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Santa Venera Local Council
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Our ref MB/mf/106421

7 September 2021

Dear Sir,

Financial statements for the year ended 31 December 2020

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

1 Previous management letter

1.1 Government allocation

We noted a shortcoming in Government allocation (refer to note 2.1).

1.2 LES Debtors

We did not identify any issues in relation to the report 622.

1.3 Allocation of payroll costs by category in the financial statements

We are pleased to inform that this was rectified during the year under review.

1.4 Expired contracts

We noted that the council utilised various expired contracts (refer to notes 4.5, 4.6 and 4.7).

1.5 Budget vs actual expenditure

We did not identify any shortcomings when comparing budget vs actual expenditure.

1.6 Insurance

We again noted assets which are over insured (refer to note 4.13).

The motor vehicle is not covered by a 'fully comprehensive' insurance policy (refer to note 4.16).

REGISTRY

24 SEP 2021

NATIONAL AUDIT

Certified Public Accountants

Member firm of Grant Thornton International Ltd

A list of partners and directors of the firm is available at Fort Business Centre, Triq L-Intornjatur, Zone 1, Central Business District, Birkirkara CBD 1050, Malta

1.7 **Provision for bad debts**

We noted that council did not address the issue (refer to note 6.3).

1.8 **Locality day**

During the current year the council did not exceed threshold for the locality day.

1.9 **Other expense**

The council correctly classified and recorded expenditure under the appropriate headings.

1.10 **Central Region funds**

The council correctly allocated Central Region funds amounting to €212,349 as a separate item of deferred income.

1.11 **Bank reconciliations**

We did not identify any shortcomings with respect to bank reconciliations.

1.12 **Supplier statements**

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

1.13 **Approval of payments**

We could not verify approval of payments as the council is not including schedule of payments number being approved in meeting minutes (refer to note 11.1).

1.14 **Debit balance in payables**

We noted that the debit balance in payables was not reclassified to other debtors (refer to note 8.3).

1.15 **Aged payables**

We again noted long outstanding creditors (refer to note 8.5).

1.16 **Presentation of financial statements**

We identified various shortcomings in the presentation of the financial statements (refer to note 9.1).

1.17 **Council meeting minutes**

We did not encounter any issues with regards to the meeting minutes uploaded on the council's website. However, we have identified an issue with regards to the binding of the minutes (refer to note 12.1).

1.18 **Attendance at meetings**

We did not identify any shortcomings with respect to the attendance at meetings.

1.19 **Joint Committee**

The Joint Committee was not liquidated during the year under review (refer to note 2.20).

2 Income

Income from Central Government

- 2.1 We noted that annual Government income amounts to €521,385 in the unaudited financial statements. Supporting documentation indicates that the total allocation for the year was €520,250. The resulting difference of €1,135 is attributable to the deduction made by the Department with respect to the MITA service agreement and the 'adjustment fund for decrease in allocation from 2019' amounting to €478 and €1,613, respectively. We have proposed an audit adjustment amounting to €478 to correct the error in respect of MITA. Also, we have proposed another audit adjustment to allocate amount in relation to 'adjustment fund for decrease in allocation from 2019' to other Government income. The council has amended the financial statements to include our audit adjustments.
- 2.2 We recommend that the Government allocation is shown gross, that is, before deductions. Any deduction should be shown as an expense. Also, the council should ensure that transactions are properly allocated to the correct account.

Supplementary Government income

- 2.3 During the year under review the council received €1,266.08 from Central Region in relation to scheme 1/2019. The council included this amount with supplementary Government income rather than other Government income. We have proposed an audit adjustment to include this amount under other Government income. The council has amended the financial statements to include our audit adjustment.
- 2.4 We recommend the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported.

Other Government income

- 2.5 The council received an amount of €1,266 which was previously recorded in supplementary Government income (refer to note 2.3) and €1,234 amounting in total to €2,500 from Central Region in relation to scheme 1/2019. We also noted that the council included an amount of €2,500 in other Government income against accrued income in relation to the same scheme. Therefore, the amount of €2,500 was erroneously recorded twice. To this end, we have proposed an audit adjustment to reverse the amount. The council has amended the financial statements to include our audit adjustments.
- 2.6 We recommend that the council accurately establishes accrued income and therefore ensures that income is not misstated and reported in the correct period.
- 2.7 We noted that other Government income includes an amount of €1,000 against accrued income in relation to Central Region scheme 2/2019. The council received the amount of €1,998 after year end. To this end, other Government income is understated by €998. We have proposed an audit adjustment to rectify the issue. The council approved our audit adjustments and included it in the final set of financial statements.
- 2.8 We reiterate our recommendation that the council accurately establishes accrued income and therefore ensures that income is not misstated and reported in the correct period.

General income

- 2.9 We came across instances where the council failed to deposit receipts on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
Lifter permit	23201	20.04.2020	24.04.2020	10
Lifter permit	23228	27.04.2020	14.05.2020	10
Crane permit	23526	24.06.2020	03.07.2020	15
Lifter permit	23399	01.06.2020	08.06.2020	10
Lifter permit	23583	04.07.2020	20.07.2020	10
Cherry picker permit	23589	06.07.2020	20.07.2020	10
Chairs and tables permit	23677	21.07.2020	07.08.2020	8

- 2.10 We recommend that the council deposits its receipts at least twice a week to ensure that no cheques or cash are left on the council premises longer than necessary.

Income from LES administration fees

- 2.11 We obtained Loqus report 483 and reconciled to the LES administration fees and established that the council's income from LES administration fees for 2020 is overstated by €330.
- 2.12 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

Custodial receipts

- 2.13 The council did not deposit custodial receipts on a regular basis. Some instances encountered during the audit fieldwork are the following:

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	926964	12.06.2020	22.06.2020	135
Lands Department	929553	13.07.2020	20.07.2020	17
Lands Department	927902	24.06.2020	03.07.2020	128
Lands Department	936023	04.08.2020	14.08.2020	36
LES receipt	6117023	15.05.2020	22.05.2020	35
LES receipt	6135847	08.06.2020	22.06.2020	23

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

Accrued income

- 2.15 We noted that the council recorded accrued income amounting to €8,306 in relation to 'DLG tipping fees shortages against 2019 invoices'. The receipt dated after year end confirms an amount of €16,982. To this end, we have proposed an audit adjustment to record accrued income for the remaining balance amounting to €8,675. This has been correctly incorporated in the audited financial statements.
- 2.16 The council received an amount of €5,000 after year end in relation to Central Region scheme 5/2020. The above was erroneously omitted by the council. To this end we have proposed an audit adjustment to record accrued income of €5,000

against other government income. The council has included this adjustment in the final set of financial statements.

- 2.17 We recommend that the council records such amounts when approved for payment and are certain to be received, thus ensuring that the income is reported in the correct accounting period on the accrual basis.

LES Invoices

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

Invoice month	Invoice date
April 2020	15.05.2020
June 2020	23.07.2020
July 2020	20.08.2020
August 2020	10.09.2020
September 2020	12.10.2020

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

Joint Committee

- 2.20 We also noted that Santa Venera Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 2.21 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.
- 2.22 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated, and that the council receives any further income that may be due to it.

3 Payroll

Reconciliation of wages between FS5s and books of accounts

- 3.1 During the audit fieldwork we noted a discrepancy of €95.72 between the wages account and personal emoluments found in the FS5 forms sent to the Commissioner for Revenue (refer to appendix 1).
- 3.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

Wages' reconciliation

- 3.3 Whilst reconciling the FSS tax declared in FS5 forms to that declared in the FS7 form of the council, we came across the following discrepancies:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
Gross wages full-time	37,633	84,227	(46,594)
Gross wages part-time	56,741	10,000	46,741
FSS full-time	3,410	13,767	(10,357)
FSS part-time	11,884	1,500	10,384
Total	109,668	109,494	174

- 3.4 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

Declaration of councillors' allowances

- 3.5 When reviewing the FS3 forms of councillors, we noted that the council has reported the allowances of the councillors under 'Full-time Gross Emoluments' whereas in the FS5 forms these were reported under 'Part-time Work Regulations'.
- 3.6 We would like to remind the council that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under 'Gross Emoluments' (FSS Rules). We recommend that the council adheres to these regulations.

4 Expenditure

Petty cash summary

- 4.1 We also noted that the petty cash summaries prepared by the council do not include details of the nominal account to which the expenses were allocated.
- 4.2 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

Procurement procedures

- 4.3 Our testing on cheque payments revealed that no purchase order was prepared for the below listed purchases:

Details	Supplier	€
Various neutering and chipping services	Lawson and Schembri Adami Veterinary Associates	1,203
8 clusters of 6 shelters (48 shelter) in 9mm marine plywood with oil	Jonathan Calleja - Jonzilla Customs	1,920
Carnival activity	Leon Promotions	1,095
Rubber hump with installation	Sign Mark Limited (300)	1,227
Black twin bins	R Squared	1,791

- 4.4 We would like to 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.

Expired contracts

- 4.5 During the year under review we noted that the council was using services provided by Mica Med Ltd for street lighting in the locality of Santa Venera even though the contract has expired. We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.
- 4.6 The council is also utilising an expired agreement for the provision of accountancy services. We were not provided with the contract agreement in relation to the accountancy services. However, it was noted that the contract expired on 29 February 2020.
- 4.7 During our audit fieldwork we noted that the council kept on using expired contracts for the following services:

Tender number	Details	Date of expiry	Note
SVLC/T/06/2015	Upkeep of gardens playgrounds and soft areas	31.04.2020	(a)
SVLC/T/04/2015	Professional services of a contracts manager	31.01.2019	(b)
SVLC/T/03/2015	Maintenance and installation of traffic signs, mirrors, and road markings/painting	31.01.2020	(c)
SVLC/T/04/2016	Service tender for the collection of household waste from the locality of Santa Venera, in an environmentally friendly manner	30.11.2020	(d)
SVLC/T/01/16	Professional services of legal consultant to Santa Venera	30.05.2020	(e)
STVLC/T/2/17	Embellishment of San Gorg Preca playing field	03.11.2020	(f)

- (a) We noted that the council kept on using the expired tender up to April 2020. The council has issued a new tender which commenced in May 2021.
- (b) We were provided with the renewal agreement up to 31 July 2020. We noted that the council was using an expired tender from 1 August 2020 to 31 December 2020. The council has issued a new tender which was adjudicated in May 2021.
- (c) The council utilised the expired tender during the year under review. The council has issued a new tender which commenced in June 2021.
- (d) The council utilised the expired tender for the month of December 2020. The council has issued a new tender however up to date of audit fieldwork this has not been adjudicated.
- (e) The tender expired on 30 May 2020. The council kept on utilising the services during the year under review. We noted that the council has issued a tender however up to date of audit fieldwork the tender was not adjudicated yet.
- (f) We noted that the tender expired on 3 November 2020. However, we were informed that the expired tender will still be utilised as works have not yet been completed by the supplier.

- 4.8 The council should not make use of expired contracts, since this is prohibited by the Procurement Guidelines 2017 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 unless for purchases exceeding €50, but not €500, a direct order approved by the executive secretary is issued.

Tendering procedures

- 4.9 Whilst performing tendering procedures we noted the following irregularities in the performance guarantees:

Tender no.	Details	Notes
SVLC/T/1/2019	Bulky refuse collection services using low emission vehicle	(a)
STVLC/01/2020	Cleaning and upkeep of public conveniences in the locality of Santa Venera, in an environmentally friendly manner	(b)

- (a) The signed agreement is dated 3 February 2020 whilst the performance guarantee provided is dated 29 July 2021. The council failed to obtain the performance guarantee within 15 days of contract date.
- (b) The council failed to provide us with the performance guarantee.

- 4.10 Procurement Policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for purchase above €500,000. Also the General Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract.

Tenders exceeding budget amount

- 4.11 Whilst reviewing the minutes of the opening of tenders we noted that in certain instances the accepted offers exceeded the established council's budget:

Tender number	Maximum budget €	Chosen offer €	Difference €
SVLC T/06/2020	179,000	199,520	(20,520)
SVLC T/03/2020	40,000	50,649	(10,649)

- 4.12 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

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

Asset	Sum insured €	NBV 2019 €
Office furniture and fittings	62,530	4,340
Buildings	35,000	-
Computer equipment	27,108	2,241
Plant and machinery	-	96
Office equipment	-	5,398
	124,638	12,075

4.14 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.

4.15 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, we recommend that the insurance at least covers the replacement cost of the assets.

Motor vehicle insurance policy

4.16 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. Furthermore, we noted that the insurance policy is in the name of the deputy executive secretary.

4.17 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. May we remind the council that the motor vehicle insurance policy should be registered in the name of the council. It should state that the insurance policy is in the name of the deputy executive secretary on behalf of the local council.

Rent agreements

4.18 During the year under review the council did not provide us with contracts for the rental of premises Umberto Colosso complex and public convenience amounting to €510.13 and €216.63 respectively. We were only presented with the invoices for the respective periods.

4.19 We reiterate our recommendation stating that the council should obtain a contract for all properties being rented for the council's purposes. This will ensure that the rights and obligations of each party are clear.

5 Property, plant and equipment

Upkeep of fixed asset register

- 5.1 As pointed out in 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
- 5.2 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

- 5.3 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.
- 5.4 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.

Reconciliation of financial statements with accounting records

- 5.5 We identified the following discrepancies between the net book value of certain assets in the unaudited financial statements and the net book value in the accounting records:

Asset category	NBV in unaudited financial statements €	NBV in accounting records €	Difference €
Office equipment	6,643	7,046	(403)
Motor vehicle	2,408	2,750	(342)
Computer equipment	1,923	1,890	33
Urban improvements	91,238	89,163	2,075
Construction	507,915	503,792	4,123
Plant & machinery	183	295	(112)
	610,310	604,936	5,374

- 5.6 We further noted that this difference pertains to the adjustment passed by the council for the depreciation charge which was not reflected in the unaudited financial statements. We were informed that the trial balance included the correct amounts (refer also to note 9.1).

- 5.7 We remind the council that any variances between the assets disclosed in the financial statements and the accounting records need to be investigated and reclassified accordingly.

Reconciliation of fixed asset register with unaudited financial statements

- 5.8 We identified differences between the net book value of certain assets in the fixed assets register and the unaudited financial statements. These are summarised below:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Office furniture & fittings	2,177	1,970	207
Office equipment	7,254	6,643	611
Motor vehicle	2,833	2,408	425
Computer equipment	1,852	1,923	(71)
Urban improvements	91,660	91,238	422
Construction	510,579	507,915	2,664
Plant & machinery	297	183	114
	616,652	612,280	4,372

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

Additions to fixed assets

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

Details	Supplier	€	Note
-Embellishment San G Preca playing field	Tekne Linda Renda	33,040	(a)
-Professional fees – BOQ Services re Romaer Romani	Roberto Sarsero Architects	5,437	(a)
- 4 air conditioners for LC office	General Gas Ltd	3,032	(b)
- Works	Joe D'amato	2,650	(b)
- Irrigation systems in Gnien Romeo Romano	Derek Garden Centre	3,424	(a, c)

- (a) No VAT receipt was provided.
 (b) No quotations were obtained.
 (c) Only one quotation was obtained.

- 5.11 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.

- 5.12 May we also remind the council that in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by tax invoice/fiscal receipt.

- 5.13 During our audit testing of additions, we noted that the council erroneously classified the amount of €48,743 in relation to playing field as urban improvements. The council informed us that the playing field was not completed by year end and the architect certificate has not yet been issued. Hence, this should be classified as assets under construction. We have proposed an audit adjustment to rectify the issue. Another audit adjustment was proposed to reclassify the respective grant of €48,743 to the same category. The council has amended the financial statements to include our audit adjustments.
- 5.14 In addition to the above, we have also noted that council erroneously classified the amount of €44,305 in relation to walkways works in Triq il-Bruznar as assets under construction. The council informed us that these works were finished and that a certificate has been issued by the architect. Hence, this should be classified with construction. We have proposed an audit adjustment to rectify the issue and to records its respective depreciation amounting to €369. The council has amended the financial statements to include our audit adjustments.
- 5.15 We recommend that the council should allocate its capital expenditure to the appropriate accounts so that the assets of the council are properly reported.

Grants in 'Property, plant and equipment' schedule

- 5.16 Whilst reviewing grants we noted that amounts included in the books of account in each category are not in line to grants as included in the 'property, plant and equipment' schedule in the unaudited financial statements. We have passed an audit adjustment to reclassify grants to agree with the unaudited financial statements. Another audit adjustment of €51,654 was proposed to reclassify additional grants capitalised in 2020. This has been reflected in the final set of financial statements.
- 5.17 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.

Registration of motor van

- 5.18 Whilst reviewing the supporting documentation for fixed assets we noted that the van was registered with Transport Malta in the name of the executive secretary only. The council failed to register the van in the name of the council.
- 5.19 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.

Additions for 2019 recorded in 2020

- 5.20 During our audit fieldwork we noted that the council accounted for works incurred in relation to the playing field in San Gorg Preca dated 2019 of €15,703 in 2020. No accrual for the above service was included in prior year financial statements.
- 5.21 We recommend that the council records capital assets as they arise and ensure that assets are reported in the correct accounting period on the accrual basis.

6 Trade and other receivables

Overdue receivables

- 6.1 During the year under review we noted some long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Logografix signs	1,800
Central Regional Committee	3
South Regional Committee	431
South East Regional Committee	95
WasteServ Malta Limited	26,591
	28,920

- 6.2 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.

Provision for bad debts

- 6.3 In the previous year management letter it was noted that the council had brought forward a debit balance in creditors amounting to €4,931 on which a separate provision for bad debt was also recognised. We noted that during the year under review the provision for bad debts was set off against debit balance in creditors' list. To this end we have proposed an audit adjustment to reverse the entry recorded to retain traceability of the amount recoverable. This has been reflected in the final set of financial statements. We were not provided with an explanation for the nature of the debit balance in creditors' list and provision against the balance.
- 6.4 We recommend the council maintains a track record of balance recoverable and follow up on uncollected amounts. Furthermore, these balances should also be discussed and minuted during council meetings.

7 Bank and cash

Cash in hand

- 7.1 Whilst performing petty cash and cash in hand testing, we noted that the books of account are showing a balance of €19 in credit. We were not provided with an explanation for the negative balance. Furthermore, during our audit fieldwork we performed a cash count on 22 June 2021 and reconciled it back to 31 December 2020. A difference of €119 was identified between the petty cash 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 remind the council that regular cash counts and reconciliation to the books of account assist the council in identifying differences and resolving them immediately. To this end, we recommend that the council performs this exercise on a frequent basis.

Final withholding tax on bank interest

- 7.3 Whilst reviewing the BOV bank letter reply, we noted BOV accounts 40022745057 and 50010608264 are subject to final withholding tax.
- 7.4 We understand that the council has not received any interest from these accounts during the year, however we still recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

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 for 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 €706:

Supplier	€
Avantech Ltd	36
Elektra Ltd	3
New Harry Ironmongery	607
Owen Borg	60
	706

Debit balances in the creditors' list have been reclassified to other debtors by means of an audit reclassification.

- 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	€
Alberta Fire and Security Equipment Limited	41
Arms Ltd	143
Elton John Zammit Cleaning Services	3,270
Enemalta Ltd	790
LESA	182
Melita Ltd	26
Mica Med Ltd	163

Rocco Mifsud	7,343
Star Line Creation	650
TCTC	51
Wasteserv Malta Ltd	11,370
WM Environmental	11,371
	35,400

- 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.

Alternative procedures on creditors

- 8.7 When performing alternative confirmation procedures on the balance due to creditors by verifying payments after year end and outstanding invoices, we identified the below differences:

Supplier	Amount included in creditors list €	Payments made after year end €	Difference €
Mica Med Limited	5,982	5,881	101
WM Environmental Limited	29,678	29,643	44
	35,660	35,524	145

- 8.8 The above situations highlight the importance of reconciling creditors' balances to suppliers' statements. Thus, once again we recommend obtaining suppliers' statements on a monthly basis and reconciling immediately in order to identify any discrepancies promptly. We suggest that all differences identified are investigated and adjusted accordingly.

Accruals

- 8.9 Whilst testing accruals we noted that the council recorded an accrual amounting to €3,199 in relation to street sweeping for the month of December. We noted that the invoice was dated 30 December 2020. Also, the council has paid the amount of €3,039 since 5% was deducted from invoice due to delay in execution. To this end we have proposed an audit adjustment to decrease the expense and allocate amount in creditors. The council has amended the financial statements to include our audit adjustment.
- 8.10 We recommend that the council distinguishes between accruals and creditors to correctly disclose liabilities in the financial statements.

Unrecorded liabilities

- 8.11 Whilst reviewing subsequent year end payments, it came to our attention that the council omitted an invoice from Clinton Debono C&G Street Lighting Decoration amounting to €5,262.80. The invoice was in relation to Christmas lighting decorations in various streets in Santa Venera. We were informed that this invoice should have been dated 3 January 2021 rather than 3 January 2020. We have proposed an audit adjustment to record an accrual in this respect. The council approved our audit adjustment and included it in the final set of financial statements.

- 8.12 Furthermore, we were also provided with an invoice from the supplier Clinton Debono C&G Street Light Decoration which was dated 3 January 2020 but should have been dated 3 January 2021. We noted that this was included in the trial balance provided but not included in the unaudited financial statements (refer to note 9.1). We were provided with an adjustment being the reversal of trade payable against social events. However, we were notified that the invoice was in relation to year end 2020 and thus we have proposed an audit adjustment amounting to €491 to reclassify amount from creditors to accruals. This has been correctly incorporated in the audited financial statements.
- 8.13 We noted that the council omitted an invoice dated 16 June 2020 amounting to €16,228 from Tekne dell'arch – Linda Renda. This was incurred in relation to the project for the embellishment of San Gorg Preca Playing Field at Palazz l-Ahmar which is still under construction. The amount was paid on 6 April 2021. To this end, we have proposed an audit adjustment to record the amount as asset under construction against creditors. This has been incorporated in the financial statements.
- 8.14 We recommend that the council ensures that expenditure is accounted for when it is incurred so that expenses and liabilities are accounted for in the proper financial year.

Deferred income

- 8.15 Deferred income includes an amount of €163,180 brought forward from previous year. We were not provided with supporting documentation for this balance. Furthermore, we could not confirm if amounts were utilised in prior years. To this end our audit report is qualified.
- 8.16 We further noted that the deferred income account included €49,169 received from the Central Region. This amount was not utilised during the year under review and carried forward from previous year. The council did not provide us with any supporting documentation for the above grant.
- 8.17 The previous auditors noted that the amount of €212,349 (refer to note 8.15 and 8.16) pertains to distributions received from the Central Region. We could not confirm the above amount as no supporting documentation was available.
- 8.18 We also noted that the bank account used for Regional funds includes deposits of €194,474. However, this highlights a difference €17,875. The council failed to provide an explanation for this difference, and we could not confirm if amounts were deposited in the council current account.
- 8.19 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 are not inadvertently used for recurrent expenditure.

9 Financial statements

Presentation of financial statements

- 9.1 The following shortcomings were identified in the financial statements of the council:
- i. The unaudited financial statements were not in line with the trial balance provided. We identified a discrepancy between trial balance as at 31 December 2020 and unaudited financial statements of €5,374 pertaining to depreciation

- against fixed assets and €491 pertaining to social events expense against trade payables. We were notified that the correct depreciation charge was included in the trial balance provided and not of the unaudited financial statements. We were provided with a new version of trial balance as at 31 December 2020 to reflect an adjustment in relation to the €491.
- ii. Statement of comprehensive income includes 'operating surplus/deficit for the year' and 'surplus/deficit' for the year. However, during the year under review there was a surplus.
 - iii. Statement of financial position and statement of cash flows includes 'Notes to the financial statements 2.2 Changes in accounting policies and disclosures' as a heading.
 - iv. There is a casting error in the comparative figures of the statement of financial position as total current assets should read €684,500 rather than €648,500.
 - v. Casting errors were noted in total reserves and liabilities in the unaudited statement of financial position.
 - vi. Depreciation on right-of-use assets included in statement of cashflows does not cross cast with note 17.
 - vii. We noted that the total additions of property, plant and equipment included in property, plant and equipment schedule amount to €177,464. However, in the statement of cashflow the 'purchase of property, plant and equipment' amount to €75,662.
 - viii. Note 7 – Other repairs and upkeep 2019 should read €7,449 rather than €7,499.
 - ix. Note 8 – Depreciation on right-of-use asset does not cross cast with note 17.
 - x. Note 10 – 'Interest for right of use' is referring to note 10 instead of note 17.
 - xi. We identified various casting errors in note 11a property, plant and equipment 2020.
 - xii. We identified the following errors in note 11b property plant and equipment 2019.
 - a. Property, plant and equipment 2019 does not include the total cost as at 31 December 2019.
 - b. Casting error in depreciation of computer equipment.
 - c. Casting error in total depreciation
 - xiii. Note 14 – capital creditors is referring to note 13A. However this should have been removed. Also lease liabilities is referring to note 16 however this should have been referring to note 17.

- 9.2 We recommend that the council gives more attention to the preparation of the financial statements. We noted that the council amended points i, ii, iii, v, vi, x, xii however the council failed to amend points iv, vii, viii, ix, xi, xiii

→10 **Electronic site**

- 10.1 We noted that the council did not upload signed copies of the following documents on the website of local councils:
- (a) To date of audit fieldwork, quarterly financial reports covering January – December 2020 were not uploaded on the council's website.
 - (b) The business plan for 2020 – 2024, Annual budget 2020 and annual administrative report were not uploaded on the council's website.
- 10.2 The council should ensure that minutes are uploaded on the council website within three days of approval as required by the Local Councils (Financial) Procedures, 1996. All other reports should be uploaded on the website within the stipulated timeframe.

Uploading of management letter and other documents

- 10.3 During the audit fieldwork we noted that the council uploaded the 2019 management letter in accordance with Circular 21/2019.
- 10.4 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.
- 10.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

11 Schedules of payments

- 11.1 We noted that the council approved schedules of payments during meetings. However it is not specifying which schedule of payments was approved.
- 11.2 We recommend that the council includes the schedule of payments reference in the minutes to ensure that all schedules have been presented and approved.
- 11.3 During our audit fieldwork we noted that the council issued various cheques which were not included in the schedule of payments. Examples are the following:

Cheque number	Supplier	€
8578	Noel Borg	2,420.00
8579	Mark The Magician	40.00
8581	Bitmac Ltd	203.50
8582	Logo Grafix	44.84
8583	Joseph Demicoli	240.00
8584	Mario Ciantar	100.00
8585	Mario Ciantar	100.00
8645	AKL	86.36
8846	Micamed Ltd	3,587.20
9037	Santa Venera Scouts Group	1,000.00
9075	Malta Post	60.00
9113	Petty cash	56.37
9116	Ronald Balzan	750.00
9121	Sabrina R. Bonnici	30.00
9120	Happy Paws Charity Organisation	101.08
9142	Department of Information	10.00
9143	Malta Police Force	31.58
9144	Dr. George Mirea	123.62
9145	Tom Van Malderen	900.00

- 11.4 Whilst reviewing the schedule of payments we noted that cheques 8564, 8565, 8641, 8658, 8661, 8663, 8695, 8949, 8950, 8909, 9108 and 9112 were omitted from the schedule of payments. We noted that these cheques were cancelled.

- 11.5 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 the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council. We also recommend that if a cheque

12 Meetings

Binding of minutes

- 12.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 12.2 We recommend that, 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 will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

13 Capital commitments

- 13.1 During the year under review we noted that the council has €823,833 in capital commitments included in the 2021 budget and audited financial statements. The cash flow budget includes €850,833 in capital commitment which does not agree to the property, plant and equipment schedule. Therefore there is some confusion since the cash budget indicates capital expenditure for the next twelve months whilst the note to the financial statements indicates both short-term and long-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.
- 13.2 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.

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 Michael Mifsud and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



