589
Total	374,014	241,977

3.16 It is evident that some of the fixed assets are over 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.

3.17 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. However, we again recommend that the insurance must at least cover the replacement value of assets.

Personal accident insurance

3.18 We noted that the Council did not insure its employees and councillors for a personal accident insurance coverage.

3.19 We recommend that the council updates the insurance policy accordingly to include current councillors and employees and limit coverage to the Maltese islands.

IFRS 16 'Leases'

3.20 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €4,089 in the books of account. We noted that the council did not account for this amount in accordance IFRS 16 'Leases'. The council also 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.

3.21 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

4 Wages and salaries

Declaration of councillors' allowances and mayor honorarium

4.1 When reviewing the FS3s for councillors, we noted that the council has incorrectly reported the allowances of four councillors under 'Part Time Gross Emoluments'.

4.2 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.

- 4.3 Whilst reviewing the mayor honoraria accounts, we noted that the council has treated the mayor's allowance of €2,400 as part of the mayor's honoraria. We have therefore proposed an audit adjustment to record this correctly. This was approved by the council and incorporated in the final set of the financial statements.
- 4.4 We recommend that expenditure for the mayor's allowance and mayor's honoraria are distinguished from one another. This is in accordance with IAS 24 *Related Party Disclosure* which requires separate disclosure of the remuneration of key personnel.
- 4.5 Whilst reconciling the FSS tax 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 Emoluments full-time	66,387	69,188	(2,801)
Gross Emoluments part-time	23,400	20,600	2,800
FSS full-time	8,935	10,636	(1,701)
FSS part-time	5,131	3,430	1,701
Total	103,853	103,854	(1)

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

5 Fixed assets

Tagging of fixed assets

- 5.1 We noted that the council does not tag fixed assets (where applicable) on its premises which is in contravention of the Local Councils (Financial) Procedures, 1996.
- 5.2 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.

Upkeep of fixed asset register

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

Asset category	Asset code	Description	Net book value €
Office furniture and fittings	SLC0039	Shelves	195.59
Office equipment	SLC0040	W/Machine & Fridge/Freezer	391.70
Computer software & hardware	SLC0041	ASUS Computer Upgrade	343.70
Plant and machinery	SLC0014	Grass cutter	210.00

5.4 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 method and rate
- Location of the asset
- Grants received

5.5 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.

Additions to fixed assets

5.6 We noted the following shortcomings in fixed asset additions:

Supplier	Details	€	Note
Agius Stone Works Limited	Pre Financing re Restoration of facade Sir Alexander Ball	12,646.60	(a)
E&L Enterprises Ltd	30% Pre-Financing of contract ref T/FSI/4/2019	10,216.81	(a)
Archit Works	Extra works carried at Sir Alexander Ball Garden - MTA fund.	11,395.37	(a)
Agius Stone Works Limited	Extra works c/out on the facade at Sir Alexander Ball - MTA	26,945.21	(a)
Nexos Street Lighting Technology	Wall Mounted Decorative Lanterns	1,970.60	(b)
Nexos Street Lighting Technology	Wall Mounted Decorative Lantern	966.00	(b)
Chronics	Data Cabinet, Cable Org. Shelf etc plus Inst.	755.74	(b)
Chronics	Comp. Upgrade Intel Corei3, 8GB Off. 2019 Pro	697.50	(b)

(a) Payments were not listed on schedule of payments

(b) No quotations were obtained by the council

5.7 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. This will ensure that all cheques are approved.

- 5.8 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.

European Agricultural Fund for Rural Development 2014-2020 measure 19.2

- 5.9 Whilst performing audit procedures on fixed assets additions we noted that the council capitalised additions under the 'assets under construction' category amounting to €89,244.02 in relation to the European Agricultural Fund for Rural Development (EAFRD) 2014-2020 measure 19.2. In 2018 the council received a grant amounting to €28,935 to cover eligible costs for the building of green infrastructure by embellishing and restoring Sir Alexander Ball's garden.
- 5.10 We noted that article 10 of the agreement states that *'ownership of results of the projects including industrial and intellectual property rights, and of the reports and other documents relating to it shall, in the case of public sector operations, be vested in the Government of Malta and not with the beneficiary'*, the latter being the council. To this end we have proposed an audit adjustment to reverse the grant addition in the property plant and equipment schedule amounting to €89,244.02. Another adjustment was proposed to reverse the amount received of €28,935 from the 'assets under construction' category and include it under 'income from EU funds'. These adjustments have been correctly incorporated in the audited financial statements.
- 5.11 We recommend that the council always evaluates whether works should be capitalised or expensed on a case by case basis. Furthermore, the council should also be in line with the agreements. In such case, article 10 of the agreement is specific that the ownership is not vested in the beneficiary, that is, the council.

6 Trade and other receivables

Pre-regional LES debtors

- 6.1 When testing pre-regional receivables, we noted a balance of €91,890.94 in the council's books of account whilst report 622 shows a balance of €91,657.93. This results in a difference of €233.01. When we enquired with the council regarding this difference, we were informed that report 622 was erroneously initially generated as at November 2020 and the figures in the books of account were based on such. We were informed that the council passed an entry of €941.88 against LES debtors to agree the books with the LES report. We proposed an adjustment to reverse the entry passed by the council as there is uncertainty as to whether the LES reports are correct. This adjustment has been correctly incorporated in the audited financial statements.
- 6.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Confirmation of trade receivables

- 6.3 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Regjun Nofsinhar	394.11	13,017.77	(12,623.66)

We were not provided with any explanations or reconciliations with respect to the above difference.

- 6.4 We recommend that the council matches any pending invoices with the receipts from the debtor and reconciles the difference.
- 6.5 We have obtained a statement from Wasteserv Malta Ltd as at year end which shows a balance of €15,075.00 due to the council. However, the council's books of account indicate a balance of €17,598.40. Upon investigation of the difference we have noted that invoices 3A/2020, 08/2020 and 27/2020 with an amount of €776.40, €841.10 and €841.10 respectively were not showing in the statement provided by Wasteserv Malta Ltd but were included in the council's books. We have also noted that the amount recorded in the council's books of account with respect to invoice 02/2020 was €64.70 less than the amount recorded on the Wasteserv Malta Ltd statement for the same invoice.
- 6.6 We recommend that the council contacts Wasteserv Malta Ltd and ensures that all invoices are approved and recorded in their books. The council should also chase for the payment.

Long outstanding balances

- 6.7 Whilst reviewing receivables we noted the following overdue balances:

	€
Dimbros	200.00
GreenPak	42.00
Innovations Limited	326.00
LESA	357.69
Magic Clean	42.00
Marlon Balzan	21.00
Projects Global Limited	200.00
Tower Ironmongery	84.00
Wasteserv Malta Ltd	13,328.20
	<u>14,600.89</u>

- 6.8 We recommend that the council regularly reviews overdue receivables for recoverability. The council should determine how the receivable amount originated and if it is not valid or no longer recoverable the council should obtain approval in a council meeting to make a specific provision or write it off.

Income from LESA administration fees

- 6.9 When testing invoices issued to LESA for administration fees on contravention amounts collected, we determined that invoices relating to the following months were not issued within the prescribed time:

Invoice month	Invoice date
February 2020	09.03.2020
July 2020	02.09.2020
September 2020	14.10.2020
October 2020	18.11.2020

- 6.10 In light of the above, we recommend that the council complies with memo 91/2011 and issues an invoice within one week from the end of the month in which the collections were made and remitted to the council.

7 Bank and cash

LC Other Entities Account

- 7.1 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfers of the amounts due to entities such as LESA and the Lands Department. Instead, the council continued to adopt the old system of depositing funds directly to the entities' bank accounts.
- 7.2 We appreciate that the council did not adopt the new system since it would have been inefficient, given that the council only receives few amounts during the year which are due to such entities. However, we still recommend the council to adopt the new system to be in line with Directive 05/2020.

8 Trade and other payables

Suppliers' statements

- 8.1 During the course of our audit we 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.
- 8.2 We recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Long outstanding creditors

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

Creditors	€
Asfaltar Ltd	197.35
MC2 Architects	1,491.67
Super S Ironmongery	281.08
Wasteserv Malta Ltd	2,162.52
	<u>4,132.62</u>

- 8.4 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.

Debit balance in creditors' list

- 8.5 The council's creditors' list includes the following debit balances in the creditors' list:

Other Debtors	€
All Sec	346.00
ARMS Limited	2,032.37
Gardania	5,797.20
	<u>8,175.57</u>

We have proposed an audit reclassification to reclassify the amount above to other debtors. This was already reflected in the unaudited set of financial statements.

- 8.6 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore the council should investigate why this creditor account is in debit.

Deferred Income

- 8.7 During our testing on deferred income, we noted an amount of €5,797.20 out of the total funds of €12,431.25 received under the drip irrigation scheme, were utilised by 31 December 2020. The council left the full amount of €12,431.25 as deferred income. We proposed an audit adjustment to transfer the amount of €5,797.20 from 'deferred income' to 'income from EU'. The council has amended the financial statements to include our audit adjustments.

- 8.8 In accordance with instructions received from the NAO and IAS 20, grants received should be recognised as income to match the costs which they are intended to compensate.

Unrecorded liabilities

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

Invoice date	Supplier	Details	Cheque	Amount
				€
01/01/2021	Enemalta	Update of database, Form A & demarcation charges of Enemalta street lamps at Hal Safi for year 2020	Bank Transfer	233.00

- 8.10 To this end, we have proposed an audit adjustment to record the above expense and the related accrual. The council approved our audit adjustment and included it in the final set of financial statements.

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

9 Financial statements

Presentation of financial statements

9.1 The council's financial statements are not compliant with IFRSs in the following instances:

- i. Note 'New and revised standards that are effective for the current period' includes irrelevant disclosures. Case in point includes IFRS 16 '*Leases*'.
- ii. The council failed to include the accounting policy for intangible assets and leases.

The council has amended the financial statements in respect of the above shortcomings.

9.2 We recommend that the council gives more attention in the preparation of the financial statements.

10 Capital commitments

10.1 During the year under review we noted that the council included capital commitments amounting to €62,131 in the 2021 cash flow budget which does not agree to the €109,634 additions included in the property, plant and equipment schedule within the 2021 budget. Furthermore, the capital commitments disclosed in the 2020 financial statements amount to €195,577. Therefore, there is some confusion since the cash budget indicates capital expenditure for the next twelve months whilst the note to the financial statements indicates both short-term and long-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council's future intentions.

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

11 Council meeting

Schedules of payments

11.1 During audit fieldwork we noted various cheque numbers which were omitted from the schedules of payments. Upon enquiry we were informed that some of the cheques for example cheque 11647, 11648, 11661, 11678, 11679, 12124 were cancelled and erroneously not listed in the schedules of payments. Other omitted cheques were 11631, 11632, 11633 and 11634 which were for payroll. There were also other omitted cheques, which were not cancelled or payroll related. These include:

Payee	Cheque number	€
Strand electronics	12148	41.30
D Consulta	12153	225.00
GO plc	12062	16.49
Wasteserv Malta Ltd	11677	750.67

- 11.2 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. The cancelled cheque should be retained as evidence of its cancellation. In the case of payroll cheques, it is advisable to list cheque numbers together but add as a description 'payroll'. This will ensure that all cheques are approved.
- 11.3 During our review of the schedules of payments, we noted various deficiencies relating to the amount of detail shown in the schedules. Some instances include:
- i. Cheque numbers are not included on the schedules of payments 09/2020.
 - ii. Schedule of payments for 10/2020 includes two different payees and amounts for cheque 12144.
- This is not in accordance with the schedule of payments template issued by the Department for Local Government.
- 11.4 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.
- 11.5 We also noted that some schedules of payments did not include bank transfer reference details and instead, the council only indicated that the payment was sent through a bank transfer.
- 11.6 We re-iterate our recommendation and remind the council of the importance to abide by the Local Councils (Financial) Procedures section P1.11 and present accurate schedules of payments. The executive secretary is to ensure the correctness of documentation prior to each council meeting.
- 11.7 During the year under review we noted that the schedule of payments prepared by the council, did not include details of the nominal account to which the expenses were allocated.
- 11.8 We recommend that the council abides by section P1.11.c.c.01. of the Financial Procedures which dictates the amount of detail required on the schedule and a further memo issued by DLG which requires the nominal codes to be included.

12 Uploading of documents

Electronic site

- 12.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:
- i. The annual budget for 2020 was not uploaded by the 15 April 2020 and was not noted as signed as required by the Procedures.
 - ii. The business plan for the period 2020-2022 was not uploaded by 22 April 2020 and was not noted as signed as required by the Procedures.

- iii. The quarterly financial reports were not uploaded by their respective deadlines (being 15 April 2020, 15 August 2020, 15 September 2020 and 15 January 2021) as required by the Procedures.
- iv. The annual administrative report for 2019 uploaded on council website was not signed.
- v. The financial statements for the year ended 31 December 2019 were not uploaded by the 15 August 2020 as required by the Procedures. Furthermore, it was noted that these were not signed.
- vi. The management letter for 2020 and reply to management letter were not uploaded by the 15 August 2020 as required by the Procedures.
- vii. Meeting minutes 01/2020, 06/2020 and 07/2020 were not uploaded on the website within three days of approval in council meetings. Minutes 12/2020 were not uploaded in pdf format.
- viii. Schedule of payments 1 to 12 for 2020 uploaded on council website were not noted as signed.

12.2 This contravenes the Local Councils (Financial) Procedures, 1996 which mandate specific timelines for these reports and minutes. We recommend that the council uploads all documents in pdf within the required time. 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 the audit fieldwork we noted that the council uploaded the 2019 management letter in accordance with Circular 21/2019.
- 12.4 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. 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 Council meetings

Length of meetings

- 13.1 We have again noted that council meetings take place at quarter past eight in the evening, quarter past five in the afternoon and four or five o'clock in the afternoon.
- 13.2 We would like to remind you of memo 68/2009 wherein it is stated that council meetings should take place after half past five in the afternoon and not later than half past seven. However, we have noted that most councillors attend most meetings.

Meeting regulations

- 13.3 During the year under review we noted that meeting 02/2020, 05/2020, 06/2020, 07/2020, 09/2020, 10/2020, 11/2020 and 12/2020 lasted more than three hours without obtaining the required consensus.

- 13.4 We would like to remind the council that memo 68/2009 states that the duration of council meetings shall not exceed three hours.

14 IFRS 9

- 14.1 The council did not calculate and account for an 'expected credit loss' during the year ended 31 December 2020. We have analysed the debtors' list of the council and noted that it is mainly composed of balances with government-related entities. There is a low default risk associated with such entities and therefore the calculated provision is not expected to result in a material amount.
- 14.2 We recommend that the council properly calculates and accounts for an 'expected credit loss' in line with the requirements under IFRS 9 'Financial Instruments'. This will enable the appropriate provision to be reflected against the debtors' balance in the Statement of Financial Position and the related increase or decrease from year to year in the Statement of Profit or Loss.

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 Mrs Doris Baldacchino and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

