

Management Letter	Action Taken	Issue addressed?	By whom?
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.	Matter dealt in detail under Para 2.1		
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.	Matter dealt in detail under Para 2.2		
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.	Matter dealt in detail under Para 2.3		
1.4. Income arising from the CVA system			
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.	Matter dealt in detail under Para 2.4		
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 2.5 of our management report.	Matter dealt in detail under Para 2.5		
1.6. Income from Scala project			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.7. Sales invoices			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.8. Grants received re 'Civitas Destinations' project			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.9. 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.	Matter dealt in detail under Para 3.1		
1.10. 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.	Matter dealt in detail under Para 3.2		
1.11. 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.	Matter dealt in detail under Para 3.3		
1.12. Performance bonus			
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.	Matter dealt in detail under Para 3.4		

1.13. Other HR procedures shortcomings			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.5 of our management report.	Matter dealt in detail under Para 3.5		
1.14. 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 3.6 of our management report.	Matter dealt in detail under Para 3.6		
1.15. 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.	Matter dealt in detail under Para 4.1		
1.16. 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.	Matter dealt in detail under Para 4.2		
1.17. 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.	Matter dealt in detail under Para 4.3		
1.18. Expenditure for Jum il-Belt			
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.	Matter dealt in detail under Para 4.4		
1.19. Hospitality and other expenditure			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.5 of our management report.	Matter dealt in detail under Para 4.5		
1.20. Tendering procedures			
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.	Matter dealt in detail under Para 4.6		
1.21. 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.	Matter dealt in detail under Para 5.1		
1.22. 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.	Matter dealt in detail under Para 6.1		
1.23. Fixed Assets Labelling			
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.	Matter dealt in detail under Para 6.2		

1.24. 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 6.3 of our management report.	Matter dealt in detail under Para 6.3		
1.25. Depreciation			
The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 6.4 of our management report.	Matter dealt in detail under Para 6.4		
1.26. 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 6.5 of our management report.	Matter dealt in detail under Para 6.5		
1.27. Capital expenditure recognised as revenue expenditure			
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.	Matter dealt in detail under Para 6.6		
1.28. Tangible assets recognised as intangible assets			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.29. Disposals			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.30. Insurance Cover			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.7 of our management report.	Matter dealt in detail under Para 6.7		
1.31. 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.	Matter dealt in detail under Para 7.1		
1.32. Amounts due from other Local Councils			
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.	Matter dealt in detail under Para 7.2		
1.33. Local Enforcement Debtors balance			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.3 of our management report.	Matter dealt in detail under Para 7.3		
1.34. Accrued income and prepayments			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.4 of our management report.	Matter dealt in detail under Para 7.4		
1.35. Negative balances in the list of debtors			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.5 of our management report.	Matter dealt in detail under Para 7.5		

1.36. 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.	Matter dealt in detail under Para 8.1		
1.37. 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.	Matter dealt in detail under Para 8.2		
1.38. 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.	Matter dealt in detail under Para 8.3		
1.39. Cheque payments not included in the schedule of payments			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.4 of our management report.	Matter dealt in detail under Para 8.4		
1.40. Shortcomings with regards to cheque payments and recording thereof			
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.	Matter dealt in detail under Para 8.5		
1.41. Unpresented and stale cheques			
The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 8.6 of our management report.	Matter dealt in detail under Para 8.6		
1.42. Frequency of bank deposits			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.7 of our management report.	Matter dealt in detail under Para 8.7		
1.43. Bank interest			
The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.8 of our management report.	Matter dealt in detail under Para 8.8		
1.44. Suppliers' Reconciliations and supplier confirmations			
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.	Matter dealt in detail under Para 9.1		
1.45. 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.	Matter dealt in detail under Para 9.2		
1.46. 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.	Matter dealt in detail under Para 9.3		
1.47. 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.	Matter dealt in detail under Para 9.4		

1.48. 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.	Matter dealt in detail under Para 9.5		
1.49. Debit balances in trade creditors list			
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.	Matter dealt in detail under Para 9.6		
1.50. 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 9.7 of our management report.	Matter dealt in detail under Para 9.7		
1.51. 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.	Matter dealt in detail under Para 10.1		
1.52. 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.	Matter dealt in detail under Para 11.1		
1.53. 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.	Matter dealt in detail under Para 11.2		
1.54. 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.	Matter dealt in detail under Para 12.1		
1.55. 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.	Matter dealt in detail under Para 12.2		
1.56. Differences between the nominal ledger/trial balance and the financial statements			
The Council has correctly addressed the matter during the year under review.	ISSUE ADDRESSED	YES	VLC
1.57. 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.	Matter dealt in detail under Para 12.3		
1.58. Approval to carry out an exercise on the creditor 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.	Matter dealt in detail under Para 12.4		
1.59. 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.	Matter dealt in detail under Para 12.5		
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2.1. System of Council Income Recording

Observations	Action Taken	Issue addressed?	By whom?
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 also the case when the source of income was derived from a Government entity or department.	Income from Government Subventions are verified through the bank statements and remittance advices. We will inform the LC to issue an official receipt of the funds being received by the Central Government.		VLC
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.	Invoices and receipts are being issued on Permit Income, LES income, Waste Organic, Transport Malta and CVA invoices, Income derived from any Activity organised by the Local Council. As explained under 2.1 invoices from Central Government entities or department will also be issued.		VLC
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.	The local Council agree that an electronic centralised invoicing/ receipt system facilities the date reporting and information system of the LC. The LC will obtain a quote from the Sage providers in order to activate the Sage Invoicing system.		VLC

2.2. Reimbursement for administrative fees on LES fines collected

Observations	Action Taken	Issue addressed?	By whom?
As from 1s September 2011, the Council started to receive 10% administrative fee for LES fines collected on behalf of the Regional Committees or LESA, which should be invoiced on a monthly basis. With respect to Pre-Regional contraventions, these are still fully due to the Council. The amount recognised in the current year financial statements in this respect amounted to €8,895.89. We requested the Council to provide us with copies of the invoices issued to the respective regional committees and LESA, however these were not provided. In addition, based on the amounts collected as per LES report 483 [LESA], the amount of LES administrative fees should have amounted to €546.58, leaving a variance of €8,349.31.	The Local Council will commence to print the LES reports on a monthly basis and pass the information to the accountants for double checking. A yearly reconciliation at year end to Report 483 will be also performed before issuing the Financial statements.		VLC/PRT
Issues Arising			
Variances between the amounts recognised in the accounts and its financial statements with those as reported in the LES reports may imply that income is not being properly recognised or correctly invoiced to the respective Regional Committees/LESA in line with the provisions of Memos 91/11 and 93/11. Given that we were not provided with the requested supporting documentation, we were unable to determine whether the income recognised in the financial statements is correct. In view of this, we have qualified our opinion in this respect.	As above		VLC/PRT
Recommendations			

<i>The Council should ensure that apart from issuing regular invoices to the Regional Committees and LESA in line with the memos referred to in the preceding paragraph, the invoices should be regularly reconciled with report 483 of the LES reporting system. Any variances should be analysed and remedied accordingly.</i>	As above		VLC/PRT
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2.3. Income not recognised properly in the appropriate period			
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Observations			
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<i>We noted that, during 2019, the Council issued invoices amounting to €16,136.53 to Wasteserv in respect of organic waste collections for the period from October to December 2018. No accrued income in respect of these sales invoices was recorded as at 31 December 2018, therefore such income was recognised in full in the period under review.</i>	Noted and addressed.		
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Issues Arising			
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<i>Although the invoices were issued by the Council in 2019, the services were carried out in 2018 and therefore, such income should have been accrued in the 2018 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.</i>	The Council agrees that the Income of Oct to Dec 18 should have been reported in 2018 and not 2019. However, the Local Council was informed after approving the 2018 accounts that a reimbursement of Organic Waste would be obtained from Wasteserv.		Matter dealt
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Recommendations			
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<i>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.</i>	As above		
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2.4. Income arising from the CVA system			
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Observations			
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We noted that invoices have been issued by the Council to CVA and Transport Malta making reference to an agreement signed respectively with both entities, which seems to indicate that the Council is receiving fixed income on a quarterly basis in this regard. In the previous year, the Council provided us with an agreement concluded between the Local Council and CVA Technology Ltd dated in June 2014 for the use of the Council's services and premises, for a fee of €29,200 annually.	Agreements with CVA and Transport Malta will be updated.		VLC
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However, it is our understanding that this agreement may have been superseded by the other agreement since the Council is not only invoicing CVA Technology Ltd but also Transport Malta, and the amounts being invoiced are of €6,000 per annum and €21,000 respectively, which total to €27,000 per annum. During the current year, we have requested the Council to provide us with a copy of the agreement, however no reply was provided in this regard.	As above		VLC
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Issues Arising			
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The Council needs to ensure that all income is duly supported by appropriate documentation and any agreements with any third parties are to be properly done in writing and duly signed, with a copy maintained at the Council's premises for future reference. The Council can then be in a position to ascertain itself that the amounts being invoiced are correct and in line with the prescribed agreements.	As above		VLC
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Recommendations			
The Council should ensure that a signed agreement/s in this regard is maintained at the Council's offices, and that invoices issued in this respect reflect the obligations arising from this agreement.	As above		VLC
2.5. Incorrect classification of income			
Observations			
During our income testing, 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 €14,931.72, was classified as 'Income from cultural activities' rather than as 'Recharge of expenses' or 'Other income'.	Matter noted and Income will be classified in their correct accounts. The LC will ensure that information is given to the accountants on each income received.		PRT
Issues Arising			
Incorrect classification of income can lead to incorrect information for the users of the financial statements.	As above		PRT
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.	As above		PRT
2.6. Other income shortcomings			
Observations			
A number of shortcomings with respect to income have been identified. These include the following:			
» During the year, the Council generated income of €56,989.50 and €5,968.35 in respect of the I-Access Project and the Sharing Traditions Exchange respectively. Only copies of bank statements were provided as supporting documentation. We inquired the Council to provide us with a brief description of such project and exchange, when they were held, and whether the Council should be receiving any additional amounts in this regard, however no further information was provided.	The Council will provide information to the accountants and auditors on any project undertaken by the Local Council.		VLC
» With respect to the income generated from the recharge of expenses made to the Malta Tourism Authority with respect to mobile toilets at Hastings Garden, we noted that the last sales invoice recorded in the accounts related to invoice 017 which was issued in September 2019. We were provided with copies of sales invoices issued for the period from October to December 2019, and indeed, we noted that these were not accounted for. The invoices covering the months of October and November 2019 were dated in 2019 and should have been recorded as income in 2019 against the customer account in the sales ledger, whereas the invoice for the month of December 2019, which was issued in January 2020, should have been accrued for as at year-end.	The Local Council will ensure that all invoices are passed to the accountants in order to be recorded in the accounting system.		VLC/PRT

Furthermore, from the customer activity report of the Malta Tourism Authority, we noted that the Council reconciled the trade receivable balance by means of an adjustment against the suspense account. We were unable to determine the contra-entry passed in the suspense account due to the various journals recorded.	During the year the Local Council has reconciled all its creditors and debtors. The Council decided that any unexplained difference will be transferred to the misposting account and then transferred to the Profit and Loss. This is a one-time adjustment.		VLC/PRT
» During the year under review, the Council received funds with respect to an irrigation scheme as per Circular SPI/7/2019. The amount received of €30,565.50 was recorded as deferred income in view that the works need to be carried out and completed in 2020. However, we noted that the deferred income adjustment was incorrectly recorded in account 0016 'Other income', rather than in account 0015 'Other government income', where such income was recorded upon receipt.	Both accounts 0015 & 0016 are amalgamated in the Financial statements and reported as Other Income. Therefore, this did not effected the amounts disclosed in the financial statements.		Tackled
» During the year under review, the Council issued a new bye-law with respect to advertising on street furniture. This bye-law was not made available on the Council's website.	The Local Council will upload the Bye-Law on the Council website.		VLC.
Issues Arising			
Due to the lack of information provided with respect to the income generated from the I-Access Project and the Sharing Traditions Exchange, we were unable to determine whether this income was correctly accounted for, and whether it has been recorded within the correct period.	As above		VLC
From our observations with respect to the invoices relating to the recharge of expenses, it is clear that trade receivable balances are not being reconciled on a periodic basis.	As above		VLC
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.	As above		VLC
With respect to the incorrect classification of the deferred income in connection with amounts received for the irrigation scheme project, it is important that such adjustments are correctly recorded since incorrect classification can lead to incorrect information for the users of the financial statements.	As above		VLC
Recommendations			
The Council should ensure that it retains proper and adequate supporting documentation for audit and verification purposes and to ensure that transactions are correctly accounted for. The Council should also ensure that the bye-laws in place are made available on the Council's website. We also recommend that the Council ensures that any year-end adjustments to income are properly classified and accounted for. Further to our recommended adjustments in this regard, the Council has duly updated its financial statements accordingly.	As above		VLC

Management Letter	Action Taken	Issue addressed?	By whom?
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 st 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 the agreement during 2019, which in total amount to €7,068.	The Council failed to honour its payments due and this matter was brought to their attention. During the year LC started to pay again the amounts due.		
As per the nominal ledger and the supporting documentation, we noted that the Council affected four payments of €589 each during the year under review, whereby two payments were made in January 2019 while another two payments were made in September 2019. No other payments were made by the Council in 2019. Therefore, the payments were not done when due, as stipulated in the agreement.	Yes a monthly payment schedule has to be carried by VLC.		
Issues Arising			
As per the 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.	The Local Council will do its utmost to conform with the payment schedule agreed with the Inland Revenue Department.		VLC
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.	As above.		VLC
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.	The Local Council will ensure that FS 5 sent to IRD are signed.		VLC

<p>> Although Local Councils are considered to be government entities and should not make contributions toward the maternity fund, we noted that Maternity Fund Contributions amounting to €458.12 were made during the year.</p>	<p>The Local Council will instruct the accountants not to deduct Maternity Fund.</p>		<p>PRT</p>
<p>> No FS3 was issued to Incentive Scheme Workers with respect to amounts paid by the Council to these employees during the year under review.</p>	<p>These employees are not part of the VLC payroll. These are employed and paid by a third party organisation. The LC only pays overtime against an invoice issued by this organisation.</p>		<p>VLC</p>
<p>» An employee received €495.16 in excess of what should have been paid to him in accordance with the prescribed pay scales.</p>	<p>This will be investigated to ensure that wages are being paid in accordance to Payscales and allowances given in accordance to the Collective Agreements.</p>		<p>VLC /PRT</p>
<p>> From 2018, an employee started being paid an allowance every month, which amount varies from one month to the other. The total amount of allowance paid to this employee during 2019 amounted to €2,842.27. As per the employee's payslips for the period January to March 2019, this allowance was a 'Mobile allowance' while in the payslips from April 2019 onwards, this was simply shown as 'Allowance'. No further information was provided with respect to the allowance being paid to this employee and there was no approval of this allowance in the minutes of the Council meetings held during both 2018 and 2019.</p>	<p>Executive Secretary will minute this for approval.</p>		<p>VLC</p>
<p>> A variance of €800 was noted between the amount paid as Mayor's honoraria to the Mayors who held office during the year, and the amount that was required to be paid as per Circular 22/2019. We requested workings and inquired regarding this variance, however, no information and explanations were provided, other than a copy of the Circular itself.</p>	<p>The Major is being paid as stipulated in Circular 22/2019. It is to be noted that apart of the Honoaria the monthly payment include the Major Allowance as well as stipulated in Circular 22/2019</p>	<p>Yes</p>	
<p>» Avariance of €400.02 was also noted between the amount of Councillors allowances that should have been paid as per Circular 22/2019, and the amount recorded in the financial statements and eventually paid. It is our understanding that this variance is arising due to the fact that one of the mayors who held office during the year received €400.02 less then what should have been paid to him.</p>	<p>This will be investigated to ensure that all councillors have been paid their honoria.</p>		<p>VLC/PRT</p>
<p>» From the monthly overtime records provided which were endorsed by the Executive secretary and the employee who worked overtime, we noted that the total monthly overtime hours worked as per these records was not always mathematically correct.</p>	<p>The overtime records will be investigated by the Local Council</p>		<p>VRT</p>
<p>» Variances were identified in the overtime hours worked as per the overtime records provided and the overtime hours paid as per the payslips. Accordingly, we noted that the Council has overpaid €27.90 to one employee and underpaid €490 to another employee.</p>	<p>The Local Council will commence to send to the accountants the signed overtime sheets in order to work overtime based on them and not worked on an email given by the Executive Secretary.</p>		<p>VLC/PRT</p>

» We also noted that three employees were paid overtime using overtime rates which are higher than the rates of their respective payscales. This has resulted in a total overpayment of €228.99.	Overtime time is calculated according to the payscale. Can the auditors inform us who are these three employees to check the payroll working.		VLC/PRT
Issues Arising			
The Mayor's honoraria and Councillors' allowances should be calculated and paid in accordance with the requirements of Circular 22/2019, and the wages and salaries of employees are to be in line with the respective payscales. 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.	As above		
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.	As above		

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:			
Emoluments Deductions Contributions Contributions			
As per FS7 207,862.00 29,960.00 30,514.64 458.12			
As per FS5s (totals 211,052.00 26,923.00 29,927.82 449.31, 3,190.00 37.00 586.82			
It is our understanding that these variances arose due to different versions of the FS5s for June and July 2019. In our reconciliation, we have used the FS5s which were submitted by the Council with the Inland Revenue Department. However, when we inquired the Council regarding the above variances, we were provided with different versions which, when incorporated in the reconciliation, did not result in any variances. We were not informed as to whether the Council has filed adjusted FS5s with the Inland Revenue Department.	The Local Council will ensure that any adjustments done in FS 5 are submitted to the Inland Revenue Department in order for the FS 7 and FS 5's to agree at year end. The correct amounts are those disclosed in the FS 3 and FS 7.		VLC/PRT
Furthermore, we have also identified variances arising when reconciling the payroll amounts as per the accounts with those declared in the FS7 provided, after taking into consideration the accrual for performance bonuses relating to 2019 and paid out in January 2020. This variance amounted to €24,630.47. When we compared the payroll amounts as per the accounts with those declared in the FS5s, we noted a variance of €21,440.47.	The difference are due to the scheme incentive workers overtime and the drivers. The Scheme Incentive Works amounts are supported by an Invoice. The Drivers are to be included in the payroll from 2020.		VLC/PRT

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, are being recorded in the accounts as part of wages and salaries. 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.	The overtime and the drivers are still to be considered as human resource costs in the financial statements even if are not included in the FSS system.		VLC/PRT
In view that no explanations or supporting documentation was provided by the Council in respect of these variances, we were unable to propose relevant audit adjustments in the financial statements in this regard.	As above		
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.	As above		
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.	As above		

3.4. Performance Bonus			
Observations			
We have identified variances when reconciling the amounts of performance bonus paid to the Council's employees with the amounts that should have been paid, whereby such variances amount to a total of €200.02.	The Local Council will ensure that Performance Bonus is calculated on December payslip and not the Gross salary for the year		VLC/PRT
Issues Arising			
The Council should calculate the performance bonuses amounts on the basic salary of each employee for the month of December for the year for which the performance bonus refers.	As above		
Recommendations			
The Council should ensure that the performance bonus is properly calculated and paid.	As above		

3.5. Other HR procedures shortcomings			
Observations			

A number of HR administrative shortcomings related to HR procedures have been identified. These include the following:			
>> We have noted instances whereby formal letters presented to the Council, justifying the Councillor's absenteeism from Council's meetings, were not endorsed by the Councillors concerned.	The Local Council will ensure that Councillor's absenteeism letters are endorsed by the Local Council.		VLC
» We also noted instances whereby no formal letters justifying the Councillor's absenteeism were provided to us.	The Local Council will request formal letters justifying a Councillor absenteeism. If no such letter is received, the Councillor allowance will be deducted pro-rata.		VLC
> No administrative report was provided with respect to Councillors' attendance to Council's meetings.	An administrative report will be prepared.		VLC
> It was noted that three employees had excessive leave balance of between 18-19 days as at 31 December 2019. No formal approval to carry forward these balances was noted.	The Local Council will approve any leave carried forward by employees.		VLC
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.	As above		
Recommendations			
The Council should ensure that the necessary procedures governing its Human Resources are duly followed.	As above		

3.6. 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 2019 amounted to €2,400.	There is nothing in the Local Councils HR Regulations that stipulates that an Executive Secretary cannot be paid an allowance to curb personal expenses incurred for carrying out extra duties related to the Council. Henceforth, the decision taken by the Council did not infringe the stated regulations.	YES	VLC
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.	As above		VLC
Recommendations			
The Council should ensure that Local Council Regulations are duly followed, and any allowances paid are in line with such regulations.	As above		VLC

Management Letter	Action Taken	Issue addressed?	By whom?
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 2019 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:	The Local council will issue tenders for expenditure that exceeds the threshold. In respect of the matters identified by the auditor please note the following:		VLT
Lease of printer and printing Image Systems Limited €10,411.10	This is being provided by the service provider who owns the printer.		VLT
Street lighting Charles Bonello €16,808.00	The Local Council will issue a tender for Street Lighting.		VLT
Bollards, bannisters, etc. JG Iron & Restoration Works €5,980 00	A quotation from 3 different supplies will be obtained in respect of any bollard etc. required.		VLT
Mannarinu Caterers Ltd €6,428.54	A quotation from 3 different supplies will be obtained in respect of any hospitality costs required.		VLT
Hand railings, bollards, culverts, etc. €12,366.00	A quotation from 3 different supplies will be obtained in respect of any bollard etc. required.		VLT
Dismantling and construction services at			
Salinos Grounds in Valletta V&M Turnkey Limited €21,240.00	A tender will be issued for any capital expenditure items that exceed the threshold.		VLT
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 Local Council has a very attractive terms with ELC and will not be viable to amend the contract or issue a new tender.		VLT
The Council continued to make use of accountancy services provided by Parker Randall Turner, even when the contract had expired on 16 February 2018. However, we further noted that the Council issued a new call for tenders in December 2019 in this respect.	As noted a Tender has been issued	Yes	
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 during the years 2017, 2018 and 2019 despite our recommendations to issue a fresh public call for tenders or quotations.	The Council will review the tender of the Sweeping contractor		VLT
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.	As above		VLT
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 offered.	As above		VLT
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.	As above		VLT
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.	As above		VLT
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.	As above		VLT
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.	As above		VLT

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 or the purchase order provided was not appropriate:	The Local Council will ensure that Purchase Orders are obtained and filed.		VLC

Moreover, we noted instances whereby the Council has not been provided with a VAT fiscal receipt in terms of the VAT Act (1998), or else VAT fiscal receipts were provided to us however these were dated after our audit request or else not dated. An instance was also noted whereby we were provided with a fiscal receipt for a selected expenditure however it was not issued by the same supplier who provided the service. These instances include the following:	The Local Council will chase out suppliers who have not provided a fiscal receipt and/or a proper Tax Invoice in terms of the Vat Act.		VLC
The following expenditure has not been supported by a proper tax invoice:	The local Council will ensure that a proper Tax invoice is given by its suppliers.		
Supporting documentation provided for the following expenditure was not considered to be adequate:			VLC
Furthermore, no supporting documentation was provided for the following expenses:	The local Council will ensure that a proper Tax invoice is given by its suppliers.		VLC
Issues Arising			
Having expenditure unsupported by appropriate documentation goes against the Local Councils Procedures (1996 — Finance) K.L.P. 1/96, P1.11b.	As above		VLC
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.	As above		VLC

4.3. Payment Vouchers			
Observations			
Payment vouchers for payments of purchases undertaken by the Council during the year under review were not always prepared, and in some other instances these 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. We also noted instances where payments were issued without these being first approved by the Council.	Payment Vouchers will be prepared in time and prior to each Local Council meeting to be approved in such a meeting.		VLC/PRT
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.	As above		VLT
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.	As above		VLT
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4.4. Expenditure for Jum il-Belt			
Observations			
We were provided with a list of expenditure with respect to Jum il-Belt, however we were unable to verify if this list was complete being that we were not provided with the official report prepared to cover the expenses incurred.	The Local Council will ensure that the Report on Jum il-Belt will be prepared.		VLC
Furthermore, as per the initial list of expenditure provided, we noted that the Council incurred a total expenditure of €7,910.26 with respect to Jum il-Belt. However, we were informed by the Council that included in this list of expenditure are invoices relating to other activities which were organised by the Council in the vicinity of Jum il-Belt, such as Jum -Anzjani, Jum l-Isportivi, etc. When the expenditure relating to such activities, amounting to €4,258.06, were removed, we noted that the total expenditure incurred by the Council on Jum il-Belt amounted to €3,652.20.	The Local Council will ensure that the expenditure incurred on hospitality and other expenditure is in conformity to Local Council regulations.		VLC
It was further noted that, as per the Programme of Activities which was published by the Council itself on its social media page, the other activities organised by the Council in the vicinity of Jum il-Belt were, in actual fact, part and parcel of the Jum il-Belt celebrations, which celebrations span over a number of days.	As above		VLT
Therefore, as per the information provided, the Council seems to have not abided with the requirement of Memo 122/2010 with respect to expenditure incurred for Jum il-Belt activities.	As above		VLT
Issues Arising			
As per regulations listed in Memo 122/2010 the expenses in respect of Jum il-Belt should not exceed the highest of €3,500 and 0.5% of the Government annual allocation, which for 2019 amounted to €4,460.95. The total expenditure incurred with respect to this event as per the information provided amounted to €7,910.26.	As above		VLT
Recommendations			
The Council should ensure it maintains adequate records of such expenditure and income relating to this event, as well as ensure that this expenditure does not exceed the requirements of Memo 122/2010.	As above		VLT

4.5. Donations, hospitality and other expenditure			
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Observations			
We noted various donations, hospitality and other expenditure being incurred by the Council during the year under review, as listed below:	The Local Council will ensure that the expenditure incurred on hospitality and other expenditure is in conformity to Local Council regulations.		VLC
» Flowers, wreaths and bouquets amounting to €2,733.10.	As above		VLC
» Christmas hampers which were gifted to third parties amounting to €126.	As above		VLC
» McDonalds lunch for children within the Valletta FC Nursery amounting to €301.80.	As above		VLC
» Outing for the Valletta primary school students amounting to €826.	As above		VLC
> Repairs carried out at Dar il-Parrocca, San Duminku and St. Paul's Church, amounting to €4, 124.96 in total.	As above		VLC
» Reimbursement of the printing of 200 books incurred by Valletta Stars St. Dominic A.F.C., amounting to €315.	As above		VLC
» Reimbursement of expenses incurred by Parrocca San Pawl with respect to Teen Klabb, amounting to €2,795.16.	As above		VLC
> Donation to the Valletta Youth Development of €2,600, whereby €1,300 were collected from an event while the remaining €1,300 were donated from the Council's funds.	As above		VLC
> Works at Salinos Grounds Valletta, which is used by the Valletta FC Nursery, amounting to € 21,240.	As above		VLC
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.	AS above		VLT
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.			VLT

4.6. Tendering procedures			
Observations			
We have reviewed the tender offer which was awarded during year under review [VLC-T03-2018] to verify whether the tendering procedures were duly followed. The following shortcomings were noted:			VLC

» Acopy of the contractor's third-party lability insurance was not obtained.	The Local Council will obtain the Third -Party Liability insurance		VLC
» The call for tender was not issued with at least one month between the publication date [19 September 2018] and closing date [12 October 2018].	The Local Council will ensure that tenders are issued in time.		VLC
» The evaluation report of the Executive Secretary was not fully filled in.	The Executive Secretary will ensure that the evaluation report is fully filled.		VLC
> No minutes were found with respect to whom the tender was awarded and the basis for this decision.	The Local Council will minute the awarding of tenders in the future		VLC
» As per e-PPS, the status of this tender is still at the 'Evaluation' stage, since as per the Executive Secretary, the Council had an issue with e-PPS.	The Council will resolve the e-PPS issue and update the status of the tender.		VLC
Issues Arising			
The Council is not abiding with all the tendering procedures as required by the respective regulations.	As above		VLT
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.	As above		VLT

4.7. Christmas Staff Dinner			
Observations			
The Council organised and paid €500 for a Christmas dinner for councillors and staff. Out of this €500, the actual cost of the Christmas dinner amounted to €446.45 and the remaining €53.55 were paid by the Council as tips. We noted that the number of justified attendees to this dinner was fourteen, thus resulting in an expense of €35.71 per person. In addition to the justified attendees, the Council also invited the cleaner of the Council's offices who is not on the Council's payroll but provides services to the Council against an invoice. As confirmed by the Executive Secretary, the Council also paid for the cleaner's share and this was not reimbursed to the Local Council.	The Local Council will conform to Circular 46/2016.		VLC
Issues Arising			
Please note Circular 46/2016 states that for the Christmas dinner, only the members of the staff and councillors should be invited at the expense of the Council. The expense in the case of a reception should not exceed €15 per person and in the case of a dinner, no more than €30 per person should be spent. In this respect, the Council is in breach of the guidelines arising from Circular 46/2016.	As above		VLC

With respect to tips, as also highlighted in point 4.5 above, the Council should be more considerate in the manner of how it distributes its resources especially when considering its financial position.	As above		VLC
Recommendations			
The Council should abide by the conditions of Circular 46/2016, which allows a maximum budget of €30 per person for a Christmas dinner and a maximum of €15 per person for a reception. We also recommend the Council to ensure that it abides by Local Councils regulations which prohibit the Council from making any donations, both in kind and in cash.	as above		VLT

4.8. Other expenditure shortcomings			
Observations			
During our testing, we encountered a number of shortcomings with respect to expenditure incurred by the Council. These include the following:			
> In2018, the Council entered into an agreement with Continental Cars Ltd whereby the latter provided the Council with two motor vehicles for a period of one year as part of the company's CSR obligations. We noted that the agreement expired in August 2019 and the Council continued to make use of such motor vehicles, however no new agreement was entered into.	The Local Council will renew the agreement with Continental Cars Ltd		VLC
» Anexpense relating to instant road repair amounting to €618.20 was recorded in account 2210 'Operating materials and supplies' rather than in account 2315 'Road patching'.	The Local Council will ensure that expenses are recorded to their proper account.		VLC/PRT
> We noted that another invoice relating to instant road repair amounting to €617.28 was not expensed during the year. From the supplier activity report, we further noted that this invoice was recorded in the supplier account by means of an adjustment against the Suspense account.	The Local Council will ensure that expenses are recorded to their proper account.		VLC/PRT
» An invoice in respect of road markings, amounting to €1,069.07, was accounted for twice. On the other hand, an invoice issued by the same supplier amounting to €737.09 was not accounted for. From the supplier statement, we further noted a balance brought forward of €386.51 which related to an invoice which was paid by the Council in 2019 but which was not traced to the supplier account [since the opening balance as per the supplier account was €Nil]. Once again, we noted that the supplier account was reconciled by means of an adjustment against the suspense account, hence the expense account is misstated.	The Local Council will ensure that expenses are recorded to their proper account.		VLC/PRT

» We noted that the annual expense of €1,164.69 with respect to the rental of the garage was recorded in the accounts at €2,329.38 since the Council recorded both the 2018 and 2019 expense in the 2019 nominal ledger. However, we further noted that the 2018 expense was already recorded in 2018, hence this is resulting in an overstatement of €1,164.69 in 2019. From the supplier account, we noted that the Council passed an adjustment against the suspense account in order to reconcile the supplier balance, therefore no audit adjustment shall be proposed in this respect.	The Local Council will ensure that expenses are recorded to their proper account.		VLC/PRT
Issues Arising			
In the absence of a written contract, agreements made between the concerned parties cannot be enforced and verified. Furthermore, incorrect classification of as well as errors and omissions in expenses can lead to incorrect information for the users of the financial statements. In view of this, our audit report will be qualified in this regard.	As above		VLT
Recommendations			
The Council should ensure that similar expenditure is accounted for and disclosed properly in its financial statements. Furthermore, we recommend that all supplier invoices are duly accounted for when received and payments are allocated against them when issued. The Council should also ensure to renew any expired agreements.	As above		VLT

4.9. Expenditure not recorded in the appropriate accounting period			
Observations			
We have encountered instances whereby supplier invoices for goods purchased or services provided in 2018 were recognised in the current year financial statements, as follows:	The Local Council will ensure that all invoices are passed to the accountant to be included in the accounting system.		VLC/PRT
» Purchase of uniforms amounting to €440.54 - invoice dated in 2018.	As above		
» Purchase of tiles amounting to €3,810 - invoice dated in 2019 however tile laying services were provided in 2018.	As above		VLT
» Purchase of new kitchen amounting to €2,190 - invoice dated in 2018 and delivered in 2018.	As above		VLT
» Reimbursement of Teen Klabb expenses for the period from October to December 2018 of €878.32 — no invoice is issued by Parrocca San Pawl. Similarly, we also noted that no accrual was recorded in respect of the expenses for the period from October to December 2019. Activities held by the Valletta Feasts Committee during period from April 2015 to December 2016 amounting to €5,120.88 — no invoices were issued by the Valletta Feasts Committee.	As above		VLT

<p>» IT services provided during August 2018, October 2018 and December 2018 amounting to €619.50 — invoices dated in 2018. We further noted that these invoices were recorded from the supplier statement, and rather than being recorded at the invoice amounts, they were recorded at the balance due listed next to each invoice, this resulting in an overstatement of €619.50.</p>	<p>As above</p>		<p>VLT</p>
<p>Issues Arising</p>			
<p>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.</p>	<p>As above</p>		<p>VLT</p>
<p>Recommendations</p>			
<p>The Council should ensure that all expenses are properly recorded in the year in which they are incurred.</p>	<p>As above</p>		<p>VLT</p>

Management Letter	Action Taken	Issue addressed?	By whom?
5. INTANGIBLE ASSETS			
5.1. Accounting for Intangible Assets			
Observations			
The Council recognized an intangible asset addition of €8,968 during the year, 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 Local Council will rectify the matter in 2020 Financial statements.		PRT
We noted that no accrual against 'Assets under construction' was recorded in this regard in previous years. Furthermore, we were informed by the Council that the official version of this website still needs to be launched.	As above		PRT
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. Since the website was not ready for use as at year-end, this asset should not have been capitalised and hence, no amortisation charge should have been recognised either.	Noted it was an oversight		PRT
Furthermore, the asset should have been shown as part of 'Assets under construction' in the financial statements for years ended 2017 to 2019.	Note		PRT
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. In order for the Council to be able to do this, it is of utmost importance to keep full details of each item still to be capitalised in a separate spreadsheet, with the respective stage of completion.	As above		PRT

procedures

Management Letter	Action Taken	Issue addressed?	By whom?
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 €3,120,236 as at year-end.	This is being worked out. Input from the architect of the vLC is needed.		VLC / PRT
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.	Agreed		PRT
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.	All reconciliation of recommendations of the auditors will be performed once the Fixed Asset Register is implemented		PRT
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.	VLC have to recommend whether the present architect is ready to assume the task.		PRT
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:	As above		VLC
» 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".	To obtain quotes for asset module register		VLC
» 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.	As above		VLC

» TheFAR 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.	As above		VLC
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6.2. Fixed Assets Labelling			
Observations			
As in previous years, items of property, plant and equipment held at the Council's offices are not being permanently marked or labelled since the Council moved to its new premises in 2017.	Labelling will be implemented with the Fixed Asset Registry		VLT/PRT
Issues Arising			
The marking and labelling of property, plant and equipment is stipulated by the Local Council Procedures (1996 — Finance) KLP 1/96, P1.16b.	As above		VLR
Recommendations			
The Council should carry out an exercise of labelling its property, plant and equipment and should reconcile such assets with the Fixed Asset Register (FAR) so that apart from being in compliance with the financial procedures, whenever an asset is disposed of, it would be easier to trace it to the Fixed Asset Register.	As above		VLR
6.3. 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:	These variances between different classification in nominal accounts in the Sage will be examined and reclassified so that each account in the Sage accounting system will agree to the Financial statements. It is an issue of reclassification between Fixed asset accounts since in Total the amount agree		PRT

<p>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. In addition, the variance in 'Plant, machinery and equipment' cost and 'Intangible assets' appears to be arising due to audit adjustments proposed during the 2018 audit but which were incorrectly recorded in the 2019 nominal ledger.</p>	<p>As above</p>		<p>PRT</p>
<p>Issues Arising</p>			
<p>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.</p>	<p>As above</p>		<p>PRT</p>
<p>Recommendations</p>			
<p>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. Further to our recommendations, the necessary adjustments with respect to the variance in the 'Plant, machinery and equipment' cost and 'Intangible assets' cost were undertaken, and the financial statements were rectified by the Council accordingly.</p>	<p>As above</p>		<p>PRT</p>
<p>6.4. Depreciation</p>			
<p>Observations</p>			
<p>The Council recognised depreciation and amortisation charges for the year amounting to €105,499 and €8,629 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.</p>	<p>The Fixed asset registry is not yet in place to be calculated by the Sage program.</p>		<p>VLC</p>

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].	Without a Fixed asset registry it was impossible to calculate depreciation as required by Directive 1/2017 since one would require the purchase date of each asset. This can only be calculated once a Fixed Asset Registry is implemented.		VLC
We further noted that the depreciation charge for the year recorded in respect of an asset which was purchased in 2016 within the category 'Urban improvements' is overstated by €3,000. Based on the depreciation method being used by the Council, that is straight line method on the cost of acquisition, the depreciation charge for this asset should have amounted to €26,796, which is 10% of the cost of the asset of €267,959. However, the Council recorded a depreciation charge of €29,796, resulting in an overstatement of €3,000.	The over depreciation charged on the assets will be amended next year according to IFRS		PRT
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).	As above		
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. With respect to the overstatement noted, in view that the depreciation method being used is not in line with the requirements of Directive 1/2017, no audit adjustments were proposed in this regard.	This will be tackled once the fixed asset register is updated		VLC/PRT
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.Q7 (as amended by Legal Notice 323 of 2002 and Directive 1/2017).	As above		VLC/PRT
6.5. Certification of capital expenditure works			
Observations			

In previous years, architects' certifications have not been provided for three capital projects that were capitalised. The projects involved are the resurfacing of the upper part St. Paul's Street (cost of €92,148), Mattia Preti Square (cost of €73,610) and Peacock Garden (cost of €721,285).	The Local Council will chase the architect to certified the works performed.		VLC
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.	The Local Council will chase the architect to certified the works performed.		VLC
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.	The Local Council will chase the architect for an updated statements indicating the costs incurred.		VLC
With regards to Peacock Garden, we have been provided with a report undertaken for EU funding purposes but again, no architect's certification was provided to verify when the said project was completed and the certified cost of the project.	The Local Council will chase the architect to certified the works performed.		VLC
Issues Anising			
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.	As above		VLC
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.	As above		VLC

6.6. Capital expenditure vs. Revenue expenditure			
Observations			
Instances were identified where expenditure of a capital nature was recorded as expenditure of a revenue nature, such as the case of the following items:	The Local Council will ensure that information is given to the accountants in order to classify assets to the correct nature.		VLC/PRT

>> Urban improvements [hand railing in Triq il-Ganc] amounting to €4,248 treated as part of 'Operating Materials and Supplies'.	As above		VLC/PRT
» Urban improvements [new street lighting in the Old Prison Block, in Christopher Street and in Lion Street] amounting to €1,780 treated as part of 'Operating Materials and Supplies'.	New street lighting is to be considered as an expense as per circular received by the Local Council in 2008.	Yes	
» Supply, delivery and placement of new plants within the locality amounting to €5,671.69 recorded as 'Cleaning & Maintenance - Parks & Gardens'.	As above		VLC/PRT
We also identified an instance where expenditure of a revenue nature was recorded as expenditure of a capital nature. The Council purchased a card printer amounting to €1,735.78 which was recorded as part of 'Office equipment'. Included in this amount is a cost of €400 which relates to 100 PVC pre-printed cards, and which should have been recorded as a 'Stationery' expense.	As above		VLC/PRT
Issues Arising			
The items of a capital nature which were recorded as revenue expenditure should have been capitalised, rather than expensed directly to the Statement of Comprehensive Income, and depreciated over their estimated useful life. On the other hand, the item of revenue expenditure which was recorded as capital expenditure should have been expensed directly to the Statement of Comprehensive Income, rather than capitalised. Such accounting is in contravention of the requirements of IAS 16 — Property, Plant and Equipment.	Clear identification of expenses have to be carried out by the local council prior to posting.		VLC
Recommendations			
Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process. Further to our recommended audit adjustments, the Council has duly updated its financial statements accordingly.	As above		VLC
6.7. 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. 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 €2,816,336, of which €70,331 relates to furniture and fittings, €11,709 relates to computer equipment, €2,675,062 relates to Urban improvements, plants and signs and €59,234 relates to plant and machinery.	We will establish the cost of replacement and discuss this with the insurance providers		VLC
Issues Arising			
Subsidiary legislation 363.01 clearly states that the above asset categories should be adequately covered by an insurance policy. Such requirement was further prescribed in DLG circular 33/2016 and Directive 3/2017.	As above		VLC
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.	As above		VLC
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.	As above		VLC

6.8. 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 2020. Whereas in the note to the financial statements, capital commitments of €181,034 have been disclosed, the Annual Budget for 2020 shows no expected capital expenditure to be undertaken in 2020.	The Local Council will reconcile the capital commitments notes with the Budget. It is to be noted that the budget for 2020 was done before the Audited Financial Statements were approved.		VLC/PRT
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.	As above		VLC
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'.	As above		VLC

6.9. Assets under Construction			
Observations			
We noted that the Council is carrying out a restoration project in St. Ursula Street. We were informed that the project started in 2019 and was not yet completed until year-end.	The Local Council has accounted for the cost and grant as Asset under construction	Yes	
From the bill of quantities provided to us, which was dated at the end of November 2019, we confirmed that the project was partially completed by that time. The invoices issued by the contractor in respect of the completed works until the date of the bill of quantities were capitalized, rather than being recorded as 'Asset under construction', until the project is 100% completed and certified by the architect.	As above		
We further noted that the Council received a grant in respect of this capital expenditure, and this grant was netted against the cost of the asset, rather than being recorded as deferred income to be transferred to the respective asset category upon completion in accordance with the capital approach arising from the requirements of IAS 20- Accounting for Government Grants and Disclosure of Government Assistance.	Noted and will be capitalized once the project is concluded		PRT
Issues Arising			
Details of expenditure relating to large projects, should be accounted for as "Assets not yet capitalised". A detailed breakdown, which includes items such as the actual construction works, studies and consultation fees, certification fees and other similar associated expenses should be kept by the Council.	As above		PRT
As soon as the project is finalised and ready for use, the total cumulative amount in the account is capitalised and included in one FAR card with the name of the project. The purchase date would merely be the date when the project was first capitalised and put in use.	As above		PRT

If a project is not finalised by a particular financial year-end, its cost will be retained in its relevant nominal account under the category "Assets not yet capitalised". This category of accounts would merely contain a total of the projects undertaken by the Council but not yet completed as at year end.	As above		PRT
When the project is completed, the same cumulative amount used to create the FAR card is transferred from the 'Assets not yet capitalised' account to the identifiable cost account such as 'Constructions Works', 'Road Resurfacing', 'Special Programmes' and others as required. Lack of information of the amount in the assets not yet capitalised list will not allow the Council to capitalise the assets once the project is complete.	As above		PRT
Recommendations			
The Council should therefore follow the provisions arising out of 'IAS 16 — Property, Plant and Equipment', and capitalises projects when they are completed and at the point when their economic useful life begins, and the assets are placed in use. In order for the Council to be able to do this, it is of utmost importance to keep full details of each item still to be capitalised. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.	As above		PRT

6.10. Categorisation of assets			
Observations			
We noted that the Council purchased floor tiles amounting to €3,810 that were installed at the Council's premises and which were recorded as part of 'Office furniture & fittings' rather than as part of 'Improvements at LC Premises'.	The Local Council will ensure that proper classification of assets in the accounting system		VLC/PRT
Issues Arising			
Incorrect classification of property, plant and equipment additions can lead to incorrect information for the users of the financial statements.	As above		PRT
Recommendations			
The Council should ensure that its assets are properly classified in accordance with the requirements of IAS 16-Property, Plant and Equipment.	As above		PRT

Management Letter	Action Taken	Issue addressed?	By Whom?
7. RECEIVABLES			
7.1. Trade receivables			
Observations			
The Council has performed an exercise during the year under review to confirm the trade receivable balances and adjust the balances in its books as required. Nevertheless, throughout our testing of the trade receivable balances, we encountered a number of instances where we were unable to verify the balances due.			
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.	The reconciliation of trade receivables and trade payables resulted in several discrepancies which could not be identified, or which were pertaining to previous years. An exercise was carried out and a prior year adjustment was effect to correct the material misstatements. Council met specifically for this and adjusted	Yes	
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.	Balances have been reconciled and we do not have issues	Yes	
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.	Reconciled	Yes	
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.	The Local Council having confirmed the trade receivables and trade creditors as at 31 December 2019 is now reconciling balances each quarter in order to ensure that the discrepancies found are identifying at once and accounted for accordingly.	Yes	
7.2. Amounts due from other Local Councils			
Observations			
In 2013, the Council had recognised €6,753 as LES debts due from other local councils. These dues represent tickets having the "Place of incidence" as Valletta and which were paid in other local councils. Usually, such amounts are deposited by the other local councils in the bank account of the Valletta Local Council within a few days from receipt.	This balance was not confirmed by any Local Council and the Local Council will not receive the amount of Euro 6,753. To this reason as explained above such balance was transferred to the misposting account. It was not possible to check bank and deposits records of 2013 to confirm is such funds have ever been received by the Local Council.	yes	

No documentation was provided in previous years whether any such deposit has been made. When enquired about this amount in prior years, the Executive Secretary stated that this amount may have been received but the transactions were not posted correctly within the accounting system.	As above	yes	
While the balance has remained unchanged up to the start of this financial year under review, we noted that this balance was written off against the suspense account during the year ended 31 December 2019. We were unable to determine how the balance was subsequently written off due to the various adjustments recorded within the suspense account, which were not properly corroborated by the Council.	As above	yes	
Issues Arising			
According to the requirements of IAS 36 - Impairment of Assets, where the collection of any receivables is uncertain, appropriate provision for doubtful debts needs to be undertaken and recognised in the financial statements. Where a receivable is considered as no longer collectible, such balance should be written off a bad debt in the Statement of Comprehensive Income.	Impairments are being done	yes	
Recommendations			
With respect to any balances due from other Local Councils which the Council might have in the future, we recommend that the Council maintains a detailed list of such amounts due as this could assist the Council in chasing any outstanding balances or assess whether such balances are to be written off, or otherwise.	Agreed	yes	

7.3. Local Enforcement receivable balance			
Observations			
The Council has recognised in its financial statements LES receivables amounting to €446,043 in respect of Pre-Regional LES contraventions issued till 31 August 2011, and a full provision of €446 043 in this respect. However, the amount as per LES report 622 as at 31st December 2019 amounts to €428,788, hence leaving a variance of €17,255.	The Local Council will reconcile the balance to LES reports. A corresponding entry in the debtors and the provision for bad debts will be reflected. Instead of deducting the amounts received from past LES contraventions against the debtors and accounting in the income statements for a decrease in provision for bad debts the local council has recognised the receivables from past LES contraventions as income. The effect in the income statement and the retained earnings is the same.		VLC
Furthermore, it was noted that a reclassification adjustment proposed in 2016 (RECL03/2016), which was proposed due to the incorrect posting of a 2015 audit adjustment (AA05/2015), which should have removed the general provision and increased with an equivalent amount the bad debts provision with respect to LES by €5,143.47, was again recorded incorrectly in 2017.	As above		

This resulted in a provision for unconfirmed balances (account 0213) having a debit balance of €5,153.47, which balance was still not corrected during 2018. We noted that this balance was written off against the suspense account during the year ended 31 December 2019, rather than a prior year adjustment undertaken against retained earnings.	As above		
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.	As above		
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.	As above		

7.4. Prepayments and Accrued income			
Observations			
The 2018 audit adjustments proposed in respect of understated prepayments were not correctly reflected in the 2019 nominal ledger, since these were recorded in the accrued income account rather than in the prepayments account. In addition, the reversal of such prepayments against the relevant expense accounts was not carried out in the 2019 nominal ledger.	The Local Council accountants will verify the transactions and audit adjustments passed in 2016 and 2017 and rectify the situation		PRT
In addition, the Council has not provided for a prepayment of a subscription of €1,003 which relates to the year 2020, and for a portion of IT development services relating to the period from 1 January 2020 to 12 July 2020, amounting to €614.83.	The Local Council will ensure to pass all information to the accountants in order for them to calculate correctly the Prepayments at year end.		VLC/PRT
With regards to accrued income, we also noted that the 2018 audit adjustments proposed in respect of the errors noted in the 2018 accrued income balance were not correctly reflected in the 2019 nominal ledger. The Council failed to correctly reverse the accrued income balance as at 31 December 2018 against the relevant income accounts.	The Local Council accountants will verify the transactions and audit adjustments passed in 2018 and rectify the situation		PRT
We also noted another adjustment whereby the amounts of €11,551.36 and €6,237.65 were credited from the accrued income account and from the PPP Scheme expense account (account 3324) respectively and debited to the suspense account. No documentation or explanations were provided for such adjustments.	The Local Council and the accountants do not recall such an adjustments. An adjustment on PPP was passed against capital creditor and accruals in view of PPP accounted twice in the nominal ledger. Once as an audit adjustment (Dr PPP and Cr Accruals) and when the invoice was received (Dr PPP and Cr Accruals)	Yes	

When it comes to the accrued income as at year end relating to the DLG shortage in respect of Wasteserv tipping fees, we noted that the Council recognised accrued income of €27,506.36 in this regard. As per the Council, this was an estimate and no supporting documentation or workings were provided to us in this respect.	This will be rectified in 2020. An estimate was taken in February 2020 since the actual invoices to be issued to Wasteserv were not yet issued when closing the accounts.		PRT
However, the balance of €27,506.36 is, in effect, a remaining balance following several adjustments passed in the accrued income account against the suspense account. As per our workings, the accrued income with respect to the DLG shortages for the year 2019 should amount to €41,791.73, thus resulting in an understatement of €14,285.37.	as above		
In addition, we noted the following instances of accrued income not recognised by the Council:			
» The Council applied for funds amounting to €17,699.18 in respect of the New Year's Eve celebrations organised as at 31 December 2019. This application was approved by AKL in November 2019, however no accrued income was recorded in this regard.	The Local Council will ensure to pass all information to the accountants in order for them to calculate correctly accrued income at year end.		VLC/PRT
» A Sales invoice of €1,390.04 issued by the Council in January 2020 in respect of the recharge of expenses to the Malta Tourism Authority regarding mobile toilets in Hastings Gardens covering the month of December 2019 was not accrued for as at year-end.	The Local Council will ensure to pass all information to the accountants in order for them to calculate correctly accrued income at year end.		VLC/PRT
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.	as above		
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.	as above		

7.5. Negative balances in the list of trade receivables			
Observations			
As at 31 December 2018, the Council had five negative balances in the trade receivables list, which in total amounted to €4,100.88. Whilst reviewing these negative balances, it was noted that the majority of them seemed to have related to payments received for which no invoices had been issued by the Local Council to the respective customers. In view that no information had been provided to us by the Council with respect to such invoices, this could not be confirmed and adjusted accordingly.	The Local Council will ensure that invoices are issued and accounted for as revenue		VLC /PRT

During the year under review, we noted that these balances were written off against the suspense account.	The reconciliation of trade receivables and trade payables resulted in a number of discrepancies which could not be identified, or which were pertaining to previous years. It was decided to amalgamate these balances as one and transfer the resulting balance in the profit and loss account. This was also confirmed by the Local Council in ad hoc Council meeting.	Yes	
Issues Arising			
Negative balances in the trade receivables list may be distorting the amounts due to the Council at any point in time. Whilst the Council has addressed these balances during the year, we are of the opinion that the proper course of action should have been to assess what these receipts related to and issues the necessary sales invoices accordingly rather than writing off the whole amounts against suspense.	As above		
Recommendations			
The Council needs to ensure that it checks and reconciles its receivables on an ongoing basis, so that it will be able to provide a true and fair picture of its receivables at any point in time. It is important that the Council agrees these balances in writing with its debtors. Any identified discrepancies should be investigated immediately and adjusted accordingly.	As above		

7.6. Cut-off procedures on receivables			
Observations			
As part of our audit procedures on the cut-off of receivables, we selected a sample of deposits made in the Local Council's bank accounts in January 2020 and requested supporting documentation for such deposits in order to identify whether such income relate to 2019 or 2020, and if relating to 2019, whether they were correctly recorded as receivables or accrued income as at 31 December 2019. The only supporting documentation provided by the Council were copies of bank statements from which such deposits were selected. No further explanations or information were provided on this income to be able to assess whether proper recognition has been undertaken in the period when the revenue should have been recognised.	The Local Council will pass to the auditors all information requested including information on deposits received		PRT
Issues Arising			
Whilst some of the samples selected were cash deposits and might relate to deposits of petty cash balances, other samples related to cheque deposits and other receipts. In view that we were unable to conclude our audit procedures in this respect, there might be instances of income relating to 2019 but which was not correctly recorded in appropriate period.	As above		
Recommendations			

<p>It is of utmost importance that income, whether received or outstanding, attributable to a particular financial accounting period should be recorded in that period rather than in the period when it is received. We therefore recommend that upon the preparation of the annual financial report, the Council undertakes the necessary checks on the post-reporting period receipts to determine whether the income in question is being recorded in the correct accounting period or otherwise.</p>	<p>As above</p>		
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Management Letter	Action Taken	Issue addressed?	By Whom?
8. CASH AND CASH EQUIVALENTS			
8.1. Petty Cash Payments			
Observations			
We noted various petty cash payments in excess of €50. We have identified seventeen such instances and twelve 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. For thirteen of the petty cash payments noted, no supporting documentation was provided by the Council.	The Local Council will ensure that no payments exceeding Euro 50 will be made for in cash.		VLC
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.	The Local Council will set a ledger of all items paid in cash and will include the running total and perform reconciliation weekly.		VLC
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).	As above		
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.	The Local Council will ensure that all petty cash transactions are supported by a fiscal receipt and that a detailed list is prepared when such list is not included in the fiscal receipt.		VLC
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.	The Local Council will ensure that the petty cash schedules and reconciliations are signed by the Executive Secretary, the Major and another Councillor.		
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.	As above		
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.	The Local Council will ensure that a separate cash float is maintained for petty cash items. It will ensure that all receipts from permits are deposited in the bank account and not used as petty cash.		VLC
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 €7,782.22. The Council explained that this balance included receipts from permits and other receipts which were deposited in January 2020.	The Local Council will segregate petty cash and receipts from permits in order to ensure that different balances are properly identified.		VLC
Nevertheless, we noted that a debit entry adjustment amounting to €25, 706.98 was passed in the petty cash account against the suspense account. No adequate explanation has been obtained for this adjustment.	The adjustment represented receipts from debtors in cash. Such balance was passed against the suspense account since trade receivables were already reconciled and adjusted through the suspense account. This related to permit income.	Yes	
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 2019 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.	As above		
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.	As above		

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.	The Council will investigate why this balance is included in the VLC books of accounts.		VLC
We 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.	This balance will be clear off.		PRT
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. No information was provided about this account by the Council.	The Local Council will verify this balance and pass the necessary adjustments.		VLC/ PRT
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.	As above		
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.	As above		
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.	As above		

8.4. Payments not included in the schedule of payments and post-dated cheques			
<u>Observations</u>			
When we analysed cheque payments issued, we noted that a number of payments were undertaken but were not included in the schedule of payments, as already highlighted in point 4.3 above. In addition, it was noted that the Council is issuing post-dated cheques to a number of suppliers, such as V&C Contractors Limited, Bonnici Press and Casasoft Limited.	The Local Council will ensure that all payments are included in the schedule of payment. Furthermore, the Local Council will stop issuing post dated cheques		VLC
<u>Issues Arising</u>			
Having cheque payments not included in the schedule of payments means that certain cheque payments are not being properly approved by the Council during Council meetings. The Council should avoid issuing post-dated cheques as this is an illegal practice and ensure that cheques are only issued when they are intended to be paid.	as above		
Recommendations			
The Council should ensure that each payment is included in the schedule of payments and properly approved. Any cancelled cheques should also be included in the schedule of payments indicating that such cheques were cancelled. Also, the Council should retrieve any post-dated cheques issued and ensure that no such post-dated cheques are issued going forward.	as above		

<p>5. Shortcomings with regards to cheque payments</p> <p><u>Observations</u></p> <p>The Council had a substantial number of referred to drawer cheques, particularly at the beginning of the year. We were informed by the Executive Secretary that they had issued a number of cheque payments at the end of December 2013 since they expected to receive €15 000 relating to the New Year's Eve event.</p> <p>However, this receipt was received in February 2014, resulting in the Council having insufficient funds to honour its payments issued. Other instances of refer to drawer cheques were noted throughout the year, especially when staff salaries are paid out at the end of the month.</p> <p><u>Issues Arising</u></p>	<p>The Local Council will ensure that payments will be approved only there are funds available in the bank accounts to honour such</p>		VLC
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<p>These observations highlight certain weaknesses that exist in the controls of payments being undertaken by the Council and stricter controls should be put in place to avoid any possibility of fraud and misleading accounting as well as ensuring that settlement of debts is only done when funds are available.</p> <p>Furthermore, since the Council issued payments before it received the expected income, this has resulted in the Council incurring a €23.29 charge for every cheque presented which was referred to drawer due to insufficient funds.</p> <p><u>Recommendations</u></p> <p>The Council should ensure that it has sufficient funds available prior to issuing any payments.</p>	<p>there are funds available in the bank accounts to honour such payments.</p>		<p>VLC</p>
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<p>8.6. Stale cheques</p> <p><u>Observations</u></p> <p>In BOV account 40011826576, we noted four unrepresented cheques dated 23rd April 2019 amounting to €10,738 in total. The cheques were not presented post year end and therefore it is evident that these cheques have become stale.</p> <p><u>Issues Arising</u></p> <p>The period by which these cheques should have been presented at the bank exceeded 6 months and therefore legally they have become stale.</p> <p><u>Recommendations</u></p> <p>The Council should verify the unrepresented 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.</p>	<p>The Local Council will cheque these unrepresented cheque and check if a replacement check was issued. Any stale cheque will be reversed accordingly.</p>		<p>VLC/PRT</p>
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<p>8.7. Frequency of bank deposits</p> <p><u>Observations</u></p> <p>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</p> <p><u>Issues Arising</u></p> <p>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.</p> <p><u>Recommendations</u></p> <p>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).</p>	<p>The Council will deposit cash more frequently. Furthermore, all Local Councils in Malta are in discussion with the DLG and the bank in order to find a way to effect these cash deposits since the bank are reluctant to accept such deposits.</p>		<p>VLC</p>
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<p>8.8. Bank interest</p> <p><u>Observations</u></p> <p>The bank interest expense for the year should have amounted to €39. It was noted that €25.04 was</p>			
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accounted for as a bank charge. €4.50 was not accrued for, while for the remaining €9.46, we were unable to determine whether this was recognised, and if it was the case, in which account.

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.

The Council will ensure that bank interest is included as such and not as bank charges. Amounts are negligible.

VLC

Management Letter	Action Taken	Issue addressed?	By whom?
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9. PAYABLES

9.1. Trade payables

Observations

The Council has performed an exercise during the year under review 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 are detailed below.

Supplier name	Amount as per accounts	Amount as per supplier confirmation / statement	Variances
Ragjun Xlokk	€15 986.45	Not provided	€15 986.45
Government Property Division	€8 250.03	Not provided	€8 250.03
Environmental Landscapes	€13 521.89	€11 021.89	€2 500.00
V&C Contractors Limited	€11 227.84	€14 970.40	-(€3 742.56)

From our review of the supplier activity report for the year 2019, 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.

Instead, the trade payable balances in the Council's books of accounts were reconciled by means of adjustments recorded against the suspense account. In fact, we noted a particular journal entry whereby the accrued income recorded as at 31 December 2018 of €40 471.50 in respect of the DLG shortages regarding the Wasteserv tipping fees was reversed against the Wasteserv supplier account, while the amount paid by DLG to Wasteserv on behalf of the Council during the year under review was not accounted for.

We also noted additional issues, such as supplier invoices incorrectly posted twice or invoices which were not accounted for. These have already been noted in point 4.8 above. In view that the supplier accounts were not properly reconciled, and all variances were allocated against the suspense account, 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. Although a reconciliation exercise was carried out during the year, this exercise was not properly carried out with a proper reconciliation for each supplier statements and transaction histories.

Furthermore, we also noted that not all suppliers' balances were reconciled with supplier statements as at year-end since variances were still identified. In view of this, 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.

The Local Council will review the four creditors identified by the auditor and reconcile. Probably the difference is the result of timing differences.

The reconciliation of trade receivables and trade payables resulted in a number of discrepancies which could not be identified, or which were pertaining to previous years. It was decided to amalgamate these balances as one and transfer the resulting balance in the profit and loss account. This was also confirmed by the Local Council in ad hoc Council meeting.

As above

As above

Yes

VLC/PRT

<p>9.2. Amount payable to supplier under the Public Private Partnership (PPP)</p> <p><i>Observations</i></p> <p>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.</p> <p>The amount of €284,437.63 was paid up to 31 December 2019 by the Council according to the agreement. As per the agreement and the supplier statement, an amount of €14,970.40 was still due by the Council in respect of PPP works as at year end, which amount should be 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. We noted that the Council recorded a reconciling adjustment of €49,604.90 in the supplier account, which was passed against the suspense account. No information or workings were provided in this respect.</p> <p><i>Issues Arising</i></p> <p>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.</p> <p>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.</p> <p><i>Recommendations</i></p> <p>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.</p>	<p>In respect of the PPP creditor an adjustment was passed against PPP, V & C Contractors and accruals since we noted that amounts in PPE were accounted for twice, as an audit adjustment in 2012 and during the years when invoices were being received.</p> <p>The difference of Euro 3,742.56 will be verified.</p>	<p>Yes</p>	<p>VLC/PRT</p>
<p>9.3. Accruals and cut-off errors</p> <p><i>Observations</i></p> <p>We noted two instances whereby accruals as at 31 December 2018 were reversed in the incorrect account in the 2019 nominal ledger, as per below:</p> <ul style="list-style-type: none"> ➤ The 2018 accrual in respect of the performance bonus of the Executive Secretary, amounting to €3,263.32, was reversed against the "Employees' salaries and wages" account (account 1200), rather than against the 'Executive Secretary wages' account (account 1201). ➤ The reversal of the 2018 accrual in respect of subscriptions, amounting to €755.88, was recorded in account 2360 'Sundry Repairs' rather than in account 2630 'Subscriptions'. This has resulted in account 2360 'Sundry Repairs' having a negative balance as at year-end. <p>It was further noted that this invoice, for which an accrual was recorded in 2018, was not accounted for in the 2019 nominal ledger. From the supplier activity report, we noted that an adjustment was recorded in order to reflect such invoice in the supplier account, however this was recorded against the suspense account, rather than against the proper expense account.</p>	<p>The Local Council will ensure that all information is given to the accountants in order for them to calculate correctly accruals at year end. Furthermore, the accountants will ensure that all reversal of closing accruals will be accounted to their respective accounts.</p>		<p>PRT/VLC</p>

<p>Furthermore, from the accruals recorded as at year-end, the following issues were noted:</p> <ul style="list-style-type: none"> ➤ The accrual for tipping fees for the month of December 2019 payable to Wasteserv Malta Limited is understated by €1,354.53 ➤ The accrual for management and operating services payable to Adrian Mifsud (Boom Consultancy & Advisory) for services carried out in 2019 is understated by €348.10. <p>Following cut-off tests on trade payables and accruals recognised in the financial statements, we noted omissions in relation to the trade payable balances and accruals recognised by the Council as listed in the table below. These omissions have resulted in an understatement of €193.22 in the accruals balance, and an understatement of €5,097.80 in the trade payables balances.</p> <p>Furthermore, no supporting documentation was provided in respect of a payment made in 2020 to Andrew Vassallo for tarmac amounting to €1,235.48. We were therefore unable to determine whether this expense relates to 2019 or 2020 and whether it was correctly recorded.</p> <p><u>Issues Arising</u></p> <p>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.</p> <p><u>Recommendations</u></p> <p>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.</p> <p>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.</p>	<p>The Local Council will ensure that all invoices are passed to the accountants in order to be included in the accounting system</p>		<p>VLC/PRT</p>
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<p>9.4. Contingent liabilities</p> <p><u>Observations</u></p> <p>In note 16 to the unaudited financial statements, the Council disclosed contingent liabilities of €45,510. However, based on the information provided by the Council, it was noted that contingent liabilities disclosed should have amounted to €134,000 for 2019.</p> <p><u>Issues Arising</u></p> <p>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.</p> <p><u>Recommendations</u></p> <p>The Council should disclose all contingent liabilities correctly in accordance with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. Further to our recommendation, the Council has duly updated its financial statements accordingly.</p>	<p>The Local Council will ensure that information is obtained from its lawyers on contingent liabilities before closing of the accounts. This information is then to be passed to the accountants to be reflected in the financial statements.</p>		<p>VLC/ PRT</p>
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<p>9.5. Government grants</p>			
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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 = €263,091 (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 difference of Euro 60,073 is the resulted of the amounts transferred to the Income Statement before 2010 that are not included in the working of the auditors.

Yes

The accountants will check the difference of Euro 8,868 and adjust accordingly

PRT

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.			
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<p><u>9.6. Debit balances in the list of trade payables</u></p> <p><u>Observations</u></p> <p>As at 31 December 2019, the Council had debit balances in the list of trade payables amounting to €2,741.23. Making up this balance is the amount of €2,735.24 with Sanitech Premier. As supporting documentation for this balance, we were provided with a supplier statement issued by TCB Services Limited. We inquired the Council whether TCB Services Limited and Sanitech Premier are the same entities, since from a search that we have performed on the Malta Business Registry website, we noted that these are two separate companies. No explanation was provided by the Council in this regard.</p> <p>If one would base itself on this supplier statement of TCB Services Limited, a variance of €19,191.52 between the balance recorded in the Council's books of -€2,735.24 and the balance as per the supplier statement of €16,456.28 results.</p> <p>In view that no further information or explanations were provided to us, we were unable to determine whether the debit balance of €2,735.24 is appropriately recognised or otherwise.</p> <p><u>Issues Arising</u></p> <p>Such negative balances are distorting the amounts due by the Council to its suppliers at any point in time. As explained earlier, although the Council has carried out a reconciliation exercise in the trade payables balances during the year under review, this reconciliation was not properly carried out with the consequence that various misstatements have been noted which indicates that the liabilities and expenses as recognised might be misstated. In view of this, we have qualified our opinion in this respect.</p> <p><u>Recommendations</u></p> <p>We recommend that all supplier invoices are duly accounted for when received and payments are allocated against them when issued. On a regular basis, the Council should request the necessary supplier statements and confirmations from its suppliers to ensure that its balances are correct and adequately reconciled.</p> <p>The Council should also revisit or else reperform the reconciliation exercise of its trade payables after which, it should carry out the necessary adjustments, including prior period adjustments, where necessary. Only such a proper reconciliation process will enable the Council to have a true and fair picture of its payables.</p>	<p>The Local Council confirms that Sanitech Premier and TCB Services are two different entities. The Local Council will reconcile both balances and adjust any differences accordingly. The Local Council confirms that a payment in advance was given to Sanitech Premier for a purchase of a mobile toilet. An invoice was issued in 2020.</p>		VLC/PRT
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<p><u>9.7. Amounts due to the Inland Revenue Department</u></p> <p><u>Observations</u></p> <p>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 €22,737.62.</p> <p>We further noted that, during the year under review, the Council's balance due to the Inland Revenue Department increased by €16,192.62, which adjustment was recorded against the suspense account.</p> <p>We inquired the Council to provide us with workings and explanations in relation to these adjustments and we were provided with a copy of the ARS report issued as at 14 December 2019. No further information or workings were provided to us in this regard and no copies of receipts issued by the Inland Revenue Department for payments effected during 2019 were provided, either.</p> <p>Furthermore, as highlighted in point 3.1 above, we noted that the Council has not complied with the</p>	<p>The amounts due by the Local Council in respect of FSS and NI were confirmed to an ARS statement issued on 14 December 2019. When reconciling such balances we noted that in previous years a number payments were not honoured by the bank and were reversed in previous years against a suspense account. For this reason an adjustment against the suspense of Euro 16,192.62 was effected.</p>	Yes	
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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.

The Local Council will ensure that payments are effected to IRD as per agreement.

VLC

Management Letter	Action Taken	Issue addressed?	By whom?
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 44%.	Unless the Government allocates more funds to the Valletta Local Council, the Council will remain with its negative financial indicator. Just the expenses on Refuse Collection and Road and Street Sweeping are more than half the allocation given by the Local Council.		VLC
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 €16,369.	However, the Local Council will try to generate other income from the Local and Business Community in Valletta in order to improve the financial situation of the Local Council.		VLC
Issues Arising			
As of 31 December 2019, the Council's minimum net current asset value should have amounted to at least €89,219 being 10% of the annual allocation. The actual net current asset position as at 31 December 2019 stood at negative €542,133. We have qualified our audit opinion in this regard.	as above		
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.	as above		
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.	as above		

Management Letter	Action Taken	Issue addressed?	By Whom?
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.	Accounts in future years will be in accordance to IFRS, whoever we would like the auditors to communicate such shortcomings in order revise the accounts before they are finally approved.		PRT
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.	Can please the auditors highlight to which new/revised standard they are referring to since our accountants has informed us that other auditors have not highlighted such instances in other Local Council financial statements that they prepare. These are presented in line with other councils and never had any issues with them.		PRT
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.	As above		
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.	These have been updated accordingly.		

» Inthe Statement of Comprehensive Income, the amount for “Funds received from the Central Government” should read €965,179 rather than €980,111, while the amount for “Administration and other expenditure” should read €190,431 rather than €205,363. The totals of both revenue and expenditure should be updated accordingly.	These have been updated accordingly.	YES	
> Inthe Statement of Comprehensive Income, the spelling of the word “Depreciation” should be amended.	These have been updated accordingly.	YES	
» In the Statement of Financial Position, a third column needs to be included to disclose the original balances as presented in the 2018 audited financial statements. The heading of this column should be “As originally stated”. The heading of the column of the revised balances, which reflect the PYA, should be “As restated’.	These have been updated accordingly.	YES	
> Inthe Statement of Financial Position, the term “Cash in hand and at bank” should read “Cash and cash equivalents’.	These have been updated accordingly.	YES	
» Inthe Statement of Financial Position, the 2019 balances need to be amended as follows:		YES	
o Property, plant and equipment — this should read €489,070 rather than €381,681	These have been updated accordingly.	YES	
o Intangible assets - this should read €18,376 rather than €19,281 should read €747,560 rather than €641,076.		YES	
o Trade and other payables — this should read €782,247 rather than €675, 763		YES	
o Total reserves and liabilities should read €747,560 rather than €641,076		YES	
» Inthe Statement of Changes in Equity, the word “Deficit” should be replaced with “Loss” for both 2018 and 2019. The year “2019” included under the heading “Retained Funds” should be deleted since the figures relate to both 2018 and 2019.	These have been updated accordingly.	YES	
» Inthe Statement of Cash Flows, “Cash and equivalents at beginning of year” should read “Cash and cash equivalents at beginning of year” while “Cash and equivalents at end of year” should read “Cash and cash equivalents at end of year’.	These have been updated accordingly.	YES	
> \Innote 1 to the financial statements, the address of the Council's offices needs to be updated to the new address.	These have been updated accordingly.	YES	
> In note 2b to the financial statements, a colon needs to be included after the words “These include” while the extra full stop at the end of the page needs to be deleted. The paragraph starting from “The adoption of this new Standard...” needs to be replaced with “The adoption of IFRS 16 has not had an impact on the financial position and financial performance of the Local Council.”	These have been updated accordingly.	YES	

y In note 2c to the financial statements, the words "Computer software is" need to be replaced with "Intangible assets are'. The sentence starting with "During the year the Local Council has changed..." should read "During the previous year the Local Council has changed...".	These have been updated accordingly.	YES	
> In note 2d to the financial statements, the spelling of the word "Depreciation" needs to be amended (two instances were noted).	These have been updated accordingly.	YES	
» Innote 2h to the financial statements, the sentence starting with "See note 16 for a list..." should read "See note 17 for a list...".	These have been updated accordingly.	YES	
> In note 2k to the financial statements, the first sentence should read "Government grants are accounted for using the Capital Approach...".	These have been updated accordingly.	YES	
>> In note 3 to the financial statements, the 2019 balance for "Other supplementary government income' should read €16,000 rather than €30,932. The term "Eu' in the line item "Eu funds and projects" should read "EU". The total balance of note 3 should read €965,179 rather than €980,111.	These have been updated accordingly.	YES	
7 Innote 4 to the financial statements, the heading of the 2019 column should read "2019" rather than "2018" and € signs should be included in both columns.	These have been updated accordingly.	YES	
» Innote 5 to the financial statements, the income disclosed as "Income from cultural and social activities" should be added to the line item "Other income'.	These have been updated accordingly.	YES	
>> Innote 6 to the financial statements, in the 2018 column, the number of employees should read 8 rather than 6 while the average number of employees should read 15 rather than 13. The term "Major" should be replaced with "Mayor".	These have been updated accordingly.	YES	
>> In note 8 to the financial statements, there are spelling mistakes in the line item "Cultural, conference and social events" that need to be corrected. The 2019 balance for this line item should read €68,549 rather than €83,481. The total for 2019 should read €190,431 rather than €205, 363.	These have been updated accordingly.	YES	
» Innote 9 to the financial statements, the term "Depreciation" is not correctly spelled and should be amended.	These have been updated accordingly.	YES	
>> The heading of note 10 to the financial statements should read "Property, plant and equipment".	These have been updated accordingly.	YES	
» Innote 10 to the financial statements, the following issues were noted:		YES	
o The 2019 additions for "Plant & Machinery" should read €2,491 rather than €2,891 and total as at 31/12/19 should read €59,234 rather than €59,634.	These have been updated accordingly.	YES	
o The 2019 additions for "Office furniture" should read €14,940 rather than €14,540 and total as at 31/12/19 should read €70,331 rather than €69,931.	These have been updated accordingly.	YES	

o Under the heading "Assets under construction", the grants additions for 2019 and the grants balance as at 31/12/19 should read €Nil rather than €106,484, while under the heading "Plants", the grants balance as at 31/12/19 should read €Nil rather than €5,672. The total balances in the "Total" column should be updated accordingly.	These have been updated accordingly.	YES	
«The accumulated depreciation as at 01/01/19 of the "Computer equipment" category should read €1,664 rather than €2,569. The depreciation charge for the year in the category "Plant & Machinery" should read €2,391 rather than €2,471 while that for the category "Office Furniture" should read €5,228 rather than €5,148. The closing balances as at 31/12/19 for these categories and the total balances in the "Total" column should be updated accordingly.	These have been updated accordingly.	YES	
« The net book values as at 31/12/19 for the categories "Assets under construction", "Plant & Machinery", "Office Furniture", "Computer Equipment" and "Total" should be updated accordingly following the changes noted above.	These have been updated accordingly.	YES	
4 The 2018 balances in the "Urban Improvements" and "Computer Equipment"	These have been updated accordingly.	YES	
categories need to be updated to reflect the prior year adjustment. The total balances in the "Total" column should be adjusted accordingly.	These have been updated accordingly.	YES	
y Innote 11 to the financial statements, the following issues were noted:		YES	
a reconciliation of the carrying amount of intangible assets at the beginning and end of the comparative financial reporting period 2018 needs to be disclosed.	These have been updated accordingly.	YES	
o The € signs need to be included under all headings.		YES	
o The amortisation as at 01/01/19 for the category "Application (Vatis)" should read €8,667 rather than €8.667, while that for the category "Computer software" should read €4,977 rather than €4,072.	These have been updated accordingly.	YES	
© The total balances in the "Total column" and the "Net Book Values" need to be updated accordingly as per the above changes.	These have been updated accordingly.	YES	
» In note 12 to the financial statements, in the aged receivables analysis, borders should be included for the total balances [top and bottom border]. In the provision for doubtful debts analysis, the opening balance in both 2018 and 2019 should read €446,043 rather than €446, 403. In 2019, there is a decrease of €17,255 which needs to be disclosed and hence the closing balance for 2019 should read €428, 788.	These have been updated accordingly.	YES	
» In note 13 to the financial statements, in the line item "cash and cash equivalents", the term "equivalents" is misspelled.	These have been updated accordingly.	YES	

> In note 14 to the financial statements, the heading should read "Trade and other payables". The term "balances" in the line item "Bank balances overdrawn" is misspelled. The Council should include a line item for "Deferred income" of €106,484 in the 2019 column. The total for 2019 should therefore read €782,247.	These have been updated accordingly.	YES	
> Innote 16 to the financial statements, the 2019 balance should read €134,000.	These have been updated accordingly.	YES	
> In note 20 to the financial statements, the following sentence should be included at the beginning of the paragraph "As at 31 December 2019, the Council's net current liability position amounted to €542,133."	These have been updated accordingly.	YES	
> In note 21 to the financial statements, grammar and spelling issues were noted as follows:	These have been updated accordingly.	YES	
o Second sentence — the term "amounts" should read "amounted".	These have been updated accordingly.	YES	
o Third sentence — the word "on" should read "in".	These have been updated accordingly.	YES	
o Fourth sentence — this should read "Another error was encountered in respect of invoices of refuse collection of prior years' which were not accounted for."	These have been updated accordingly.	YES	
o Fifth and sixth sentences — these should read "These amounted to € 53,181 and have also affected the creditors amounts.	These have been updated accordingly.	YES	
© First sentence of third paragraph — this should read "These errors have been accounted for retrospectively in accordance with IAS 8 — 'Accounting Policies, Changes in Accounting Estimates and Errors'.	These have been updated accordingly.	YES	
Additionally, the disclosure of the prior year adjustment [table] should be made for the adjusted balances only.	These have been updated accordingly.	YES	
Issues Arising	These have been updated accordingly.	YES	
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. Additionally, misstatements in the financial statements create difficulties in understanding the results being portrayed in the Financial Statements.	These have been updated accordingly.	YES	
Further to our recommendations, the Council has revised its financial statements, but the following were not properly adjusted, as follows:	These have been updated accordingly.	YES	
» In note 11 to the financial statements, a reconciliation of the carrying amount of intangible assets at the beginning and end of the comparative financial reporting period [2018] needs to be disclosed.	These have been updated accordingly.	YES	
> In note 20 to the financial statements, the following sentence should be included at the beginning of the paragraph "As at 31 December 2019, the Council's net current liability position amounted to €542,133."	These have been updated accordingly.	YES	

»" Innote 21 to the financial statements, the disclosure of the prior year adjustment [table] should be made for the adjusted balances only.	These have been updated accordingly.	YES	
In addition to the above, we also noted the following in the revised financial statements:	These have been updated accordingly.	YES	
» The Council did not include a note with respect to events after the reporting period to explain the implications of COVID-19 on the Council's operations.	These have been updated accordingly.	YES	
>> The first page of the financial statements includes the headings "Contents" and "Pages" which should be deleted.	These have been updated accordingly.	YES	
» Inthe second page of the financial statements, the contents table was disclosed twice.	These have been updated accordingly.	YES	
» The third page of the financial statements is blank and should be deleted.	These have been updated accordingly.	YES	
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, except as noted, were included in the financial statements.	The shortcomings were all updated as specified above.		

Management Letter	Action Taken	Issue addressed?	By Whom?
12.GENERAL			
12.1. Quarterly Reports, Annual Budget, Business Plan, and Management Letters			
Observations			
During the course of our audit, we were provided with copies of all the four Quarterly Financial Reports for the year 2019, however we noted that only the Quarterly Financial Report for the period ending 30 September 2019 was uploaded on the Council's website.	The Local Council will ensure that Quarterly Reports are uploaded on the Council website		VLC
We were also provided with the Annual Budgets for the years 2019 and 2020. Although these were uploaded on the website, we noted that the 'Overview and Summary' section of the budgets were not updated from the previous budget. Also, both budgets were not endorsed by the Executive Secretary and the Mayor.	The Local Council will ensure that the signed Final Version of the Budget is uploaded on the Council website.		VLC
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 include 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 Business Plan was not uploaded on the website and was not endorsed by the Executive Secretary and the Mayor, either.	The Local Council will prepare a five year plan as required by the Local Council Act		VLC /PRT
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 as such this has not been uploaded on the website.	The Local Council will forward the reply to the auditors and uploaded on the Council website		VLC
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.	The Local Council will upload the replies on the Management Letter website		VLC
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.	As above		
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.	As above		
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.	As above		
12.2. Councillors' attendance, Council meeting agenda and minutes, and schedule of payments			

Observations			
The Council held fifteen meetings in 2019. The reason for each Councillor not attending the meetings was included in the Council's minutes. We were provided with three copies of excuse letters; however, these were not endorsed by the Councillors who were unable to attend the Council's meetings. We noted other instances of excuses from Council meetings, however no other excuse letters were provided to us.	The Council will ensure that all excuse letters are signed by the councillors and approved by the Council.		VLC
During our review of the Council's minutes and agenda of meetings, the following issues were noted:			
> There were three instances whereby the agenda for the Council meeting was not circulated at least five working days prior to the meeting.	The Council will ensure that Council Agenda will be circulated 5 days prior to the Council meeting.		VLC
> For Council meeting number 2, we noted that the Council uploaded the minutes instead of the agenda. The agenda was later uploaded in a different section of the website.	The Council will ensure that all shortcomings find by the auditors in respect of Council meeting minutes will be addressed. Furthermore, the Council will ensure that all minutes are uploaded on the Local Council website		
» We noted two instances whereby the Council held meetings in order to appoint the mayor and vice-mayor, and a councillor, however no minutes were prepared for such meetings. As such, no minutes were uploaded on the website in this regard.			
» The minutes of Council meetings 75 and 78 were only uploaded on the Council's website when copies were requested by us.			VLC
> The minutes of all the Council meetings held in 2019 did not include a minute indicating the time when the meetings ended.			
y In Council meetings number 1 and 6, there was no minute with respect to the date and time of the next Council meeting. We also noted another instance whereby, although there was a minute, this had not been updated from the minutes of the previous meeting.			
7 We noted instances whereby the Council minutes were not endorsed by the Executive secretary and the Mayor.			
» The Schedule of Payments for the period August to December 2019 were not uploaded on the website.	The Council will ensure that the Schedule of Payments are uploaded on the Council website		VLC
Issues Anising			
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.	As above		
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.	As above		
Recommendations			
The Council should ensure that Council members should be excused only when a formal letter is presented to the Executive Secretary and such letter is endorsed.	As above		
Also, it is recommended that the Council should make sure that the agenda for Council meetings is being uploaded on the Council website at least five working days before each Council meeting.	As above		

The Council is also required to upload the approved schedule of payments on the Council's website as soon as this is approved.	As above		
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12.3. Differences noted in the opening balances			
Observations			
Whilst performing the opening balances test, we noted variances between the opening 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 its properly reconciled and accurate. Further to our recommendations, the necessary adjustments were undertaken, and the financial statements were rectified by the Council accordingly.	An opening balance test was effected by the accountants and opening balance in the nominal ledger agree to the audited financial statements of the year ended 31 December 2018.	YES	

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.		YES	

<p>We noted that this exercise was performed during the year under review, however, it appears that no proper reconciliations were carried out with 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 as at year-end.</p>	<p>This decision was approved in a Council meeting specifically set for such an issue.</p>	<p>YES</p>	
<p>Issues Arising</p>			
<p>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.</p>			
<p>Recommendations</p>			
<p>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.</p>	<p>The exercise on trade receivables and trade payables have been carried out during the year. All adjustments in relation to the current year were accounted for in their respective account in the income statement. However, for balances prior to 2019 it was decided to amalgamate such balance and account for them as a prior-year adjustment effecting just the accumulated funds. Such decision was taken since the Local Council did not wanted this prior year adjustment to affect the figures of the current year.</p>		

<p>12.5. Actual expenditure exceeding budgeted expenditure</p>			
<p>Observations</p>			
<p>During our review of the annual budget 2019, it was noted that some expenditure incurred based on the 2019 unaudited financial statements exceeded the budgeted amounts by more than 20%. The variances identified as presented in the following table:</p>			
<p>Issues Arising</p>			
<p>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.</p>			
<p>Recommendations</p>			
<p>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.</p>			

<p>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.</p>	<p>The Local Council will ensure that actual expenditure will not exceed the target budget. Furthermore, any excess expenditure over the budget will be approved by the Local Council.</p>		<p>VLC</p>
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12.6. Prior year adjustment			
Observations			
<p>During the year under review, a prior year adjustment was recognised in the financial statements to amend previous year items which have been omitted from the accounts or incorrectly accounted for. These adjustments resulted in a net adjustment to the retained earnings account of €65,1271.</p>			
Issues Arising			
<p>In view that no workings or supporting documentation were provided to us with respect to the derivation of this amount, we were unable to determine whether the prior year adjustment was appropriately calculated and recognised in the financial statements in line with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.</p>			
Recommendations			
<p>The Council should ensure that it follows the requirements of IAS 8 — Accounting Policies, Changes in Accounting Estimates and Correction of Errors, in order to apply the correct treatment with respect to recognition and measurement and disclosure in respect of any prior year adjustments it undertakes. We also recommend the Council to retain supporting documentation and workings for future reference and review.</p>	<p>As explained above a reconciliation of trade receivables and trade payables was effected during the year. Any adjustment in relation to prior years have been accounted for as a Prior Year Adjustment as required by IAS 8. The net adjustment of Euro 65,127 was the result of omission of invoices in previous years. Since the amount was material a Prior Year adjustment was passed.</p>	<p>YES</p>	