

The Mayor
Mellicha Local Council
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Mellicha. MLH 1107

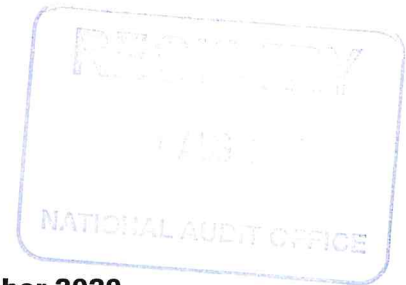
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Our ref MB/mf/97621

28 July 2021

Dear Sir,



Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We are pleased to note that we did not identify any contracts not signed by both parties.

The council once again failed to disclose all revenue in the proper category (refer to notes 2.1 and 2.3).

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

We did not encounter any custodial receipts not deposited within the required timeframe.

We again identified a bank account which is subject to 15% final withholding tax (refer to note 2.12).

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

1.2 Expenditure

We are pleased to note that we did not encounter any petty cash expenditure not supported by itemised chits or petty cash vouchers.

We again identified irregularities in our procurement testing (refer to note 3.1).

We again identified irregularities in the council's insurance policy (refer to notes 3.4 and 3.6).

We again identified an irregularity in the council's accounting for rent (refer to note 3.8).

1.3 **Property, plant and equipment**

We again noted that the net book value in the fixed asset register does not agree to the books of account and the unaudited financial statements (refer to note 4.1).

We again identified certain details missing from the fixed asset register (refer to note 4.3).

We are pleased to note that no material discrepancies were identified between the additions in the fixed asset register and the additions in the financial statements.

We are pleased to note that we did not identify any irregularities in the depreciation workings.

1.4 **Trade receivables**

Once again we identified overdue trade receivables (refer to note 5.1).

We again identified discrepancies in our trade debtors testing (refer to notes 5.3 and 5.5).

We did not identify any irregularities with LES invoices.

We again identified irregularities in accrued income (refer to note 8.9).

1.5 **Inventory**

We did not encounter any stock items not supported by proper cost workings, however, the council is still showing in its books of account inventory which is slow moving (refer to note 6.1).

We did not encounter any irregularities in the stock quantities provided by the council.

1.6 **Trade payables**

We again identified long outstanding trade creditors, some of which are still in dispute (refer to notes 8.1, 8.3, 8.4 and 8.5).

We again noted that the council is not obtaining supplier statements for all creditors (refer to note 8.7).

We did not identify instances of trade payables not agreeing to books of account.

We identified irregularities in accounting for Government grants and deferred income (refer to notes 8.9, 8.10 and 8.12).

1.7 Meetings

We again identified meeting minutes lasting longer than three hours (refer to note 9.1).

We again also noted that the council did not stick to the agreed council meeting date (refer to note 9.3).

We are pleased to note that the council included all cheque numbers in the schedule of payments.

1.8 Financial statements

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

1.9 Books of account

We again identified grouped transactions in the books of account (refer to note 11.1).

1.10 Electronic site

We again identified instances of documents not uploaded within the required timeframe on the Local Government website (refer to notes 12.1 and 12.3).

2 Income**Annual Government income**

2.1 During our testing of Government income, it was noted that the council included the money received in relation to tourism zones and adjustment fund for decrease in allocation from 2019 amounting to €7,000 and €1,824 respectively with the annual Government Income. An audit adjustment was proposed in this regard to reclassify these to other Government Income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We recommend that the council allocates income receivable to the appropriate accounts so that the income of the council is properly reported.

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 €330 as general income rather than income from bye-laws. An audit adjustment was proposed in order to rectify this. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

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 overstated by €456. 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 €130. 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 €198 which contrasts with the amount of €163 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 During our audit fieldwork we noted that in certain instances the council failed to fulfil its obligation to deposit income received on a timely basis, namely:

Details	Receipt no.	Receipt date	Deposit date	€
Crane permit	3352862	18.12.2020	22.12.2020	10.00
Crane permit	3352844	30.11.2020	04.12.2020	10.00
Crane permit	3352719	02.07.2020	07.07.2020	20.00
Crane permit	3530765	23.01.2020	28.01.2020	10.00
Cherry picker	3352734	27.05.2020	02.06.2020	20.00

- 2.11 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (financial) procedures but also for security purposes.

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 We noted that the North Joint Committee, of which Mellieha local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009.

- 2.15 The reserves of the committee at that date amount to €1.6 million. 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.
- 2.16 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 Expenses

Procurement

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

Supplier	Details	€
████████████████████	Park and Ride Service during Milied Meliehi 2019	490
██████████	Hiring of Open Skips	230
████████████████████	Video on demand setup fees	605

- 3.2 Upon enquiry, the council noted that in the case of J. Attard, quotations were not obtained, however subsequently the council issued a call for quotations for any other expenses relating to open skips. In the case of Correct Termination, the council mentioned that they have been using their services for similar expenses and therefore the same supplier was used to have the service harmonised.
- 3.3 In accordance with the Procurement guidelines issued by the Department for 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 and the NAO has to be notified of such direct order.

Asset insurance

- 3.4 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	549,901
Office furniture, fixtures & fittings	189,942	91,224
Office equipment	54,200	13,125
Books	11,123	23,243
Total	815,472	677,493

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

- 3.6 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.
- 3.7 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

- 3.8 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €2,025 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 standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.9 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 financial statements to fixed asset register

- 4.1 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 €
Urban improvement & construction	228,103	203,249	24,854
Plant, machinery & equipment	6,411	4,808	1,603
Office furniture & fittings	83,625	83,343	282
Special programmes	1,058,339	601,947	456,392
	1,376,478	893,347	483,131

- 4.2 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

- 4.3 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 furniture	F257	Shelving	31.05.2019	491
Office furniture	F232	Refrigerator (2 Door)	03.07.2014	158
Office furniture	F212	Thomson 50 Smart TV	02.03.2013	435

- 4.4 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

Grant allocation

- 4.5 During the year under review the council recorded with grants allocated to special programmes the amount of €318,323. These related to grants for Triq il-Qortin, Sport Malta and Measure 4.4 which are included in assets under construction. An audit adjustment was proposed to transfer the grants from special programmes to assets under construction. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 4.6 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 and allocates the grants received in the class where the asset is being recorded.

5 Trade receivables

Overdue trade receivables

- 5.1 The books of account includes the following overdue receivables for which no provision was made in the books of account:

Debtor	€
North Region	35
[REDACTED]	230
	<u>265</u>



- 5.2 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

- 5.3 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 €44,976. The council has a book balance of €83,401. This results in a difference of €38,425. Upon further investigation we noted that the debtor did not record the following invoices: 679, 686, 687, 691, 692, 697, 700, 704, 709 and 711 amounting to €4,018, €4,018, €4,193, €4,515, €4,193, €4,193, €4,193, €4,193, €3,870 and €708 respectively. Wasteserv Malta Ltd has also failed to record a long-outstanding balance of €331.
- 5.4 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.
- 5.5 Furthermore, we have also sent a confirmation letter to Transport Malta. Before sending the confirmation letter, the council informed us that in 2021 the council did an exercise with the debtor and confirmed that the balance as at year end should be €54,440 rather than €61,813 as shown in the books of account. An audit adjustment was passed in this regard to adjust the receivable balance in line with the subsequent to year end agreed value. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 5.6 We recommend that the council ensures that the books of account are always kept up to date with the correct information so as to show a true picture of what the council has in terms of assets and liabilities.

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 €28,083 worth of stock. The council's inventory comprises of books. It was noted that some of the books are old stock, with some of them being published in 2002 with the council still having a number of copies of these publications.
- 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.

7 Cash at bank

List of unpresented cheques

- 7.1 It was noted that during the year the council recorded an amounting to €4,083 in its books of account as amounts in transit. When checking the bank statement it was noted that the amount was transferred in January 2021. The council also confirmed that such amount was transferred in 2021. Therefore, an adjustment was proposed to reverse this payment and record this amount against creditors. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 7.2 We recommend that the bank reconciliation is performed on a regular basis and that an item is reflected in the bank reconciliation only when the actual payment has been made. It is essential that the council keeps strong control over its cash and bank balances.

LC Other Entities Account

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

8 Trade payables

Long-outstanding creditors

- 8.1 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	€
██████████ (note 8.4)	413
██████████ (note 8.4)	110
██████████ (note 8.3)	1,011
██████████ (note 8.5)	674
	2,208

- 8.2 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

- 8.3 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 amount is in dispute due to skips provided not in line with contractual requirements. Therefore, the council did not pay the invoices which were issued in this regard.
- 8.4 It was also noted by the council that the amounts of €413 due to Chi Consultants and €110 due to Datanet Security Systems Ltd were disputed since the service was either never provided or not requested.
- 8.5 Moreover, the council noted that the amount of €674 due to Salvu Mifsud is also disputed since the council is not in agreement with the number of skips being provided by the contractor.
- 8.6 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.

Supplier statements

- 8.7 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.
- 8.8 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.

Deferred Income

- 8.9 During our testing on deferred income, we noted a grant in relation to Measure 2 'Strengthening A Healthy Culture' amounting to €6,200. The council instructed that this project is still in its infancy, and the council is still to receive any money from this agreement, and no work in relation to this measure has started. An audit adjustment was proposed in this regard to reverse the amount shown as deferred revenue and accrued income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.10 Similarly, the council also recorded a deferred income amounting to €1,395 in relation to the same measure for the council to purchase gym equipment. Upon analysis of the amount, it was noted that the council has received the amount of €697 for the gym equipment with the other €697 not yet received as it is still subject to approval. An audit adjustment was proposed to reverse the portion of the grant which is not yet approved, and another audit adjustment was proposed to transfer the amount from deferred income to grants allocated with assets under construction. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 8.11 We recommend that the council records a deferred income once the money has been approved and received and then released either to income or as required under the capital approach and as specified by Directive 1/2017.

- 8.12 Included in deferred income, we also identified an amount of €204,487 which the council received for ERDF.05.115 in relation to a project for it-Tunnara. Upon enquiry, the council notified us that various expenses have already been expensed and included with assets under construction. In line with Directive 1/2017, an audit adjustment was proposed to allocate the amount received with grants received for assets under construction. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.13 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 project completion stages

9 Meetings

Duration of meetings

- 9.1 From the minutes of the council, we noted that all the meetings lasted more than three hours and there was no consensus minuted to continue past the three hour mark.
- 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 an instance where the date of the following meeting was set however, the actual meeting was not held on the date set. This relates to meeting 19.
- 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.

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 16 '*Leases*' are irrelevant due to date of initial application being 2019.
 - iii. There is no mention of the impact or lack of impact of IFRS 16 on the financial statements.
 - iv. In note 13, for the 2020 portion, various line items are not casting and the total net book value for 2020 is not cross-casting to the balance sheet.

- 10.2 We recommend that the council gives more attention to the preparation of the financial statements. The council correctly amended the points mentioned in note 10.1 in the audited financial statements.

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 2020 adjustments posted in the books of account as at 31 December 2020.
- 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 December 2020 within the stipulated time frame.
 - ii. The council failed to upload the management letter and reply to management letter for 2019 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 2019 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,

