



Grant Thornton

An instinct for growth™

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14 October 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 Prior year adjustment

The council did not pass a prior year adjustment during the year under review.

1.2 General income

The council failed to deposit income on a regular basis (refer to note 2.3).

1.3 Custodial receipts

We regret to note that the council is not depositing custodial receipts as required by the Procedures (refer to note 2.5).

1.4 Organic waste agreement

We are pleased to note that the council has signed the agreement with Wasteserv Malta Limited for the reimbursement of organic waste collection.

1.5 Petty cash expenditure

We have again noted shortcomings in petty cash expenditure (refer to note 3.1).

1.6 Procurement procedures

We were not provided with all purchase orders, tax invoices and quotations supporting council purchases (refer to note 3.5).



1.7 Insurance policy

We again noted assets which are over insured (refer to note 3.9).

1.8 Motor vehicle insurance policy

The council failed to insure its motor vehicle by a 'fully comprehensive' insurance policy (refer to note 3.13).

1.9 Personal accident insurance

The personal accident insurance policy is extended on a worldwide basis instead of limited to the Maltese territories (refer to note 3.15).

1.10 Expired contracts

The council is still utilising expired agreements for the services (refer to note 3.21).

1.11 Direct orders

We are pleased to note that the council has rectified the issue during the year under review.

1.12 Tendering procedures

The council obtained a performance bond for the tenders which were issued during the year under audit.

1.13 Tenders exceeding budget amount

We have again encountered instances where the offer accepted was higher than the budgeted amount (refer to note 3.24).

1.14 Travel

The council did not incur any travel expenses during the year.

1.15 Declaration of councillors' allowances

We again noted that the council has incorrectly reported councillors' allowances under 'Part Time Gross Emoluments' in the FS3 of the councillors (refer to note 4.1).

1.16 Reconciliation of wages between FS5's and books of account

We are pleased to note that the FS5's agree to amounts included in the books of account.

1.17 Upkeep of fixed asset register

We again noted vague descriptions of the assets in the fixed asset register (refer to note 5.3).

1.18 Tagging of fixed assets

The council has again failed to tag fixed assets in accordance with the Local Councils (Financial) Procedures, 1996 (refer to note 5.6).

1.19 Depreciation of fixed assets

We are pleased to note that the council has rectified the issue during the year.



1.20 Reconciliation of financial statements to fixed asset register

We did not encounter any differences between amounts included in the financial statements and fixed asset register.

1.21 Obsolete assets and disposals

During the audit we did not note any assets which are not in a good working condition.

1.22 Additions to fixed assets

The council failed to address the issue during the year under review (refer to note 5.8).

1.23 Registration of van

The van purchased from London Services Limited is still registered with Transport Malta in the name of the executive secretary.

1.24 Assets under construction

The council's books of account still include assets under construction for which no breakdown was available (refer to note 5.12).

1.25 Regional committees

The council still has a long-overdue receivable balance from the regional committees (refer to note 6.1).

1.26 LES invoices

We are pleased to note that the council was sending LESA invoices in the first week of the following month.

1.27 Confirmation of debtors

We again noted a small discrepancy between amounts confirmed by third parties and amounts included in the books of account (refer to note 6.3).

1.28 LES receivables

We are pleased to note that the council has rectified the issue during the year under review.

1.29 Other debtor

The council did not write off any debtors without obtaining approval in council meetings.

1.30 Accrued income

We have again noted shortcomings in accrued income (refer to note 6.5).

1.31 Petty cash balance

The council failed to reconcile the petty cash in hand with the amount included in the books of account (refer to note 7.1).



1.32 Bank statements

We are pleased to note that the council has provided us with bank statements dated 31 December 2019.

1.33 Supplier statements

The council did not obtain supplier statements during the year (refer to note 8.1).

1.34 Debit balances in creditors' list

The council's books of account still include debit balances in creditors list (refer to note 8.3).

1.35 Long-outstanding creditor

We again noted creditor balances which have been outstanding for more than one year (refer to note 8.5).

1.36 Amount in dispute

We have again noted that the council's books of account still include the amount in dispute (refer to notes 8.7 and 8.8).

1.37 Trade creditors

We have noted instances where the council failed to reconcile creditor balances (refer to note 8.10).

1.38 Alternative procedures on creditors

We have encountered instances where the council did not reconcile creditor balances (refer to note 8.12).

1.39 Accrued expenditure

We have again noted shortcomings in accruals (refer to note 8.16).

1.40 Unrecorded liabilities

We are pleased to note that the council has rectified the issue during the year.

1.41 Grants received

The council failed to allocate grants received in the correct account (refer to notes 8.18 and 8.19).

1.42 Presentation of financial statements

We again noted shortcomings in the presentation of financial statements (refer to note 10.1).

1.43 Cash flow statement

We did not identify shortcomings in the cash flow statement during the year.

1.44 Comparison with annual budget

We are pleased to note that the council has rectified the issue during the year under review.



1.45 Administration

We have again noted an instance where the council did not include account numbers and invoice numbers on the schedule of payments (refer to notes 11.1 and 11.3).

1.46 Payment approval

We again noted instances where cheque payments were issued prior obtaining approval by the council (refer to note 11.3).

1.47 Electronic site

The council's electronic site is not updated with documents required by the Local Council Procedures (refer to note 12.1).

1.48 Uploading of management letter and other documents

We have noted that the council did not upload the management letter on its website (refer to note 12.3).

1.49 Binding of minutes

We have again noted that the minutes of the council are not hard bound (refer to note 13.1).

1.50 Quarterly financial reports

We are pleased to note that the council prepared the quarterly financial reports for 2019.

1.51 Capital commitments

We again noted shortcomings in capital commitments (refer to note 14.1).

2 Income

Other Government income

2.1 In 2019, the council received €12,957.99 from Wasteserv for the reimbursement of organic waste collection. The council has erroneously included this amount with general income. We have proposed an audit adjustment to reclassify the amount with 'Other Government Income'. The reclassification was correctly incorporated in the audited financial statements.

2.2 We recommend that the council ensures proper allocation of income and records income received from the Department through various schemes as 'Other Government income', unless otherwise directed by the Department.

General income

2.3 We came across numerous instances where the council failed to deposit receipts on a timely basis. The following are examples which we encountered during the audit:



Description	Receipt number	Receipt date	Deposit date	€
Crane permit	2120	30.01.2019	08.02.2019	15.00
Cherry picker permit	2189	11.04.2019	25.04.2019	20.00
Cherry picker permit	2294	31.07.2019	12.08.2019	2.33
Lifter permit	2334	06.09.2019	19.09.2019	2.33
High- up permit	2353	25.09.2019	08.10.2019	4.66
Crane permit	2387	01.11.2019	20.11.2019	15.00
Crane permit	2415	28.11.2019	11.12.2019	15.00

2.4 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

Custodial receipts

2.5 The following shortcomings were noted during our audit work on the council's custodial receipts of LES fines:

Receipt number	Receipt date	Deposit date	€
4167708	03.01.2019	18.01.2019	23.29
4228849	12.03.2019	26.03.2019	23.29
4275155	09.05.2019	24.05.2019	34.94
4296873	11.06.2019	25.06.2019	11.65
4321394	24.07.2019	01.08.2019	23.29
4351485	09.09.2019	19.09.2019	23.29
4408344	25.11.2019	11.12.2019	11.65

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

3 Expenditure

Petty cash expenditure

3.1 We have noted the following irregularities when testing petty cash expenditure:

Details	Supplier	Date	€	Note
Office cleaning	M Buhagiar	24.06.2019	20.00	(a)
Supplies	JP Grech	06.02.2019	27.40	(b)
Materials/supplies	Tower Ironmongery	28.02.2019	20.40	(b)
Materials/supplies	FKG Homes	13.06.2019	20.00	(b)

- (a) The council did not provide us with a copy of the tax invoice/fiscal receipt.
- (b) The petty cash voucher was not signed by the executive secretary.



3.2 May we remind the council that Directive 3/2017 and LN 269 of 2017 state that all petty cash vouchers should be signed by the purchaser and the executive secretary. Furthermore, the council must obtain a tax invoice/ VAT receipt/fiscal receipt for all payments issued by the council.

Petty Cash Summary

3.3 The council provided us with a copy of the petty cash sheets however these were not signed by the Executive Secretary.

3.4 We recommend the council to ensure that all petty cash sheets are signed and dated by the executive secretary.

Procurement procedures

3.5 Our testing on cheque payments revealed the following irregularities for the purchases which are listed below:

Details	Supplier	€	Note
Aluminium – Belvedere	Borg Aluminium	2,285.00	(a, b, c)
Electrical installation – Belvedere	Charles Tanti	3,600.00	(d, e)
Street sweeping – January 2019	Kevin Farrugia	1,380.60	(d, e)
Professional fees re-concrete slab	Med Design	2,627.86	(d, e)
Trophies – end of season	Marindex Ltd	696.20	(d, e, f)
Grass cutting	Raymond Attard	944.00	(d, e)
Laptop – Exec Secretary	Scan Centre	869.00	(d, e)
Tabelli varji	Mario Mallia	1,272.88	(d, e)
Supply & installation of bollard/railings	Gordon Joseph Borg	1,200.00	(d, e)
Twin bins	R-Squared	1,791.00	(d, e)

- (a) No amount was included on the purchase order.
- (b) The council did not provide us with a copy of the tax invoice or fiscal receipt.
- (c) The council obtained only one quotation.
- (d) The council did not raise a purchase order.
- (e) The council did not obtain any quotations.
- (f) The tax invoice was not addressed to the council.

3.6 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.

3.7 Furthermore, we would like to remind the council that it is obliged to obtain a valid tax invoice or receipt addressed to the council for all purchases and services. Furthermore, payments should only be made upon receipt of invoice.

3.8 Moreover, 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

Insurance policy

3.9 During our audit we identified discrepancies between the asset insurance cover and net book value of assets included in 2018 audited financial statements:

Asset	Sum insured €	NBV in accounts €
Plant and machinery	8,500	177
Office, furniture and fittings	24,400	3,348
Office and computer equipment	18,800	3,599
	51,700	7,124

3.10 We also noted that the council is insuring property in the open amounting to €30,000. This is in breach of Directive 3/2017 which states that community assets should not be insured.

3.11 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.

3.12 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 last year a significant number of assets had a nil net book value, we recommend that insurance at least covers the replacement cost of assets.

Motor vehicle insurance policy

3.13 We noted that the council's motor vehicle insurance covers 'third party fire and theft'. May we remind the council that as from 1 January 2018, motor vehicles should be insured as 'fully comprehensive'. The council must also ensure that drivers are aged 25 and over as included in the insurance policy.

3.14 We recommend that the council amends its insurance policy and ensures that the motor vehicle insurance is 'fully comprehensive' to be in line with LN 269 of 2017.

Personal accident insurance

3.15 We noted that the personal accident insurance was extended on a worldwide basis instead of limited to the Maltese territories. Should a council member require to go overseas on council business, a separate policy should be taken out for the specific trip. Worldwide coverage for all personnel travelling abroad on personal rather than business activities may be construed as a benefit in kind.

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



Rent Agreements

- 3.17 It was noted that the council does not have contractual agreements for the rent of the garage rented out from Salvu Sciberras, rent site A and rent site B at Triq il-Fortizza which are being rented out from the Lands Authority. The council is paying €3,200, €1,700, and €250 in rent, respectively.
- 3.18 We recommend that the council ensures that the rental premises are always covered by a contract covering the current year period, specifying the rights and obligations of each party.
- 3.19 Furthermore, we noted that the council did not account for rent amounts in accordance with 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..
- 3.20 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.

Expired contracts

- 3.21 The council is using an expired contract with Nexos street lighting for the street lighting services.
- 3.22 Furthermore, during the year under review the council was utilising the accounting services provided by Paul Bugeja. In prior years, the provision of this service was covered by XJR 01/2015q, which contract expired in 2018. It was noted by the council that in 2019 the council has retained the provision of the same service provider. It was further noted that since the cost of these services does not exceed €5,000, the council did not issue a call for quotations. However, the council did not obtain three quotations prior to the engagement of the service provider.
- 3.23 The council should not make use of expired contracts, since this is prohibited by memo 10/2013 which states that councils should issue a new call for tenders before the expiry date of existing contracts. Moreover, we reiterate our recommendation that in accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000.

Tenders exceeding budget amount

- 3.24 Whilst reviewing the opening minutes of tender XJR03/2018, we noted that the council budget was €46,000. The cheapest tender submitted was for €55,702. Thus, this reveals that the council will be exceeding the budget by €9,702.
- 3.25 May we remind the council that the budget is prepared to control the income and expenditure of the council. Thus, diverting from the budget will result in cash constraints for other services.

Tenders exceeding contract value

- 3.26 On 22 March 2019 the council entered into an agreement with Ricky Caruana by tender XJR03/2018R 'Accessibility Ramp and Ground Slab at the Sports Complex in Xghajra'. The contracted amount was €55,702.41 including VAT. Between the date of award of the tender and 31 December 2019 a total of €107,857.85 was spent

X



in relation to the above tender. This resulted in a difference of €52,155.44 between the tender awarded and the actual amount spent.

- 3.27 We recommend that the council always adheres to the clauses of the signed agreements and does not exceed contracted amounts established during the tendering process. Furthermore may we also remind the council that if it establishes that the initial contract value of works will be exceeded by 15%, the council is to adhere to S.L. 174.04 Public Procurement Regulations, 2016 article 247 which states that in such a case the council shall seek the approval of the Director. This procedure was not followed by the council in this case.

4 Payroll

Declaration of councillors' allowances

- 4.1 We again noted that the council has incorrectly reported councillors' allowances under 'Part Time Gross Emoluments' in the FS3s of the councillors and FS7.
- 4.2 We reiterate our recommendation from our previous management letter that the councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under 'Gross Emoluments' (FSS Rules C1). We recommend that the council adheres to these rules in the future.

Councillor's allowances

- 4.3 In accordance with circular 20/2019 and L.N 277/2019 the mayor should have an annual allowance of €2,400 as applicable from 1 July 2019. In the current year, the council accounted for the mayor allowance at €1,600 for the entire year in accordance with the superseded legislation. The total amount receivable as mayor allowance for a period of six months should be €1,200 instead of €800 as included in the FS3. As a result, the council underpaid mayor allowances by €400. We have proposed an audit adjustment to reflect the unaccounted portion of the allowance. The audit adjustment was correctly incorporated in the audited financial statements.
- 4.4 L.N 277/2019 states that the councillors' allowance has increased to €2,400 as from 1 July 2019. The council should ensure that it properly accounts for all councillor allowances to agree with the current legislation.
- 4.5 During our audit fieldwork we noted that the council has erroneously classified €1,604 mayor's allowance in the honoraria account. We have proposed an audit adjustment to include this amount with councillors' allowances. The audit adjustment was correctly incorporated in the audited financial statements.
- 4.6 We recommend that the council should allocate its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

5 Property, plant and equipment

Fixed asset register

- 5.1 In accordance with circular 2/2019 the council must prepare a fixed asset register which reconciles with the nominal ledger. It was noted that the council keeps a fixed asset register on Excel workbooks and not on Sage and therefore the depreciation is being calculated using Excel and not through the Sage register.



5.2 On the other hand it was also identified that the fixed asset register does not contain complete details such as reference numbers, invoice numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.

Upkeep of fixed asset register

5.3 During the audit fieldwork we noted that the fixed asset register includes descriptions such as shelving, parquet, aluminium, Beta Centre, Schembri Barbros and others. Therefore individual assets could not be traced from the register to the councils' premises and locality.

5.4 As pointed out in our prior years' management letters, the fixed asset register must at least include the following details:

- i. Description of asset
- ii. Date of purchase
- iii. Supplier details
- iv. Invoice number
- v. Invoice date
- vi. Asset tag code (where applicable)
- vii. Cost
- viii. Depreciation rate
- ix. Location of asset
- x. Grants received

5.5 We suggest that the council updates its fixed asset register with full details and categorises assets appropriately. This will ensure that assets can be easily identified and further ensure that the depreciation calculated is correct.

Tagging of fixed assets

5.6 We again noted that the council's assets have not yet been tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.

5.7 We recommend that the council tags its fixed assets, where applicable. This would enable individual assets to be identified and their physical existence verified once the plant register is compiled.

Additions to fixed assets

5.8 Our testing on fixed asset additions revealed the following irregularities for the below listed purchases:

Details	Supplier	€	Note
Aluminium works for council	Borg Aluminium	770.00	a, c, d
Belishia poles	Koperattiva Tabelli u Sinjali	2,495.70	a
Ramp and concrete	Ricky Caruana	4,937.23	e, f
Garage door for hall	Borg Aluminium	730.00	a, d
Aluminium works Belvedere	Vincent Azzopardi	5,667.63	a, d
Services of electrical installation	Charles Tanti	3,600.00	c, f



Aluminium works for hall	Borg Aluminium	1,580.00	a, d
Gym equipment	Urban Play Solutions	5,262.80	c
Camera	Melvin Meli	1,115.69	g
Camera	Melvin Meli	1,534.00	g

- (a) Only one quotation was obtained.
- (b) Purchase order does not include cost and list of items purchased.
- (c) The VAT receipt was not addressed to the council.
- (d) The purchase order does not include cost of items purchased.
- (e) No quotations obtained.
- (f) No purchase order was provided during audit fieldwork.
- (g) The council obtained only two quotations.

5.9 As already noted, 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.

Registration of motor van

5.10 Whilst reviewing the supporting documentation for fixed assets we noted that in 2018 the council purchased a van from London Services Limited. The van was registered with Transport Malta in the name of the executive secretary only. In 2019 the council failed to register the van in the name of the council.

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

Assets under construction

5.12 In our previous management letters we noted that the assets under construction are all in relation to the Belvedere Recreational and Sports Centre which is still under construction. This project has a cost of €410,731.88 at year-end and the project is still not completed. Works requiring certification amount to €359,239.62 whereas works not certified are €41,327.03.

We have obtained the architect's valuations as presented below:

Job reference	Description	Date	Value €
20263-03	Valuation No 1	30.03.2011	41,243.34
20263-03	Valuation No 2	12.07.2011	80,770.45
20263-03	Valuation No 3	09.12.2011	37,437.18
20263-03	Valuation No 4	05.03.2012	48,081.48
20263-03	Valuation No 5	27.03.2013	47,033.95
20263-03	Valuation No 6	27.05.2013	1,752.60
20263-03	No reference (note 5.14)	08.04.2019	75,491.56
20263-03	Valuation No 7 (note 5.14)	13.11.2019	27,429.06
20263-03	(note 5.14)	03.12.2019	4,937.23
Assets under construction			364,176.85



5.13 Furthermore, during the year under review the council incurred other capital expenditure in relation to tiles and aluminium works for which no certification was required. Details have been provided below:

Supplier	Details	Date	Value €
Ideal Bathrooms	Supply and laying of tiles (note 5.14)	07.01.2019	30,479.40
Borg Aluminium	Aluminium works for hall (note 5.14)	04.01.2019	1,580.00
Charles Tanti	Electrical installation (note 5.14)	02.01.2019	3,600.00
Vincent Azzopardi	Aluminium works for hall (note 5.14)	07.02.2019	5,667.63
Assets under construction			41,327.03

This does not agree to the financial statements by €5,228.

Included in the cost of assets under construction are also other assets amounting to €5,837 which as at the date of the audit fieldwork had not yet been installed or are ready for use.

- 5.14 The additions in 2019 noted above amounting to €149,184 were initially included with urban improvements in the unaudited financial statements and the reclassified to assets under construction by means of an audit adjustment. We have also proposed another adjustment to reclassify the respective grant to assets under construction. All adjustments were correctly incorporated in the audited financial statements.
- 5.15 We recommend that the council prepares a list of additions to this asset and ensures that it agrees to the trial balance and financial statements.
- 5.16 The Belvedere project has been carried forward from previous years. However the council did not complete it during the year under review. The project started in 2011 when the council benefitted from €198,000 in Government grants and also received €39,498 from MEPA. In 2016 the council received another grant of €60,000 for the completion of the project but no further work was carried out. In 2018 the council has received a further €160,000 from the Department for the completion of the project.
- 5.17 We recommend that the total cost of the project is capitalised and transferred to the appropriate fixed asset account upon final certification by the contract manager and when it is completed in the manner intended by the council.
- 5.18 We would also like to recommend that capital grants received should be deposited in a separate bank account. This will ensure that these funds are set aside for specific projects and are not inadvertently used for recurrent expenditure.
- 5.19 During our fieldwork, we noted that the council capitalised the outdoor gym equipment of €5,262.80. To date of the audit fieldwork, the council informed us that the assets are stored in the council's garage. To this end, we have proposed an audit adjustment to reclassify the amount of €5,262.80 to assets under construction and to reverse its respective depreciation amounting to €5,262.80. The adjustment was properly incorporated in the audited financial statements.



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

Grants

5.21 During the year under review the council incurred a total cost of €107,857.85 for ‘access ramp’ of the sports complex. In prior years, the council had received various grants in relation to this project. The council failed to release the advanced payments made to the ‘Property, Plant and Equipment’ schedule and include the respective amounts as grants received during the current year. Furthermore, in the unaudited financial statements the council had accounted for €6,160.20 as depreciation for the above asset. We have proposed an audit adjustment to account for the grant received and reverse depreciation accordingly. Furthermore, the assets and respective grant were then reclassified to assets under construction as explained in note 5.14. All audit adjustments were properly incorporated in the audited financial statements.

5.22 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.

Grants in ‘Property, plant and Equipment’ schedule

5.23 Whilst reviewing grants we noted that amounts included in the books of account in each category do not agree to grants as included in the ‘property, plant and equipment’ schedule in the financial statements. We have passed an audit adjustment to reclassify grants to agree to the financial statements. The audit adjustment was properly incorporated in the audited financial statements.

5.24 We recommend the council to correctly classify grants in the appropriate asset category. Furthermore, amounts included in the books of account should agree to the financial statements.

6 Debtors

Regional committees

6.1 During the year under review we noted the following overdue receivables for which no provision was made in the books of account:

Debtor	€
Gozo Regional Committee	5.80
Central Regional Committee	35.00
South East Regional Committee	30.24
	71.04

6.2 We would like to recommend once again that the council pursues these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council’s books of account are correct. Otherwise, if the council believes that amounts are unrecoverable, it should evaluate the possibility of writing them off in the books of account after obtaining approval in a council meeting.



Confirmation of debtors

6.3 As part of our audit procedures we circularised confirmation letters to selected debtors. We noted the following discrepancy between the council’s books of account and the confirmation letters which were received.

Debtor	Amount in council's books of account €	Amount in confirmation reply €	Difference €
South East Regional Committee	30.24	23.25	6.99
WasteServ Malta Limited	4,362.62	4,310.62	52.00

6.4 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.

Accrued income

6.5 During 2018 the council had accrued income of €8,750 for the multi-purpose hall grant. In December 2019 the council received €7,437.50 which was recorded as ‘advanced deposits’. The council failed to reverse the accrued income received of €7,437.50. We have proposed an audit adjustment to rectify the issue for the above receipt. The audit adjustment was properly incorporated in the audited financial statements.

6.6 We recommend that the council correctly accounts for grants received and accrued income.

7 Bank and cash

Petty cash balance

7.1 During our audit fieldwork we performed a cash count on 30 June 2020 and reconciled it back to 31 December 2019. A difference of €50 was identified between the count and the petty cash balance recorded in the books of account. No adjustment was proposed from our end since no explanation was forthcoming about the identified difference.

7.2 We recommend that the council investigates any differences in its petty cash balance and passes appropriate adjustments in the books of account to agree to actual cash in hand. We also advise the council to reconcile petty cash monthly.

Cheque payments

7.3 When testing cheque payments, we noted that the council erroneously omitted cheque 8429 amounting to €317.70 payable to Mr. Hermann Scerri for the purchase of 30 X-factor tickets. In view of the above we have proposed an audit adjustment to record the missing payment and respective expense. The audit adjustment was properly incorporated in the audited financial statements.

7.4 We recommend that the council reconciles the bank balance to bank statements using Sage at least monthly or more frequently depending on the volume of transactions to detect accounting and bank errors in a timely manner. The council should ensure that transactions in Sage are only marked as reconciled when



matched to the bank statement. Discrepancies should be flagged immediately for investigation.

8 Trade and other payables

Supplier statements

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

8.2 We again recommend that the council obtains monthly statements from all suppliers to ensure proper recording of creditors in the council’s ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers’ statements.

Debit balances in creditors’ list

8.3 We have identified the following debit balances in the creditors’ list amounting to €4,231.20:

Supplier	€
Grazio Borg	153.40
Lawrence Cassar (note a)	3,100.00
Go PLC	268.87
L. Bongailas	120.00
Image Systems Limited	9.10
Willy Saliba	100.00
WM Environmental	479.83
	4,231.20

(a) Whilst reviewing the above balances we noted that the council issued a payment in 2018 to Lawrence Cassar before the council received the respective invoice. To date of the management letter the council has not yet received the invoice from Lawrence Cassar for the Christmas lighting.

Debit balances in the creditors’ list have been reclassified to other debtors by means of an audit reclassification. The audit reclassification was correctly incorporated in the audited financial statements.

8.4 We recommend that the council investigates and discloses these debit balances with receivables rather than a set off against trade creditors. Debit balances in creditors can indicate a possible overpayment or omitted purchases or expenses.

Long-outstanding creditors

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



Creditor	€
Environmental Landscapes Consortium	120.00
Gauci Borda & Co Ltd	48.40
Angelo Grech	33.53
Kooperattiva Tabelli u Sinjali	949.65
Magri Autocare Centre	26.32
Janice Mangion	130.00
Med Design (note 8.7)	9,080.42
Schembri Barbros Limited (note 8.8)	13,389.14
	<u>23,777.46</u>

- 8.6 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.

Amounts in dispute

- 8.7 While reviewing the council's creditors' list we were informed that €8,125.61 of the long overdue balance with Med Design Associates is in dispute with the supplier. The council only presented a statement for the long-outstanding balance dated in 2018. The council maintains that this balance should be settled by Transport Malta.
- 8.8 During our audit fieldwork we noted that the council has a balance of €13,389.14 with Schembri Bros Ltd for the finishing works of the multi-purpose hall. To date, the supplier has not provided the services required. Upon enquiry we were informed that the council will be seeking legal advice since in 2018 the council appointed another supplier to provide these services.
- 8.9 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. It is not prudent to pay for invoices in advance unless there is a contract in writing. Also the council should not have posted the invoice prior to the receipt of services.

Trade creditors

- 8.10 When reviewing the balance due to Med Design Limited we noted that the balance is understated by €289.10. No reconciliation was provided for this difference.
- 8.11 Memo 3/2016 points out that the council should reconcile creditors' balances on a regular basis, thus highlighting any differences as soon as possible.

Alternative confirmation procedures on creditors

- 8.12 When performing alternative confirmation procedures on the balance due to WM Environmental Ltd in the books of account by verifying payments made after year end, we identified an unreconciled difference of €479.83. No explanation was provided to us other than that this is a difference which is brought forward from previous years.
- 8.13 The above situation highlights the importance of reconciling creditors' balances to suppliers' statements and thus once again, we recommend obtaining suppliers' statements monthly and reconciling immediately.



Unrecorded liabilities

- 8.14 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted an invoice amounting to €894.90 from Koptasin dated September and October 2019. We have proposed an audit adjustment to rectify the issue. The audit adjustment was correctly incorporated in the audited financial statements.
- 8.15 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

Accruals

- 8.16 The list of accruals included an amount of €413 in relation to the accountancy services for July and December 2019. Both invoices were dated 27 December 2019. We have proposed an audit adjustment to reclassify the above amount with creditors. The audit adjustment was properly incorporated in the audited financial statements.
- 8.17 We recommend that the council distinguishes between accruals and creditors.

Grants received

- 8.18 In the prior year the council received €35,261 as a grant for the Rural Development Programme 'Rubble wall'. In 2019 we noted that the council has requested termination of the agreement. To date, the money received is still showing in the council Central Bank of Malta bank account. The council must ensure that this issue is settled, and funds are to be returned to the responsible party.
- 8.19 During the year under review the council has received €26,636 for the Measure 4 Leader Programme with Gal Xlokk. We have obtained a letter by the council requesting termination of the agreement. To date of the audit fieldwork the amounts received are still held in the Central Bank of Malta bank account.
- 8.20 We recommend that the council seeks advice and return any amounts received.

9 Books of account

- 9.1 During audit fieldwork we identified several transactions passed in the books of account which consisted of grouped transactions. We were not provided with an adequate breakdown or explanation of each figure, for example the general income and bank account.
- 9.2 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.

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 unaudited financial statements diverge from this requirement in the instances noted below:



- i. The council failed to disclose the note for leases in the accounting policy section of the financial statements.
- ii. We noted casting errors in the statement of cash flows.
- iii. In note 10, 'Loss for the year' the 2018 figure for the depreciation of property, plant and equipment was stated incorrectly. Consequently, this does not cast to note 12.
- iv. In note 15, 'Payables', the 2018 figure for advance payments and deferred income was stated incorrectly and therefore the total does not cast.
- v. In note 18, 'Summary of financial assets and liabilities', the current liabilities total for both 2019 and 2018 does not cast.

10.2 We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings were properly amended in the audited financial statements.

Groupings

10.3 It was noted that certain expenses are not being classified consistently from year to year.

10.4 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

Specimen chart of accounts

10.5 It was again noted that the account numbers in the trial balances do not agree to the specimen chart of accounts that is standard to local councils and regional committees.

10.6 We reiterate our recommendation from our previous management letters stating that 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.

11 Administration

11.1 It was noted that the council failed to list the account number and the invoice number on the schedule of payments.

11.2 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.



Payment approval

11.3 Whilst performing the test on cheque payments we noted two instances where cheques were issued prior to being approved by the council. These include:

Supplier	Cheque no.	Cheque date	Approval date	€
Borg Aluminium	8157	08.01.2019	04.02.2019	1,580.00
Borg Aluminium	8161	21.01.2019	04.02.2019	2,285.00

11.4 No payments should be made without the approval of council members. The above payments have only been authorised by the cheque signatories i.e mayor and executive secretary who do not constitute a quorum of members. All councillors should be aware of payments and purchases made in the name of the council to ensure they are valid.

12 Electronic site

12.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:

- a) To date of the audit fieldwork the council failed to upload the quarterly reports for January to December 2019.
- b) The council has also not uploaded the management letter and the reply to the management letter on the council website.
- c) The council did not upload the business plan for 2019 - 2021.
- d) To date, the council has failed to upload the 2020 annual budget.
- e) To date, the council did not upload the annual administrative report for 2018.

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

Uploading of management letter and other documents

12.3 During the audit fieldwork we noted that the council did not upload the 2018 management letter in accordance with Circular 21/2019.

12.4 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.

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



13 Meetings

Binding of minutes

- 13.1 We noted that the council did not bind the minutes of 2019.
- 13.2 We recommend that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous legislature minutes to be bound. The binding of minutes should be given due importance since this provides the only permanent, unchangeable record of council meetings and discussions.

Length of meetings

- 13.3 We were unable to establish the length of meetings 04/2019 and 09/2019 as the minutes do not state the time at which the meeting ended.
- 13.4 We suggest that the council includes the time the meeting ended to ensure that meetings do not exceed three hours and comply with memo 68/2009 and section 43(3) of the Act.

Meeting regulations

- 13.5 It was noted that meetings 02/2019, 03/2019, 05/2019, 06/2019, 07/2019, 10/2019, 11/2019 lasted more than three hours without obtaining the required consensus.
- 13.6 We would like to remind the council that memo 68/2009 states that the duration of council meetings shall not exceed three hours.
- 13.7 We observed that in meeting 72/2019, the date of the next meeting was set to 20 May 2019. However, meeting 73/2019 was held on 12 June 2019.
- 13.8 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.

14 Capital commitments

- 14.1 During the year under review we noted that the council has no capital commitments included in the 2020 budget. The financial statements include capital commitments of €113,000 which cover both long-term and short-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.
- 14.2 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.

Our Ref: NAO 107/2015/65
Your Ref:

13 November 2020

The Mayor and Executive Secretary
Xghajra Local Council
Xghajra

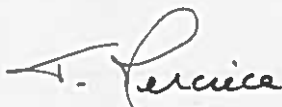
Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2019**

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 2019.

After seeking the Council'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.



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 also like to take this opportunity to thank Mr Ranier Busuttill and his staff for their cooperation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in cursive script, appearing to read "Grant Thornton", with a horizontal line underneath the name.