



# Grant Thornton

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Dear Sir,



## **Financial statements for the year ended 31 December 2019**

During 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 from our review.

### **1 Previous management letter**

#### **1.1 Income**

The council still failed to obtain the annual audited financial report of the Joint Committee (refer to note 2.12).

We have once again noted inaccuracies between general income and income raised from bye-laws (refer to note 2.7 and 2.8).

#### **1.2 Payroll**

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

#### **1.3 Expenditure**

We noted that the council has not rectified the issue regarding the lease of the administrative buildings (refer to note 6.7).

We have again identified instances where the procurement procedures were not followed (refer to note 4.7).

We did not identify any expenditures which were not recorded in the appropriate accounting period.

We again noted shortcomings in the tendering procedures (refer to note 4.13).

We are pleased to note that during the year the council has accrued for the rent expense of Casino Notabile.

We noted that the council did not address the issue regarding the insurance policy (refer to note 4.15).

#### 1.4 **Fixed Assets**

The fixed asset register is once again lacking information as requested by the Local Council (Financial) Procedures, 1996 (refer to note 5.3).

We have once again identified discrepancies between the fixed asset register (FAR) and the financial statements (refer to note 5.1).

The council still has shortcomings in its depreciation workings (refer to note 5.6).

We are pleased to note that we have not identified any assets which were categorised incorrectly.

#### 1.5 **Capital Commitments**

We are pleased to note that we did not encounter any issues during the year under audit.

#### 1.6 **Receivables**

We are pleased to note that we did not identify any discrepancies between LES receivables and report 622.

We noted that the debtors' list is still showing amounts which are long overdue (refer to note 7.1 and 7.3).

#### 1.7 **Petty cash expenditure**

We have again noted shortcomings in petty cash expenditure (refer to note 4.3).

We are pleased to note that the council has rectified the issue of the petty cash balance during the year.

#### 1.8 **Bank and Cash**

Once again, we noted an instance where a cheque was recorded incorrectly (refer to note 3.1).

We are pleased to note that we did not encounter any post-dated cheques.

#### 1.9 **Trade payables**

Once again, we identified irregularities when testing creditors (refer to note 6.1).

We did not note any cut-off issues during the year under audit.

We have again identified debit balances in the creditors' list (refer to note 6.5).

#### 1.10 **Uploading of documents**

Once again, we noted shortcomings in the procedure of uploading documents on the council's website (refer to note 10.1).

**1.11 Comparison with the annual budget**

Once again, we noted instances where actual expenditure was not in line with the annual budget (refer to note 13.1).

**1.12 Length of meetings**

No shortcomings were identified in terms of the length of council meetings.

**1.13 Disclosures required in respect of certain IFRS**

We again identified shortcomings in disclosures of financial statements (refer to note 8.3).

**1.14 Financial statements presentation**

The unaudited financial statements had minor shortcomings in the presentation of financial statements (refer to note 8.1).

**2 Income**

**Other Government Income**

2.1 It was noted that the council recorded sponsorships received from Valletta Grand Prix Services Limited and Latina Pictures Limited amounting to €4,000 and €2,000 respectively as ‘other Government income’. We proposed an audit adjustment to classify such income as general income. The adjustment was approved by the council and incorporated in the audited financial statements. This was approved by the council and was correctly incorporated 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.

**LES administration fees**

2.3 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the figure in the financial statements. We found that the amount in the books of account is overstated by €72. We did not propose an audit adjustment to correct this discrepancy since no explanation for the difference was forthcoming. The adjustment was correctly incorporated in the audited financial statements.

2.4 We recommend that the council regularly reconciles invoices with the 483 reports to ensure accuracy and completeness.

**Income from LESA and regional committees**

2.5 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

<b>Invoice month</b>	<b>Invoice date</b>
January 2019	13.02.2019
February 2019	29.03.2019
April 2019	17.05.2019
July 2019	02.10.2019
August 2019	11.09.2019
October 2019	14.11.2019
December 2019	14.01.2020

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

#### **General income**

- 2.7 During our testing we noted that the council recorded income amounting to €3,906 and €200 generated from the Tomba activity as general income in accounts 0023 and 0070, respectively. It was noted that this activity is regulated by the bye-law – 'Use of facilities'. Therefore, an adjustment was proposed to re-allocate these amounts to income raised under local council bye-laws. This was approved by the council and has been correctly incorporated in the audited financial statements.
- 2.8 Similarly, during the year the council recorded income amounting to €6,343 from entry permits to Mdina as general income instead of classifying them as income raised from bye-laws. We have proposed an audit adjustment in this regard. The council has correctly incorporated the adjustment in the audited financial statements.
- 2.9 We recommend that income derived from bye-laws is separately disclosed in the financial statements in accordance with the specimen financial statements in Appendix P2.I of the Local Councils (Audit) Procedures.

#### **Custodial receipts**

- 2.10 We noted instances whereby the council failed to deposit cash receipts from LES contraventions on a timely basis. Examples include:

<b>Details</b>	<b>Receipt no.</b>	<b>Receipt date</b>	<b>Deposit date</b>	<b>€</b>
LES receipt	4258503	17.04.2019	10.05.2019	23.29
LES receipt	4303969	24.06.2019	11.07.2019	11.65
LES receipt	4336776	20.08.2019	12.09.2019	11.65

- 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.

#### **Joint Committee**

- 2.12 Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) was centralised through the Joint Committee. The Joint Committee ceased operations on that date. 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.
- 2.13 We recommend that the council queries this issue with the DLG and tries to obtain audited financial statements to ensure whether the committee has any amounts which are still due to the council.

#### **Accrued income**

- 2.14 During the year under review, we noted that the council included in accrued income an amount of €3,494 which relates to the annual contribution which the council is due to receive in 2020 from the Malta Tourism Authority. Since this amount pertains to the next financial year, we have proposed an audit adjustment to reverse

this amount from accrued income. The council has correctly incorporated the adjustment in the audited financial statements.

- 2.15 We recommend that the council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.
- 2.16 Furthermore, during the year the council recorded accrued income amounting to €4,120 which as at year-end was still due to be received from Pellikola Limited. It was noted that this accrued income pertains to a donation which is due to the council in relation to filming which took place around the locality. It was also noted that the council recorded the accrued income against account 0066 which is mapped as income raised under local council bye-laws in the financial statements. Therefore, an audit adjustment was proposed to record this accrued income against general income. This adjustment was correctly incorporated in the audited financial statements.
- 2.17 We advise the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported.
- 2.18 In 2018 the council recorded accrued income amounting to €4,118 which was coming from prior years. Upon further investigation, it was identified that this accrued income was first recorded in 2015 and pertains to funds which the council was due to receive in relation to an old project which was partly financed from the Norwegian funds. It was noted that in 2019 the council reversed this accrued income however, the council had still not received the amount in question. Furthermore, this reversal was not approved during council meetings.
- 2.19 We recommend that prior to any write offs, the council should discuss this in council meetings and only after agreeing in council meetings should amounts be written off. Any decisions taken should be minuted.

#### **Deferred income**

- 2.20 During the year under review the council signed an agreement with the Ministry for Justice, Culture and Local Government in order for the council to be granted the sum of €11,231 in terms of the BM 2019 scheme – ‘Fond ghaz-Zamma u l-Manutenzjoni ta’ Progetti Infrastrutturali Magguri’. Subsequently, on 4 December 2019, the council signed an extension to the original agreement, whereby it was stated that the council will receive the money in advance. It was noted that the extension was not signed by a representative of the Ministry.
- 2.21 We recommend that the council contacts the authority so that the agreement is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.

### **3 Cash at bank**

#### **List of unrepresented cheques**

- 3.1 It was noted that during the year the council recorded a cheque payment amounting to €1,916 in its books of account. Cheque 8599 was dated 15 January 2020. Therefore, an adjustment was proposed to reverse this payment and record this amount against creditors. The adjustment was correctly incorporated in the audited financial statements.

- 3.2 We recommend that the bank reconciliation is performed on a regular basis at least monthly to determine all errors and ensure that the book balance is correct. It is essential that the council keeps strong control over its cash and bank balances.

#### **4 Expenditure**

##### **Classification of expenditure**

- 4.1 We noted that the council erroneously classified the amount of €1,503 pertaining to street sweeping for the month of May in the domestic refuse collection account. Similarly, the council recorded an expense amounting to €1,198 incurred for the preparation of 2018 financial statements in the office furniture and equipment expense account. Furthermore, the council also posted an expense amounting to €897 pertaining to the preparation of tenders in the IT development service account. It was also noted that the council recorded an amount of €1,127 in relation to the Walking Football event in the in-house training account. We have proposed reclassifications to record these amounts in the appropriate accounts. The reclassifications were correctly incorporated in the audited financial statements.
- 4.2 We recommend that the council allocates its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

##### **Petty cash expenditure**

- 4.3 We have noted instances of petty cash payments which were not supported by an appropriate authorised petty cash voucher identifying the items being purchased. Examples include:

<b>Details</b>	<b>Supplier</b>	<b>Date</b>	<b>€</b>
Ironmongery	Electrical	13.03.2019	14
Office	Flavours	13.05.2019	13

- 4.4 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchasers and the executive secretary. This legal notice came into force on 1 January 2018. To this end, we recommend that, in cases where the supplier is not issuing itemised receipts, all the details are included in the petty cash voucher and signed as approval of the purchase.

##### **Petty cash summary**

- 4.5 We noted that the petty cash summaries do not include all necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts it should be allocated.
- 4.6 We recommend that the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

##### **Procurement procedures**

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

Details	Supplier	Date	€	Note
Hydraulic cover lifter	Anton Zarb	13.03.2019	1,823	(a)
Renting of Gazebos and concrete blocks for Medieval Mdina	Paul Azzopardi	04.06.2019	1,074	(a)
Marketing Consultant - Medieval Mdina	Louis Olivieri	07.08.2019	1,534	(a)
Accommodation for foreign groups Medieval Mdina	NSTS	22.04.2019	864	(b, c, d)
Ambulance and security services - Medieval Mdina	Global Group	13.05.2019	1,416	(b)
Hire of crane for Medieval Mdina	Sean Borg	13.05.2019	1,180	(b)
Computer for new clerk	C-Planet IT Solutions Ltd	05.07.2019	1,108	(e)

(a) It was noted that the council engaged these suppliers through a direct order with the DLG. The council provided us with the basis for the direct order but did not provide us with a copy of the DLG approval for the direct order.

(b) The council did not obtain any quotations.

(c) The council did not raise a purchase order.

(d) The council was not provided with a fiscal receipt/tax invoice. The council was only provided with a proforma invoice.

(e) The council obtained only one quotation.

4.8 In accordance with the Procurement Guidelines 2017 issued by the Department of 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.

4.9 May we remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier.

4.10 Furthermore the council must obtain a tax invoice/ VAT receipt duly addressed to the council for all payments issued by the council.

#### **Payment approval**

4.11 Whilst performing testing on cheque payments, we noted instances whereby the cheques were issued prior to being approved by the council. Examples include:

Supplier	Cheque no.	Cheque date	Approval date	€
NSTS	8318	22.04.2019	13.05.2019	864
Paul Azzopardi	8372	04.06.2019	05.07.2019	1,074

- 4.12 May we remind the council that 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.

#### **Tender exceeding budgeted amount**

- 4.13 Whilst reviewing the opening minutes of tender MLC/03/2018 we noted that the council budget was €14,400. The cheapest tender submitted was for €31,275. Thus, this reveals that the council exceeded the budget by €16,875.
- 4.14 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.

#### **Insurance policy**

- 4.15 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and NBV as stated in the 2018 audited financial statements:

Asset	Sum insured	NBV in audited financial statements 2018
	€	€
Buildings	232,937	-
Office furniture and fittings	15,774	2,480
Office equipment	-	1,088
Plant & Machinery	2,630	-
Computer equipment	12,402	1,778
<b>Total</b>	<b>263,743</b>	<b>5,346</b>

- 4.16 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.
- 4.17 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 had a nil net book value, we advise the council that the insurance at least covers the replacement value of assets.



### Personal accident insurance

- 4.18 We noted that the combined insurance policy is covering instances of group personal accident on a worldwide basis instead of being 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.
- 4.19 We recommend that the council updates the insurance policy accordingly to limit coverage to the Maltese islands.

### Rent expense

- 4.20 Whilst reviewing the rent expense we noted that the agreement which the council has with the Commissioner of Lands for the rental of Torre dello Standardo is not signed by the Commissioner.
- 4.21 We recommend that the council contacts the Commissioner of Lands so that the agreement is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.
- 4.22 Furthermore, we noted that the council did not account for rental agreements in line 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.
- 4.23 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases', if any, on the council's financial statements and adjust if the need arises.

## 5 Fixed assets

### Reconciliation of financial statements with fixed asset register

- 5.1 We identified several differences between the net book value of assets in the financial statements and the net book value in the fixed asset register. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Construction	516	8,843	(8,327)
Office, furniture, and fittings	1,627	1,466	161
Urban improvements, costumes & umbrellas	-	27,838	(27,838)
Office equipment	131	245	(114)
Computer equipment	2,287	1,446	841
Trees	11,402	-	11,402
	<u>15,963</u>	<u>39,838</u>	<u>(23,875)</u>

- 5.2 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and

compares the figures shown in the fixed assets schedule to the fixed asset register to ensure proper preparation of the financial statements.

#### **Upkeep of fixed asset register**

- 5.3 When reviewing the fixed asset register, we noted that relevant details like invoice number and location of the asset are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail. Examples include:

<b>Asset category</b>	<b>Asset Code</b>	<b>Description</b>	<b>Purchase date</b>	<b>Net book value €</b>
Urban improvements	UI121	4 Festa Covers	10.05.2016	51.22
Office furniture and fittings	OFF078	Tents	29.12.2006	198.26
Urban improvements	UI119	Big Handrail	03.02.2016	480.00
Urban improvements	UI0138	Wrought iron lamps	11.08.2011	587.80

- 5.4 We reiterate our recommendation to the council that the minimum level of information to be included in the fixed asset register is the following:

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

- 5.5 An updated fixed asset register enables the council to exercise proper control over its assets. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

#### **Depreciation of fixed assets**

- 5.6 During the year under review we noted that the council's depreciation charge for the year was €25,681. The council correctly computed its depreciation through its fixed asset register. However, as noted in note 5.1, the net book value in the register is higher than amounts included in the books of account.
- 5.7 We reiterate our recommendation that the plant register is updated to agree to the nominal ledger. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

## **6 Trade and other payables**

### **Trade payables**

- 6.1 We have again noted that the council failed to request monthly statements from all suppliers. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.

- 6.2 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. We recommend that the council makes sure that the creditor accounts agree to supplier statements on a regular basis and investigates and reconciles any differences.

**Long outstanding creditors**

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

<b>Creditor</b>	<b>€</b>
European Cities Against Drugs	1,200
European Walled Towns	130
	<b>1,330</b>

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

**Debit balances in creditors' list**

- 6.5 During the audit we identified that the WasteServ Malta Ltd balance in the creditors' list, amounting to €64, is shown as a debit balance. This has been reclassified to other debtors by means of an audit reclassification. This reclassification was correctly incorporated in the audited financial statements.
- 6.6 We recommend that the council investigates and discloses this debit balance with receivables rather than as set off against trade creditors. Debit balances in creditors may indicate a possible overpayment or omitted purchases or expenses.

**Accrued expenditure**

- 6.7 It was noted that the council has been leasing its administrative offices from the Lands Authority since 1994 however, no contract has ever been signed between the two parties even though various attempts were made by the council to regularise this. The council noted that in 2013 a draft contract was drawn up by the Lands Department, but this did not materialise. No rent payments have ever been made by the council with respect to the renting out of these offices since no invoices, statements or request for payments were sent by the Lands Authority. Therefore, the council has been accruing for this expenditure in its books since 1994. The council noted that after seeking legal advice, it was decided that since rent payments are time-barred after the lapse of five years, and hence only the payment of rent for the last five years can be claimed, it was unanimously approved by the council that the accrual for the rental expense be reduced to €10,000, which is equivalent to the rent amount due for the last five years. This was approved in meeting 73 which was held on 16 January 2019.
- 6.8 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. We also recommend that the council ensures that the rental of premises is always covered by a signed contract covering the current year period. Therefore, the council should contact Lands Authority to draft a contact agreement which is to be signed by both parties. In this manner it is ensured that the contract is binding for

both parties to the agreement, and it also ensures that each party is aware of the rights and obligations under the agreement.

## **7 Trade and other receivables**

### **Long outstanding balances**

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

	€
WasteServ Malta Ltd	481
Striped Sox Ltd (note a)	150
	<u>631</u>

(a) The council does not consider this amount to be recoverable.

- 7.2 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders / statements to its debtors to ensure that the council still has the right to collect the amounts due.
- 7.3 The council's books of account include the provision for doubtful debts of €5,041 for the below long outstanding balances:

	€
AACM	28
AISEC	135
Andolfi Artisan Boutique	75
Central Region	7
Dipartiment tal-Gvern Lokali	2,304
Gozo Region	5
ICOP	634
Mdina Gift Shop	50
Palazzo Costanzo	350
Restoration Unit	79
Rosmarino Restaurant	230
South Eastern Region	61
South Region	38
Sharma Restaurant	200
Toffee&CO	75
The Old Priory Café	200
Regjun Tramuntana	161
Ratka Zemanova	359
R Adolfi Mdina Gift Shop	50
	<u>5,041</u>

- 7.4 We would like to recommend the council to pursue these debtors by sending reminders for the long overdue amounts. Otherwise if council still believes that amounts are irrecoverable, it should evaluate the possibility of writing them off in the books of account after obtaining approval in council meeting.

### **Alternatives on trade debtors**

- 7.5 During our testing on debtor balances it was noted that in its books of account the council had a balance of €907 due from the Malta Tourism Authority. It was noted

by the council that part of this amount pertains to invoice 12/19 amounting to €522. The council further noted that the remaining difference of €385 is coming from prior years, however, no supporting documentation for the remaining balance was provided by the council. No adjustment was proposed as no explanation for the difference was forthcoming.

- 7.6 We recommend that the council checks all pending invoices and reconciles the difference. We reiterate our recommendation that if the council believes that the remaining difference is not recoverable, it should consider the possibility of writing this balance off after obtaining council approval.

## 8 Financial statements

### Presentation of financial statements

- 8.1 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. In note 4 'Funds received from central Government', other Government income should be disclosed separately to supplementary Government income.
- ii. Included in note 2 'Accounting Policies and Reporting Procedures', under the sub-heading 'new and amended standards adopted by the Local Council', the note in relation to IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are irrelevant due to date of initial application being 1 January 2018.
- iii. Furthermore, in note 2, the council is also stating that they have adopted IFRS 9 in 2019 when this should have been adopted in 2018. Furthermore, in the same note the council is stating that IFRS 16 is not yet effective, when date of initial application is 1 January 2019.
- iv. In the accounting policies and procedures, the note for leases is not correct as the council should now have adopted IFRS 16. As a result, the council failed to disclose the accounting policy with respect to leases.
- v. In the accounting policies there is some information which is not required. Case in point is a paragraph in the property, plant and equipment note, whereby the council is referring to the depreciation method which was used in 2017. Similarly, in the note relating to Government grants the council is referring to method of accounting for Government grants which was applicable in 2017.
- vi. In note 15, 'Receivables', the council should show financial and non-financial assets separately and not aggregated under one total.
- vii. The summary of financial assets and liabilities by category in note 22 should include reference to note 15 'Receivables' and to note 16 'Cash and Cash equivalents'.
- viii. The council should include a contingent asset note with respect to the amount of €3,500 which the council is due to receive as per agreement with the Restoration Directorate. As at year-end, the council was still due to receive the funds in terms of the general maintenance of the lighting system within the streets of Mdina. As during the year, the council did not perform any works in this regard and the funds were not yet received, this amount has not been provided for.

- 8.2 We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.

**IFRS 9 'Financial Instruments'**

- 8.3 The unaudited financial statements did not include all the disclosures required by IFRS 9. The standard required additional disclosures regarding financial instruments' impairment and expected credit losses.
- 8.4 We recommend that the council ensures that its accountant is fully up to date with all IFRS's and includes all accounting treatments and disclosures required by new and existing the accounting standards.

**Groupings**

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

**9 Books of account**

- 9.1 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.
- 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 Electronic site**

- 10.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:
- i. The council did not upload the management letter and the reply to the management letter for 2018 on the council website.
  - ii. The council failed to upload the quarterly financial reports for periods January to June 2019 within the stipulated time frame.
  - iii. To date of the audit fieldwork the council has not uploaded the quarterly reports for the period July to December 2019.
  - iv. Furthermore, the council has not uploaded the 2020 annual budget and the business plan for years 2019 to 2021 on the website.
  - v. The annual administrative report for 2018 was not uploaded on time. It was also approved late.
  - vi. The council failed to upload the audited financial statements for 2018 within the stipulated timeframe.
  - vii. The council did not upload minutes of meeting 7 and 8 and schedule of payments number 05/19 within three days after approval.
- 10.2 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.

### **Uploading of management letter and other documents**

- 10.3 During our audit fieldwork, we noted that the council has failed to upload the 2018 Management Letter in full in accordance with Circular 21 of 2019.
- 10.4 We would also like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene the GDPR prior to uploading on the website.
- 10.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

## **11 Meetings**

### **Binding of minutes**

- 11.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 11.2 We remind the council that in accordance with the Local Council (Office) Procedures, 1996, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference may be required from time to time. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

### **Meeting regulations**

- 11.3 We observed that the date set at the end of meeting 79 was 13 June 2019, however the actual meeting was held on 1 July 2019. Furthermore, it was also noted that the date of the next meeting was not set at the end of meeting 8.
- 11.4 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.

## **12 Schedule of payments**

- 12.1 During audit fieldwork we noted that cheque 8585 was omitted from the schedule of payments. Furthermore, it was noted that cheque 8595 was listed twice in the schedule of payments, showing payments made to two different suppliers. Upon enquiry it was identified that cheque 8595 was issued as payment to Ms. Ann Elizabeth Gauci amounting to €1,800 whilst cheque 8585 was issued as payment to Cosmana Navarra amounting to €243.
- 12.2 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedules of payments. The cancelled cheques should be retained as evidence of their cancellation.

- 12.3 It was also noted that account numbers are not included on the schedules of payments. This is not in accordance with the schedule of payments template issued by the Department for Local Government.
- 12.4 The council should fill in all details in the schedules of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedules of payments and the expenses included in Sage.

### 13 Reports

#### Comparison with the annual budget

- 13.1 We noted that some expenditure incurred in 2019 exceeded the budget amounts as follows:

	Budget €	Actual €	Difference €
<b>Expenses</b>			
Administrative and other expenditure	41,827	115,742	73,915

- 13.2 We recommend that the council compares budgeted figures to actual figures at least on a quarterly basis to ensure that expenditure is in line with budgeted amounts. The council should apply due care and diligence when compiling the budgeted figures as required by the Financial Regulations.

### 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 Mark Mallia and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

