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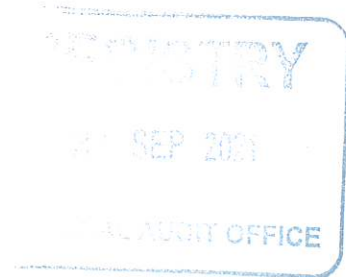
**KUNSILL LOKALI, HAL LIJA
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04 OCT 2021

Our ref: MB/mf/115221

15 September 2021

Dear Sir,



Financial statements for the year ended 31 December 2020

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

1 Previous management letter

1.1 Annual Government income

We have noted that the 2019 Adjustment fund was disclosed as annual government income instead of other government income (refer to note 4.1).

1.2 Regional council surplus

We noted that the council did not release utilised deferred income from Central Region as income for the year (refer to notes 11.10).

1.3 Advertising income

We did not note issues regarding advertising income relating to future periods not being deferred.

1.4 Accrued income

We noted certain income attributable to 2020 that was not recorded as accrued income (refer to notes 9.10 and 9.11).

1.5 Insurance

The council failed to update the motor vehicle insurance policy (refer to note 6.17).

1.6 Budget VS actual expenditure

We did not note any issues when comparing budgeted with actual expenditure for the year 2020.

1.7 Accruals and prepayments

We noted that the council did not correctly account for certain accrued and prepaid expenditure (refer to notes 9.8, 11.5, 11.6 and 11.7).

1.8 Income set off versus expenditure

We did not identify any income being set off versus expenditure.

1.9 Fixed asset register

The fixed asset register is once again lacking information as requested by the Local Council (Financial) Procedures, 1996 (refer to note 7.1).

1.10 Disposals

We did not note any unrecorded disposals during the year 2020.

1.11 Depreciation

We have noted inaccuracies in the depreciation amounts (refer to notes 7.11 and 7.18).

1.12 Bank reconciliations

We did not identify any irregularity in the bank reconciliations.

1.13 Petty cash

We have noted shortcomings while testing petty cash (refer to notes 6.1 and 6.3).

1.14 Creditors statements

The council failed to obtain monthly statements from all suppliers (refer to note 11.1).

1.15 Debit balances in creditors list

We have encountered debit balances within the list of creditors (refer to note 11.3)

1.16 Payroll

We did not identify any issues in the payroll cost allocation by category.

1.17 Birkirkara joint committee

We noted that the council might still be entitled to an amount from Birkirkara Joint Committee, however the amount is not material (refer to note 4.21).

1.18 Presentation of financial statements

We have noted shortcomings in the unaudited financial statements (refer to note 12).

2 Accounting function

- 2.1 The unaudited financial statements showed a loss of €9,609 which, after our proposed audit adjustments, increased to €22,177.
- 2.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2021 which did not present fairly the results and statement of financial position of the council at year-end. If interim accounts are prepared in the same way, the council may be misguided as to the performance and position of the council and may incorrectly rely upon inaccurate accounts for decision-making purposes and the budgeting process. Our audit findings and proposed audit adjustments indicate that the accounting function needs to be taken more seriously by the council.
- 2.3 The council should not rely on the year-end audit to reveal errors in the preparation of its accounts. May we also remind the council that in accordance with circular 1/2021 the council must make sure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should be up-to-date with the accounting standards and regulations.
- 2.4 We also remind you that it is the responsibility of the executive secretary and council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

3 Reconciliation of books of accounts to financial statements

- 3.1 The trial balance provided by the council did not agree to the amounts disclosed in the financial statements. Examples are listed below:

Details	Amount disclosed in the financial statements €	Amount recorded in the books of accounts €	Differences €	Note
Property, plant and equipment	22,241	67,649	(45,408)	(a, b)
Work in progress	28,852	23,176	5,676	(a)
Trade and other receivables	70,713	30,980	39,733	(b)

(a) Whilst comparing the books of account with the financial statements we noted that the council classified account 7231 'Street lanterns and lights' and its respective grant as work in progress. This amount had to be classified as property plant and equipment.

(b) We noted that account 7527 'special programs – Alley 2 Preziosi street' was erroneously classified with receivables rather than included with fixed assets.

- 3.2 We recommend that all financial statements and accounting records are reconciled prior to commencement of the audit. Furthermore, the council should ensure that accounts are properly classified in the financial statements.
- 3.3 We recommend that the classification of fixed assets in the financial statements is applied consistently to enhance the comparability of financial statements with previous years.

4 Income

Government allocation

- 4.1 The council's income from Central Government, as disclosed in the financial statements, does not agree to the stipulated annual allocation. We noted that the Government allocation amounted to €296,148. The amount recorded in the books is €297,161 thus resulting in overstatement of €1,013. Furthermore, we established that this difference is attributable to an incorrectly recorded Adjustment fund 2019 of €1,013 in the council's books of account. The council has included this amount with Central Government income. We have passed an audit adjustment to reclassify to other Government income. This adjustment was correctly incorporated in the audited financial statements.
- 4.2 We recommend that the Government annual allocation is agreed to correspondence received from the DLG.

Other supplementary Government income

- 4.3 During the year under review, the Department paid the amount of €1,333.87 to WasteServ Malta Limited relating to tipping fees incurred in prior years. The council did not record this transaction. An audit adjustment was proposed to account for income received against the creditor. This adjustment was correctly incorporated in the audited financial statements.
- 4.4 In accordance with circular 1/2021 this income should be disclosed with 'other supplementary Government income'. Furthermore, the council should ensure to account for income when received.
- 4.5 In the unaudited financial statements the council classified the other Government income account amounting to €15,704.10 with supplementary Government income. We have proposed an audit adjustment to reallocate this amount to 'other Government income'. This adjustment was correctly incorporated in the audited financial statements.
- 4.6 We recommend the council to disclose all income received from Government, which is not part of the annual allocation, as other Government income, unless otherwise directed by the Department for Local Government.

Other Government income

- 4.7 During our testing, we noted that the council received the amount of €3,200 on 29.12.2020 in relation to the LC Care Project Grant Support Scheme. This was recorded under 'other Government income'. The council informed us that the project will be initiated in 2021. To this end an audit adjustment was proposed to include the amount as deferred income. This adjustment was correctly incorporated in the audited financial statements.
- 4.8 May we remind the council that income should be accounted for when contracted and defer it until the project is finalised.
- 4.9 Whilst reviewing 'other Government income' we noted that the council passed a debit entry of €3,917. We further noted that this entry was taken against the 'supplementary Government income account' and 'social and cultural events expense account'. The council informed us that this was done to reverse an entry posted in 2018. We also noted that this entry was eliminated in 2019. To this end we have reversed the above amounts by our audit adjustment. This adjustment was correctly incorporated in the audited financial statements.

- 4.10 We recommend the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported. Furthermore, we again remind the council that prior to recording transactions in its books of account, council should establish whether entries concerning the same transactions were already recorded in the books of account thus ensuring correct accounting treatment and avoiding possible overstatements. We recommend that the council adheres to the accrual basis of accounting and the income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements.

LES administration fees

- 4.11 During our audit fieldwork we tested income from pre-regional tickets by comparing report 483 generated from the Loqus system and the figure in the financial statements. We noted that the LES income is overstated by €140 in the books of account. We did not propose an audit adjustment to correct this misstatement since amount was deemed to be immaterial.
- 4.12 We would like to remind the council that it is the council's responsibility to investigate and reconcile the movements with Loqus.

General income

- 4.13 The council classified income from organic waste collection amounting to €21,335 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate this amount to 'other Government income'. This adjustment was correctly incorporated in the audited financial statements.
- 4.14 Furthermore, we noted that the council has over-provided for income for the reimbursement of organic waste collection covering December 2020 by €137. We have proposed an audit adjustment to decrease the accrued income by €137. This adjustment was correctly incorporated in the audited financial statements.
- 4.15 We recommend the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported. Furthermore, we remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.
- 4.16 We came across an instance where the council failed to deposit a receipt on time:

Description	Receipt number	Receipt date	Deposit date	€
Outings	12594	18.02.2020	26.02.2020	230.00

- 4.17 Apart from security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the council implements procedures so that all receipts are deposited at least twice weekly.

- 4.18 The council also failed to deposit cash on a timely basis for LES contraventions. Examples include:

Description	Receipt number	Receipt date	Deposit date	€
LES receipt	4684957	17.12.2020	23.12.2020	23.29
Lands receipt	910044	22.01.2020	28.01.2020	43.09
Lands receipt	909749	21.01.2020	28.01.2020	118.75

We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.

Joint Committee

- 4.20 We also noted that Lija Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 4.21 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to €5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 4.22 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

5 Payroll

Mayor Honoraria

- 5.1 Whilst reviewing the mayor honoraria for the year ending 2020, we noted that the mayor honoraria in the books of account are €165.15 less than the actual amount payable to mayors during the year.
- 5.2 We recommend that the council adheres to Circular 22/2019 which stipulates that the Mayor's Honoraria for a locality with five councillors should be equivalent to €10,403.55 and to ensure that the unpaid amount is paid in the coming year.

6 Expenditure

Petty cash summary

- 6.1 We noted that the petty cash summaries do not include all necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts the expense should be allocated.
- 6.2 We recommend that the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.
- 6.3 We have noted that the following cash payment is not supported by appropriate petty cash voucher or receipt identifying the items being purchased:

Details	Supplier	Date	€
Stationery	Aquitium Ltd	02.10.2020	13.00

- 6.4 We advise the council that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. This is in accordance with Directive 3/2017 and LN 269 of 2017.

Procurement procedures

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

Details	Supplier	Date	€	Note
Hiring of tents & animation	Celebrations 2000	29.04.2020	1,075.00	(b)
Installation of Nas drive	MyLink	20.04.2020	1,038.40	(a)
Diversi xogholijiet f'Hal Lija	JVP Group Ltd	16.02.2020	2,301.50	(a)
Council magazine Printing, design and proof reading	Jurgen Baldacchino	11.08.2020	811.00	(a, b)

- (a) Only one quotation was obtained
 (b) The council did not raise a purchase order.

- 6.6 The purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier.
- 6.7 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but not €500, a direct order approved by the Executive Secretary is issued.

Tendering procedures

- 6.8 Whilst reviewing the opening minutes, we noted that the minutes of tender LLC 08/2019, LLC 01/2020 and LLC 02/2020 were not signed by the opening staff.
- 6.9 The council should ensure that the opening of tenders is signed by the opening staff in conformity with the ePPS Guidelines.
- 6.10 During the year under review, the council issued tender LLC/01/2020 for the collection of bulky refuse in the locality. We noted that the agreement was signed on 1 July 2020. Furthermore, we also noted that the performance guarantee was only provided to the council on 20 July 2020.
- 6.11 In prior year the council issued tender LLC08/2019 for the demolition and reconstruction of rubble walls under measure 4.4 of the European Agricultural Fund for Rural Development. We noted that the agreement was only signed on 11 June 2020. We also noted that the council failed to obtain the performance guarantee within 15 days of agreement. The guarantee provided was dated 17 July 2020.

- 6.12 We also noted that the council failed to obtain the performance guarantee within 15 days of agreement for tender LLC/02/2020 for the major patching or resurfacing works for the locality of Hal Lija. The signed agreement was dated 04 August 2020 whereas guarantee was provided on 1 September 2020.
- 6.13 Furthermore, Procurement Policy note 22 states that the council should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for purchase above €500,000. Also, the General Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract.

Insurance policy

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

Asset	Sum insured	NBV in audited financial statements 2019
	€	€
Buildings	127,084	-
Office furniture and fittings	2,728	3,283
Computer equipment	195	457
Office equipment	-	1,006
Total	130,007	4,746

- 6.15 It is evident that some of the fixed assets are over and under insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council's insurance coverage is in line with current legislation.
- 6.16 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement value for assets.

Motor vehicle insurance policy

- 6.17 We noted that the council's motor vehicle insurance covers 'third party only'. May we remind the council that as from 1 January 2018, motor vehicles should be insured as 'fully comprehensive'. The council must also ensure that drivers are aged 25 and over as included in the insurance policy.
- 6.18 We recommend that the council amends its insurance policy and ensures that the motor vehicle insurance is 'fully comprehensive' to be in line with LN 269 of 2017.

Expense allocation

- 6.19 We noted that the council erroneously classified the amount of €3,750 pertaining to data protection officer in the road/street pavements account. We have proposed

audit adjustments to reclassify amounts to the appropriate accounts. This adjustment was correctly incorporated in the audited financial statements.

- 6.20 We recommend that the council should allocate its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

7 Fixed assets

Fixed asset register

- 7.1 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which state that every council is to create, maintain and control an accurate and up-to-date fixed asset register. This is strengthened by Directive 01/2017 stating that councils must have a fixed asset register which agrees to the nominal ledger. Furthermore, the same directive stated that councils who previously did not have a fixed asset register could start preparing one by including the total net book values of the previous assets purchased. The above was not provided to us.

- 7.2 We strongly recommend that the council prepares a fixed asset register comprising at least the following details:

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

- 7.3 During our audit, we were only provided with the cost, accumulated depreciation and net book values for past years on excel and their depreciation workings. Due to the lack of a fixed asset register, the depreciation is also being calculated on excel.

- 7.4 A fixed asset register is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and condition. Furthermore, the information contained above allows any disposals to be correctly accounted for.

Classification of assets in the fixed asset register

- 7.5 We have identified fixed asset additions relating to a new irrigation system amounting to €835 which were wrongly classified as assets under construction. This should have been categorised under plant and machinery.

- 7.6 Similarly, we have also noted that fixed asset additions relating to the purchase and installation of street lanterns amounting to €18,160.20 and the related grant received from Central Region in relation to this project amounting to €13,317.48 were wrongly classified as assets under construction. The above addition and grant should have been included in the urban improvements' category.

- 7.7 Furthermore, we noted that an additional grant received from Central Region in relation to this project amounting to €4,872.72 was incorrectly recorded as 'other government income'. To this end we have proposed an audit adjustment to account

for €4,872.72 as a capital grant. This adjustment was correctly incorporated in the audited financial statements.

- 7.8 We advise the council to review its fixed asset register and to reclassify all items which previously were allocated to the wrong category, thus ensuring the appropriate treatment of depreciation.
- 7.9 We also noted that during the year the council made an advance payment of €22,531.87 being a 20% advance in relation to Demolition and Reconstruction of Rubble Walls under measure 4.4 of the European Agricultural Fund of Rural Development. The council classified this advance payment as Assets Under Construction. We have proposed an audit adjustment to reclassify this amount to Advance Payments under Trade and Other Receivables. This adjustment was correctly incorporated in the audited financial statements.
- 7.10 We recommend that the council accounts for capital grants received under the capital approach as specified by Directive 1/2017 issued by the Department for Local Government.

Additions to fixed assets included with expenses

- 7.11 We noted that the council expensed an amount of €1,792.42 relating to the installation of a NAS drive and a new office computer. These assets should have been capitalised rather than expensed. We have passed an audit adjustment of €1,792.42 to capitalise the asset and account for €448.11 depreciation. This adjustment was correctly incorporated in the audited financial statements.
- 7.12 We have also noted that the council expensed an amount of €782.90 relating to the installation of a new irrigation system at Gnien Centru Rikreativ. This asset should have been capitalised rather than expensed. We have passed an audit adjustment to capitalise the asset. This adjustment was correctly incorporated in the audited financial statements.
- 7.13 We recommend that the council assesses and establishes which of the expenses shall be capitalised in accordance with IAS 16 *Property, Plant and Equipment* and which should be expensed. IAS 16 specifies that items of property plant and equipment should initially be recorded as cost. Cost includes all necessary costs incurred to bring the asset to the working condition for its intended use. The total cost would include site preparation, delivery, handling and installation. This exercise will avoid the understatement of assets in the council's books.

Additions to fixed assets

- 7.14 During the audit we noted that an amount of €645 relating to a new projector given to the local Muzew as part of a Central Region scheme, was capitalised as assets under construction instead of expensed. We proposed an audit adjustment to the council in order to account properly for the expense as administrative expenses. This adjustment was correctly incorporated in the audited financial statements.
- 7.15 The council should not capitalise costs which are of an expense nature. IAS 16 states that the asset purchased should provide future service potential.

Concrete works at Triq Preziosi

- 7.16 Whilst performing audit procedures on fixed assets additions we noted that the council recorded additions relating to concrete imprint and water pipeline works of €39,732.51 under trade and other receivables in the unaudited financial statements. The council failed to classify the amount as *Property, Plant and Equipment* (refer to

note 3.1). We further confirmed with the council that all works were completed in 2020.

- 7.17 During 2019 the council received a grant of €8,519.54 from the Planning Authority in relation to this project, which was at that time recorded as deferred income. During the year under review the council erroneously released this income as general income. We have adjusted the above amount as a grant to the *Property, Plant and Equipment* schedule. This adjustment was correctly incorporated in the audited financial statements.
- 7.18 During 2020 the council received the final grant for this project amounting to €28,234.80. We noted that the council has recorded this amount as deferred income. We have proposed an audit adjustment to account for the grant received in the *Property, Plant and Equipment* schedule and account for depreciation of €298 on the net amount. This adjustment was correctly incorporated in the audited financial statements.
- 7.19 We recommend that the council always evaluates whether works were finished during the year and if they should be capitalised on a case-by-case basis. Furthermore, we recommend the council pays more attention of which grants are being deferred and then releases these grants in line with IAS 20.

Grants in 'Property, plant and Equipment' schedule

- 7.20 Whilst reviewing grants we noted that amounts included in the books of account in each category do not agree to grants as included in the 'property, plant and equipment' schedule in the financial statements. We have passed an audit adjustment to reclassify grants to agree to the financial statements.
- 7.21 We recommend the council to correctly classify grants in the appropriate asset category. Furthermore, amounts included in the books of account should agree to the financial statements.

8 Right of use asset

- 8.1 During the year under review the council extended the rental agreement signed with Malta University Residence Limited for another year. The council has disposed the remaining right of use asset and accounted for a new one based on the addendum agreement. As the initial agreement was still in place and only extended the council should have revalued the right of use asset for the additional period.
- 8.2 To this end we have proposed an audit adjustment to reverse the disposal entries passed by the council and re-instate the right of use asset, amortisation and depreciation for the period.
- 8.3 In accordance with the new standard, at lease commencement date, the council should recognise a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the council, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The council should depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of, the end of the useful life of the right-of-use asset, or the end of the lease term. The council should also assess the right-of-use asset for impairment when such indicators exist. At the commencement date, the council should measure the lease liability at the present

value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the council's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After initial measurement, the liability should be reduced for payments made and increased for interest.

9 Trade and other receivables

Long outstanding balances

- 9.1 Whilst reviewing receivables we noted the following overdue balance which was not provided for in the books of account:

	€
WasteServ	9,094.64
	<u>9,094.64</u>

- 9.2 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council's books of account are correct.
- 9.3 We noted that a total provision of €430 was recorded as at 31 December 2020 in the books of account for the trade receivables out of which the following have been long overdue:

Debtor	€
Regjun Xlokk	180.00
LESA	250.00
	<u>430.00</u>

- 9.4 We recommend that, although a provision has been made, the council should continue trying to obtain settlement from these debtors reminding them that the amounts have been long overdue.

Confirmation of debtor

- 9.5 The council is issuing invoices on a monthly basis to WasteServ Malta Limited for the reimbursement of organic waste collection. We have obtained a statement from Wasteserv dated 31 December 2020 stating a balance of €23,070 whilst the council has a book balance of €28,652 resulting in a discrepancy of €5,582. Upon further investigation we noted that Wasteserv did not record the invoices covering September to November 2020 collections amounting to €1,778 each. Wasteserv has also not recorded long-outstanding balances amounting to €248. The executive secretary informed us that the long outstanding balance pertains to missing collection trips.
- 9.6 During the audit, the council contacted WasteServ regarding these missing invoices and WasteServ agreed to the amounts for September and October 2020 collections but noted that for November 2020 it owed €1,645. The discrepancy was due to a missing trip.

- 9.7 We recommend that the council contacts Wasteserv and ensures that all invoices are approved and recorded in their books. The council should also chase for payment.

Prepayments

- 9.8 During the year under review, we noted that the council did not account for the prepayments relating to AKL Health Insurance coverage, group personal accident, traders combined policy coverage, van license and insurance coverage. We have proposed an audit adjustment to rectify the issue and to account for prepayments of €1,610.29. This adjustment was correctly incorporated in the audited financial statements.
- 9.9 We recommend that the council accounts for expenses based on the accrual basis and ensures that all expenses are being reported in the correct period.

Accrued income

- 9.10 During our audit fieldwork, we noted that the council did not record accrued income amounting to €1,000 in relation to the Spinning Photos Central Region Scheme 03/2020. The council incurred expenses amounting to €1,000 in relation to this scheme and received the grant from Central Region on 29.03.2021. We have proposed an audit adjustment to recognise €1,000 as accrued income during 2020. This adjustment was correctly incorporated in the audited financial statements.
- 9.11 During our audit fieldwork, we noted that the council did not record accrued income amounting to €3,000 in relation to Central Region Scheme 03/2020 for Christmas 2020 decorations which was received on 26.03.2021. We have proposed an audit adjustment to recognise €3,000 as accrued income during 2020. This adjustment was correctly incorporated in the audited financial statements.
- 9.12 We recommend that the council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.

10 Cash and cash equivalents

FWT on bank interest

- 10.1 We noted that the HSBC savings account is subject to final withholding tax.
- 10.2 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

11 Trade and other payables

Supplier statements

- 11.1 It was noted that the council failed to request monthly statements from all suppliers. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.
- 11.2 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. We recommend that the council makes sure that the creditor accounts agree to supplier statements on a regular basis and investigates and reconciles any differences.

Debit balances in creditors' list

- 11.3 During the audit we have identified a debit balance in the creditors' list amounting to €916.32 for the supplier 'ARMS'. We were informed by the executive secretary that this is due to an overpayment made by the council. Subsequent water and electricity bills are now being written off against this overpayment. An audit reclassification was proposed to record the debit balance in the creditors list as receivables.
- 11.4 We recommend that the council discloses these debit balances with receivables rather than a set-off against trade creditors.

Accrued expenditure

- 11.5 Our testing on accruals revealed that the council did not accrue for the 2020 performance bonuses. We have passed an audit adjustment amounting to €4,807.08 to rectify this issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.6 Furthermore, the council did not accrue for data protection officer services for the period of June to December 2020 which were not yet invoiced during the year. We have passed an audit adjustment amounting to €700 to rectify this issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.7 We also noted that the accrual for Bulky Waste Collection fees for December 2020 was overstated by €273.52. We have passed an audit adjustment to rectify this issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.8 The council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting. This ensures that results for the year are presented fairly. We also recommend that any decisions taken by the council should be put forward during a council meeting and duly approved.

Deferred income

- 11.9 We noted that during 2020 the council recorded an invoice of €500 relating to spinning photos as deferred income instead of expenses. We have proposed an audit adjustment to rectify the issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.10 In prior year the council received €8,512.50 from Central Region which were included as deferred income. During the year 2020 the council made use of such funds for repairs of iron gates amounting to €1,734.60. The council failed to release this amount from the deferred income balance. We have proposed an audit adjustment to rectify the issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.11 Similarly, the council utilised a grant received and deferred in 2019 to purchase and install a new irrigation system at Gnién Centru Rikreativ amounting to €1,618.30. The council failed to release this amount from the deferred income balance. We have proposed an audit adjustment to rectify the issue. This adjustment was correctly incorporated in the audited financial statements.
- 11.12 We recommend the council adheres to the accrual basis of accounting and that income received is recorded in the appropriate accounting period. Thus income is reported accurately in the financial statements.

12 Financial statements

Presentation of financial statements

12.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS). During our audit we identified that the council's unaudited financial statements were not prepared in accordance with IFRS:

- i. The council did not disclose the list of all the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements.
- ii. The financial statements do not state that they were prepared on the going concern basis, as required by IAS 1, *Presentation of Financial Statements*.
- iii. The Right-of-use asset should be disclosed separately rather than included with 'Property, plant and equipment'.
- iv. Note 12 to the financial statements does not disclose the financial and non-financial receivables.

12.2 In addition to the above, the unaudited financial statements had the following shortcomings:

- i. The cash flow statement for 2020 does not cast.
- ii. Note D of the notes to the financial statements does not include the 10% income receivable from Regional Committees for post regional receipts.
- iii. The accounting policy for property, plant and equipment includes the percentage rather than range of years or percentages due to change in the depreciation method.
- iv. Note 12 does not cross cast with the amount noted in the balance sheet for the year ended 31 December 2020.
- v. Note 15 Payables, does not cross cast with amount noted in the balance sheet.
- vi. Note 18.1, the council failed to include the bank credit ratings.
- vii. Note 18.2 is incorrect due to the wrong figures included in note 15.
- viii. The council failed to disclose separately LES Debtors and their respective provision including any movement noted during the year.

12.3 We recommend that the council gives more attention to the preparation of the financial statements and includes all the disclosures required by accounting standards.

Groupings

12.4 We noted that expenses and income accounts are not being classified consistently from year to year.

12.5 We recommend that the classification of expenses and income is applied consistently to enhance the comparability of financial statements with previous years.

13 Electronic site

13.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:

- i. The council failed to upload the quarterly financial reports for periods January to December 2020 within the stipulated time frame.

- 13.2 This contravenes the Local Councils (Financial) Procedures, 1996 which mandate specific timelines for these reports. We recommend the council uploads all documents in pdf within the required time.

14 Administration

- 14.1 Whilst performing audit procedures on the schedules of payments we noted that listed cheques were not in a sequential order.
- 14.2 During our audit fieldwork we noted that the cancelled cheques were not included in the schedule of payments. Examples are the following:

Cheque number	Beneficiary	€
14897	AKL	600.00
14929	Impjegat 1	1,857.72
14791	Impjegat 2	1,245.20

- 14.3 We recommend that if a cheque payment is cancelled this should be approved and properly indicated as such on the schedule of payments.

15 Capital commitments

- 15.1 During the year under review we noted that the council has no capital commitments included in the 2021 budget. The financial statements include capital commitments of €119,512 which cover both long-term and short-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council's future intentions.
- 15.2 We recommend that the financial statements should adequately disclose the council's future capital expenditure plans, if any, as agreed to the budget and business plan. Where appropriate it is advisable to explain how such capital expenditure is to be funded.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Pamela Borg and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

