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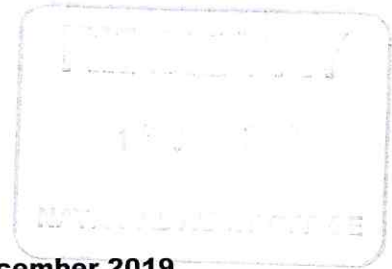
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Our ref MB/mf/55920

10 June 2020

Dear Sir,



Financial statements for the year ended 31 December 2019

During the course of our audit for the year ended 31 December 2019 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

The council once again failed to obtain audited financial statements of the Joint Committee (refer to note 2.14).

We again identified discrepancies between report 483 and the books of account (refer to note 2.5).

The council once again failed to disclose all revenue in the proper category (refer to note 2.3).

We did not encounter any instances of income not recorded in the proper accounting period.

1.2 Expenditure

We are pleased to note that amounts shown in FS7 was in line with the books of account.

We did not encounter any instances where bonuses were not calculated properly.

We are pleased to note that we did not encounter any discrepancies in FSS calculations.

We are pleased to note that the council did not exceed the allowed threshold for Jum il-Lokal.

We did not find any irregularities with social/cultural events organised during the year.

We are pleased to note that we did not identify irregularities in expenses accounted for in the wrong financial year.

We again identified irregularities in the council's insurance policy (refer to notes 3.5 and 3.7).

1.3 **Property, plant and equipment**

We again noted that the fixed asset register does not agree to the books of account (Refer to note 4.5).

1.4 **Trade receivables**

We again identified long outstanding debtors, the balances of which were not confirmed nor received after year end (refer to notes 5.1 and 5.2).

We again identified irregularities in accrued income (refer to note 5.10).

1.5 **Bank and cash**

We did not encounter any discrepancies in bank reconciliations.

1.6 **Trade payables**

We again identified instances of trade payables not agreeing to books of account (refer to note 7.9).

We are pleased to note that the creditors' list is tying up to financial statements.

We identified irregularities in accounting for government grants and deferred income (refer to note 8.1, 8.3, 8.5, 8.6 and 8.7).

We did not encounter any irregularities in the balance with the PPP supplier.

1.7 **Financial statements**

We again found shortcomings in the financial statements' disclosures required by certain accounting standards (refer to notes 10.1).

1.8 **Opening Balances**

We did not encounter any irregularities in opening balances.

1.9 **Electronic site**

We again identified instances of documents not uploaded, or not uploaded within the required timeframe on the Local Government website (refer to note 12.1).



2 Income

Other Government income

- 2.1 It was noted that the agreement with the Malta Tourism Authority, in relation to the event 'Milied Melliehi' is not yet signed by the contracting parties. Similarly, the agreement with the Department for Local Government in terms of the sports initiative scheme 2014/2015 is also not yet signed by both parties.
- 2.2 We recommend that the council contacts the authorities in question so that the agreements are signed by both parties. This would ensure that all parties are abiding by the contract and that they are aware of what their rights and obligations are.

Income from bye-laws

- 2.3 During our testing, we noted that the council disclosed income from the use of family park facilities amounting to €1,361 as income from bye-laws rather than general income. An audit adjustment was proposed in order to rectify this.
- 2.4 We recommend that income derived from bye-laws should be separately disclosed in the financial statements in accordance with the specimen financial statements in Appendix P2.I of the Local Council (Audit) Procedures.

LES administration fees

- 2.5 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the amounts in the books of account. We found that the amount in the books of account is understated by €287. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.
- 2.6 We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.
- 2.7 Furthermore, we also compared the amount of pre-regional tickets as stated in report 483 which was generated from the Loqus system with the figure in the financial statements. We found that the amount in the books of account is understated by €322. We did not propose an audit adjustment to correct this discrepancy since no explanation was provided for the difference.
- 2.8 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in report 622 was €500.87 which contrasts with the amount of €384.29 shown in report 483 for pre-regional contraventions paid during the year. We did not propose an audit adjustment in this respect.
- 2.9 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend that the council takes the matter up with Loqus to determine what this difference pertains to. We also recommend that the council accounts for the movement from year to year so that the council is aware of what amounts are still due from pre-regional debtors at any point in time.

Custodial Receipts

- 2.10 The council failed to deposit cash on a timely basis for LES contraventions and lands receipts in the instances mentioned below:

Details	Receipt no.	Receipt date	Deposit date	€
Lands receipt	864847	06.06.2019	11.06.2019	1,500.00
LES receipt	4168365	01.01.2019	08.01.2019	23.29

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

Interest income

- 2.12 During our fieldwork we noted that the HSBC savings account is subject to a 15% final withholding tax.
- 2.13 Even though this bank account does not normally earn any interest it is still recommended that the council instructs the bank not to withhold tax since it is exempt from income tax.

Joint Committee

- 2.14 Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the Joint Committee. The Joint Committee ceased operations on that date. The council managed to obtain audited financial statements for year end 31 December 2015, however no financial statements for the year ended 31 December 2019 were provided and consequently we were unable to determine whether the Council is entitled to receive any further income from the Joint Committee. In view of this, we had to qualify our audit opinion.
- 2.15 We recommend that the council queries this issue with the Department for Local Government and tries to obtain audited financial statements to ensure whether the council has any amounts which are still due to the council.

3 Expenses

Petty cash expenditure

- 3.1 Throughout the audit we discovered that a significant number of petty cash expenses are not supported by itemised chits and petty cash vouchers. Below are some examples:

Details	Supplier	Date	€
Hospitality expenses	Ta' Titta	13.03.2019	18.52
Hospitality expenses	Robert Micallef Hawker	29.04.2019	10.15
Cat neutering campaign expenses	Paws 'n' Claws	28.06.2019	17.30
Council property	Jonstor	25.11.2019	29.95



3.2 We recommend that the council fills in a petty cash voucher in accordance with Directive 3/2017 and LN 269 of 2017. The petty cash voucher should include all details pertaining to the goods being purchased.

Procurement

3.3 During our audit fieldwork, we noted that the council did not obtain three quotations in the following cases:

Supplier	Details	€
Horace enterprises Ltd	Supply of trophies	193.00
Jimmy Buhagiar	Hiring of horses for MCL Epiphany activity	708.00
Angela's flower shop	Single wrapped carnation, bouquet of flowers and wrapped hearts for Mother's day	452.50
Ballut Blocks Services Ltd	Hiring of concrete blocks for underpinning of Westreme Battery walls	1,044.68
Mercieca Event Supplies	Hiring of tables and chairs for Jum il-Kunsill 2019	506.00

3.4 In accordance with the Procurement guidelines issued by the Department of Local Government the council should obtain at least three signed quotations for purchases exceeding €50 and up to €5,000, unless, for purchases exceeding €50 but not €500, a direct order approved by the Executive Secretary is issued.

Asset insurance

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

Asset	Sum insured €	NBV in books of account* €
Land & Buildings	560,207	551,798
Office furniture, fixtures & fittings	189,942	99,481
Office equipment	54,200	5,039
Total	804,349	656,318

3.6 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 to ensure that the council's insurance coverage is in line with current legislation.

3.7 Whilst reviewing the insurance policy we also noted that the council is insuring property in the open, for the sum of €2,055,275. This is in breach of Directive 3/2017 which states that community assets should not be insured.

3.8 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, since a significant number of assets have a nil net book value, we recommend that the insurance at least covers the replacement value for assets.

Rent

- 3.9 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €4,272 in the books of account. We noted that the council did not account this amount in accordance IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.10 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

4 Fixed assets

Reconciliation of fixed asset register with accounting records

- 4.1 We identified differences between the net book value of assets in the fixed assets register and the net book value in the accounting records. These are summarised below:

Asset category	NBV in fixed asset register €	NBV in unaudited accounting record €	Difference €
Property	549,727	549,901	(174)
Urban improvement & Construction	79,711	178,387	(98,676)
Plant, machinery & equipment	11,546	14,723	(3,177)
Office furniture & fittings	94,421	91,224	3,197
Special programmes	1,422,331	1,321,630	100,701
	<u>2,157,736</u>	<u>2,155,865</u>	<u>1,871</u>

- 4.2 We recommend that the council investigates these variances and updates the fixed assets register and/or accounting records accordingly.

Classification of financial statements with accounting records

- 4.3 We identified differences between the net book value of certain assets in the financial statements and the net book value in the accounting records. These are summarised below:

Asset category	NBV in financial statement €	NBV in unaudited accounting record €	Difference €
Urban improvement & Construction	191,347	178,387	(12,960)
Special programmes	1,308,671	1,321,630	12,959
	1,500,018	1,500,017	(1)

- 4.4 We recommend that the council investigates these classifications and ensures that the financial statements reflect what is included in the books of account.

Reconciliation of financial statements to fixed asset register

- 4.5 We have noted that the fixed asset register is not in agreement with the financial statements. The following are the variances noted:

Asset category	NBV in fixed asset register €	NBV in unaudited financial Statements €	Difference €
Property	549,727	549,901	(174)
Urban improvement & Construction	79,711	191,347	(111,636)
Plant, machinery & equipment	11,546	14,723	(3,177)
Office furniture & fittings	94,421	91,224	3,197
Special programmes	1,422,331	1,308,671	113,660
	2,157,736	2,155,866	1,870

- 4.6 We recommend the council revisits the fixed asset register and ensures that this agrees to the books of account. This is to ensure that the fixed asset register is complete and that all classifications are included in their proper category.

Details of fixed asset register

- 4.7 When reviewing the fixed asset register, we noted that certain details like invoice numbers, location, appropriate asset descriptions and suppliers' details are missing. For example:

Asset category	Asset code	Description	Purchase date	Net book value €
Office equipment	E011	Refrigerator	09.06.1994	221
Office furniture	F233	Giotto Blue Swivel Chair	27.02.2015	113
Office furniture	F254	Air-conditioning unit	12.08.2019	1,274
Computer hardware	E101	Mikrotik Router Board hEX + L4	01.07.2017	173
Computer hardware	E097	Dell Vostro 3268 Tower	19.05.2017	218
Computer hardware	E046	HP Laser printer	25.01.1999	652

4.8 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

Reconciliation of additions in financial statements to fixed asset register

4.9 During our fieldwork, we noted that the additions in the fixed asset register do not agree to the additions and reclassifications in the financial statements. The following is a summary of the differences:

	Additions in fixed asset register €	Additions in financial statements €	Difference €
Urban improvement & Construction	136,085	214,612	(78,527)
Plant, machinery & equipment	7,705	12,234	(4,529)
Office furniture & fittings	9,660	5,135	4,525
Special programmes	163,809	163,954	(145)
	317,259	395,935	(78,676)

4.10 We recommend that the council investigates the discrepancies and ensures that what is being reflected in the books of account and in the financial statements is also being reflected in the fixed asset register.

Depreciation of fixed assets

4.11 During the year under review we noted various instances where certain assets were not being depreciated. These include the following:

Asset category	Asset code	Description	Purchase date	Net book value €	Note
Office equipment	E011	Refrigerator	09.06.1994	221	4.12
Office equipment	E033	Television Set - Mod. Seleco	15.01.1995	512	4.12
Computer hardware	E046	HP Laser Printer	25.01.1999	652	4.12
Computer hardware	E050	HP Inkject Colour Printer	25.05.2000	21	
Special programmes	115/02	Parish Square Project - Phase 3	01.05.2005	32,775	4.13
Special programmes	255/04	Ta` Brag Afforestation Project Phase 1	27.01.2009	124,232	4.12

- 4.12 After discussing this with the council, it was noted that these assets were never depreciated and therefore depreciation should be allocated to these assets. A prior year adjustment was proposed to account for the depreciation which should have been accounted for in prior years amounting to €117,867. In the case of Ta` Brag Afforestation Project Phase 1, there was an amount of €7,963 which should have been depreciated in 2019 and therefore another audit adjustment was proposed in this regard. This was approved by the council and was correctly incorporated in the audited financial statements.
- 4.13 In the case of the Parish Square Project, the council provided us with workings and the fixed asset register of prior years. It was identified that this asset was being depreciated in prior years. However, it was noted that the fixed asset register which was provided to us during the audit fieldwork was not showing any depreciation for this asset. Therefore, in this regard, the books of account were deemed not to be misstated since the council had already depreciated such amounts in prior years. In this case no audit adjustment was proposed.
- 4.14 We reiterate our recommendation that the plant register is accurately updated and that the council reconciles all assets in the fixed asset register with the books of account to ensure that both the books of account and the plant register are showing accurate results.

5 Trade receivables

Overdue trade receivables

- 5.1 The books of account still include a receivable balance from Water Services Corporation amounting to €7,545. This amount has been outstanding for more than six years. However, the above stated receivable is provided for in full.
- 5.2 Furthermore, we noted that the council's debtors list still includes the following overdue receivables for which no provision was made in the books of account:

Debtor	€
Central Region	65
Gozo Region	14
Maria Bambina Choral and Orchestral Society	233
Sport Malta	66
Transport Malta	144,208
WasteServ Malta Limited	314
	144,900

- 5.3 The council should regularly review overdue receivables for recoverability and if so, chase these debtors by sending reminders for the long overdue amounts. If recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining council approval in a meeting.

Confirmation of debtor

- 5.4 During the year under review the council has signed an agreement with Wasteserv Malta Ltd for the reimbursement of organic waste collection. The council is issuing invoices on a monthly basis. We have obtained a statement from Wasteserv Malta Ltd stating that the balance due by them at year-end, amounts to €8,160.88. The council has a book balance of €40,984.20. This results in a difference of €32,823.32. Upon further investigation we noted that the debtor did not record the following invoices: 651, 633, 634, 647, 648, 649, 650, 656 amounting to €4,394.32, €3,833.88, €4,153.37, €4,153.37, €3,833.88, €4,153.37, €4,153.37, €3,833.88 respectively. Wasteserv Malta Ltd has also failed to record a long-outstanding balance of €313.88 which dates back to 2018.
- 5.5 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.

Alternative confirmation procedures

- 5.6 As at year-end, the council had a balance of €144,208 due from Transport Malta with respect to works carried out in Triq il-Qortin. During our testing we noted that the council invoiced Transport Malta the total amount of €399,104 when in fact, it should have invoiced Transport Malta the amount of €332,587. Therefore, this resulted in the debtor being overstated by €66,517. An audit adjustment was proposed to rectify this. The adjustment was correctly incorporated in the audited financial statements.
- 5.7 We recommend that the council establishes whether invoices have already been recorded in the books of account thus avoiding double posting.

LES Invoices

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

Invoice month	Invoice date
February 2019	15.03.2019
March 2019	09.04.2019
April 2019	21.05.2019
August 2019	23.09.2019
September 2019	16.10.2019

- 5.9 In accordance with memo 91/2011 councils are required to issue LESA invoices in the first week of the following month.

Accrued Income

- 5.10 During the year under review, we noted that the council has accounted for €69,293 as accrued other supplementary Government income with respect to tipping fees. We have noted that, to date of the audit fieldwork, this amount had still not been received from the Department. Hence, we have proposed an audit adjustment to reverse the amount since this amount was not yet approved for payment by the Department by year-end. This was approved by the council and was correctly incorporated in the audited financial statements.
- 5.11 We recommend that the council records such amounts when they have been approved for payment and are certain to be received.
- 5.12 During 2019 the council accounted for accrued income of €3,854 in terms of the grant received for the restoration of rubble walls. In December 2019, the council received €1,927 of the amount due. The council failed to reverse from accrued income the amount received. We have proposed an audit adjustment to rectify the issue. The adjustment was correctly incorporated in the audited financial statements.
- 5.13 We recommend that the council correctly accounts for grants received and accrued income.
- 5.14 Our audit revealed that an amount of €400 in relation to memo 22/2017 for libraries was accounted for in 2019 as accrued income. It was noted that these funds were received in 2018 but the council erroneously accounted for this as accrued income in 2019. An audit adjustment was proposed to reverse the accrued income. The adjustment was correctly incorporated in the audited financial statements.
- 5.15 We recommend that the council keeps up to date schedules of accrued income and once money is received, this is allocated against the accrued income.

6 Inventory

Net realisable value of inventory

- 6.1 During the audit fieldwork it was noted that in its books of account the council has an amount of €23,243 worth of stock. The council's inventory comprises of books. The council failed to provide us with supporting evidence for the cost of some of the stock amounting to €9,688. Furthermore, as some of the books are old stock, we could not ascertain the recoverability of the amounts mentioned above. Our opinion has been qualified in this respect.

- 6.2 We recommend that the council assesses whether such assets are being carried out at the lower of cost and net realisable value in the financial statements as required by generally accepted accounting principles. Provision or write-off of this inventory might be considered if the council sees that such inventory is slow-moving.

Stock List

- 6.3 Furthermore, during the stock-count, we identified a quantity of 211 books with the title 'Il-Mellieha mal-milja taz-zmien' V2 hard-bound, as well as 51 books with the title 'Il-Mellieha mal-milja taz-zmien' V2 soft-bound. These books were not included in the stock list which was provided by the council. Consequently our opinion has been qualified in this respect.
- 6.4 We recommend the council to ensure that a stock count is performed regularly, and any discrepancies identified between the stock list and the count should be investigated.

7 Trade payables

Long-outstanding creditors

- 7.1 Whilst scanning the aged list of creditors we noted that the council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
Euro Clean Waste Services (note 7.3)	12,096.67
GeoMatrix Surveying (note 7.4)	619.50
Malta Fairs & Conventions Centre Ltd (note 7.4)	1,040.76
Salvu Mifsud (note 7.5)	674.28
	14,431.21

- 7.2 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.

Amount in dispute

- 7.3 During our audit fieldwork it was noted that the council has an overdue balance with Euro Clean Waste Services. It was noted by the council that the pending invoices were issued by the supplier for extra cleaning services on Sundays and public holidays. The council is disputing the fact that upon monitoring, it transpired that no extra cleaning services were provided. Therefore, the council did not pay the invoices which were issued in this regard.
- 7.4 It was also noted by the council that the amounts of €619.50 due to GeoMatrix Surveying and €1,040.76 due to Malta Fairs & Conventions Centre were disputed since no services were provided in this regard.
- 7.5 Moreover, the council noted that the amount of €674.28 due to Salvu Mifsud in also disputed since the council is not in agreement with the number of skips being provided by the contractor.

- 7.6 We recommend that the council does its utmost to protect its interests and reflects the outcome of any negotiations or agreements in the books of account. Furthermore, the council should not have posted the invoices prior to the receipt of services.

Trade creditors

- 7.7 We noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 7.8 This is contrary to the relevant procedures, which require the council to request monthly statements from all suppliers. Memos/circulars issued by the Department for Local Government specifically state that the council should reconcile the creditors to supplier statements monthly.

Creditor confirmations

- 7.9 As part of our audit procedures we circularised confirmation letters to selected creditors. We noted the following discrepancy between the council's books of account and received confirmation:

Creditor	Amount in council's books of account €	Amount in Confirmation Reply €	Difference €
MicaMed Ltd	11,218.29	7,175.33	4,042.96

- 7.10 The council did not provide us with a reconciliation for the identified discrepancy.
- 7.11 It is of utmost importance that council reconciles creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Alternative confirmation procedures on creditors

- 7.12 We performed alternative confirmation procedures on the balance due to Euro Clean Waste Services Ltd as recorded the books of account. As at year-end, the council had a balance due amounting to €60,703. The council noted that €30,379 were paid after year-end, whilst invoices amounting to €17,216 were still outstanding at year-end. This resulted in a discrepancy of €13,108. It was noted by the council that this amount is being disputed with the supplier.
- 7.13 Similarly, in its books of account, the council has a balance of €109,160 with Mr. Salvu Mfisud as at year-end. The council noted that an amount of €54,229 was paid after year-end, whilst invoices amounting to €54,254 were still outstanding at year-end. Hence, this resulted in an unreconciled difference of €677. Once again, it was noted by the council that this amount is being disputed with the supplier.
- 7.14 The above situations highlight the importance of reconciling creditors' balances to suppliers' statements. Thus, once again we recommend obtaining suppliers' statements on a monthly basis and reconciling immediately in order to identify any discrepancies promptly. We suggest that all differences identified are investigated and adjusted accordingly.

Accrued expenditure

- 7.15 Our testing on accruals revealed that the council overstated the provision for the performance bonus, hosting and maintenance services and water feature maintenance agreement by €513.88, €73.55, and €332.26, respectively. We have proposed adjustments to correct the accrual balance as at year-end. The audit adjustment was correctly incorporated in the audited financial statements.
- 7.16 It was also noted that the council understated the provision for the Selmun structures rent, Gnien Ingraw rent, flight expenses for the radio queen tribute band and cleaning of non-urban roads by €691.03, €586.26, €120.00 and €170.53 respectively. We have proposed an audit adjustment in this regard. The audit adjustment was correctly incorporated in the audited financial statements.
- 7.17 Whilst testing accruals we noted that the list of accruals included the below invoice which was originally dated in 2019.

Date of invoice	Supplier	Details	Amount
15.12.2019	Carl Caruana	Supply and installation of Christmas light decorations	6,780.00 (excl. VAT)

- 7.18 We have proposed an audit adjustment to reclassify these amounts from accruals to creditors control account. This was approved by the council and was correctly incorporated in the audited financial statements.
- 7.19 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. This ensures that the results for the year are presented fairly.
- 7.20 It was also noted that in the case of Carl Caruana, the invoice was erroneously included in the books of account without VAT. An audit adjustment amounting to €1,220.40 was proposed to rectify this. The adjustment was correctly incorporated in the audited financial statements.
- 7.21 We recommend that the council adheres to the Local Councils (Financial) Procedures, 1996 and ensures that payments are being listed and approved in the schedule of payments with the correct details and amounts.

8 Grants

- 8.1 During the year under review the council recorded as deferred income the amount of €4,184 which is equivalent to the total expense amount which the council incurred in terms of project 'Knots'. As at year-end the council had not received any grants in relation to this project. It was noted by the council that it will only receive the funds upon the final approval of the project. We have proposed an audit adjustment to rectify this issue. This was approved by the council and was correctly incorporated in the audited financial statements.
- 8.2 In accordance with instructions received from the NAO and following the accounting standard IAS 20, grants received should be recognised as income to match the costs to which they are intended to compensate. Grants in respect of revenue expenditure should be recognised as income when the related expenditure has been incurred.

- 8.3 It was noted that during the year the council received part of the co-financing amounting to €1,927 for the restoration of rubble walls in Mellicha. The council has classified this grant as income. We have proposed an audit adjustment since this was a capital grant. This was approved by the council and was correctly incorporated in the audited financial statements.
- 8.4 We recommend that the council accounts for capital grants received under the capital approach as specified by Directive 1/2017 issued by the Department for Local Government.
- 8.5 In the prior year the council recorded deferred income amounting to €8,564 which was received in relation to the rubble walls project. It was noted that in the current year the council did not record this grant against assets under construction. We proposed an audit adjustment in this regard. This was approved by the council and correctly incorporated in the audited financial statements.
- 8.6 Similarly, the council recorded an amount of €282,699 which was received from Transport Malta in terms of the re-construction of Triq il-Qortin. In the year under audit the council did not record the grant received against assets under construction. We proposed an audit adjustment to rectify this. The adjustment was correctly incorporated in the audited financial statements.
- 8.7 It was also noted that the council recorded an amount of €39,045.66 which was granted to the council by the Planning Authority. The funds were received from the Development Planning Fund (DEPF) for the purpose of installation of street lighting in Triq il-Qortin. The council did not record this grant against assets under construction. We proposed an audit adjustment in this regard. The adjustment was correctly incorporated in the financial statements.
- 8.8 We recommend that the council adheres to IAS 20 '*Accounting for Government Grants and Disclosure of Government Assurances*' and transfers deferred grants to fixed assets based on the percentage completion of the project.

9 Meetings

Duration of meetings

- 9.1 From the minutes of the council, we noted that meetings 105, 106A, 108, 2, 3, 4, 5, 6, 7 and 8 lasted more than three hours.
- 9.2 This is contrary to memo 68/2009 and section 43(3) of the Local Councils Act which state that the duration of council meetings shall not exceed three hours unless consensus is reached by all members and this should be noted in the minutes.

Meeting regulations

- 9.3 We observed three instances where the date of the following meeting was set however, the actual meeting was not held on the date set. This relates to meetings 106, 108 and 112.
- 9.4 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.

Schedules of payments

9.5 We identified various instances where a cheque number was omitted from the schedules of payments. Examples include:

Cheque number	€
9967	88.80
10052	200.00
10062	436.46
10108	236.00
10319	3,705.18

9.6 Upon enquiry we were informed that the omitted cheques were cancelled and not listed in the schedules of payments.

9.7 Furthermore, we identified cheques which were listed in the schedules of payments with the wrong cheque number. Cases in point were cheque 9785 shown as 9784 and cheque 9902 listed as cheque 9901.

9.8 We also encountered an instance where a cheque number was issued but omitted from the schedules of payments. The example in question related to cheque number 10224 amounting to €4,036.30.

9.9 We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council. We also recommend that if a cheque payment is cancelled this should be approved and properly indicated as such on the schedules of payments. We further recommend that cancelled cheques should be retained as evidence of their cancellation

10 Financial statements

Presentation of financial statements

10.1 We would like to point out that in accordance with the Department’s communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The council’s financial statements diverge from this requirement in the instances noted below:

- i. In the accounting policies and procedures, depreciation rates listed are not correctly reflecting the depreciation rates used in the books of account.
- ii. Included in ‘New and amended standards adopted by the Local Council’ in note 2, the notes in relation to IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from contracts with customers’ are irrelevant due to date of initial application being 2018
- iii. The financial statements do not include all the disclosures required by IFRS 9. The standard requires additional disclosures regarding financial instruments’ impairment and expected credit losses.
- iv. There is no mention of the impact or lack of impact of IFRS 16 on the financial statements.

- v. In note 16, financial and non-financial assets should be shown separately.
- vi. Capital creditors should be disclosed separately in the notes to the financial statements.

10.2 We recommend that the council gives more attention to the preparation of the financial statements. We are pleased to note that the council has correctly amended the financial statements with point (ii) and (iii).

11 Books of account

11.1 During the audit fieldwork we identified several transactions passed in the books of account which consisted of grouped transactions. The nominal ledger did not include details identifying the items which are reclassified and thus it was difficult to trace all movement. This was noted in year end 2019 adjustments posted in the books of account as at 31 December 2019.

11.2 Transactions in the books of account should be posted individually. All journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

12 Electronic site

12.1 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 September 2019 within the stipulated time frame.
- ii. To date of the audit fieldwork the council has not uploaded the quarterly report for October to December 2019.
- iii. The annual administrative report for 2018 was not uploaded as required by the Procedures.
- iv. The council failed to upload the audited financial statements, management letter and reply to management letter for 2018 within the stipulated timeframe.

12.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required timeframe. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

12.3 During our audit fieldwork, we noted that the council has uploaded the 2018 Management Letter in full in accordance with Circular 21 of 2019.

12.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.



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

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 Carmel Debono and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink that reads "Grant Thornton" with a horizontal line underneath.