



The Mayor
Mdina Local Council
Corte Capitanale
Misrah il-Kunsill
Mdina, Malta

Grant Thornton
Fort Business Centre
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.grantthornton.com.mt

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1 June 2021

Dear Sir,

Financial statements for the year ended 31 December 2020

During 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 from our review.

1 Previous management letter

1.1 Income

We have once again noted inaccuracies in other Government income (refer to note 2.3).

Shortcomings were once again noted in LES administration fees (refer to note 2.5).

The council has once again failed to issue invoices to LESA within the first week of the following month (refer to note 2.7).

We are pleased to note that we did not note any inaccuracies between general income and income raised from bye-laws.

The council still failed to obtain the annual audited financial report of the Joint Committee (refer to notes 2.13 and 2.14).

The council still failed to deposit cash receipts on time (refer to notes 2.9 and 2.11).

We have once again noted shortcomings in accrued income (refer to note 2.16).

Shortcomings were once again noted in deferred income (refer to note 2.18).

1.2 Payroll

We still noted inaccuracies in payroll (refer to note 3.1).

1.3 Expenditure

Once again, we noted inaccuracies in the classification of expenditure (refer to note 4.1).

We are pleased to note that the council did not issue any tenders which exceeded the budgeted amount.

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

We again noted an instance where a cheque was issued prior to obtaining approval from the council (refer to note 4.9).

The council failed to address the issues identified in relation to the rent expense (refer to notes 4.15 and 4.17).

We noted that the council did not address the issue regarding the insurance policy (refer to note 4.11).

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 and the financial statements (refer to note 5.1).

The council still has shortcomings in its depreciation workings (refer to notes 5.15 and 5.17).

1.5 Receivables

Once again, we noted inaccuracies when testing trade debtors (refer to note 7.5).

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

1.6 Petty cash expenditure

We have again noted shortcomings in petty cash expenditure (refer to notes 4.3 and 4.5).

1.7 Bank and Cash

Once again, we noted shortcomings in cash at bank (refer to notes 8.1, 8.3 and 8.5).

1.8 Trade payables

It was again noted that the council is still not obtaining supplier statements (refer to note 6.1).

Once again, we identified long outstanding creditors (refer to note 6.3).

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

Inaccuracies were once again noted in accrued expenditure (refer to note 6.7).

1.9 Uploading of documents

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

1.10 Comparison with the annual budget

We are pleased to note that the council's expenditure was in line with budgeted amounts.

1.11 Meeting regulations

No shortcomings were identified in terms of the date on which council meetings were held.

1.12 Binding of minutes

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

1.13 Groupings

Once again, we noted that expenses are not being classified consistently from year to year. (Refer to note 9.3).

1.14 Books of account

Once again, we noted that the council is recording grouped transactions (refer to note 12.1).

1.15 Schedule of payments

Once again, we noted inaccuracies in the schedules of payments (refer to note 11.1).

1.16 Disclosures required in respect of certain IFRS

We are pleased to note that the council included all disclosures in the financial statements.

1.17 Financial statements presentation

The unaudited financial statements had minor shortcomings in the presentation of financial statements (refer to note 9.1).

2 Income

Government Income

2.1 During the year, the council received the amount of €3,000 due to the locality being a touristic zone. Furthermore, the council also received the amount of €35,000 from the Capital and Cities Fund, and the amount of €9,738 from the Adjustment Fund. It was noted that the council recorded the total amount of €47,738 with the 'Funds received from Central Government'. To this end, an audit adjustment was proposed to reclassify this amount to 'other Government income'. The adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We recommend that the council discloses all income received from Government, which is not part of the allocation, as 'other Government income', unless otherwise directed by the Department.

Other Government Income

- 2.3 On 26 August 2019 the council entered into an agreement with the Rehabilitation Projects Office within the Department for Local Government, whereby the council took within its remit the general maintenance of lighting of the locality for the period 1 January 2019 until 31 December 2020. The Rehabilitation Projects Office will in return contribute the sum of €3,500 per year for two years, which amounts will be paid in 2020 and 2021. The council issued invoice 07/20 amounting to €3,500 to the Rehabilitation Projects Office on 28 December 2020. It was noted that instead of showing the amount as income, the council netted off this amount against the street lighting expense. An audit reclassification was proposed in this regard to record this amount as 'other Government income'. The reclassification was correctly incorporated in the audited financial statements.
- 2.4 May we remind the council to avoid netting off income and expenditure and to disclose amounts separately.

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 figure in the financial statements. We found that the amount in the books of account is overstated by €92. We did not propose an audit adjustment to correct this discrepancy since no explanation for the difference was forthcoming.
- 2.6 We recommend that the council regularly reconciles invoices with the 483 reports to ensure accuracy and completeness.

Income from LESA and regional committees

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

Invoice month	Invoice date
January 2020	12.02.2020
March 2020	30.04.2020
April 2020	11.05.2020
November 2020	11.12.2020

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

General income

- 2.9 Whilst conducting our audit, we noted that the council did not deposit its income on a regular basis.

Description	Receipt number	Receipt date	Deposit date	€
Mdina entry	136055	01.08.20	10.08.20	2.33
Mdina entry	136001	15.07.20	24.07.20	2.33
Mdina entry	135956	25.06.20	01.07.20	2.33
Mdina entry	136531	31.12.20	05.01.21	4.66
Mdina entry	135868	12.05.20	04.06.20	2.33
Mdina entry	136325	11.11.20	21.11.20	2.33
Mdina entry	136282	22.10.20	29.10.20	6.99
Mdina entry	135745	27.02.20	06.03.20	2.33
Skip permit	135798	11.03.20	27.03.20	2.32
Skip permit	135849	24.04.20	30.04.20	3.16

- 2.10 We remind the council that the Financial Procedures and LN 28/2000 requires 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.

Custodial receipts

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

Details	Receipt no.	Receipt date	Deposit date	€
LES receipt	4633367	22.10.2020	29.10.2020	35.00
LES receipt	4538301	23.06.2020	01.07.2020	23.29
LES receipt	4487953	07.03.2020	07.05.2020	23.29
LES receipt	4506934	20.04.2020	07.05.2020	23.29
Lands Department	912947	03.02.2020	12.02.2020	192.25
Lands Department	918901	15.04.2020	07.05.2020	46.25
Lands Department	914355	14.02.2020	21.02.2020	32.61
Lands Department	906742	14.01.2020	12.02.2020	185.00
Lands Department	906663	14.01.2020	12.02.2020	46.25
Lands Department	920871	28.04.2020	07.05.2020	192.25

- 2.12 Once again we reiterate that the above is in contravention of the relevant regulations. Therefore, we recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedure.

Joint Committee

- 2.13 We also noted that Mdina Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 2.14 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to €5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 2.15 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.

Accrued income

- 2.16 In 2019 the council entered into an agreement with the Malta Tourism Authority (MTA) in relation to the management, daily operations, and maintenance of Howard Gardens. During the audit fieldwork, it was noted that the council did not accrue for €243, pertaining to the monthly amount paid in arrears by MTA for trees, plants and other small interventions required for the upkeep of Howard Gardens for the month of December. The council issued invoice 03/21 to MTA on 19 January 2021. An audit adjustment was proposed from our end to account for the amount still due at year-end. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.17 We recommend that the council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.

Deferred income

- 2.18 On 21 November 2020 the council signed an agreement with the LC Care Project Committee on behalf of the Ministry for Agriculture, Fisheries and Animal Rights. The council was granted the amount of €400. The council received €200 on 23 November 2020. It was noted that the council omitted this transaction from its books of account. An audit adjustment was proposed to record this amount as deferred income. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.19 We recommend that the council adheres to the accrual basis of accounting and income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements.

3 Payroll

Reconciliation of FS5 and FS7 forms

- 3.1 When performing audit procedures on payroll, it was noted that the gross salaries in FS5 amounted to €87,031, whilst the gross salaries in FS7 amounted to €86,782. This resulted in a discrepancy of €249. No adjustment was proposed in this regard since no explanation for the identified difference was forthcoming.
- 3.2 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the CIR.

4 Expenditure

Classification of expenditure

- 4.1 We noted that the council erroneously classified the amount of €2,327 pertaining to street sweeping for the month of February in the non-urban cleaning and maintenance account. We have proposed a reclassification to record this amount in the appropriate account. The reclassification was 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:

Details	Supplier	Date	€
Ironmongery	Penuel	25.05.2020	21
Ironmongery	Deguara Ironmongery	10.12.2020	15
Ironmongery	C&X Ironmongery	12.10.2020	17

- 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 the necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts the expense 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
Cleaning and sweeping HP 24-i5-9400T	AE Gauci	20.01.2020	2,089	(b)
Computer	PC Options Ltd	20.02.2020	999	(b)
Road markings and traffic signs	Koptasin	24.02.2020	2,108	(b)
Christmas lighting decorations	Carl Caruana	24.02.2020	1,180	(b)
Interior Painting-Casino Notabile	Jason Bugeja	23.03.2020	1,200	(b)
Lighting repairs				
Howard Gardens	Francis Micallef	10.08.2020	1,062	(a)
Streaming services	Arkafort	07.09.2020	1,473	(b)

(a) The council did not obtain any quotations.

(b) The council obtained only one or two quotations.

- 4.8 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 less than €500, a direct order approved by the Executive Secretary is issued.

Payment approval

- 4.9 Whilst performing testing on cheque payments, we noted the below instance whereby a cheque was issued prior to being approved by the council.

Supplier	Cheque no.	Cheque date	Approval date	€
ARMS	8881	14.10.2020	09.11.2020	1,366

- 4.10 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.

Insurance policy

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

Asset	Sum insured €	NBV in audited financial statements €
Buildings	230,600	-
Office furniture and fittings	20,587	1,627
Office equipment	-	131
Plant & machinery	3,592	-
Computer equipment	12,269	2,287
Total	267,048	4,045

- 4.12 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.
- 4.13 Whilst reviewing the insurance policy, we also noted that the council is insuring property in the open amounting to €50,518. This is in breach of Directive 3/2017 which states that community assets should not be insured.
- 4.14 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 advise the council that the insurance at least covers the replacement value of assets.

Rent expense

- 4.15 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.
- 4.16 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.
- 4.17 The council has recorded a rent expense of €3,324 in its books of account. 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 this standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 4.18 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 (FAR). These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Construction	-	975	(975)
Office, furniture, and fittings	1,595	2,014	(419)
Urban improvements, costumes & umbrellas	-	28,042	(28,042)
Office equipment	16	155	(139)
Computer equipment	690	1,000	(310)
Trees	11,402	-	11,402
	13,703	32,186	(18,483)

- 5.2 Circular 1/2020 states that the council should ensure that the fixed asset register agrees to the nominal ledger and hence the financial statements. 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.

Upkeep of fixed asset register

- 5.3 When reviewing the fixed asset register, we noted that relevant details like invoice number, suppliers' details 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:

Asset category	Asset Code	Description	Purchase date	Net book value €
Office furniture and fittings	OFF082	Cupboards	07.06.2010	177
Office furniture and fittings	OFF078	Tents	29.12.2006	198
Urban improvements	UI119	Big Handrail	03.02.2016	480
Urban improvements	UI115	Bollards	28.10.2014	469

- 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 In its books of account, the council recorded intangible assets amounting to a total cost of €1,898. During the audit fieldwork, it was noted that the council did not include these intangible assets in the fixed asset register.
- 5.6 Furthermore, the register also includes several old items. Examples include:

Asset category	Asset Code	Description	Purchase date	Net book value €
Office furniture and fittings	OFF001	Mayor's desk	01.04.1994	-
Office furniture and fittings	OFF030	Filing cabinet	23.02.1995	-
Office equipment	OE010	Dehumidifier	01.04.1995	-
Urban improvements	UI008	Embellishment	18.07.1996	-

- 5.7 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain, and control an accurate and up-to-date inventory of council fixed assets. 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 and that any obsolete items are identified and written off or impaired as appropriate. If the council scraps assets, the list of items scrapped or impaired should be approved in a council meeting.

Additions to fixed assets

- 5.8 Our testing on fixed assets revealed the following irregularities for the purchases listed below:

Details	Supplier	€	Note
Dustbins for Howard Gardens	Mica Med Ltd	4,500	(a)
Works at Casino Notabile – Interior painting	AA Construction works	1,200	(b)
Works at Casino Notabile – Maintenance works	J. Bugeja	5,150	(b)
Works at Casino Notabile – Finishing works	Clints Works and Services	4,900	(b)

- (a) The council obtained only two quotations.
- (b) The council had issued tender MLC03/2019 in relation to these works. It was noted that after evaluating the tender submitted, the evaluation committee recommended that the tender is not awarded to any of the bidders, the reason being that the prices submitted were not competitive with the market prices, and the council agreed with such recommendation. Given the tight timeframes in which the council had to complete the works, the council did not re-issue the tender but engaged contractors on the recommendation of the council's architect. The council did not obtain the approval of the Department for Local Government prior to the engagement of the contractors via a direct order.

- 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.
- 5.10 Furthermore, we also recommend that the council ensures that all requests for direct orders are duly approved by the Department for Local Government. Moreover, the services should only commence once the approval from the Department for Local Government is obtained.
- 5.11 Furthermore, whilst reviewing meeting minutes, it was noted that the council purchased an HP computer during the year for the cost of €999. It was noted that the council recorded this purchase in the Repairs and Maintenance expense account. An audit adjustment was proposed to show this purchase as a fixed asset addition. A further adjustment of €229 was also proposed to account for the depreciation charge on the new computer. The adjustments were approved by the council and were properly presented in the audited financial statements.
- 5.12 We recommend that the council ensures that all purchases are accounted for properly and distinguishes clearly whether a purchase is of a capital or of an expense nature. This will also ensure that the depreciation is not over/under stated.
- 5.13 During the year the council carried out some works at Casino Notabile. The cost of these works amounted to €11,231 which was capitalised. In 2019 the council received an advance payment of the equivalent amount from the BM 2019 scheme – ‘Fond ghaz-Zamma u l-Manutenzjoni ta’ Progetti Infrastrutturali Magguri’. The council made use of these funds for such works. It was noted that the council omitted from the fixed asset register the cost of the works carried out, as well as the amount of the respective grant received.
- 5.14 We recommend that the council ensures that the cost is included in the fixed asset register in full and that the grant is shown separately. In this manner, the council ensures that the fixed asset register is updated with all the necessary information.

Depreciation of fixed assets

- 5.15 During the year under review, we noted that the council’s depreciation charge for the year in the books of account amounted to €7,165. It was noted that the current year charge as per fixed asset register amounted to €39,029. This resulted in a discrepancy of €31,864.
- 5.16 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.
- 5.17 Furthermore, the council recorded an amortisation charge on its intangible assets amounting to €323. Our recalculation resulted in a charge of €475. Therefore, a discrepancy of €152 arose. An audit adjustment was proposed in this regard to amend the amortisation charge. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 5.18 We recommend that the council abides by the Local Councils (Financial) Procedures, 1996 and IFRSs and depreciates its assets at rates which reflect the useful lives of the asset in question. This will ensure that the depreciation or amortisation charge for the year is calculated correctly.

6 Trade and other payables

Supplier statements

- 6.1 During the course of our audit we noted that the council did not manage to obtain monthly suppliers' statements or year-end statements for all suppliers.
- 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:

Creditor	€
European Cities Against Drugs	1,200
European Walled Towns	280
	1,480

- 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 and ARMS Ltd balances in the creditors' list, amounting to a total of €443, are shown as a debit balance. This has been reclassified to other debtors by means of an audit reclassification. The 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 We again noted that the council is still leasing its administrative offices from the Lands Authority however, to date, no contract has 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. As in the previous year, the council accrued the amount of €10,000 covering a period of five years, since request for payment is time barred.
- 6.8 We 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 an overdue balance of NRGY Concepts Ltd amounting to €150 which was not provided for in the books of account. 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 Furthermore, the council's books of account include the provision for doubtful debts of €864 for the below long outstanding balances:

	€
Central Region	7
Gozo Region	5
Regjun Tramuntana	161
South Eastern Region	22
South Region	38
Striped Sox Ltd	150
WasteServ Malta Ltd	481
	864

- 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 from 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 €7,656 due from the Malta Tourism Authority. It was noted that the amount of €6,748 was received by the council on 4 February 2021. Furthermore, invoice 12/19 amounting to €522 which was issued by the council on 16 September 2019 was still outstanding at year-end. The council further noted that the remaining difference of €386 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.

Pre-regional receivables

- 7.7 In our testing on LES debtors, we obtained report 622 generated from the Loqus system and found that tribunal pending payments as at 31 December 2020 were €43,077. The council had passed an entry amounting to €198 against LES debtors to agree the books with the LES report. We have not proposed an adjustment to reverse the entry passed by the council due to the immateriality of the amount.
- 7.8 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

8 Cash at bank

List of unpresented cheques

- 8.1 It was noted that during the year the council recorded a cheque payment amounting to €1,815 in its books of account. Cheque 8955 was dated 4 January 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.
- 8.2 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.

Cash at bank balances

- 8.3 As mentioned in note 2.17, during the year the council received €200 in terms of the LC Care Project Scheme. The council received these funds in a bank account which was opened in 2020. It was noted that the council did not record the year-end bank balance of this account in its books. An audit adjustment was proposed in this regard. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.4 We reiterate that the council adheres to the accrual basis of accounting and that any receipts of funds are recorded in the appropriate accounting period. The council must ensure that any new bank accounts are accounted for in the books of account.

LC Other Entities Account

- 8.5 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.
- 8.6 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 would like to remind the council that Directive 5/2020 states that the council should open a bank account with the name 'LC Other Entities Account' so that the council can deposit funds and subsequently transfer funds to the appropriate entity. This legal notice came into force on 1 September 2020. To this end, we recommend that the council makes the necessary arrangements to be in line with this directive.

9 Financial statements

Presentation of financial statements

- 9.1 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. 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 16 *Leases* is irrelevant due to date of initial application being 1 January 2019.

- ii. 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 the method of accounting for Government grants which was applicable in 2017.
- iii. In note 8 'Surplus for the year', the council stated the depreciation of property, plant, and equipment incorrectly, and as a result this did not cross-cast to the total depreciation charge stated in the property, plant, and equipment schedule.
- iv. In note 16, 'Payables', the accruals amount in the ageing analysis does not correspond to the accruals amount stated in the same note.

9.2 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.

Groupings

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

10 Electronic site

- 10.1 During our audit fieldwork, we noted that the council failed to upload the quarterly financial reports for the period January to December 2020 within the stipulated time frame.
- 10.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports. We recommend that the council uploads all documents in pdf within the required time.

Uploading of management letter and other documents

- 10.3 The council uploaded the 2019 management letter and reply in accordance with circular 21/2019.
- 10.4 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 the 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.
- 10.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

11 Schedules of payments

- 11.1 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.

- 11.2 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.

12 Books of account

- 12.1 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.
- 12.2 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.

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,

