

LOCAL COUNCIL VALLETTA

Report to Management

for the financial year ended 31 December 2020



VALLETTA  
*Città Umilissima*

REGISTRY

17 SEP 2021

NATIONAL AUDIT OFFICE





14<sup>th</sup> July 2021

The Mayor  
LOCAL COUNCIL VALLETTA  
33-35  
Triq it-Tezorerija  
Misrah ir-Repubblika  
Valletta VLT 1410  
Malta

Dear Sir,

### **REPORT TO MANAGEMENT**

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. The controls will also be used by the National Audit Office to compile its own report on Local Councils.

For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2020, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

#### **3a Certified Public Accountants**

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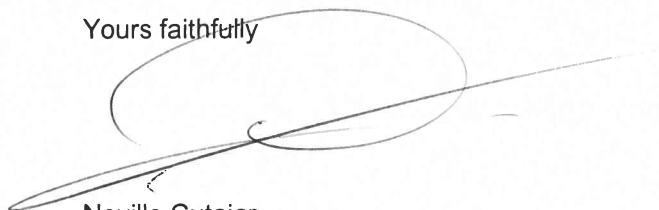
Partners: Neville Cutajar, Christian Vella, Clive Farrugia  
3A is a civil partnership duly registered as an audit firm under  
the Accountancy Profession Act with warrant number AB/26/84/62

**3amalta.com**



Finally, we take this opportunity to thank Ms. Gabriella Aguis and her Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

A handwritten signature in black ink, consisting of a large, sweeping loop followed by a horizontal line that extends to the right and then curves back down and left.

Neville Cutajar  
Partner

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## 1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2019

### 1.1. System of Council Income Recording

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.1 of our management report.

### 1.2. Reimbursement for administrative fees on LES fines collected

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.2 of our management report.

### 1.3. Income not recognised properly in the appropriate period

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.3 of our management report.

### 1.4. Income arising from the CVA system

The Council has correctly addressed the matter during the year under review.

### 1.5. Incorrect classification of income

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.4 of our management report.

### 1.6. Other income shortcomings

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.4 of our management report.

### 1.7. Payment of FSS and NI due

The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 3.1 of our management report.

### 1.8. Payroll workings shortcomings

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.2 of our management report.

### 1.9. Payroll reconciliation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.3 of our management report.

### 1.10. Performance bonus

The Council has correctly addressed the matter during the year under review.

### 1.11. Other HR procedures shortcomings

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.4 of our management report.



1.12. Allowance paid to the Executive Secretary

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.5 of our management report.

1.13. Procurement procedures, renewal of contracts and expired contracts

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.1 of our management report.

1.14. Inappropriate Expenditure Documentation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.2 of our management report.

1.15. Payment Vouchers

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.3 of our management report.

1.16. Expenditure for Jum il-Belt

The Council has correctly addressed the matter during the year under review.

1.17. Donations, hospitality and other expenditure

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.4 of our management report.

1.18. Tendering procedures

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.5 of our management report.

1.19. Christmas Staff Dinner

The Council has correctly addressed the matter during the year under review.

1.20. Other expenditure shortcomings

The Council has correctly addressed the matter during the year under review.

1.21. Expenditure not recorded in the appropriate accounting period

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.6 of our management report.

1.22. Accounting for Intangible Assets

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.1 of our management report.

1.23. Reconciliation of the Fixed Asset Register

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.1 of our management report.

1.24. Fixed Assets Labelling

The Council has correctly addressed the matter during the year under review.

1.25. Reconciliation between amounts in the financial statements and nominal ledger

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.2 of our management report.

1.26. Depreciation

The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 6.3 of our management report.

1.27. Certification of capital expenditure works

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.4 of our management report.

1.28. Capital expenditure vs revenue expenditure

The Council has correctly addressed the matter during the year under review.

1.29. Insurance Cover

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.5 of our management report.

1.30. Capital Commitments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.6 of our management report.

1.31. Assets under Construction

The Council has correctly addressed the matter during the year under review.

1.32. Categorisation of assets

The Council has correctly addressed the matter during the year under review.

1.33. Trade receivables

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.1 of our management report.

1.34. Amounts due from other Local Councils

The Council has correctly addressed the matter during the year under review.

1.35. Local Enforcement Debtors balance

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.2 of our management report.

1.36. Accrued income and prepayments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.3 of our management report.

1.37. Negative balances in the list of trade receivables

The Council has correctly addressed the matter during the year under review.

1.38. Cut-off procedures on receivables

The Council has correctly addressed the matter during the year under review.

1.39. Petty Cash Payments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.1 of our management report.

1.40. Cash balances

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.2 of our management report.

1.41. Bank balances included in the financial statements

The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 8.3 of our management report.

1.42. Payments not included in the schedule of payments and post-dated cheques

The Council has correctly addressed the matter during the year under review.

1.43. Shortcomings with regards to cheque payments

The Council has correctly addressed the matter during the year under review.

1.44. Stale cheques

The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 8.4 of our management report.

1.45. Frequency of bank deposits

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.5 of our management report.

1.46. Bank interest

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.6 of our management report.

1.47. Trade payables

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.1 of our management report.

1.48. Amount payable to supplier under the Public Private Partnership (PPP)

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.2 of our management report.

1.49. Accruals and cut-off errors

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.3 of our management report.

1.50. Contingent liabilities

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.4 of our management report.

1.51. Government grants

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.5 of our management report.

1.52. Debit balances in trade creditors list

The Council has correctly addressed the matter during the year under review.

1.53. Amounts due to Inland Revenue Department

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.6 of our management report.

1.54. Liquidity of the Council

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 10.1 of our management report.

1.55. Disclosures required in respect of certain IFRS

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.1 of our management report.

1.56. Financial Statements Presentation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.2 of our management report.

1.57. Quarterly Reports, Annual budget and three-year business plan

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 12.1 of our management report.

1.58. Councillors' attendance, Council meeting agenda and Schedule of payments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 12.2 of our management report.

1.59. Differences noted in the opening balances

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 12.3 of our management report.

1.60. Approval to carry out an exercise to update and reconcile trade payable balances

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 12.4 of our management report.

1.61. Actual expenditure exceeding budgeted expenditure

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 12.5 of our management report.

1.62. Prior year adjustment

The Council has correctly addressed the matter during the year under review.

## 2. INCOME

### 2.1. System of Council Income Recording

#### Observations

The Council does not have a proper system of official receipts for income flowing in its favour. In fact, no official receipts were provided to us whenever requested. This was especially the case when the source of income was derived from a government entity or department.

#### Issues Arising

This fragmented use of receipts distorts the receipts' audit trail leading to certain income being covered by proper receipting whilst other income not covered by any receipts. We are of the opinion that the system needs to be addressed in this respect and that all such income is duly invoiced, and a formal receipt issued on receipt of funds.

#### Recommendations

The Council must ensure that a formal invoice is issued when income is due to the Council and a receipt is issued for all income received. Secondly, we emphasize the need for the implementation of an electronic centralised receipting system to facilitate data reporting and information systems relating to the income of the Council. Finally, we also recommend that the Council uses the invoicing system tool in Sage to ensure a continuous audit trail in its method of invoice generation. This tool provides automatic posting and recording in the individual customer accounts of the same software.

### 2.2. Reimbursement for administrative fees on LES fines collected

#### Observations

As from September 2011, the Council is entitled to 10% administration fee for LES fines issued from September 2011 onwards and which are paid at the Council's office. During the year under review, the Council has issued invoices amounting to €4,794.02, to the LES Regional Committees and to the Local Enforcement System Agency (LESA) which amount is not in agreement to the income recognised in the financial statements in this respect, amounting to €6,445.26.

In addition, we noted that according to Report 483 – Post Regional Tickets and LESA Tickets, the Council's share of commission for 2020 should have amounted to €6,576.70 resulting in an understatement of €131.44 from the amount recognised in the financial statements.

#### Issues Arising

This variance arising between the amounts as per Report 483 – Post Regional Tickets and LESA tickets and the invoices issued by the Council to the Regional Committees/LESA indicates that the Council is not always undertaking a proper reconciliation of the amounts as per LES reports to the actual amounts invoiced and received.

#### Recommendations

The Council should ensure that a proper ongoing system of reconciliation is maintained between the invoices issued to the Regional Committees/LESA and Report 483 – Post Regional Tickets and LESA Tickets.

### 2.3. Income not recognised properly in the appropriate period

#### Observations

We noted that, during 2020, the Council issued invoices amounting to €1,390.04 to Malta Tourism Authority in respect of reimbursement for mobile toilets used in Hasting Garden in December 2019.

No accrued income in respect of these sales invoices was recorded as of 31 December 2019, therefore such income was recognised in full in the period under review.

#### Issues Arising

Although the invoice was issued by the Council in 2020, the services were carried out in 2019 and therefore, such income should have been accrued in the 2019 financial statements. In order for the Council to comply with the requirements of International Financial Reporting Standards, it needs to account for accrued income correctly and completely.

#### Recommendations

The Council should ensure that it recognises its transactions on an accrual basis rather than on a cash basis and therefore ensure that revenue is accounted for in the period in which it arises.

### 2.4. Incorrect classification of income

#### Observations

We noticed an instance where income was incorrectly classified, being that recharge made to Malta Tourism Authority by the Council with respect to mobile toilets at Hastings Garden, amounting to €12,331, was classified as 'Income from cultural activities' rather than as 'Recharge of expenses' or 'Other income'.

#### Issues Arising

Incorrect classification of income can lead to incorrect information for the users of the financial statements.

#### Recommendations

The Council should ensure that income is properly classified in accordance with the requirements of IAS 1-Presentation of Financial Statements. Further to our recommended audit reclassification adjustment in this regard, the Council has duly updated its financial statements accordingly.

### 2.5. Other income shortcomings

#### Observations

During 2019, the Council issued a new bye-law with respect to advertising on street furniture. This bye-law has not yet been made available on the Council's website.

#### Issues Arising

Any bye-laws that are published by the Council should be made uploaded on the Council's website and any income generated in this respect should be disclosed as income from bye-laws accordingly.

#### Recommendations

The Council should also ensure that the bye-laws in place are made available on the Council's website.

## 3. PAYROLL

### 3.1. Payment of FSS and NI Due

### Observations

In 2017, the Council has entered into an agreement with the Inland Revenue Department, with respect to FSS and SSC (social security contributions) arrears in relation to the amounts due as for 2016, whereby the additional FSS Tax and SSC were reduced from €15,744 to €6,253.

As per the agreement, the Council was to pay an initial amount of €19,918.08 by 30 August 2017, and the remaining balance of €35,340 in sixty monthly instalments of €589 each by the 21<sup>st</sup> day of the month starting from 21 September 2017 up to 21 August 2022. Thus, the Council should have affected twelve payments of €589 each as per agreement during 2020, which in total amount to €7,068.

From a review of the Council's nominal ledger and other relevant supporting documentation, we noted that the Council did not undertake any such payments during the year under review.

### Issues Arising

As per agreement concluded between the Council and the Inland Revenue Department, failure by the Council to honour the agreement will result in additional taxes and contributions to be paid in full, that is, the Council will be liable to pay additional taxes and contributions amounting to €15,744 rather than €6,253.

### Recommendations

The Council should ensure that it abides with the terms and conditions highlighted in the agreement with respect to the settlement of FSS and SSC arrears. The Council is to retain and properly file, all receipts with respect to any payments made to the IRD.

## 3.2. Payroll workings shortcomings

### Observations

A number of shortcomings related to payroll have been identified. These include the following:

- The FS7 and FS5s sent to the Department and maintained in the Council's records were not signed by the Executive Secretary.
- Although Local Councils are considered as government entities and should not make contributions toward the maternity fund, we noted that Maternity Fund Contributions amounting to €355.29 were made during the year. The situation was rectified from October 2020 onwards.
- No FS3 was issued to Incentive Scheme Workers with respect to amounts paid by the Council to these employees during the year under review.
- From 2018, an employee started being paid an allowance every month. The total amount of allowance paid to this employee during 2020 amounted to €2,233.74. As per the employee's payslips this was simply shown as 'Allowance'. The Council explained that this employee works on the advertising that can be done in the capital city and an allowance is given for this. However, there was no approval of this allowance in the minutes of the Council meetings.

### Issues Arising

The wages and salaries of employees are to be in line with the respective pay scales. Any amounts which are paid over and above, are to be approved by the Council, and supporting documentation and workings are to be retained for future reference and review. All remuneration being paid should be duly declared and included within the Council's FSS documentation.



### Recommendations

The Council should ensure adherence to all relevant employment and tax laws, regulations and circulars in order to ensure that it is preparing its payroll correctly and in line with all relevant laws and regulations. This also applies for the tax deductions and for the required forms that needs to be submitted for each employee and Councillor.

### 3.3. Payroll Reconciliation

#### Observations

We have identified variances between the FS7 and the totals of the FS5s submitted to the Inland Revenue Department, as per below:

	<b>Gross Emoluments</b>	<b>Tax Deductions</b>	<b>Social Security Contributions</b>	<b>Maternity Funds Contributions</b>
As per FS7	215,873.00	29,174.00	31,523.44	355.29
As per FS5s (totals)	214,808.00	28,899.00	31,523.44	355.29
Variances	1,065.00	275.00	0.00	0.00

Furthermore, we have also identified variances arising when reconciling the payroll amounts as per financial statement with those declared in the FS7 provided, after taking into consideration the accrual for performance bonuses relating to 2020 and paid out in January 2021. This variance amounted to €17,490.56. When we compared the payroll amounts as per financial statements with the amounts declared in the FS5s, we noted a variance of €18,555.56.

It is our understanding that these variances are arising due to the fact that monthly allowances being paid to Incentive Scheme Workers, for which no FS3 is being issued as commented in point 3.2 above, whilst still being recognised as part of wages and salaries in the financial statements.

We further noted instances whereby drivers' allowances were paid to such workers against invoices issued by themselves, however such allowances were still recorded as part of wages and salaries in the financial statements.

#### Issues Arising

According to the Final Settlement System Rules (1998), the FS7 form should always be in agreement with the totals of the monthly FS5 forms and the employees' FS3 forms so that when these documents are submitted there will be no under or over-payment of Social Security Contributions and/or FSS tax deductions. The FSS documents should also reconcile to the amounts recognised in the financial statements.

#### Recommendations

The Council should ensure proper reconciliation of the FSS forms as well as an exact reconciliation with the nominal ledger. Any errors identified during this reconciliation process should immediately be rectified either through an adjustment in the general ledger or through an adjustment of the respective statutory FSS forms.

### 3.4. Other HR procedures shortcomings

#### Observations

A number of HR administrative shortcomings related to HR procedures have been identified. These include the following:

- No administrative report was provided with respect to Councillors' attendance to Council's meetings.
- A number of employees had a leave balance which exceeded 48 hours at year end. A written approval of the Council is required in case where more than 48 hours of leave are to be carried forward. We were only provided with an approval letter for one of the employees. The approval for staff to carry forward their accumulated leave was approved in a Council's meeting however the approval did not specify the number of hours being allowed to take forward for each respective employee.

#### Issues Arising

Proper records should be maintained with respect to Councillors' attendance to Council's meetings.

As per the relevant subsidiary legislation, for employees' leave balances to be carried forward (including that of the Executive Secretary), written approval of the Council is required. Without such approval, employees can carry forward a maximum of forty-eight hours.

#### Recommendations

The Council should ensure that the necessary procedures governing its Human Resources are duly followed.

### 3.5. Allowance paid to the Executive Secretary

#### Observations

It was noted that the Council had agreed to pay the Executive Secretary an allowance amounting to €200 per month, during Council meeting held on 11 September 2018, for the extra work being performed in relation to the ISO Certification. The total allowance paid to the Executive Secretary during 2020 amounted to €2,400.

#### Issues Arising

The allowance being paid to the Executive Secretary is not in line with Local Councils (Human Resources) Regulations (Subsidiary Legislation 363.20), and as such the allowance should not have been paid to the Executive Secretary.

#### Recommendations

The Council should ensure that Local Council Regulations are duly followed, and any allowances paid are in line with such regulations.

## 4. EXPENDITURE

### 4.1. Procurement procedures, renewal of contracts and expired contracts

#### Observations

We noted that the Council has procured purchases and incurred expenditure from the below listed suppliers whereby the total purchases or expenditure incurred throughout 2020 in aggregate exceeded the amount of €5,000, and therefore Council should have proceeded to issue a public call for quotations or tenders, as applicable:

Details	Supplier	Amount
Lease of printer and printing	Image Systems Limited	€9,372.64
Street lighting	Charles Bonello	€19,566.80

On the other hand, with respect to Environmental Landscapes Consortium Limited (ELC), we were informed that the previous contract is being extended indefinitely by the Council and that they do not intend to issue a call for a new tender with respect to the services provided by ELC.

The Council continued to make use of accountancy services provided by Parker Randall Turner, even after the contract had expired on 16 February 2018. The Council issued a new call for tenders in this respect in December 2019, however it did not yet award this tender offer, thus continuing to use the services of the subject supplier.

In 2016, it was noted that the tender issued for the provision of sweeping services was awarded to Waste Collection Ltd, on the basis that the supplier is located in Valletta. This requirement was not specified in the call for tenders as being one of the requisites and therefore should not have been the basis for the selection of this tenderer. The Council has continued using the services of Waste Collection Ltd throughout all these years, despite our recommendations to issue a fresh public call for tenders or quotations.

The Council continued to make use of architect and civil engineer services provided by Arc Studios, even after the contract had expired on 25 July 2020. The Council has still to issue a new tender offer in this regard.

#### Issues Arising

The Council is in breach of LN 155 of 2017 – Financial Administration and Audit Act, which requires that for orders, contracts, agreements or items not exceeding €5,000 a minimum of three quotations is to be obtained, unless the purchase is urgent and/or there is a restriction of choice and availability, in which case purchase can be done through a direct order. Furthermore, such purchases cannot exceed €5,000 in a year. Anything beyond that threshold has to be covered by a call for quotations or a call for tenders according to the amount of the expenditure being undertaken.

For expired contracts, although the Council might have its own valid reasons to continue procuring services using such contracts, the procurement procedures clearly state that adjudicated contracts shall remain valid for the contract stipulated by the tender or quote offer and once expired, a new tender or quote is to be issued.

Finally, the tender awarded to Waste Collection Limited in relation to the provision of sweeping services should be reviewed and, as necessary, a new public call for tender re-issued if the basis for its award is not deemed as valid.

#### Recommendations

For the procurement of any goods or for the provision of any service in value not exceeding €5,000, the Council should ideally obtain a minimum of three quotations to ensure that the Council obtains the best value for money in this regard.

For purchases in value exceeding €5,000, the Council is required to issue a call for quotations (for purchases not exceeding €10,000) or tenders (for purchases exceeding €10,000) and these calls are to be undertaken in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996, as updated by LN of 2017.

The Council should undertake a continuous review of all contracts and services in operation by the Council and in cases where either the contracts are expiring, or the expenditure requires the issue of a tender or quote offer, the Council must ensure that the appropriate tendering procedures are followed accordingly.

## 4.2. Inappropriate Expenditure Documentation

### Observations

We have identified instances whereby the Council has not provided us with purchase order documentation for the following items of expenditure:

Date	Details	Supplier	Amount
02/01/2020	Materials	Joseph Sajja	1,309.47

Moreover, we noted instances whereby the Council has not been provided with a VAT fiscal receipt in terms of the VAT Act (1998). These instances include the following:

Date	Detail	Supplier	Amount
19/10/2020	Macbook Pro	SG Solutions	2,650.00
30/01/2020	Fiat Doblo Van	Noel Autodealer	2,200.00
27/02/2020	Fiat Doblo Van	Noel Autodealer	2,150.00
30/03/2020	Fiat Doblo Van	Noel Autodealer	2,150.00
02/01/2020	Materials	Joseph Sajja	1,309.47
12/05/2020	Drainage works	Stanislaws Agius	2,757.00
22/09/2020	Material for repairs	Joseph Sajja	1,695.71
06/09/2020	Bollards	Joseph Griffiths	3,416.00
25/03/2020	Signs	B.Grima	1,472.05
02/04/2020	Signs	B.Grima	1,079.70
06/07/2020	Signs	B.Grima	1,034.51

The following expenditure has not been supported by a proper tax invoice:

Date	Detail	Supplier	Amount
12/05/2020	Drainage works	Stanislaws Agius	2,757.00

Furthermore, no supporting documentation was provided for the following expenses:

Date	Detail	Supplier	Amount
02/01/2020	Street Paving	Premier Business Limited	72,463.39
02/01/2020	Street Paving	Premier Business Limited	35,090.21
17/01/2020	Cleaning Materials	Gerard Ellul	440.54
24/11/2020	Markings	S&R HANDAQ	696.08
31/12/2020	Hire of mobile toilets	Sanitech	5,425.04

### Issues Arising

Having expenditure unsupported by appropriate documentation goes against the Local Councils Procedures (1996 – Finance) K.L.P. 1/96, P1.11b.

### Recommendations

An appropriate tax invoice, as requested by the respective procedures, should be obtained for all the expenditure incurred by the Council in the future. Payments unsupported by an appropriate invoice, should not be made. Furthermore, we recommend the Council to ensure that VAT fiscal

receipts are always obtained, where applicable. Any supplier who does not provide a proper tax invoice nor a fiscal receipt, should not be considered for future procurements.

#### 4.3. Payment Vouchers

##### Observations

Payment vouchers for payments of purchases undertaken by the Council during the year under review were not properly prepared and contained insufficient detail of what is being paid. None of the payment vouchers reviewed were endorsed by the Executive Secretary and Mayor.

##### Issues Arising

All payment vouchers should correspond to the list of Schedule of Payments, which is presented for approval during Council meetings. Each payment should have a payment voucher duly prepared with all the necessary details.

##### Recommendations

A proper system of payment vouchers should be maintained to ensure that all payments are made to the appropriate supplier, for the appropriate provision of goods or services to the Council and that an authorized official of the Council approves these payments.

#### 4.4. Donations, hospitality and other expenditure

##### Observations

We noted various hospitality and other expenditure being incurred by the Council during the year under review, as listed below:

- Flowers, wreaths and bouquets amounting to €931.20.
- Christmas hampers which were gifted to third parties amounting to €80.53.
- Purchase of cat food amounting to €528.
- Lunch for VLC Nursery amounting to €301.80.

##### Issues Arising

With regards to such expenditure, we sympathise with the fact that a Local Council has to fulfil its social and cultural obligations. However, as the laws and regulations stand today, with special reference to article 63A of the Local Councils Act and Memo 08/2005, the Council should be more considerate in the manner of how it distributes its resources within the locality especially in view of the negative financial position of the Council.

##### Recommendations

The Council should follow the Local Council Act, its subsidiary legislation and the various memos and Circulars issued to Local Councils to ensure that all expenditure is properly being incurred as well as to ensure that the Council is more considerate in the manner of how it distributes its resources for the benefit of the locality.

#### 4.5. Tendering procedures

##### Observations

We have reviewed four tender offers which were awarded during year under review to verify whether the tendering procedures were duly followed. The following shortcomings were noted:

- A copy of the contractors' third-party liability insurance was not obtained for tenders VLC-T02-2019, VLC-T03-2019 and VLC-T01-2020.
- No minutes were found with respect to whom the tenders were awarded to and the basis for these decisions.

#### Issues Arising

The Council is not abiding with all the tendering procedures as required by the respective regulations.

#### Recommendations

The Council should ensure that adjudicated offers have the tender forms completely filled up in line with the requirements of the Local Council (Tendering) Procedures of 2009 – K.L.P. 3/96 and ensures that all tendering procedures have been complied with.

### 4.6. Expenditure not recorded in the appropriate accounting period

#### Observations

We have encountered instances whereby supplier invoices for goods purchased or services provided in 2019 were recognised in the current year financial statements, as follows:

- Robotica, coding + artificial intelligence agreement for Summer 2019 amounting to €2,000 - invoice dated 2019.
- Hire of mobile toilets for event done in 2019 amounting to €1,557.60 – invoice dated 2019.
- Police services for NYE celebrations 2019 amounting to €1,663.55 – invoice dated 2020.
- Royalties due for the use of copyright for Live Concert for the NYE celebrations 2019 amounting to €2,659.72 – invoice dated 2020

#### Issues Arising

The Council is obliged to ensure that all expenses are properly accounted for and recognised in line with the requirements of generally accepted accounting principles and International Financial Reporting Standards. Expenses relating to a particular year, even though they are not yet paid at year end, should be estimated and accounted for as accrued expenses or trade payables accordingly. All such expenses should be accounted for appropriately in its financial statements, based on the requirements of the “accruals concept” of accounting.

#### Recommendations

The Council should ensure that all expenses are properly recorded in the year in which they are incurred.

## 5. INTANGIBLE ASSETS

### 5.1. Accounting for Intangible Assets

#### Observations

The Council recognized an intangible asset addition of €8,968 in 2019, which relates to the construction of a new website for the Council. We were informed that the work on this website was carried out between 2017 (when the tender was awarded) and 2019. The website was then capitalised in 2019

We noted that the amortisation of the website for 2020 was equal to that of 2019, when this was amortised for eight months in view that the website capitalisation occurred in May 2019.

#### Issues Arising

IAS 38 – Intangible assets requires that an intangible asset is capitalised when it is completed and at the point when its economic useful life begins. From that point, an amortisation charge should be recognised.

In this case, the amortisation was understated since it should have reflected a whole year amortisement. Thus, the amortisation charge for the year should have been € 2,242 rather than € 1,495.

#### Recommendations

The Council should ensure that it follows the provisions of IAS 38 – Intangible assets and capitalises intangible assets when they are completed and at the point when their economic useful life begins and then properly amortises them on their expected useful life. Further to our recommended audit reclassification adjustment in this regard, the Council has duly updated its financial statements accordingly.

## 6. PROPERTY, PLANT AND EQUIPMENT

### 6.1. Reconciliation of the Fixed Asset Register

#### Observations

The Council did not provide us with an updated Fixed Asset Register to substantiate the amounts of property, plant and equipment as recognised in the financial statements, having a cost of €3,313,926 as at year-end.

#### Issues Arising

The upkeep of a proper Fixed Asset Register is of utmost importance to the Council. A Fixed Asset Register is deemed as one of the principal accounting ledgers of a Council, which enables the Council to maintain control of its capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme natural elements.

The incorporation of a proper Fixed Asset Register within the Council's books is conducive to better safeguarding of these assets and makes it easier to regularly reconcile the physical existence of each asset with its record keeping in the ledgers.

Correct classification of capitalised assets is significantly important since fixed asset categories have different depreciation rates.

In view of this lack of Fixed Asset Register, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of the property, plant and equipment recorded in the financial statements.

### Recommendations

The Council should make use of Sage's Fixed Asset Register integrated module to set up its Fixed Asset Register and, in the process, reduce its administrative burden, time and human errors in this regard. The FAR should be constructed taking into consideration the following matters:

- The description of the asset in the FAR card should contain the highest degree of detail possible. The detail should not be of a generic nature such as "office equipment", "computer equipment" or "furniture and fittings".
- There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes reconciliations between the two ledgers easier in case of variances and discrepancies.
- The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. This would be useful for insurance claims and asset disposal adjustments.

## 6.2. Reconciliation between amounts in the financial statements and nominal ledger

### Observations

Variances have been identified when the property, plant and equipment categories as recognised and disclosed in the financial statements were compared to the same categories as recognised in the nominal ledger. The following variances were noted:

<b>Asset</b>	<b>As per nominal ledger</b>	<b>As per financial statements</b>	<b>Variances</b>
Urban improvements, construction and street paving [cost]	€2,677,447.23	€2,770,859.00	(€93,411.77)
Assets not yet capitalised [cost]	€133,042.89	€39,595.00	€93,447.89
Urban improvements, construction and street paving [accumulated depreciation]	(€1,756,553.42)	(€1,256,003.00)	(€500,550.42)
Urban improvements [grants]	(€761,353.90)	(€1,261,906.00)	€500,552.10

The variance in the 'Urban improvements, construction and street paving' accumulated depreciation seems to be arising from the non-posting of prior year adjustments in the nominal ledger.

Furthermore, we noted that the variance in 'Assets not yet capitalised' cost is arising due to completed projects which were capitalised and transferred to the respective asset category in the financial statements in previous years, but which were not reallocated accordingly in the nominal ledger.

### Issues Arising

It is important that the Council ensures consistency with its classification of assets, and that all categories are allocated against the proper cost of assets in the financial statements and also in the accounting records maintained by the Council. This should also be in line with the accounting policy of the Council as disclosed in the financial statements.

### Recommendations

The Council should undertake the necessary reclassifications in the nominal ledger as required to ensure that the amounts as per the financial statements agree to the respective nominal ledger accounts.



### 6.3. Depreciation

#### Observations

The Council recognised depreciation and amortisation charges for the year amounting to €96,282 and €8,182 respectively. However, depreciation and amortisation are not being calculated and posted through the Fixed Asset Register in Sage, on a monthly basis, using the straight line method as required by the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002 and Directive 1/2017). Depreciation is being calculated manually using an excel spreadsheet.

Furthermore, it was noted that the depreciation calculation was not undertaken in line with Directive 1/2017 [change from reducing balance method to straight line method with effect from 1 January 2018]. Rather than depreciating the net book value of the asset as at 1 January 2018 over the asset's remaining useful life [change in accounting estimate], as per the workings provided, we noted that depreciation was recalculated as if the depreciation method was the straight line method as from the asset's date of acquisition [as if it was a change in accounting policy].

#### Issues Arising

The calculation and posting of depreciation is covered by the requirements arising from the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002 and Directive 1/2017).

The measurement of depreciation undertaken by the Council is therefore in conflict with the depreciation accounting policy as stipulated within these Financial Procedures. We have qualified our audit opinion in this respect.

#### Recommendations

The Council should rectify its position accordingly and carry out the necessary amendments and/or reclassifications so that the net book value of property, plant and equipment properly reflects the underlying depreciation policy of the Council in line with the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002 and Directive 1/2017).

### 6.4. Certification of capital expenditure works

#### Observations

In previous years, architects' certifications have not been provided for two capital projects that were capitalised. The projects involved are the resurfacing of the upper part St. Paul's Street (cost of €92,148) and Mattia Preti Square (cost of €73,610).

During the audit of the year ending 31 December 2017, we have been provided with the bill of quantities with respect to the resurfacing of the upper part of St. Paul's Street, which agrees to the invoices and receipts issued by the supplier, but no certification from the architect was provided confirming completion of works and final cost. The architect's certification has still not been provided to-date.

With respect to Mattia Preti Square, we were also provided with an architect's declaration for the issuance of a compliance certificate which indicates that works were completed but cost could not be verified from this statement.

#### Issues Arising

Contract work may not be easily quantifiable by non-experts, so their work should be valued by a qualified architect in order to determine the value of such work as well as to confirm when an asset is ready for use. Furthermore, the opinion of an expert appointed by the Council should ensure that

the works done are appropriate and within the parameters as laid out by the agreement of works between the contractor and the Council.

#### Recommendations

It is important that all contracted work and invoicing thereof are professionally certified by professional persons appointed by the Council prior to issue of payment. This will ensure that the Council would be paying for what should have actually been done as well as to ensure that this has been done in line with the work's specifications.

### 6.5. Insurance Cover

#### Observations

We noticed that the Council is not properly insured in different categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council's assets for the amount of €498,977, of which €400,00 related to buildings, €53,977 relates to office furniture and €45,000 relates to computer equipment.

The Council's total cost of property, plant and equipment, excluding assets not yet capitalised, and special programmes, as disclosed in its financial statements amounts to €2,939,736, of which €70,331 relates to furniture and fittings, €18,240 relates to computer equipment, €2,785,431 relates to Urban improvements, plants and signs, €59,234 relates to plant and machinery and €6,500 relates to motor vehicles.

#### Issues Arising

Subsidiary legislation 363.01 clearly states that the above asset categories should be adequately covered by an insurance policy. This requirement was further prescribed in DLG circular 33/2016 and Directive 3/2017.

The insurance policy in respect of such assets needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment. Under insurance coverage is detrimental when the Council has to file an insurance claim following a particular accident or event.

#### Recommendations

The Council should review its insurance cover once the FAR has been fully reconstructed in order to have adequate cover for each respective asset categories. It would also be beneficial to ensure that the insurance policy contains better details of the assets insured. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.

### 6.6. Capital Commitments

#### Observations

During our review of the financial statements, it was noted that the amount of capital commitments as per note 15 to the financial statements does not agree with the capital commitments as stated in the Annual Budget for 2021.

While in the note to the financial statements, capital commitments of €158,690 have been disclosed, the Annual Budget for 2021 shows no expected capital expenditure to be undertaken in 2021.

#### Issues Arising

Capital commitments need to be disclosed in their entirety in line with the requirements of 'IAS 16 – Property, Plant and Equipment'. Furthermore, it is important that a proper reconciliation is

provided, which should tally with both the capital commitments as per financial statements and those as per the forthcoming Annual Budget. In this way, financial reports issued by the Council would be comparable.

### Recommendations

The Council should ensure that capital commitments are properly assessed and disclosed in line with the requirements of 'IAS 16 – Property, Plant and Equipment'.

## 7. RECEIVABLES

### 7.1. Trade receivables

#### Observations

From our review of the customer activity report for the year 2019, it appears that the Council has not carried out proper reconciliations since the trade receivable balances in the Council's books of accounts were reconciled by means of adjustments recorded against the suspense account. This affects the balances brought forward in 2020.

The balances of receivables as of 31<sup>st</sup> December 2020 could not be confirmed and we found evidence of misstatement in certain debtor balances. We also noted that no proper reconciliation is being undertaken on a periodic basis with customer statements to ensure that these are agreeing to the amounts being claimed by the Council

#### Issues Arising

The lack of proper reconciliation and the follow up of any variances could result in difficulties when trying to recover the debts due. The Council could end up in a situation where it has to provide for such balances as doubtful debts and eventually, they may never be recovered.

These substantial unconfirmed balances and variances identified are distorting the amount due to the Council at any point in time by its trade receivables. Based on our audit work and information provided, we were unable to verify if the amounts due to the Council are materially correct. In view of this, we have qualified our opinion in this respect.

#### Recommendations

The Council should ensure that a proper control system is applied for its receivables and that it keeps updated balances in its books. This includes periodic reconciliations, investigating any arising discrepancies and reflecting any required adjustments in the books of accounts. Such procedures will also ensure that the Council is able to recover its dues and will be able to provide proper proof of each outstanding debt in case of litigation.

### 7.2. Local Enforcement receivable balance

#### Observations

The Council has recognised in its financial statements LES receivables amounting to €428,788.15 in respect of Pre-Regional LES contraventions issued till 31 August 2011, and a full provision of €428,788.15 in this respect. However, the amount as per LES report 622 as at 31<sup>st</sup> December 2020 amounts to €426,653.03, hence leaving a variance of €2,135.12.

#### Issues Arising

The amounts recognised by the Council in respect to LES receivables should be in agreement with the LES reports issued for the same period.

### Recommendations

The Council should always ensure that the balances recognised in the financial statements are properly supported and reconciled with the appropriate reports from the LES system. Further to our recommendations, the necessary adjustments with respect to the LES receivable balance and equivalent provision were included, and the financial statements were rectified accordingly by the Council

### 7.3. Prepayments and Accrued income

#### Observations

The Council has not provided properly for a prepayment on a number of instances as detailed hereunder:

- A subscription of €1,159.94 which relates to the year 2021 was not recognised as a prepayment.
- The pro-rata cost of IT development services relating to the period from 1 January 2021 to 13 July 2021, amounting to €616.52 was not recognised as a prepayment.
- A subscription of €755.90 of which part relates to the period from 1 January 2021 to 8 June 2021, amounting to €328.38 was not recognised as a prepayment.
- In relation to the rent of Café Premier, no prepayment was recognised for the amount of €2,542.80
- In relation to the rent of Garage-PO Tunnel, no prepayment was recognised for the amount of €140.02.

With respect to the recognition of accrued income, relating to the DLG shortage in respect of Wasteserv tipping fees, we noted that the Council recognised accrued income of €18,796 with respect to amounts due from Wasteserv in this regard. Our understanding is that with the payments made by the DLG during 2020, all tipping fees up to December 2020 have been covered and therefore no accrued income should have been recognised.

As per the Council, this was an estimate, and no supporting documentation or workings were provided to us in this respect to allow us to assess whether an adjustment was warranted.

Furthermore, the Council also recognised accrued income for the amount of € 79,316 in relation to a grant due for works in Old Bakery Street. No supporting documentation or workings were provided to us in this respect to allow us to assess whether this accrued income was properly recognised.

#### Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards, it needs to account for accrued income and prepayments correctly and completely. In view of the issues noted above with respect to the recognition of accrued income, we have qualified our opinion in this respect.

#### Recommendations

It is important that the Council makes a proper assessment of its income accrued but not yet received and of its prepaid expenses at the end of every financial reporting period. Further to our recommended audit adjustments, the Council has duly updated its financial statements accordingly.

## 8. CASH AND CASH EQUIVALENTS

### 8.1. Petty Cash Payments

#### Observations

We noted various petty cash payments in excess of €50. We have identified twenty-one such instances and thirteen instances whereby the Council purchased the same or a similar good from the same supplier on the same day, whereby in aggregate the purchases exceeded €50.

Moreover, we noted that the Council is recording the petty cash payments on a purchase order book instead of a proper petty cash voucher. It was also noted that the petty cash transaction sheets lack a running balance to verify the petty cash balance held by the Local Council at any point in time, and were not always filled properly, with items left blank.

#### Issues Arising

Please note that petty cash disbursements cannot exceed €50 as per Local Council Procedures 1996 (Finance) – KLP 1/96 – P1.07 (b) (amended by Directive 3/2017).

Furthermore, LN 269 of 2017 requires that monies are to be taken from petty cash only upon the presentation of fiscal receipts which shall clearly indicate the purchased items. If the vendor cannot provide a detailed fiscal receipt, there shall be filled in a petty cash voucher that lists the purchased items, to which the fiscal receipt shall be attached. Such form shall be signed by whoever would have bought the items and the Executive Secretary, as a certification of such payment.

Furthermore, the Local Councils Procedures (1996) require that the petty cash schedules are approved by the Council, and should be signed by the Executive Secretary, the Mayor or any other Councillor. This procedure is essential to ensure proper controls and oversight over the Council's petty cash system.

#### Recommendations

The Executive Secretary should adhere to the above stated procedures and ensure that the petty cash schedules are duly signed by the Mayor or any other Councillor present during the Council meeting approving the same schedules as well as that all such cash payments do not exceed the stipulated amount by law.

### 8.2. Cash balances

#### Observations

We were informed that the Council always maintains five cash boxes with a float of €50 per box. We were also informed that the Council does not maintain a float for petty cash and any petty expenses are paid from the cash proceeds received from permits.

Therefore, the Council always seems to have at least a cash balance of €250, apart from cash received by the Council's customers. The cash balance as at year end as per the financial statements amounted to €3,813.79. This balance may include receipts from permits and other receipts which were deposited in January 2021. However, no confirmation was provided from Council.

Nevertheless, we noted that a debit entry adjustment amounting to €1,942.75 was passed in the petty cash account against the suspense account. No adequate explanation has been obtained for this adjustment.

#### Issues Arising

The Council is not maintaining proper records with respect to petty cash and hence we were unable to verify if the cash balance as at 31 December 2020 is correct. Furthermore, lack of proper records and unjustified adjustments, may imply that the necessary bank and cash reconciliations are not being properly undertaken with the consequence that misstatements may arise within the financial statements of the Council.

#### Recommendations

The Council should ensure that cash balances are properly reconciled with actual cash in hand at any point in time. In the meantime, the Council should also ensure to check the constitution of its cash balances in its accounting records and ensure that these are properly adjusted for as necessary.

### 8.3. Bank balances included in the financial statements

#### Observations

We noted that the BOV bank account 40022076140, having a balance of € 505.63 as at year end, is included in the books of the Council (as in prior years). However, this account is not in the name of the Council but pertains to the European Walled Town Association.

We also noted that the Council has a balance of €16 recorded in the accounts, pertaining to an HSBC bank account. No bank statement was provided in this respect and no HSBC bank account was held by the Council whenever we requested a bank confirmation letter from HSBC.

Furthermore, it was noted that, in the nominal ledger, there is an account named 'Garnishee Orders' (account 5011), which has a balance of €6,152.29. This amount is included in the 'cash and bank balance' in the financial statements. The Council informed us that in 2021, the lawyers will be requesting the court to close off both garnishees since these are not "in vigore" anymore.

#### Issues Arising

It is important that a copy of all bank statements in the name of the Council are properly maintained to ensure that the Council has a record of all payments made and funds received.

Furthermore, it is essential that proper bank reconciliations of all accounts are undertaken on an ongoing basis to ensure that bank balances are correct and proper at all times.

#### Recommendations

The Council should ensure that it obtains bank statements for all bank accounts regularly in order to monitor transactions and to account for them correctly. We also recommend that the bank balances which do not pertain to the Council are removed from the Council's accounting ledger.

### 8.4. Stale cheques

#### Observations

In BOV account 40011826576, we noted three unrepresented cheques dated 23rd April 2019 amounting to €7,198 in total and one dated 2<sup>nd</sup> August 2019 amounting to €460.20. The cheques were not presented post year end and therefore it is evident that these cheques have become stale.

#### Issues Arising

The period by which these cheques should have been presented at the bank exceeded 6 months and therefore legally they have become stale.

### Recommendations

The Council should verify the un-presented cheques on a regular basis and check and adjust its records accordingly when such cheque payments become stale. Further to our recommended audit adjustment in this regard, the Council has duly updated its financial statements accordingly.

## 8.5. Frequency of bank deposits

### Observations

The Council is still taking longer than that stipulated in memo 6/2015, in making cash deposits of its takings and this was confirmed from the vouching of the bank accounts statements.

### Issues Arising

The Council is in breach of the Local Council Procedures which require deposits to be undertaken at least twice a week when it has any cash/cheques in hand.

### Recommendations

The Council should ensure that it affects such deposits at least twice a week, as stipulated in Local Council Procedures (1996) – Finance KLP1/96 P1.14 (C.09).

## 8.6. Bank interest

### Observations

The bank interest expense for the year should have amounted to €16.14. It was noted that €20.18 was accounted for as a bank charge.

### Issues Arising

Although the above amounts are trivial, the classification of the expense is incorrect and reflects the manner in which accounting is undertaken, lacking reconciliations and proper account allocation, amongst other things.

### Recommendations

The Council should ensure that classification of expenses is correct and consistent, and that all expenditure is properly recorded. Further to our recommendations, the Council has duly adjusted the financial statements accordingly.

## 9. PAYABLES

### 9.1. Trade payables

#### Observations

The Council has performed an exercise during 2019 to confirm the trade payable balances with supplier statements and adjust the balances in its books accordingly.

Nevertheless, throughout our testing of the trade payable balances, we still identified instances where either the Council's balance does not agree with the balance confirmed by the supplier or where we could not verify the balances due, in view that the Council had not obtained a supplier statement to reconcile its' balances. Such instances noted are detailed below.

Supplier name	Amount as per accounts	Amount as per supplier confirmation / statement	Variances
Waste Collection Limited	€235,744.39	€178,326.01	€57,418.38
Regjun Xlokk	€15,986.45	Not provided	€15,986.45
V&C Contractors Limited	€11,227.84	Not provided	€11,227.84
Premier Business Ltd	€54,316.60	Not provided	€54,316.60
TCTC	€15,840	Not provided	€15,840

From our review of the supplier activity report for the year 2020, it appears that the Council has not always carried out proper reconciliations with supplier statements, in order to identify the causes of the variances and adjust the supplier balances accordingly as needed.

In view that the supplier accounts were not fully reconciled, and certain variances arising are being brought forward from previous years, we were unable to propose audit adjustments in order to correct the respective expense and individual supplier accounts.

#### Issues Arising

These unconfirmed balances and variances are distorting the amount due by the Council to its suppliers at any point in time.

Furthermore, given that not all suppliers' balances were reconciled with supplier statements as at year-end as identified above, we have qualified our opinion in this respect.

#### Recommendations

The Council should revisit or else reperform the reconciliation exercise of its trade payables after which, it should carry out the necessary adjustments, including prior period adjustments, as necessary. Only such a proper reconciliation process will enable the Council to have a true and fair picture of its payables.

The Council should also introduce a procedure to obtain a statement from each creditor on a periodic basis and ideally prior to issuing of payments to suppliers, as this facilitates the reconciliation process.

## 9.2. Amount payable to supplier under the Public Private Partnership (PPP)

#### Observations

The contractor of the PPP projects 'V & C Contractors' issues purchase invoices only when payments are done by the Council. All the works were completed and certified in 2012 and the total works carried out according to the architect's certifications amounted to € 299,408.07.

The amount of €284,437.63 was paid up to 31 December 2020 by the Council according to the agreement. As per the agreement, an amount of €14,970.40 was still due by the Council in respect of PPP works as at year end, which amount should have been settled in full in 2020. However, the amounts still due to V & C Contractors as per the Council's financial statements amounted to €11,227.84.

#### Issues Arising

The amount due by the Council in this regard is understated by €3,742.56. In addition, as per IAS 39-Financial Instruments: Recognition & Measurement, subsequently replaced by IFRS 9-Financial Instruments, such loans and payables are accounted for at amortised cost. This entails that after initial recognition, this liability is measured at amortised cost using the effective interest method, less provision for any impairment.



In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital. Such adjustments were not properly recognised in the books of accounts of the Council. We have qualified our audit report in this respect.

### Recommendations

The Council should reconcile and update the amounts due to the supplier as at year end. The Council should also ensure that it correctly applies the requirements of IFRS 9 in relation to any such financial liabilities and ensures that the requirements of IAS 1 are adhered with in respect to the proper disclosure and classification of balances. Finally, the Council should reconcile the balance due with this supplier and settle any amount remaining to be paid, which should have already been settled in 2020.

### 9.3. Accruals and cut-off errors

#### Observations

From the accruals recorded as at year-end, the following issues were noted:

- The accrual for accountancy services for quarter 4 was an estimate based on previous quarter fee. The actual invoice was received in 2021 and the accrual was understated by €353.80.

Following cut-off tests on trade payables and accruals recognised in the financial statements, we noted omissions in relation to the trade payable balances recognised by the Council. The following invoices were issued in 2020 but paid in 2021 and not included with trade payables as at year end:

- Invoice from Tom Van Malderen amounting to €2,100
- Invoice from Dr. JP Bonnici amounting to €1,575
- Invoice from Police Department amounting to €1,000

#### Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. Improper accounting for accruals is not in line with generally accepted accounting principles.

#### Recommendations

Accruals should be accounted for all amounts which will be invoiced in the subsequent financial period but for which the products or services have been expended in the current financial period. A reasonable basis, such as the amount agreed between the Council and the supplier or estimated unbilled usage, should be used when estimating accruals.

The Council should also ensure to undertake regular reconciliations of trade payable balances with supplier statements in order to ensure that all trade payable balances are not misstated. Further to our recommended audit adjustments with respect to the above matters, the Council has duly updated its financial statements accordingly.

#### 9.4. Contingent liabilities

##### Observations

In note 16 to the unaudited financial statements, the Council disclosed contingent liabilities of €120,000. However, based on the information provided by the Council, it was noted that contingent liabilities disclosed should have amounted to €112,000 for 2020.

##### Issues Arising

In line with the requirements of IAS 37- Provisions, Contingent Assets and Contingent Liabilities, amounts disclosed in the financial statements should provide the users with accurate information based on factual evidence. Failing to disclose the proper amount of contingent liabilities could mislead users of the financial statements.

##### Recommendations

The Council should disclose all contingent liabilities correctly in accordance with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

#### 9.5. Government grants

##### Observations

There has been a change in accounting policy with respect to Government Grants, being that with effect from 1 January 2018, as per Directive 1/2017, the capital approach as detailed in IAS 20 – *Accounting for Government Grants* was to be adopted. When assessing the adjustments undertaken to reflect this change, we noted a variance of €60,073 in the cost of the grants, as detailed below.

As per Deferred income working of 2017 (€)		As per Council working re PYA (€)	Variance (€)
Before 2010	No information available - balance forward as at 01.01.2012 = €283,091 [grant less amounts released to PL)	20,413.00	
2010		10,413.00	
2011		-	252,265.00
2012	74,856.00	376,701.00	-301,845.00
2013	49,278.00	75,434.00	- 26,156.00
2014	40,560.00	34,896.00	5,664.00
2015	646,494.00	-	646,494.00
2016		636,495.00	-636,495.00
2017	-	-	-
	1,094,279.00	1,154,352.00	-60,073.00

Furthermore, the values of the grants received between 2012 to 2017 and the period when the grants were received as per working provided, did not agree to our records. Reconciliation of grants released as at 31 December 2017 resulted in an unexplained variance of €8,868, as per below:

	As per Deferred income working of 2017 (€)	As per Council working re PYA (€)	Variance (€)
Before 2010			
2010			
2011	60,073.00		
2012	97,820.00		
2013	88,154.00		
2014	84,191.00		
2015	16,273.00		
2016	76,227.20		
2017	68,944.35	500,551.00	- 8,868.45
	491,682.55	500,551.00	- 8,868.45

During the year under review, no updated workings were provided, and no adjustments were recorded in the nominal ledger to reconcile the variances noted above.

#### Issues Arising

This prior year adjustment undertaken has an impact on the cost and the respective accumulated depreciation of assets to which the grant relates. As such, if the workings for this adjustment are not correct, this entails that the cost, depreciation and net book value of the affected assets are also misstated.

#### Recommendations

The Council should revise the working to ensure that the prior year adjustment undertaken has been properly calculated and reflected in the financial statements. Furthermore, all workings prepared should be clearly explained and the derived amounts should be supported by evidence.

### 9.6. Amounts due to the Inland Revenue Department

#### Observations

Whilst reconciling the amounts due to the Inland Revenue Department as per the Council's records to the agreement made with the Department in 2017 with respect to FSS arrears, we noted a variance of €23,669. The Council did not undertake any further payments during 2020.

The Council provided us a copy of the ARS report issued as of 5<sup>th</sup> May 2021. No further information or workings were provided to us in this regard to substantiate this variance.

Furthermore, as highlighted in point 3.1 above, we noted that the Council has not abided with the terms of the agreement concluded with the Inland Revenue Department with respect to FSS and tax arrears, being that the Council has not affected payments on due dates.

#### Issues Arising

Any additional tax and contributions imposed on the Local Council by the Inland Revenue Department should be accounted for as an expense against the amounts due to the Department in the financial statements.

As highlighted in section 3.1, the Council is to abide by the terms and conditions of the agreement concluded with the Inland Revenue Department as, otherwise, this will result in the Council having to pay additional taxes and contributions. Moreover, the Council should retain and properly file all receipts issued by the Inland Revenue Departments for all payments made.

Moreover, as per IAS 1, the amount payable after more than one year with respect to FSS arrears as per agreement, should be disclosed as a non-current liability. An appropriate analysis of the amounts payable between 1-2 years, between 2-5 years and after more than 5 years should also be disclosed accordingly in the financial statements.

#### Recommendations

The Council should ensure that a proper reconciliation is performed so as to ensure that the amounts due to the Inland Revenue Department are properly stated. We also recommend that amounts due to the Department are paid on time so as not to incur additional penalties and interest. With respect to any long-term payables, the requirements of IAS 1 should be properly adhered to and proper disclosure provided in relation to the timing of payment of these obligations.

## 10. FINANCIAL POSITION

### 10.1. Liquidity of the Council

#### Observations

According to Legal Notice 323 of 2002, and the various memos issued by the Local Councils Department, the Council should have a positive net current asset value of not less than 10% of the annual financial allocation, known as the financial indicator. The consequences of not abiding by these regulations are various. The financial indicator of the Council, as at year end, stands at a negative 20%.

The Council is also regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (usually based on the liquidity position and funds available. During the year under review, the Council incurred a loss of €7,137

#### Issues Arising

As of 31 December 2020, the Council's minimum net current asset value should have amounted to at least €91,831.40 being 10% of the annual allocation. The actual net current asset position as at 31 December 2020 stood at negative €390,928. We have modified our audit opinion in this regard.

The Council must ensure that it collects its receivables and limits its spending to its annual financial allocation and approved budget in order to maintain the required limit in line with the Local Councils (Financial) Procedures.

#### Recommendations

The Council must ensure that it undertakes the necessary plans to improve its liquidity and financial position and to refrain from undertaking additional expenditure and capital commitments which could worsen the Council's liquidity and financial position.

## 11. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

### 11.1. Disclosures required in respect of certain IFRS

#### Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements are not compliant in all respects with the requirements of these standards and in fact

disclosures emanating from certain accounting standards are missing or not in line with the relevant accounting standard.

For example, omissions were noticed in relation to disclosure of new/revised accounting standards which became effective in the current financial year, or which were issued but are not yet effective in the current financial year in line with the requirements of IAS 1-Presentation of Financial Statements.

Other presentation and disclosure deficiencies have been duly noted in other areas of this management report.

#### Issues Arising

All disclosures need to be undertaken in line with the requirements of International Financial Reporting Standards. These disclosures are not simply quantitative but also descriptive and we noted that the latter have sometimes been omitted as noted above. In this respect, we have qualified our audit report.

#### Recommendations

The financial statements should be prepared in accordance with International Financial Reporting Standards and that all necessary disclosures are undertaken as required.

### 11.2. Financial Statements Presentation

#### Observations

During our review of the adjusted financial statements, we noted the following issues:

- The approval date in the Statement of Local Council Members' and Executive Secretary's Responsibilities, in the Statement of Financial Position and in note 1 to the financial statements should be updated.
- In the Statement of Cash Flows 'Increase' in Increase in receivables should read '(Increase)'
- In note 8 there is a figure '161,420' at the bottom of the page which needs to be removed.
- In note 10 to the financial statements, the following issues were noted:
  - The total cost of Urban Improvements 2020 should read '2,770,859' instead of '2770,859'. While the total amount of Grants for Urban improvements should read €1,261,906 not €1,2691,906.
- In note 11 to the financial statements, the following issues were noted:
  - a reconciliation of the carrying amount of intangible assets at the beginning and end of the comparative financial reporting period [2019] needs to be disclosed.
- In note 12 to the financial statements, in the aged receivables analysis, amount should not have been included all under more than 6 months as some balances are not more than 3 months, while other are between 3 months and 6 months.
- In note 16 to the financial statements, the 2020 balance should read €112,000.

#### Issues Arising

The Financial Statements and Trial Balance should always be in agreement at all times to ensure that there is an exact correlation between the final trial balance in the general ledger of the Council and the financials being presented in the annual financial report.

### Recommendations

Financial statements are to be prepared in accordance with International Financial Reporting Standards and all necessary disclosures and adjustments are to be included. Further to our recommendations, the above changes were included in the financial statements.

## 12. GENERAL

### 12.1. Quarterly Reports, Annual Budget, Business Plan, and Management Letters

#### Observations

We were provided with copies of all the four Quarterly Financial Reports for the year 2020, however we noted that only the Quarterly Financial Report for the period ending 30 June 2020 and 30 September 2020 were uploaded on the Council's website.

We were also provided with the Annual Budgets for the years 2020 and 2021. Although these were uploaded on the website, we noted that the 'Overview and Summary' section of the 2020 budget was not updated from the previous budget. Also, both budgets were not endorsed by the Executive Secretary and the Mayor.

The Council did not prepare business plan for period 2019 - 2023 but we were provided with a soft copy of the three-year Business Plan for the years 2020 – 2022. We noted that this included the narrative only and there were no financial analysis or projections included within the document. Furthermore, the Business Plan was prepared for a three-year period, rather than for a five-year period (2020 – 2024) as required by Cap 363, Local Councils Act. The Council then prepared a business plan for five years covering 2021 – 2025. Both were uploaded on the Local Government website but were not endorsed by the Executive Secretary and the Mayor, either.

In the meantime, the Council has not yet provided us with the reply to the management letter for the financial year ended 31 December 2017 and 2019 and as such this has not been uploaded on the website. The management letters and respective management letter replies for financial years ended 31 December 2015, 31 December 2016, and 31 December 2018 were also not uploaded on the website.

#### Issues Arising

We once again bring to the attention of the Council that the above-mentioned reports are required to be prepared within the established timeframes in line with the Local Councils Procedures (1996 – Finance) KLP 1/96, P1.05 (d.06) and to be uploaded on the Council's website.

Furthermore, Memo 7/2016 requires that the management letter and the Council's reply to the management letter should be uploaded on the website as soon as they are approved by the Council.

#### Recommendations

The Council should prepare such documents for every financial quarter or financial year as required and submit them to the Department of Local Council within the stipulated timeframes. Furthermore, these reports need to be uploaded on the Council's website, within the stipulated timeframes.

### 12.2. Councillors' attendance, Council meeting agenda, minutes, and payment schedule

#### Observations

During our review of the Council's minutes and agenda of meetings, the following issues were noted:

- There were two instances whereby the agenda for the Council meeting was not circulated at least five working days prior to the meeting.
- We noted that the minutes of meeting 18 were not uploaded on the Council's website.
- Schedule of payments No. 8 was uploaded in the link of No. 6, No 9 was uploaded in the link of No. 7, No. 10 was uploaded in the link of No. 8, No. 12 was uploaded in the link of No. 9.
- The minutes of all the Council meetings held in 2020 did not include a minute indicating the time when the meetings ended.

#### Issues Arising

Memo2/2014 states that agenda for Councils' meetings is to be sent to all Council members five working days before each Council meeting and that this agenda needs to be uploaded on the website immediately.

Memo 89/2010 requires the Executive Secretary to publish the minutes and schedule of payments within two days of approval. The publishing of schedule of payments was further stressed out in Memo 102/2010.

#### Recommendations

It is recommended that the Council should ensure that the agenda for Council meetings is uploaded on the Council's website at least five working days before each Council meeting. The Council is also required to upload the approved schedule of payments on the Council's website as soon as this is approved.

### 12.3. Differences noted in the opening balances

#### Observations

Whilst performing the opening balances test, we noted variances between the opening balances as per the 2019 nominal ledger and the audited financial statements for year ended 31 December 2018.

As in the previous year, we took into account the adjustments passed on 1 January 2019 which related to the prior year and noted that some of the audit adjustments proposed in 2018 were not correctly reflected in the 2019 nominal ledger.

#### Issues Arising

The Council should always be in a position where the opening balances of the current year are in agreement with the audited financial statements of the previous year. Otherwise, the Council accounts would be showing a misleading state of affairs to what has been previously reported.

#### Recommendations

The Council should ensure that its opening balances are always in agreement to its audited financial statements, and it is recommended that an exercise is undertaken to make sure that the financial information as per accounts is properly reconciled and accurate. Further to our recommendations, the necessary adjustments were undertaken, and the financial statements were rectified by the Council accordingly.

#### 12.4. Approval to carry out an exercise to update and reconcile trade payable balances

##### Observation

We had been informed in the audit for year ended 31 December 2016, that the Council has approved the undertaking of an exercise to confirm its trade payable balances and to write off amounts which are long overdue. We were also informed that this exercise was discussed between the Council members, the accountant and the Minister responsible for local councils.

However, as in the previous years, we were not provided with any written documentation of the decision taken and the go-ahead from the Minister or the Department of Local Government in this respect. Such a decision was also not included in the Council minutes to verify that it was approved by the Council members.

This exercise was performed during 2019, however, it appears that no proper reconciliations were carried out with all the relevant supplier statements. The trade payable balances in the accounts were reconciled by means of adjustments recorded against the suspense account, rather than against the respective related accounts, such as expense accounts or retained earnings.

Furthermore, as highlighted in point 9.1 of this report, variances were still noted in trade payable balances being brought forward to 2020.

##### Issues Arising

Such decisions should be documented in writing and an approval should be sought in writing prior to starting such an exercise. Such a decision should be discussed in Council meetings to ensure that all Council members are aware of the exercise to be undertaken and this decision should be properly included in the Council's minutes.

##### Recommendations

The Council should document all approval and/or discussions with the Department of Local Government and/or the Minister in charge to ensure that the Council has verified such matters being discussed as well as obtained the necessary approval.

#### 12.5. Actual expenditure exceeding budgeted expenditure

##### Observations

During our review of the annual budget 2020, it was noted that some expenditure incurred based on the 2020 unaudited financial statements exceeded the budgeted amounts by more than 20%.

The variances identified as presented in the following table:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>%</b>
<b><u>Operations and maintenance</u></b>				
Repair and upkeep	15,000.00	53,520.00	38520.00	257%
<b><u>Administration and other expenditure</u></b>				
Office rent	5,179.00	12,841.00	7,662.00	148%
Professional fees	30,000.00	49,435.00	19,339.00	65%
Subscriptions	-	151.00	151.00	100%
Training	500.00	19,839.00	19,339.00	3868%



Conference and event expenses [include social and cultural events]	-	35,243.00	35,243.00	100%
Incidental expenses – Sundry expenses	1,000	2,551.00	1,551.00	155%
<b><u>Capital expenditure</u></b>				
Urban improvements	-	107,554.00	107,554.00	100%
Computer equipment	-	6,531.00	6,531.00	100%

**Issues Arising**

We bring to the attention of the Council the fact that the Council is regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (usually based on the liquidity position and funds available). Furthermore, it is envisaged that if any expenditure category requires materially more funds than budgeted, an adjustment should be undertaken to the said budget and which should duly be approved by the Council.

**Recommendations**

In compiling a budget, each item of income or expenditure should be scrutinised to determine whether there is some form of agreement which gives certainty of the projection being presented. In the absence of a contract or an agreement, the item should be extrapolated over historic data to approximate the desired projections for the entire consolidation of the official final draft of the budget. The Council should ensure that all expenditure is kept in line with the amounts originally budgeted for, and that in case of any essential over expenditure, the required procedure is undertaken to adjust the budget accordingly.

