

Our Ref: NAO 107/2015/5
Your Ref:

26 July 2021

The Mayor and Executive Secretary
Bormla Local Council
Bormla

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2020**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2020.

After seeking the Association's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.

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Our ref: MB/mf/94021

1 July 2021

Dear Madam,



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 Opening balances

We again noted discrepancies in opening balances (refer to note 2.1).

1.2 Pre-regional LES debtors

We have once again noted shortcomings with respect to pre-regional LES debtors (refer to note 7.1).

1.3 LES administration fees

We have again identified shortcomings in LES administration fees (refer to note 3.9).

1.4 Supplementary Government income

The council failed to record tipping fees received from the Department (refer to note 3.1).

1.5 General income

We are pleased to note that no issues have been noted with respect to general income.

1.6 Custodial receipts

We have again noted an instance of a receipt not being deposited on a timely basis (refer to note 3.11).

1.7 Prepayments

The council failed to make appropriate provisions for prepayments (refer to notes 7.9, 7.10 and 7.11).

1.8 Accrued income

We are pleased to note that no issues were identified with respect to the council's accrued income.

Reconciliation between FS7 and FS5s

1.9 No differences were identified between the FS7 and FS5s.

Reconciliation of wages between FS5s and books of account

1.10 We have again noted a discrepancy between FS5s and the books of account (refer to note 4.1).

1.11 Councillors' allowances

We have once again noted an issue with respect to councillors' allowances (refer to notes 4.3 and 4.4).

1.12 Petty cash summary

The council failed to include all necessary details in the petty cash summaries (refer to note 5.1).

1.13 Procurement procedures

We again noted instances where the council is not adhering to the procurement procedures (refer to notes 5.3 and 5.6).

Expired contract

1.14 Our testing has once again revealed that the council is still making use of an expired contracts (refer to notes 5.17 and 5.19).

1.15 Insurance policy

The council failed to update the insurance policy (refer to note 5.21).

Expense allocation

1.16 We again noted expenses which were recorded in the incorrect account (refer to notes 5.28 and 5.29).

1.17 Green MT

The council failed to sign an agreement for Green MT during 2020 (refer to note 5.33).

1.18 Reconciliation of financial statements with fixed asset register

We again noted discrepancies between net book value in unaudited financial statements compared to fixed asset register (refer to note 6.3).

1.19 Upkeep of fixed asset register

The fixed asset register still includes assets which do not contain all necessary details (refer to note 6.5).

1.20 **Classification of assets in the fixed asset register**

We are pleased to note that the council is classifying the fixed assets in the correct category of the fixed asset register.

1.21 **Depreciation**

We are pleased to note that no shortcomings have been noted on the depreciation of fixed assets.

Additions to fixed assets

1.22 We did not identify instances of fixed assets being included with expenses.

Long outstanding balances

1.23 We have again noted long outstanding receivables in the books of account (refer to note 7.3).

1.24 **Confirmation of debtor**

We again encountered differences between the amount included in the debtor's list and amount confirmed by the respective debtor (refer to note 7.7).

1.25 **'Stale' cheques**

We have again identified a shortcoming with respect to 'stale' cheques (refer to note 8.1).

1.26 **Bank overdrawn balance**

No issues have been identified with respect to the classification of bank overdrawn balances, and no bank overdraft balances were included within the books of account as at year end.

1.27 **Supplier statements**

The council failed to obtain monthly statements from all suppliers (refer to note 9.1).

1.28 **Long outstanding creditors**

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

1.29 **Confirmation of creditor**

We again encountered shortcomings in creditor balances (refer to note 9.5).

1.30 **Alternative confirmation procedures on creditor**

We are pleased to note that no discrepancies emerged during our alternative confirmation procedures on creditors.

1.31 **Accrued expenditure**

We have again noted shortcomings with respect to the council's accrued expenditure (refer to notes 9.8, 9.10, 9.12, 9.13, 9.14 and 9.16).

1.32 **Unrecorded liabilities**

We have again noted an instance of an unrecorded liability (refer to note 9.22).

1.33 Income from grants on capital projects

The council failed to rectify the issue during the year under review (note 10.1).

1.34 Presentation of financial statements

We have again noted shortcomings in the unaudited financial statements (refer to note 12.1).

1.35 Groupings

We have again identified an issue within expense groupings (refer to note 12.3).

1.36 Electronic site

The council's electronic site is not updated in accordance with the Local Council Procedures (refer to note 13.1).

1.37 Administration

We again noted various shortcomings in the schedules of payments (refer to notes 14.1, 14.2, and 14.3).

1.38 Grand Harbour Marina contract

The council did not rectify the issue with respect to the Grand Harbour Marina contract (refer to note 15.1).

1.39 Specimen chart of accounts

We have again noted that the council is not using the specimen chart of accounts (refer to note 16.1).

2 Opening balances

2.1 Whilst testing opening balances we noted that the opening trial balance provided during the 2020 audit included opening balances of €3,405 for social events and €9 for other hospitality costs. These accounts should have been allocated to the income statement and not to the balance sheet. Furthermore, the opening balance for the creditors control account amounted to €86,073 which differed by €3,424 to the closing balance noted in the prior year audited financial statements. The remaining difference of €10 was noted in retained earnings. To this end we have proposed an audit adjustment to re-instate the above balances to agree to the 2019 audited financial statements. The council has included this adjustment in the final set of the financial statements.

2.2 The council should ensure that the books of account are properly updated, particularly ensuring that all audit adjustments proposed and accepted by the council in 2019 are included before closing off the year end and accounted for in the correct account.

3 Income**Other supplementary Government income**

3.1 During the year under review, the Department paid the amount of €640.51 to WasteServ Malta Limited relating to tipping fees incurred in prior years. The council failed to record this transaction. An audit adjustment was proposed in this regard, and this has been included in the audited financial statements.

- 3.2 In accordance with circular 1/2021 this income should be disclosed with 'other supplementary Government income'. Furthermore, the council should ensure that income is recorded when earned, such that the books of account reflect the appropriate amount in the respective financial year.

Income from organic waste collection

- 3.3 During the current year we noted that the council failed to issue invoices for the period July to December 2020 to Wasteserv for the refunds of organic waste collection. The respective mounts were included in accrued income.
- 3.4 May we remind the council that the agreement signed with Wasteserv Malta Limited indicates that invoices should be sent to the latter in the first week of each of the following month. Furthermore, due to such delays the council must ensure that such amounts are still receivable by Wasteserv even if the terms agreed were not abided to.

Other Government income

- 3.5 During the year under review it was noted that the re-imbursement of €1,000 for Christmas decorations received from Regjun Xlokk on 26 February 2021, had not been recorded as accrued income in the books of account. We have proposed an audit adjustment to rectify the issue. The adjustment has been reflected in the financial statements.
- 3.6 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.

Income from Cultural Fund 2018 - 2020

- 3.7 Whilst reviewing the agreement for the Culture Fund 2018-2020, we noted that the council failed to obtain the mayor's signature and the Department's signature. The agreement was only signed by the executive secretary.
- 3.8 It is essential for the council to make sure that all agreements which are entered into are signed by all the necessary parties, thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

LES income

- 3.9 During our audit fieldwork we compared the amount recorded as income from pre-regional LES contraventions with the change in LES debtors during the year. A €622.30 was noted. We also tested income from pre-regional tickets by comparing report 483 generated from the Loqus system and the movement of the LES debtors figures in the financial statements. We found that the amount in the books of account is overstated by €494.20. We did not propose an audit adjustment to correct this misstatement since no explanation was forthcoming for the difference.
- 3.10 We would like to remind the council that it is the council's responsibility to investigate and reconcile the movements with Loqus.

Custodial receipts

- 3.11 We came across an instance where the council failed to deposit a receipt on a timely basis. This shortcoming was noted during the course of our audit work on the council's custodial receipts of Lands Department:

| Description | Receipt number | Receipt Date | Deposit date | € |
|------------------|----------------|--------------|--------------|--------|
| Lands Department | 903479 | 30.12.2019 | 06.01.2020 | 460.63 |

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

4 Payroll

Reconciliation of wages between FS5s and books of account

- 4.1 During the audit we noted a discrepancy of €859.90 being unreconciled from the wages accounts to the personal emoluments found in the FS5 forms submitted to the Commissioner for Revenue (see appendix 1).
- 4.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

Councillors' allowances

- 4.3 During our audit fieldwork we noted that the council has erroneously classified €627.97 mayor's allowance in the honoraria account. We have proposed an audit adjustment to include this amount with councillors' allowances. This adjustment has been correctly recorded in the financial statements.
- 4.4 We also noted a difference of €161.56 between the expected councillor allowance and amounts included within the books of account. The council failed to reconcile this amount and thus no adjustment could be proposed in this respect.
- 4.5 We recommend that the council should allocate its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

5 Expenditure

Petty cash summary

- 5.1 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 the expense should be allocated.
- 5.2 We recommend that the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

Procurement procedures

- 5.3 Our testing on cheque payments revealed the following irregularities:

| Details | Supplier | Date | € | Note |
|--|--------------------------------------|------------|----------|------|
| 3 desks with drawers | Kenneth Buhagiar | 13.04.2020 | 1,869.00 | (c) |
| Paint for Gnien Kottonera | Yacht shop | 05.05.2020 | 2,301.00 | (a) |
| Security services - Cospicua Short Play Festival | Signal 8 Security Services Malta Ltd | 11.09.2020 | 2,673.17 | (b) |
| Animal medicines | Agrimed Ltd | 01.12.2020 | 2,114.68 | (b) |
| Cleaning of culverts | George Axisa | 24.09.2020 | 5,789.08 | (a) |

(a) The council did not obtain any quotations.

(b) Only two quotations were obtained

(c) Council failed to include cheque number in the schedule of payments.

5.4 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.

5.5 We also recommend that the council ensures that all details are entered in the schedule of payments.

5.6 During our testing, we also noted instances whereby internet banking transfers were not supported by dual authorisation procedures. The following are examples of payments made to suppliers which have only been approved by the executive secretary:

| Details | Supplier | Date | € |
|---|--------------------------------------|------------|----------|
| Security services- Cospicua Short Play Festival | Signal 8 Security Services Malta Ltd | 11.09.2020 | 2,673.17 |
| Data protection consultancy - October 2020 | BOOM Consultancy & Advisory Services | 30.10.2020 | 398.25 |
| Animal medicines | Agrimed Ltd | 01.12.2020 | 2,114.68 |

5.7 We remind the council that Directive 04/2020 states that the Mayor and Executive Secretary should approve each payment which is affected via bank transfer. Whilst local council employees may prepare the transactions, these still must be approved by the mayor and executive secretary.

Payment approval

5.8 Whilst performing tests on cheque payments we noted two instances where cheques were issued and encashed prior to being approved by the council:

| Payee | Cheque number/ bank transfer reference | Encashed date | Approval date | Amount € |
|---------------------------------|--|------------------|------------------|-------------|
| Charles Schembri | 4935 | 16.06.2020 | 13.07.2020 | 330.40 |
| Melita Unipol Insurance Brokers | 97950824 | 30.12.2020 | 13.01.2021 | 1,206.77 |

- 5.9 We remind the council that cheque payments must be approved by the council in the meeting prior to issuing the cheques. This procedure minimises the risk of unapproved purchases or uncertified work.
- 5.10 During our audit fieldwork we noted that payments via bank transfers were being processed by a local council employee without obtaining prior approval from the mayor and executive secretary.
- 5.11 We remind the council that Directive 04/2020 states that the mayor and executive secretary should approve each payment which is affected via bank transfer. Whilst local council employees may prepare the transactions, these still must be approved by the mayor and executive secretary.

Tenders exceeding budget amount

- 5.12 Whilst reviewing the opening minutes of tender KLB 2020/01 we noted that the council budget was not set.
- 5.13 Furthermore tender KLB 2020/005 had a council budget of €300,000. The cheapest and only offer submitted was for €328,496.15. This means that the accepted offer exceeded the budget by €28,496.15.
- 5.14 May we remind the council that the budget is prepared to control the income and expenditure of the council. Thus, diverting from or not preparing a budget will result in cash constraints for other services.

Tendering procedures

- 5.15 Whilst reviewing tenders we noted that the contract agreement for tender KLBO 04/2020 'Rental installation and dismantling of decorative Christmas lights' was signed by the executive secretary and contractor only, but not by the mayor.
- 5.16 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.

Expired contract

- 5.17 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 Bormla even though the contract has expired.

We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.

- 5.18 We would like to bring to the attention of the council that memo 10/2013 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.
- 5.19 During our audit fieldwork we noted that the council utilised expired contracts for the following service:

| Tender no. | Details | Date of expiry | Note |
|-------------------|-------------------------------------|-----------------------|-------------|
| KLB04/2013 | Collection of mixed household waste | 28.02.2020 | (a) |

- a) A new tender was issued in 2020, however the agreement was only signed on 21 April 2020.

5.20 We would like to remind the council that Procurement Guidelines 2017 state that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts.

Insurance policy

5.21 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and net book value in the 2019 audited financial statements:

| Asset | Sum insured | NBV in audited financial statements 2019 |
|-------------------------------|--------------------|---|
| | € | € |
| Buildings | 174,703 | - |
| Office furniture and fittings | 18,042 | 17,324 |
| Plant and machinery | 6,532 | 3,453 |
| Office equipment | 8,765 | 8,680 |
| Total | 208,042 | 29,457 |

5.22 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.

5.23 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 value for assets.

Christmas reception

5.24 We noted that an amount of €129.40 was spent on drinks for a Christmas reception held during 2020. OPM Circular 23/2020 states that government entities were specifically required not to pay out, in total or in part, any expenses related to Christmas staff parties through government funds. This was done to conform with directives issued by the health authorities.

5.25 We emphasise the importance of following government issued circulars, and it is the full responsibility of the executive secretary to ensure compliance with amendments issued from time to time.

Rent

5.26 In previous year, the council had recorded a prepayment for insurance coverage of a motor vehicle in the rent account. An adjustment was passed in 2019 to allocate the prepayments in the correct account. In 2020, we noted that the prepaid amount of €156.53 was reversed against the rent account instead of the motor vehicle account. We have proposed an audit adjustment to reverse the prepayment in the correct account. The council has amended the financial statements to include our adjustment.

- 5.27 We recommend that the council allocates its expenditure and subsequently reverses any related accruals and prepayments through the appropriate accounts so that the expenses of the council are properly reported.

Allocation of expenses

- 5.28 During audit testing on expenditure, we noted that the council erroneously classified the amount of €7,056.40 pertaining to 'Christmas lights' in the 'community services' account. We have proposed an audit adjustment to reclassify the amount in the correct account. The council has amended the financial statements to include our adjustment.
- 5.29 We also noted that the council erroneously classified the amount of €4,873.40 pertaining to the community workers performance bonus in the 'other expense' account rather than 'other contractual service' account. We have proposed an audit adjustment to reclassify the amount in the correct account. The adjustment was approved by the council and incorporated in the audited financial statements.
- 5.30 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

COVID-19 swab tests

- 5.31 Whilst reviewing expenses, we noted that 6 employees conducted swab tests at a private hospital out of council funds. The total cost incurred for the swab tests amounts to €1,200 and were carried out during March 2020.
- 5.32 The council should obtain clarification with the department and confirm if such reimbursement is allowed.

Green MT agreement

- 5.33 We noted that during the year under review the council did not obtain an agreement with Green MT Limited for the collection of recycled waste and environmental initiatives as required by Circular 03/2019. The council has provided us with a signed agreement dated 5 May 2021.
- 5.34 May we remind that Circular 03/2019 states that the council should sign a new agreement by end of 2019.

6 Fixed assets

Reconciliation of financial statements with accounting records

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

| Asset category | NBV in unaudited financial statements € | NBV in nominal ledger € | Difference € |
|--------------------|---|-------------------------------|-----------------|
| Motor vehicles | 22,045 | 22,139 | (94) |
| Urban improvements | 11,590 | 11,496 | 94 |
| | 33,635 | 33,635 | - |

- 6.2 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 financial statements with fixed asset register

- 6.3 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 furniture & fittings | 35,432 | 34,548 | 884 |
| Office & computer equipment | 8,223 | 8,603 | (380) |
| Urban improvements | 11,590 | 17,706 | (6,116) |
| Plant & machinery | 4,986 | 2,589 | 2,397 |
| Motor vehicles | 22,045 | 4,153 | 17,892 |
| | 82,276 | 67,599 | 14,677 |

- 6.4 We remind the council that 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.

Upkeep of fixed asset register

- 6.5 We again noted that the fixed asset register does not contain all necessary details such as supplier details, invoice number, dates and location.
- 6.6 We reiterate our recommendation to the council that the minimum level of information to be included in the fixed asset register is the following:

- 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

- 6.7 An updated fixed asset register enables the council to exercise proper control over its assets. 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

- 6.8 During our fieldwork, we noted that the council capitalised road humps amounting to €1,630 in the 'street signs' nominal account. The above amount should have been included with 'urban improvements' nominal account. We have passed an adjustment to reclassify the cost of the asset and respective depreciation in its appropriate account. This adjustment has been correctly incorporated in the audited financial statements.

6.9 We recommend that the council investigates invoices and ensures that all additions are accounted for properly.

6.10 We noted the following shortcomings in fixed asset additions:

| Supplier | Details | € | Note |
|-------------------------------|--------------------------|----------|----------|
| PC Options Limited | 3 Dell Vostro laptop | 1,875.03 | (a) |
| ICT Services Limited | Punch clock | 446.50 | (b) |
| Koperattiva Tabelli u Sinjali | Road humps Triq Matty | 857.01 | (c) |
| Koperattiva Tabelli u Sinjali | Traffic signs Triq Matty | 695.02 | (c), (b) |
| Kenneth Buhagiar | 4 tulip doors | 2,476.00 | (a), (b) |
| Kenneth Buhagiar | 1 tulip partition | 619.00 | (d) |
| Kenneth Buhagiar | 3 desks with drawers | 1,250.00 | (d) |

(a) Purchase order was not signed by the executive secretary

(b) Payment voucher was not signed by the executive secretary and mayor

(c) Only 2 quotations were obtained

(d) Council failed to obtain a VAT receipt

6.11 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. May we also 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. Furthermore, in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by tax invoice/fiscal receipt.

6.12 We also recommend that the payment vouchers 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.

6.13 May we also remind the council that in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by tax invoice/fiscal receipt.

7 Trade and other receivables

Pre-regional LES debtors

7.1 According to report 622 generated from the Loqus system, the tribunal payments as at 31 December 2020 were €320,714.99, compared to the amount of €322,494.58 reported in the financial statements. This results in a difference of €1,779.59 for which the council did not provide us with any explanation. We did not propose an audit adjustment to account for these 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.

7.2 We recommend that the council should obtain plausible explanation and evidence from Loqus supporting the increase in tribunal pending payments.

Long outstanding balances

- 7.3 Whilst reviewing receivables we noted the following overdue balances which are not provided for in the books of account:

| | € |
|---------------------|------------------|
| Wasteserv Malta Ltd | 24,290.56 |
| Demis Darmanin | 3,320.28 |
| LESA | 801.13 |
| | <u>28,411.97</u> |

- 7.4 The council informed us that Demis Darmanin was managing the bar next to the Peppi del Ceppo football ground. However, water and electricity bills were in the name of the council. Since the former was not reimbursing the council with the amounts incurred in relation to water and electricity consumption, the council and Demis Darmanin verbally agreed that the latter will pay the amount by monthly instalments of €100. On 28 February 2018 the council sent an official letter to Demis Darmanin requesting settlement of the outstanding amounts. In the prior year the latter has settled the amount of €1,000. During 2019, there were no receipts, while during 2020, there was only one receipt of €100, which means that the amount of €3,320 is still outstanding.
- 7.5 We recommend that the council continues its claim against Demis Darmanin. It is also advisable that the council discusses this matter in a meeting as well to assess the recoverability of this balance and, if deemed appropriate, make a provision for the amount.
- 7.6 The council did not provide for any of the above balances. It is advisable that the council discusses all long outstanding debtors in a meeting and assesses the recoverability of the balance and, if deemed appropriate, make a provision.

Confirmation of debtor

- 7.7 We have obtained a statement from Wasteserv dated 31 December 2020 showing a balance of €19,619 payable to the council whilst the council has a book balance of €48,252 resulting in a discrepancy of €28,633. Upon further investigation we noted that Wasteserv did not record the following invoices: SI37, SI51, SI55, SI82, SI83, SI84, SI85, SI86 and SI87 amounting to €1,523, €310, €310, €4,210, €3,562, €3,886, €4,210, €3,886 and €4,210 respectively. Wasteserv has also not recorded long-outstanding balances amounting to €2,528 which date back to 2016.
- 7.8 We recommend that the council contacts Wasteserv and ensures that all invoices are approved and recorded in their books. The council should also chase for payment.

Prepayments

- 7.9 During the year under review, we noted that the prepayment for online streaming services is overstated by €517.64. We also noted that the prepayment in relation to the insurance and licence of a motor vehicle is understated by €106.57. We have proposed audit adjustments in this respect. Both of these adjustments have been reflected in the audited financial statements.
- 7.10 Whilst reviewing the rent prepayments, we noted that the council failed to record the prepaid portion of the rent for the Verdala ditch. To this end we have proposed an audit adjustment of €93.13 to account for the prepaid amount. This adjustment has been approved by the council and incorporated in the audited financial statements.

- 7.11 During our testing on the prepayments, we identified that a one-time set up fee for the virtual server of €209 was included with prepayments. Due to the above, we noted that the prepayment for the period was overstated by the same amount. We have proposed an audit adjustment to rectify this issue. The council has accepted our adjustment and included this in the audited financial statements.
- 7.12 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accruals concept.

8 Bank and cash

'Stale' cheques

- 8.1 During the audit we were presented with the BOV operating account reconciliation. This included the following 'stale' cheque.

| Cheque number | Cheque date | Amount |
|---------------|-------------|--------|
| | | € |
| 4849 | 15.04.2020 | 65 |

The starting balance included in the trial balance differs from the bank reconciliation provided by the council as at year end by €65. We further noted that this cheque had been excluded from the books but not from the reconciliation.

- 8.2 It is important that the council investigates any 'stale' cheques to determine why this was not cashed. If the cheque is unlikely to be cashed or has been replaced, the amount should be reversed against the respective expense or creditor after approval by the council.

9 Trade and other payables

Supplier statements

- 9.1 We have again noted that the council failed to request monthly statements from all suppliers. May we remind the council that Department for Local Government memos and circulars specifically state that councils should obtain monthly statements.
- 9.2 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. The council should make sure that the creditor accounts agree to supplier statements on a regular basis and investigate and reconcile any differences.

Long-outstanding creditors

- 9.3 The council's creditors' list includes the following balances which have been outstanding for more than 120 days:

| Creditor | € |
|--------------------------|------------------|
| Wasteserv Malta Limited | 15,149.41 |
| Saviour Mifsud | 5,988.52 |
| ARMS Limited | 1,322.50 |
| Mercieca Event Suppliers | 129.80 |
| Lands Department | 58.23 |
| Swallow Garage Ltd | 50.00 |
| | <u>22,698.46</u> |

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

Confirmation of trade creditors

- 9.5 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 € |
|-------------------------|---|---|-----------------|
| Wasteserv Malta Limited | 25,123.29 | 24,482.78 | 640.51 |
| ARMS | 3,846.74 | 2,742.43 | 1,104.31 |

- 9.6 The difference noted with respect to the Wasteserv Malta Limited pertains to the Department's allocation received by Wasteserv for 2019 invoices which was not recorded in the council's books of account. (refer to note 3.1).
- 9.7 We remind the council that circular 1/2021 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Accrued expenditure

- 9.8 We noted that the accrual for Wasteserv tipping fees for December 2020 was understated by €245.59. We have proposed an audit adjustment to reflect the proper amount for the period. Furthermore, we also noted that the accrual for organic waste collection was also understated by €3,351.50. We have also proposed an audit adjustment to rectify this issue. These adjustments have been reflected in the financial statements.
- 9.9 We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.
- 9.10 During our testing on accruals' we noted that the council recorded an accrual amounting to €19,700 in relation to mixed waste collection for the months of October, November and December 2020. However, we noted that invoices received by the council in 2021 amounted to €14,868. We have proposed an audit adjustment to reverse the over provision of €4,832. The council has updated the financial statements to include our adjustment.
- 9.11 The council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.
- 9.12 The list of accruals includes an amount of €40,137 for the mixed refuse collection for March, May, June, July, August, September, October and December 2020. To date of the management letter the council did not receive the above invoices.
- 9.13 We also noted that the council is accruing an amount of €43,488.90 for the collection of organic waste for month March and the period May to December

2020. To date of our audit fieldwork the council only received the November invoice.

- 9.14 Included with accruals is an amount of €25,045 for the bulky refuse service. This accrual pertains to services provided in May, June to August 2019 and August to December 2020. Up to date of our audit fieldwork the council only received invoices for October to November 2020.
- 9.15 We recommend that the council should seek clarification on the matters noted above from the supplier and ensure that invoices are received on time.
- 9.16 Furthermore, we noted an accrual for the hiring of skips. The council informed us that the service is obtained only when required and there is no fixed monthly expense for this service. Given that this accrual could not be supported, we have proposed an audit adjustment to reverse the €3,000 accrual that was made for the period March to December 2020. This council has amended the financial statements to include our adjustment.
- 9.17 We re-iterate our recommendation that the council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

Deferred Income

- 9.18 During our testing on the deferred income, we noted that an amount of €2,933 received for the Library Scheme 2020 under SPI 10/2019, was not utilised by 31 December 2020. The council obtained an extension agreement with respect to the utilisation of these funds. We have proposed an audit adjustment since this amount was incorrectly reversed from deferred income to income. Our proposed adjustment was incorporated in the audited financial statements.
- 9.19 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.
- 9.20 We have also noted that the council has received an amount of €41,889 for the irrigation scheme. The grant received is to be spent on works at the following sites: €17,000 on Gnien tal-Irlandiz, €12,414 on Triq San Nikola, and €12,475 on Triq 8 ta' Dicembru. The council confirmed that no works were carried out on the above sites by end of 2020. We further noted that the original agreement states that the funds were to be used by 30 April 2020. To date the council is carrying forward the amount received in the deferred income account however no extension agreement for 2020 was provided.
- 9.21 We recommend that the council should obtain the related extension agreement as this will establish the rights and obligations of each party.

Unrecorded liabilities

- 9.22 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted an invoice of €850 from the books of account. This was in relation to the pigeon pest control (1st and 2nd Program) for November and December 2020. The invoice was paid by means of a bank transfer dated 13 January 2021. We have proposed an audit adjustment to rectify the issue. The adjustment was correctly included in the audited financial statements.
- 9.23 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

10 Other creditors

Income from grants on capital projects

- 10.1 Included with other creditors is an amount of €158,750 for grants received in prior years for the Peppi del Ceppo project. We noted that the council failed to obtain an extension agreement for this capital project. The previous agreement stated that all works should be completed by September 2020.
- 10.2 We recommend that the council obtains the extension agreement as this will establish the rights and obligations of each party.

11 Capital commitments

- 11.1 During the year under review we noted that the council has €387,500 in capital commitments included in the 2021 budget and audited financial statements. The cash flow budget includes €458,500 in capital commitment which does not agree to the property, plant and equipment schedule. 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.
- 11.2 We recommend that the financial statements should adequately disclose the council'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.

12 Financial statements

Presentation of financial statements

- 12.1 We have identified the following shortcomings in the financial statements of the council:
- i. Casting error on page 17 of the unaudited financial statements whereby the total net book value of intangible assets as at 31 December 2020 should be €397 and not €396
 - ii. Another casing error has been noted on page 18 of the unaudited financial statements since the total of the property, plant and equipment as at 31 December 2019 adds up to €108,377 and not €108,379.
- 12.2 We recommend that the council gives more attention to the preparation of the financial statements.

Groupings

- 12.3 We also noted that expenses are not being classified consistently from year to year.
- 12.4 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

13 Electronic site

- 13.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:
- i. The council failed to upload the quarterly financial reports for periods January to December 2020 within the stipulated time frame.
 - ii. The quarterly reports for September to December 2020 was not noted as signed.
 - iii. The business plan for 2020-2024 was not uploaded on the council's website within the stipulated time frame.
 - iv. The audited financial statements, management letter and its reply for 2019 were not uploaded on the council website by 15 August 2020.
 - v. The 2019 financial statements uploaded on council website are not noted as signed.
 - vi. The council did not upload the following meeting minutes and schedule of payments within three days after approval: 11/2019, 12/2019, 13/2019, 14/2019, 15/2020, 16/2019, 17/2019, 18/2019, 20/2019, 21/2020, 12/2020, 13/2020, 14/2020, 15/2020, 16/2020, 17/2020, 18/2020, 19/2020, 20/2020, 21/2020 and 22/2020.
- 13.2 This contravenes the Local Councils (Financial) Procedures, 1996 which mandate specific timelines for these reports and minutes. We recommend 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

- 13.3 During the audit fieldwork we noted that the council uploaded the 2019 management letter in accordance with Circular 21/2019.
- 13.4 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.
- 13.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

14 Administration

- 14.1 Whilst performing audit procedures on the schedules of payments we noted that listed cheques were not in a sequential order.
- 14.2 During our audit fieldwork we noted that the council issued several cheques which were not included in the schedule of payments. Examples are the following:

| Cheque number | Supplier | € |
|----------------------|-----------------|----------|
| BOV 4995 | Petty cash | 140.00 |
| BOV 4997 | Coins roundup | 1.01 |
| BOV 4998 | Coins roundup | 0.81 |
| BOV 4999 | Coins roundup | 3.66 |
| BOV 5000 | Coins roundup | 1.81 |
| BOV 5024 | Promo signs | 122.10 |
| BOV 5029 | ARMS Limited | 74.07 |

- 14.3 We noted that schedule of payments for 2020 does not include all cheque numbers. An example is the below:

| Details | Supplier | Date | € | Cheque no. |
|---|------------------|-------------|----------|-------------------|
| 3 desks with 4 drawers and 4 locks each | Kenneth Buhagiar | 20.03.2020 | 1,250.00 | 4844 |

- 14.4 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. 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.

15 Grand Harbour Marina contract

- 15.1 Whilst reviewing meeting minutes we noted that the council has a contract with Grand Harbour Marina Ltd and Cospicua Boating Group. This contract, signed in 2003, states that the council has been assigned 7 berths at a nominal fee of LM1 equivalent to €2.33. We also noted that the terms included in the contract are not clear. During 2018 the council commented that it was seeking legal advice on whether the contract is valid as this was not signed by the mayor in charge at the time. However, it was signed by the executive secretary at the time, who signed on behalf of the local council and the Cospicua Boating Group. There was no further development on this matter during the year under review.
- 15.2 We reiterate our recommendation to council to follow up the issue to determine its rights.

16 Specimen chart of accounts

- 16.1 We noted that the council is not using the specimen chart of accounts that is mandated for local councils and regional committees.
- 16.2 The chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will enhance comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

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 Duncan Hall and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



As per FS5's

| Month | Gross (€) | SSC (€) |
|---------------------|--------------------------|------------------|
| January | 10,602.00 | 860.16 |
| February | 10,580.00 | 1,334.56 |
| March | 9,651.00 | 1,371.70 |
| April | 8,943.00 | 1,097.35 |
| May | 9,004.00 | 1,097.36 |
| June | 9,705.00 | 1,479.28 |
| July | 9,731.00 | 1,240.80 |
| August | 9,586.00 | 1,551.00 |
| September | 10,921.00 | 1,240.80 |
| October | 10,833.00 | 1,478.00 |
| November | 10,838.00 | 1,847.50 |
| December | 13,705.00 | 1,478.00 |
| | <u>124,099.00</u> | <u>16,076.51</u> |
| add 1/2 of total NI | 8,038.26 | |
| Total | <u><u>132,137.26</u></u> | |

As per FS7

| | |
|---------------------|--------------------------|
| Gross Salary | 124,099.00 |
| add 1/2 of total NI | 8,038.26 |
| Total | <u><u>132,137.26</u></u> |

As per Accounts

| Account No. & Name | Amount (€) |
|------------------------------------|--------------------------|
| 110000 Mayor's allowance | 15,655.32 |
| 120000 Employees' Salaries/Wages | 48,138.46 |
| 120100 Executive Secretary Salary | 30,501.00 |
| 130000 Bonuses | 3,904.79 |
| 130100 Bonus - Executive Secretary | 3,524.56 |
| 150000 Social Security Cont. | 8,038.26 |
| 160000 Allowances | 17,010.12 |
| 170000 Overtime | 5,279.85 |
| | <u>132,052.36</u> |
| Add opening accruals | 2,937.00 |
| Less closing accruals | <u>-3,712.00</u> |
| | <u><u>131,277.36</u></u> |
| Difference | <u><u>859.90</u></u> |