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Tal-Pieta' Local Council
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28 September 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 LES Revenue

We noted that the council is not sending LESA invoices in the first week of the following month (refer to note 2.9).

1.2 Deposits

The council failed to deposit income on a regular basis (refer to notes 2.5 and 2.11).

1.3 Other income

There were no surplus funds distributed by Central Region during the year under review.

1.4 Central Region surplus funds

We did not identify any shortcomings with respect to Central Region surplus funds.

1.5 Deferred income

We identified an error in the recognition of deferred income (refer to note 9.17).

1.6 Accrued income

We again noted shortcomings in accrued income (refer to note 7.7).

1.7 Grants receivable

We noted that the council's accrued income still includes a grant receivable on playing field which was brought forward from previous year and has not yet been received (refer to note 7.7).

1.8 Payee and SSC payments

The council is not submitting payments for FSS tax and NI on time (refer to note 4.1).

1.9 Payroll cost

We did not identify any issues when performing FS5 forms to books of account reconciliation.

1.10 Insurance Policy

The council's assets are still not appropriately insured (refer to note 3.14).

The insurance policy on the council's motor van is on a third-party basis (refer to note 3.17).

1.11 Procurement process

We noted various shortcomings in procurement process (refer to notes 3.8, 3.10, 3.11 and 3.12).

1.12 Donations

We did not identify any shortcomings with respect to donations.

1.13 Rental costs

The council did not manage to obtain confirmation in writing and an official credit note from the Lands Authority to substantiate the entry recorded in the council's books of account in previous years (refer to note 3.21).

1.14 Purchase orders

We were not provided with the purchase orders for the selected sample of invoices (refer to note 3.6).

1.15 Schedule of payments

We again noted various shortcomings in schedule of payments (refer to notes 13.1 and 13.3).

1.16 Fixed asset register

We again noted that the fixed asset register does not include all the details (refer to note 5.1).

We are pleased to inform that the 'car park' and 'police station' were removed from the fixed asset register as suggested in previous year management letter since the council lost control over both these assets in 2015. The net book value in the fixed asset register had a zero value.

We identified discrepancies between the fixed asset register and the unaudited fixed asset schedule (refer to note 5.4).

1.17 Supplier statements

The council did not manage to obtain supplier statements from all its suppliers during the year (refer to note 9.1).

1.18 Overdue balances

The council still did not resolve the matter of long outstanding creditors (refer to note 9.6).

1.19 Over or under stated payables

We did not identify any discrepancies between payables recorded in the council's books of account and supplier statements.

1.20 Debit balance in creditors' list

The council's books of account still include debit balances in creditors' list (refer to note 9.3).

1.21 PPP payables

We again identified a shortcoming in PPP payables (refer to note 9.12).

1.22 Bank reconciliations

We were provided with the monthly reconciliations for a sample of bank accounts.

1.23 Signatories

The council failed to update the account representative of a BOV account (refer to note 8.3).

1.24 Presentation of financial statements and other observations

We identified a shortcoming in the presentation of financial statements (refer to note 10.1).

1.25 Minutes and meetings

We again noted that the minutes were not bound (refer to note 12.1).

We noted that the minutes uploaded onto the council's websites are not marked as 'i'firmata' (refer to note 12.3).

We identified an issue with respect to frequency of meetings (refer to note 12.5).

We did not identify any issues in relation to the meetings attendance.

1.26 Budget vs actual

We noted that the actual expenditure for 2020 exceeded the budgeted amount (refer to note 14.1).

1.27 Budget and business plan

We again noted that the council did not complete the overview and summary of the budget (refer to note 14.3).

1.28 Liquidity position

We noted that the council has a negative liquidity position (refer to note 15.1).

2 Income

General income

- 2.1 We noted that an accrued income was recorded for the months of September to December in relation to the rental income of the old custom veranda. We were provided with the invoices issued by the council to a third party and noted that the invoices were issued during the year under review. To this end we have proposed an audit adjustment to allocate the amount of €14,996 from accrued income to debtors. Furthermore, we noted that the invoice for the month of December was understated by €1,456.24. Thus, we have proposed another audit adjustment to rectify the issue. The council has amended the financial statements to include our audit adjustments.
- 2.2 The council should ensure that transactions are properly allocated to the correct account. Furthermore, we reiterate our recommendation that the council should account for accrued income appropriately to not understate the income.
- 2.3 The council recorded an accrued income of €90,000, €45,000 each year for 2019 and 2020 in relation to the car park. Up to date of audit fieldwork the council did not receive the amount of €90,000. Furthermore, we were not provided with agreements supporting the amounts to be received by the council. Instead, we were provided with an email from the council explaining the situation and requesting the funds. As a result, we have proposed audit adjustments to reverse the amount of €90,000. These audit adjustments have been incorporated in the financial statements.
- 2.4 We recommend that the council sets a meeting to reach an agreement on whether the amount is receivable. Once the agreement is signed the council should issue invoices to the respective parties. Also, the council should continue discussing the matter during the meetings.
- 2.5 We came across instances where the council failed to deposit receipts on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
Permit	12899	02.01.2020	24.01.2020	22.00
Permit	12948	16.01.2020	06.02.2020	21.00
Permit	13146	14.02.2020	05.03.2020	20.00
Permit	13162	19.02.2020	05.03.2020	15.00
Permit	13276	16.03.2020	17.04.2020	32.00
Permit	13392	04.05.2020	22.05.2020	18.00
Permit	13486	09.06.2020	18.06.2020	9.00
Permit	13815	01.09.2020	01.10.2020	30.00

- 2.6 We recommend that the council deposits its receipts at least twice a week to ensure that no cheques or cash are left on the council premises longer than necessary.

LES administration fees

- 2.7 During our audit fieldwork we tested income from LES administration fees by comparing 483 report generated from the Loqus system and the amounts in the books of account. We found that the amount in the books of account is overstated by €566. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.

- 2.8 ✓ We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.

Income from LESA

- 2.9 ✓ The following invoices were not sent to LESA in the first week of the following month:

Invoice month	Invoice date
February 2020	11.03.2020
March 2020	13.05.2020
April 2020	13.05.2020
May 2020	08.07.2020
June 2020	08.07.2020
July 2020	12.11.2020
August 2020	12.11.2020
September 2020	12.11.2020
October 2020	12.11.2020
November 2020	06.01.2021
December 2020	06.01.2021

- 2.10 ✓ In accordance with memo 91/2011 local councils are required to issue the regional committees and LESA invoices in the first week of the following month.

Custodial receipts

- 2.11 ✓ The following shortcomings were noted during our audit work on the council's custodial receipts:

Description	Receipt number	Receipt date	Deposit date	€
LES income	4427334	20.12.2019	03.01.2020	23.29
LES income	4427808	20.12.2019	03.01.2020	23.29
LES income	4427836	21.12.2019	03.01.2020	11.65
LES income	4457961	31.01.2020	12.02.2020	361.65
LES income	4479667	27.02.2020	05.03.2020	23.29
LES income	4501449	03.04.2020	15.04.2020	23.29
LES income	4535384	18.06.2020	02.07.2020	34.94
LES income	4574315	13.08.2020	20.08.2020	34.94
LES income	4575075	14.08.2020	20.08.2020	46.59
Lands department	904181	09.01.2020	16.01.2020	20.96
Lands department	928265	01.07.2020	09.07.2020	250.00

- 2.12 ✓ We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period of time since, apart from contravening the Procedures, it can give rise to security concerns.

Joint Committee

- 2.13 ✓ We noted that the Central Joint Committee, of which 'Tal-Pieta' Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2010.

- 2.14 ✓ We have obtained the last audited financial statements of the Central Joint Committee and noted that reserves at that date amount to €43,207. In the absence

of audited financial statements, 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.

- 2.15 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.

3 Expenditure

Petty cash payments

- 3.1 We noted that some cash payments are not supported by the appropriate petty cash voucher identifying the items being purchased. Examples include:

Details	Suppliers	Date	€
Stationery	Gremlins	30.08.2020	4.20
Others	Pop in Confectionery	02.11.2020	7.59

- 3.2 The council has prepared a petty cash voucher for the above purchases however it still did not include a list of items being purchased and their respective value.
- 3.3 We advise the council that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, all petty cash vouchers should be signed by the purchaser and the executive secretary. This is in accordance with Directive 3/2017 and LN 269 of 2017.
- 3.4 We also noted that the petty cash summaries prepared by the council do not include details of the nominal account to which the expenses were allocated.
- 3.5 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.

Procurement procedures

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

Supplier	€	Note
Digital Magic	1,121.00	(a, b)
Camilleri Marble Works	1,200.00	(a, b)
Caxton Ltd	2,084.25	(a, b)
RCC Co. Ltd	1,360.87	(a, b)
Balzan Ronald	1,000.00	(a, b)
Environmental Landscapes Consortium Ltd	5,050.64	(a, b)

- (a) The council did not obtain any quotation.
- (b) The council failed to provide us with purchase order.

- 3.7 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.

Expired contracts

- 3.8 ✓ As reported in the previous year management letters, the tender for architect services had expired in 2011. During the year under review, the council incurred an amount of €49,857.10 charged by XYZ Ltd for professional fees mainly in relation to St. Luke's Square project. We also identified an amount of €4,056 charged by Perit William Lewis and an amount of €4,130 charged by Dr. Edwin Mintoff in relation to professional fees.
- 3.9 ✓ We would like to remind the council that the Procurement Guidelines 2017 issued by the Department for Local Government state that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts for those expenditure exceeding €10,000. May we also remind the council that, purchases equal to or above €5,000 but below €10,000 should be supported by a call for quotations issued through ePPS system.
- 3.10 ✓ During the year under review we noted that the council was using services provided by Mica Med Limited for the provision of street lighting in the locality of Pieta' even though the contract has expired. In 2020 the council incurred a total amount of €220,366 charged by Mica Med Limited. 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.
- 3.11 ✓ We identified that the contracts with Galea Cleaning Solutions expired on 31 December 2018. During the year under review the council incurred a total amount of €102,578 charged by Galea Cleaning Solutions. To date of the audit fieldwork the council did not issue a tender and continued using the services of this supplier.
- 3.12 ✓ During the audit fieldwork we were not provided with the contract agreement for the provision of accounting services. We were informed that such services are supported by a direct order issued on a yearly basis. In 2020 the council incurred the total amount of €5,664.
- 3.13 ✓ The council should not make use of expired contracts, since this is prohibited by the Procurement Guidelines 2017 which states that councils should issue a new call for tenders before the expiry date of existing contracts. Moreover, we reiterate our recommendation that 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.

Insurance policy

- 3.14 ✓ During our audit fieldwork we identified the below discrepancies between the asset insurance cover and net book value (NBV) of assets included in the prior year audited financial statements:

Asset	Sum insured €	NBV in audited financial statements 2019 €
Buildings	450,000	106,000
Office equipment	-	3,132
Office furniture, fixtures and fittings	-	4,831
	450,000	113,963

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

3.16 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 recommend that the insurance at least covers the replacement cost of the assets.

Motor vehicle insurance

3.17 We noted that the policy on the electric Nissan van limits its use to a 'private car for social, domestic and pleasure purposes' whereas its intended use is to provide transport and car-pooling services within the village.

3.18 We remind the council that motor vehicle should be covered by a comprehensive policy and it should ensure that the vehicle's policy covers its intended use.

Registration of motor van

3.19 We noted that, the van registered with Transport Malta is in the name of the mayor only.

3.20 May we remind the council that all motor vehicles should be registered in the name of the council. The logbook should state that the van is registered in the name of the executive secretary on behalf of the local council.

Rental costs

3.21 In the previous year management letter it was noted that in 2018, the council recognised a credit note of €9,155 against payables due to the Lands Department. The reduction was meant to eliminate part of the rental costs due by the council amounting to €14,475 for the hospital car park that was returned to the authorities after it was originally devolved to the council. The council referred to a verbal agreement that was not substantiated by a formal document from the Authority. Due to the lack of evidence, the audit report was qualified.

3.22 We recommend that the council should obtain confirmation in writing and an official credit note from the authority to substantiate entry in its books.

4 Payroll

Payment of FSS and NI

- 4.1 During the audit we noted that the council is not submitting payments for FSS tax and NI on time. Examples include:

Month	Receipt date
January	17.11.2020
February	23.10.2020
March	20.10.2020
April	20.10.2020
May	10.12.2020
June	10.12.2020
July	07.01.2021
August	07.01.2021
September	09.02.2021
October	09.02.2021
November	25.02.2021
December	25.02.2021

- 4.2 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 FS5s are submitted on time to avoid any unnecessary penalties.

5 Fixed assets

Fixed asset register

- 5.1 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 €
Office furniture & fittings	FF0072	Air conditioner Artel	159.50
Computer equipment	COMP0044	Printer	23.41
Plant and machinery	PM012	BDS Alligator 1700W	359.70
Office equipment	OE0041	2 fans	69.30

- 5.2 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.

- 5.3 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 unaudited financial statements with accounting records

- 5.4 We identified the following discrepancies between the net book value of assets in the financial statements and the net book value in the nominal ledger.

Asset category	NBV in unaudited financial statements €	NBV in accounting records €	Difference €
Office equipment incl. computers	2,846	2,847	(1)
Urban improvements	64,505	76,743	(12,238)
Construction	77,015	64,776	12,239
	144,366	144,366	-

- 5.5 We remind the council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and reclassified accordingly.

Reconciliation of unaudited financial statements with fixed asset register

- 5.6 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 €
Office equipment incl. computers	2,846	1,778	1,068
Urban improvements	64,505	46,078	18,427
Construction	77,015	43,174	33,841
	144,366	91,030	53,336

- 5.7 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.

Grant in fixed asset schedule

- 5.8 On 6 March 2020 the council has signed an agreement with the Development Planning Fund (DPF) to provide a total grant of €195,955.30 for the proposal of St. Luke's Square. During the year under review the council received the amount. In addition, the council also received a final payment of €19,363.79 from DPF after year-end. We noted that the council recorded an accrued income amounting to €19,628.55. To this end, we have proposed an audit adjustment amounting to €264.76 to reverse accrued income against grant as it was overstated. The council has amended the financial statements to include our audit adjustment.
- 5.9 We remind the council that income should be accounted for in accordance with the contract agreements.
- 5.10 We noted that an asset under construction grant amounting to €816 was capitalised. However, in the previous year it was recorded as an expense under contractual services account. To this end we have proposed an audit adjustment to allocate grant in other government income rather than as grant in property plant and equipment. This has been incorporated in the financial statements.
- 5.11 We recommend the council to allocate grants to their proper account. Furthermore, the council should ensure that grants received and recorded by the income approach are accounted for in the profit and loss, whereas grants received for capital assets should be included in the 'property, plant and equipment' schedule in balance sheet.

Infrastructure Malta grant

- 5.12 During the year under review the council received the amount of €520,261.74 from Infrastructure Malta for St. Luke's Square project. We noted that the council received grants for the same project in previous years. The council failed to provide us with a signed agreement with Infrastructure Malta. We were provided with an email which confirms approval.
- 5.13 We advise the council to liaise with Infrastructure Malta to establish whether the amount received could be utilised for other projects. Furthermore, we advise the council that obtaining and retaining signed copies of all agreements is of all vital importance.

Assets under construction St. Luke's Square

- 5.14 We noted that part of the assets under construction are in relation to St. Luke's Square project which is to be entirely funded by Infrastructure Malta. As at year end the project has a cost of €769,017 and a grant of €777,024 which results in a discrepancy of €8,007. We could not propose an audit adjustment since no explanations were provided.
- 5.15 We recommend that the council prepares a list of additions to this asset and agrees the list to the grants received or yet to be received.

6 IFRS 16 'Leases'

Old customs veranda

6.1 We noted that the council entered into an agreement with the Lands Authority for the custom veranda for the period of fifteen years with effect from 24 November 2005. During the year under review, the council accounted for this lease under IFRS 16 when IFRS 16 was effective from 1 January 2019. The council recognised a right-of-use asset amounting to €111,151, a non-current lease liabilities and current lease liabilities amounting to €104,235 and €4,738, respectively. However, the analysis provided covered from period 2020 up to 2037. The council informed us that there is no contract agreement apart from the one which expired in 2020. We also noted that in the council's books of account there is a prepayment amounting to €2,913 in relation to the rent for the period covering 1 January 2021 to 30 April 2021. This prepayment is incorrectly recorded as it should have been incorporated in the entries which were recorded for the lease liabilities.

6.2 We also noted that the council earns rental income from the old customs veranda. During the audit fieldwork we were provided with an agreement dated 22 May 2014 for the rent between the council and a third party. We noted that the lease agreement is to expire on 24 September 2041. Therefore, this constitutes of a sublease as the council is acting as an intermediate lessor. However, as noted in note 6.1 the agreement with the Lands Authority is up till 2020 whilst the agreement with the third party is up till 2041.

6.3 We were not provided with a proper analysis of IFRS 16 and therefore we could not ascertain the impact on the financial statements. To this end, our audit report was qualified.

6.4 We recommend the council obtains agreements which are in line as it seems that the council is leasing out property to a third party however the agreement expired. Furthermore, we also recommend that once the contract agreements are obtained the council should properly account for in accordance with IFRS 16 'Leases'.

7 Trade and other receivables

Overdue receivables

7.1 We again noted that the council has the following overdue receivables:

Debtor	€
KPMG	7,000.00
LESA	55.87
Regjun Nofsinhar	102.44
Regjun Tramuntana	6.99
Wasteserv Malta Ltd	39,007.90
	<u>46,173.20</u>

7.2 The council should ensure that the balances are valid and, if so, pursue these debtors by sending reminders for the long overdue amounts. In the event that recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining approval in meeting.

7.3 We have obtained a statement from Wasteserv Malta Ltd showing a nil balance due to 'Tal-Pieta' Local Council. The council's books of account show a balance of

€71,867.90. We were informed that there is an ongoing discussion to offset the balance with the amount owed.

- 7.4 ✓ 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 payment.

Pre-regional LES debtors

- 7.5 ✓ According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €267,875. No amount is recognised as an LES receivable in the council's books of account and in the financial statements. We did not propose an audit adjustment to account for LES debtors 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.

- 7.6 ✓ We recommend that the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council's books.

Accrued income

- 7.7 ✓ We noted that the council has an accrued income amounting to €18,500 in relation to funds to be received from Planning Authority for the amendments to boundary wall and installation of new equipment in playing field brought forward from previous years. During the audit fieldwork we were provided with the unsigned contract agreement dated March 2015 and the architects' certification on UIF funded projects which was carried out in March 2017. Up to date of audit fieldwork the council has not received the amount from the Planning Authority.

- 7.8 ✓ We recommend the council to maintain proper control on the balance to ensure that these are recovered in the shortest time possible. Furthermore, the council should also discuss this matter during council meetings.

8 Bank and cash

Cash in hand

- 8.1 R We noted that according to the council's books of account the cash in hand balance as at year end amounts to negative €375.73. No explanation was forthcoming for the negative balance.
- 8.2 ✓ We recommend that the council investigates exactly how the negative balance arose and ensures that the cash reconciliation reconciles the cash in hand with the books of account to ensure that all transactions are being accounted for.

Bank account representative

- 8.3 ✓ We noted that the signatories for BOV account 40019357076 (idle) are previous executive secretary Joseph Saliba and previous mayor Malcom Mifsud.
- 8.4 ✓ We recommend the council instructs the bank to update the account representatives for security reasons until the account is eventually closed.

9 Trade and other payables

Supplier statements

9.1 The council did not obtain monthly statements from all of its suppliers. Memos and circulars issued from time to time by the Department specifically state that the council should obtain monthly statements from all suppliers.

9.2 We recommend that suppliers' statements are obtained to enable reconciliations, especially for those suppliers with whom the council trades most.

Debit balances in creditors' list

9.3 We have identified the following debit balances in the creditors' list:

Supplier	€
Caxton Printshop Ltd	3,178.05
Mallia Stoneworks	2,000.00
V&C Contractors	3,678.16
Arms Ltd – Playing Field A/C 411000078618	1,978.84
Arms Ltd – Playing Field A/C 101000275124	2,056.34
	12,891.39

9.4 We have proposed an audit reclassification to reclassify the amounts above to other debtors.

9.5 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 these creditors are in debit.

Long-outstanding creditors

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

Creditor	€
AB Projects Ltd.	267.74
Agius & Agius	24.92
AGS Company	79.65
Alberta	33.80
Andrea Genovese	45.00
APEX Lifts	126.85
Attard Brothers	28.78
Audio System	590.00
B.Grima & Sons Buildings & Turnkey Cont.	3,990.88
Birkirkara Local Council	116.47
Busuttil Dr. Luciano	70.00
Central Hardware Store	216.65
Correct Termination	4,100.50
Datatrak IT Services Ltd	402.75
Derek Garden Centre	85.55
Dipartiment Propejta tal-Gvern	5,320.63
Environmental Landscapes Consortium Ltd	3,268.39
Go plc Account 40762889 - (21242510)	299.87
Group 4 Security Services (Malta) Ltd.	73.83
Greenlines Environmental Services Ltd	94.40

The Guard & Warden Service Hse Ltd	79.20
Information and Data Protection Commissioner	46.58
JGC Play on	688.76
Koperattiva Tabelli u Sinjali	1,265.64
Land Department	18,829.64
Local Enforcement Systems Agency	73.84
Perit William Lewis	350.00
Paul Magri	3.54
Mailbox Services Ltd	43.72
Media - Link Communications Co Ltd	23.95
Mica Med Ltd	2,030.00
Mifsud Bonnici Advocates	750.00
Music & Innovative Live Entertainment Serv.Co-op Ltd	39.74
Dr. Edwin Mintoff	1,098.10
Photo Idea Studio	150.00
Playsafety	147.50
Saviour Galea	100.30
Schembri Infrastructures Ltd	8,367.90
St Anne's Clinic	16.00
T&H Distributors	276.27
Union Press Ltd.	82.69
Wasteserv Malta Ltd	63,266.17
XYZ Ltd	619.50
Zammit Gardens Ltd.	185.72
	117,771.42

- 9.7 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.

Accruals

- 9.8 In the previous year management letter it was noted that the council received the amount of €50,011 in grants from Infrastructure Malta on works carried out on St Joseph Street & Edgar Ferro Street during 2018. The council had not recognized this amount as accrued income at 31 December 2018 and all expenses incurred on these streets were fully covered by grants. In previous year the council had an unrecorded balance due on these works and previous auditors have proposed an audit adjustment which was correctly recorded in previous year financial statements. Whilst testing accruals we noted that an amount of €50,011 was brought forward from previous year. We were informed that the amount is still included as an accrual as up to date of audit fieldwork the council has not received the invoice.

- 9.9 We recommend that the council should chase the supplier to provide invoices on time.

Other creditors

- 9.10 Whilst performing testing on amounts due to third parties (Lesa and Lemis) we noted that an amount of €2,150.31 which should have been included in amounts due to third parties account was erroneously included in joint venture account. To this end we have proposed an audit adjustment to allocate amount to proper account. The council has included this adjustment in the final set of financial statements.

- 9.11 We recommend that the council performs regular reconciliations so that any discrepancies would be identified.

PPP payable

- 9.12 In the previous year management letter it was noted that the council's PPP agreement indicates that during 2019, the council was expected to settle the amount due of €13,085. In 2019 the council paid only the amount of €4,736, thus delaying the amount of €8,349. The council did not settle the amount of €8,349 in 2020.

- 9.13 We remind the council that delays in repayments will result in a breach of agreement terms which may result in other consequences to the council.

Search for unrecorded liabilities

- 9.14 Whilst analysing subsequent payments, we noted that the council paid the amount of €58,523.04 to V&C contractors Ltd in relation to the embellishment works at St. Luke's Square. We were provided with the interim certificate of works no.4 dated 24 September 2020. Whilst the invoice by the contractor was dated 24 February 2021. We have proposed an audit adjustment to record an accrual against assets not yet capitalised. This has been correctly incorporated in the audited financial statements. Furthermore, we noted that after year end the council received the amount of €90,607.17 from Infrastructure Malta, part of which covers the amount of €58,523.04. To this end, we have proposed an audit adjustment to record the grant against accrued income. This has been correctly incorporated in the audited financial statements.

- 9.15 Furthermore, we noted that part of €90,607.17 also covers an addition of €4,692.69 to assets under construction. To this end, we have proposed an audit adjustment to record the grant against the addition in assets under construction. This adjustment has been correctly incorporated in the audited financial statements.

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

Deferred income

- 9.17 In the previous year management letter it was noted that during 2018 the council entered into an agreement with a third party to allow certain advertising to be performed in the locality. The council has already received the payment amounting to €3,000 however adverts were not issued yet by 31 December 2020. However, the council recognised this as general income. We have proposed an audit adjustment to rectify the issue. The council has included this adjustment in the final set of financial statements.

- 9.18 We recommend the council to set up necessary controls to ensure that information is communicated with the accountant to ensure necessary amendments are made to recognise and reverse deferred income.

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 is a non-compliance issue identified:

- i. Note 2, sub-header 'Application of new and revised International Financial Reporting Standards (IFRSs) and 'Standards, interpretations and amendments to published standards as adopted by the EU that are not effective for financial reporting beginning on January 2019' were not updated for the financial year ended 31 December 2020.

10.2 We recommend that the council gives more attention to the preparation of the financial statements. This has been amended in the audited financial statements.

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, June to September 2020 and October to December 2020 were not uploaded.
- (b) Business plan 2020 – 2024 was not uploaded.
- (c) Audited financial Statements 2019 were not uploaded.
- (d) Schedule of payments no. 16, 17 and 18 were not uploaded.
- (e) Annual administration report 2019 was not uploaded.

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. 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

11.3 During our audit fieldwork, we noted that the council has failed to upload the 2019 Management Letter in full in accordance with Circular 21 of 2019.

11.4 We would also 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 the GDPR prior to uploading on the website.

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

12 Meetings

Binding of minutes

- 12.1 We noted that the council did not bind the minutes of previous legislature.
- 12.2 We recommend that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous legislature minutes to be bound. The binding of minutes should be given due importance since this provides the only permanent, unchangeable record of council meetings and discussions.

Meeting minutes

- 12.3 We noted that the meeting minutes uploaded on the council's website are not marked as 'iffirmat' as required by memo 10/2016.
- 12.4 We recommend that the council abides by the directive given in memo 10/2016. The "iffirmat" on the pdf documents is confirmation that the uploaded documents are the approved and correct ones.

Meeting regulations

- 12.5 We observed that the date set at the end of meeting 14 held on 1 July 2020 was 3 August 2020, however the actual meeting was held on 27 August 2020. This also implies that the meeting was not held within five weeks from the preceding meeting.
- 12.6 According to the Local Councils (Meeting) Procedures, 1996 at the end of every meeting the council must set the next council meeting which shall be fixed. If no unanimous agreement is reached, the councillors are to vote and decide according to the majority. This shall not be changed for any reason. Therefore, we recommend that these requirements are followed.
- 12.7 We draw your attention to section 43(2) of the Local Councils Act which states that council meetings should be held at least once a month or at any other shorter intervals as the council may decide. This period should not, however, exceed five weeks.

13 Schedules of payments

- 13.1 During our review of schedules of payments, we noted that the account numbers were not included on the schedules. This is not in accordance with the template issued by the Department for Local Government.
- 13.2 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.
- 13.3 We noted that all schedules of payments did not include cheque numbers and, as a result, we could not ensure that all cheque payments were included.
- 13.4 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.

14 Budget

- 14.1 We noted that the council had budgeted a capital expenditure of €34,000 allocated. However, the total capital expenditure in the unaudited financial statements amounted to €777,110. The following is the summary:

	Budgeted	Unaudited financial statements	Difference
	€	€	€
Capital expenditure			
Office equipment	4,000	575	3,425
Urban improvements	-	227,058	(227,058)
Assets under construction	30,000	549,477	(519,477)
Total	34,000	777,110	(743,110)

- 14.2 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.
- 14.3 We noted that the council prepared its 2021 budget however the council did not complete 'Overview and Summary' section.
- 14.4 We recommend the council present a complete budget including overview and summary as this would assist the users to understand the plan of the council.

15 Liquidity position

Going concern

- 15.1 The council has a negative liquidity position of €62,760. This resulted since the total current liabilities of the council, which amount to €452,249 exceed the total current assets of the council which amount to €389,489.
- 15.2 We recommend that the council takes immediate remedial action to improve the liquidity position as required by the Financial Procedures, 1996. The council should try its utmost to curb recurring and capital expenditure falling in its functions, but without negatively impacting the long-term future of the locality.
- 15.3 We included an emphasis of matter paragraph in our auditor's report in the financial statements to highlight the existence of this material uncertainty regarding the council's ability to continue as a going concern.

Financial Situations Indicator

- 15.4 Owing to the matter described in point 15.1 above, the council's Financial Situations Indicator (FSI) is lower than 10% at the end of the financial year.
- 15.5 May we remind the council that in accordance with the Local Councils (Financial) Regulations, 1993 (section 4(1)(c)), the executive secretary is to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. In addition to this, the executive secretary has to inform the Director that the FSI is less than ten per cent of the

allocation approved and explain the actions that are intended to be taken by the council to remedy the situation.

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 Simon Cauchi and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

