

The Mayor
Swieqi Local Council
Centru Civiku
Triq G. Bessiera
Swieqi MST9059



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6 January 2022

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 Opening balances

We again noted shortcomings in the opening balances (refer to note 2.1).

1.2 Joint committee

The council did not rectify the issue with the income from Joint Committee (refer to note 3.3).

1.3 Supplementary Government income

We again identified shortcomings in the supplementary Government income (refer to note 3.6).

1.4 Other Government income

We again identified shortcomings in the other Government income (refer to note 3.8).

1.5 General income

The council did not rectify the issue during the year under review (refer to note 3.10).

- 1.6 **Income from LES administration fees**
We again noted shortcomings in the 10% administration fees issued to LESA and regional committees (refer to note 3.12).
- 1.7 **Custodial receipts**
The council did not rectify the issue (refer to note 3.14).
- 1.8 **Mayor Honoraria**
We again identified shortcomings in the Mayor Honoraria (refer to note 4.1).
- 1.9 **Councillor allowances**
The council did not rectify the issue during the year under review (refer to note 4.3).
- 1.10 **Petty cash vouchers**
We again noted that petty cash vouchers were not signed by the purchaser (refer to note 5.1).
- 1.11 **Procurement procedures**
We again identified shortcomings in the procurement procedures (refer to note 5.3).
- 1.12 **Expired contracts**
We are pleased to note that the council has rectified the issue.
- 1.13 **Tendering procedures**
We again noted shortcomings in the tendering procedures (refer to note 5.9).
- 1.14 **The upkeep of the fixed asset register**
We have again noted that the fixed asset register still does not include all necessary information (refer to note 6.3).
- 1.15 **Tagging of fixed assets**
The council has again failed to tag fixed assets in accordance with the Local Councils (Financial) Procedures, 1996 (refer to note 6.1).
- 1.16 **Insurance policy**
The council's assets are still not appropriately insured (refer to note 5.13).
- 1.17 **Rental agreement**
The council failed to rectify the issue (refer to note 5.18).
- 1.18 **IFRS 16 'Leases' assessment**
The council failed to provide us with the IFRS 16 'Leases' assessment (refer to note 5.20).
- 1.19 **Classification of expenditure**
We are pleased to note that the council has correctly classified expenditure during the year under review.

- 1.20 **Personal accident insurance**
The council did not rectify the issue during the year under review (refer to note 5.22).
- 1.21 **Expenditure for locality day**
The council did not incur expenditure for locality day during the year under review.
- 1.22 **Contract manager**
The council still did not appoint contract manager (refer to note 5.24).
- 1.23 **Majjstral Action Group membership**
We are regret to inform that the council did not rectify the issue during the year under review (refer to note 5.26).
- 1.24 **Reconciliation of financial statements with fixed asset register**
The council did not rectify the issue during the year under review (refer to note 6.6)
- 1.25 **Reconciliation of financial statements to accounting records**
We still identified differences while reconciling financial statements to accounting records (refer to note 6.8)
- 1.26 **Additions to fixed assets**
We again identified shortcoming while performing audit procedures on additions to fixed assets (refer to note 6.13).
- 1.27 **Overdue receivables**
We again noted shortcomings in overdue receivables (refer to note 8.3).
- 1.28 **Pre-regional receivables**
We again noted shortcoming in pre-regional receivables (refer to note 8.1).
- 1.29 **Confirmation of trade receivables**
We again encountered shortcomings in confirmation of trade receivables (refer to note 8.5).
- 1.30 **Accrued income**
We again noted an issue in accrued income recognised as at year end (refer to note 8.9).
- 1.31 **Prepayments**
We again noted shortcomings in prepayments recorded in the books of account (refer to note 8.13).
- 1.32 **Supplier statements**
The council did not obtain all supplier statements as at year end (refer to note 10.1).

- 1.33 **Long-outstanding creditors**
We again noted long-outstanding creditors recorded in the books of account (refer to 10.3).
- 1.34 **Debit balance in creditors list**
The council did not rectify the issue during the year under review (refer to 10.5).
- 1.35 **Confirmation of trade creditors**
We again encountered shortcomings in confirmation of trade creditors (refer to note 10.7).
- 1.36 **Deferred income**
The council did not rectify the issue during the year under review (refer to 10.11).
- 1.37 **Books of account**
We still identified grouped transactions (refer to 11.1).
- 1.38 **Presentation of financial statements**
We have again identified shortcomings in presentation of financial statements (refer to note 12.1).
- 1.39 **Groupings**
We have again identified shortcomings in the groupings of expenditure (refer to note 12.4).
- 1.40 **Binding of minutes**
The minutes are still not bound (refer to note 13.1).
- 1.41 **Council meetings**
The council did not rectify the issues during the year under review (refer to notes 13.3, 13.5 and 13.7).
- 1.42 **Electronic site**
We again identified shortcomings in the uploading of documents (refer to note 14.1).
- 1.43 **Uploading of management letter and other documents**
The council did not address the issue during the year under review (refer to note 14.3).
- 1.44 **Comparison with the annual budget**
We have again noted instances where actual expenditure was not in line with the annual budget (refer to note 16.1).
- 1.45 **Schedules of payments**
The schedules of payments do not include all cheques as required by memos and circulars issued from time to time (refer to note 15.1).

1.46 **Budget**

Council again failed to approve budget within required timeframe (refer to note 17.1).

1.47 **Specimen chart of accounts**

The council failed to address the issue during the year under review (refer to note 19.1).

2 Opening balances

2.1 Whilst testing opening balances as at 1 January 2020 we noted the following discrepancies:

No.	Account description	Trial balance at 31 December 2019 €	Trial balance at 1 January 2020 €	Difference €	Note
0400	Retained funds	(527,793.00)	(565,429.20)	37,636.20	(a)
5005	Funds to be deposited	804.52	-	804.52	
5007	BOV Current account 7817	31,979.32	31,971.32	8.00	
5008	BOV Savings 80078	475,652.88	476,457.40	(804.52)	
7215	Computers	13,769.01	17,587.01	(3,818.00)	
7240	Urban improvements	44,870.36	41,064.36	3,806.00	
7251	Litter bins	8,072.62	11,878.62	(3,806.00)	
7320	Plant and machinery	6,483.00	2,665.00	3,818.00	
	Total	53,838.71	16,194.51	37,644.20	(a)

The council failed to provide us with an explanation.

(a) During the year ended 31 December 2019 the council reported profit of €37,646 thus resulting in the difference of €9.80 in the retained funds. We have noted that the council recorded 'rounding' in the nominal ledger on 1 January 2020.

2.2 Although these differences do not have any material impact on the council's reserves, the council must ensure that opening balances are in the agreement with the last year audited financial statements.

3 Income

Government allocation

3.1 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 €764,580. The amount recorded in the books is €766,442 thus resulting in overstatement of €1,862. Furthermore, we established that this difference is attributable to an incorrectly recorded Adjustment fund 2019 of €1,862 in the council's books of account. The council has included this amount with Central Government income. We have proposed an audit adjustment to reclassify to other Government income. In the audited financial statements the council erroneously classified other Government income amounting to €1,862 as Supplementary Government income.

- 3.2 We recommend that the Government annual allocation is agreed to correspondence received from the DLG.

Joint committee

- 3.3 We noted that the Lvant Joint Committee, of which Swieqi local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2011.
- 3.4 The reserves of the committee at that date amount to €3.01 million. We were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 3.5 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.

Supplementary Government income

- 3.6 During the year under review, we noted that the council recorded an amount of €69,328.11 as accrued income pertaining to supplementary Government income in relation to tipping fees. We have proposed an audit adjustment to reverse this entry. The council has amended the financial statements to include our audit adjustment.
- 3.7 We recommend that the council records such amounts when they have been approved for payment and are certain to be received. Furthermore, circular 23/2019 states that Wasteserv tipping fees will be received directly by the council with the annual allocation.

Other Government income

- 3.8 During 2019 the council received an amount of €4,233.85 under Circular SPI 7/2019 for the irrigation system scheme. In 2019 this amount was included with deferred income as no works were initiated up to year end. During the year under review the council transferred the amount from deferred income to the other Government income reported in 2020. The council failed to provide us with the supporting documentation for the incurred expenditure, if any, and therefore we could not establish whether the accounting treatment is appropriate.
- 3.9 May we remind the council that the retaining of all supporting documentation is of vital importance and will support the applied accounting treatment.

General income

- 3.10 We noted that in certain instances the council did not deposit its income on a regular basis. Below are examples which were encountered during the audit fieldwork:

Description	Receipt number	Receipt date	Deposit date	€
Crane permit	32751	04.12.2020	14.12.2020	10.00
Skip permit	31601	24.06.2020	24.07.2020	2.33
Crane permit	31352	25.05.2020	09.06.2020	19.00
Crane permit	32201	26.09.2020	13.10.2020	32.00

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

Income from LES administration fees

- 3.12 We obtained Loqus report 483 and reconciled to income from LES administration fees. We have established that the council's income from LES administration fees for the year under review is overstated by €106.33. The council did not provide us with an explanation for the difference.

- 3.13 We recommend that the council investigates why such differences are arising and identifies whether this is due to a mistake in the invoices issued to the regional committees and LESA or a misposting in the accounts.

Custodial receipts

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

Description	Receipt number	Receipt Date	Deposit date	€
Lands Department	909387	20.01.2020	27.01.2020	44.26
Lands Department	909397	20.01.2020	27.01.2020	13.98
LES	12690350	21.01.2020	27.01.2020	23.29
LES	12666552	08.01.2020	13.01.2020	69.88

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

4 Personal emoluments

Mayor Honoraria

- 4.1 Whilst reviewing the FS3 form of the mayor for the year ending 2020, we noted that the FS3 includes a gross amount of €16,409. The mayor is entitled also to €2,400 councillor allowance. Thus, the total mayor honoraria received by the mayor for the current year was of €14,009. Circulars 22/2019 states that the mayor honoraria for the year is €15,027.15. To this end the mayor was under paid by €1,018.35. Furthermore, we also noted that the books of account only include an amount of €13,128 as mayor honoraria. This is not in agreement with the FS3 issued by the council. The council failed to provide us with an explanation.

- 4.2 We recommend that the council keeps updated with new regulations issued from time to time and ensures that any overpayment is reimbursed to the council.

Councillor allowances

- 4.3 Whilst reviewing FS3 forms of the mayor, deputy mayor and councillors we noted that the total amount of allowances declared in the FS3 forms was €21,582. In the books of account recorded amount was of €15,924 thus resulting in a discrepancy of €5,658. The council failed to provide us with an explanation.

- 4.4 We remind the council that FSS forms must be filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue and any discrepancies between the books of account and submitted forms have to be investigated immediately.

5 Expenditure

Petty cash vouchers

- 5.1 We have noted that the following cash payment is supported by a petty cash voucher, which was not signed by the purchaser:

Details	Supplier	Date	€
Desk Diary	Good News Stationary	02.01.2020	14.60

- 5.2 We remind the council that all petty cash vouchers should be signed by the purchaser and the executive secretary. This is in accordance with Directive 3/2017 and LN 269 of 2017.

Procurement procedures

- 5.3 Testing on cheque payments revealed the following irregularities for the below listed purchases:

Details	Supplier	€	Note
Purchase of Photocopier	Avantech	1,039.00	(a), (b)
DPO services Feb 2020, March 2020	Advisory 21	862.00	(a), (b)
Preliminary Budget Estimate - Public Garden - Triq l-Iskud c/w Triq Habb il-Qamh, Topographic surveys.	Dieter Falzon	3,481.62	(a), (b)
Stationary	RGS Supplies Ltd	1,179.38	(a), (b)
Printing of No Parking Stickers	Outlook Coop	1,062.00	(a), (b), (c)
IT Service Agreement - July to Sep 2020	PC Generation	1,274.40	(a), (b)
Sound Engineering Services - Gieh is-Swieqi	Ketih Muscat	531.00	(a), (b)
Works in Triq Passiflora, Swieqi	V&C Contractors	1,869.45	(a), (b)

(a) No purchase order was available.

(b) The council did not obtain any quotations.

(c) The council failed to provide us with tax invoice, fiscal or VAT receipt.

- 5.4 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. May we also remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order, with any discrepancies referred to the supplier. Furthermore in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by tax invoice/fiscal receipt.

Payment approval

- 5.5 Whilst performing tests on cheque payments we noted one instance where cheques were issued and encashed prior to being approved by the council:

Supplier	Cheque no.	Cheque date	Approval date	Encashment date	€
Theresa Valentino	10145	16.12.2019	11.01.2020	27.02.2020	45.00

- 5.6 We remind the council that cheque payments must be approved by the council in the meeting prior to issuing the cheques. This procedure minimises the risk of unapproved purchases or uncertified work.

- 5.7 Whilst testing internet banking payments we noted that payments were authorised only by the executive secretary and not by both president and executive secretary.

- 5.8 May we remind the council that in accordance with the Directive 4/2020 online internet banking payments must be authorized by both president and executive secretary. Furthermore, the mayor and executive secretary must have two separate bank internet security keys.

Tendering procedures

- 5.9 While reviewing tenders we noted the following irregularities

Details	Tender number	Note
Tender for services of an architect to the Swieqi Local Council	SLC/T/2/2019	(b), (c), (d)
Tender for services of handyman to the Swieqi Local Council	SLC/T/4/2019	(a), (b), (c), (d)
Tender for street sweeping services in the locality of Swieqi, using low emission service vehicles	SLC/T/6/2019	(a), (b), (d)
Tender for the cleaning and upkeep of parks, gardens and soft areas within the locality of Swieqi using various environmentally friendly practices (re-issue)	SLC/T/3/2019R	(a), (b), (d)
Tender for the collection of bulky refuse services in the locality of Swieqi, using low emission service vehicles	SLC/T/1/2020	(a), (b), (d), (e)
Tender for the provision, maintenance and upkeep of traffic signs and markings for the Swieqi Local Council	SLC/T/1/2019	(a), (b), (d)
Tender for the supply, delivery and fixing of timber fencing around FX Ebejer Garden, Swieqi	SLC/T/5/2020	(d), (f)
Tender for the reconstruction of rubble walls at Madliena Road, Madliena Swieqi under Measure 4.4 of the European Agricultural Fund for the Rural Development	SLC/T/4/2020	(d)

Tender for the upgrading/embellishment of Grien Esprit Barther - Public garden at Triq l- Iskud c/w Triq Habb il-Qamh, Victoria Gardens, Swieqi	SLC/T/2/2020	(b), (c), (d)
Tender for the extension to the existing Clubhouse and Tennis Court in Triq il-Hemel, Swieqi	SLC/T/3/2020	(b), (c), (d)

- (a) Advert in government gazette was not provided
- (b) Opening tender document was not provided
- (c) Call for tender document was not provided
- (d) Declaration concerning exclusion grounds/blacklisted was not provided
- (e) Evaluation of tenders was not signed by all members
- (f) Opening of tenders was not signed by all members

5.10 May we remind the council that the opening of tenders document must be prepared and signed by the opening staff in conformity with the ePPS Guidelines. May we remind the council that in accordance with Part XII article 12.1 of Procurement Guidelines the committee shall give notice of its intention to issue a tender by publishing a notice in the Government Gazette. May we remind the council that the call for tender document and declaration concerning exclusion grounds/blacklisted must be prepared in conformity with the ePPS Guidelines.

5.11 Furthermore, we noted that in 2020 the council incurred expenditure amounting to €9,528.00 for the washing of dog bins and bulky refuse. This was not supported by a call for quotations.

5.12 We recommend the council adheres to Procurement Guidelines, 2017 which states that councils are required to make a public call for quotations for expenditures in the range of €5,000 to €10,000.

Insurance policy

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

Asset	Sum insured €	NBV €
Buildings	475,000	-
Various items	545,000	-
Reservoir underlying open area	130,000	-
Safe, strong rooms	1,223	-
Glass – loss limit	2,500	-
Furniture and fittings	35,466	12,188
Office equipment	55,070	4,953
Computer equipment	12,826	8,726
	1,257,085	25,867

5.14 It is evident that the above fixed assets are over 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.

- 5.15 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement cost of the assets. We also remind the council that insuring community assets is in breach of Directive 3/2017 which states that community assets should not be insured.
- 5.16 The council provided us with the certificate of motor insurance policy which was settled by the council. However, we were not provided with the insurance policy to establish whether the insurance is fully comprehensive or not.
- 5.17 We recommend the council to obtain the insurance policy to establish the coverage of the motor vehicle. 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.

Rental agreement

- 5.18 We have noted that the council incurred the cost of €1,416 per annum for the renting of the garage without concluding and signing the agreement. We also noted that the council incurred the cost of €5,395 per annum for the renting of local council office and garden rent. No agreement or invoices were provided.
- 5.19 We recommend that the council should draft and sign the agreement with the lessor in order to regularise the positions of both parties.

IFRS 16 'Leases' assessment

- 5.20 Whilst performing our audit procedures we noted that the council recorded a rent expense amounting to €6,811.32 in the books of account in relation to properties leased by the council. The council failed to assess and account for the leases in accordance with IFRS 16.
- 5.21 We recommend that the council performs an IFRS 16 assessment to establish whether the council should account for the rent expense in accordance with IFRS 16 accounting treatment. 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.

Personal accident insurance

- 5.22 We could not identify if the personal accident insurance was on a worldwide basis or limited to the Maltese territories as no insurance policy was provided. Furthermore, we could not confirm whether all council employees were included in the insurance policy.
- 5.23 We recommend the council to obtain the insurance policy to establish the insured amount of the assets. 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.

Contract Manager

- 5.24 We noted that during the year under review the council did not appoint a contract manager. This is not in line with directive 03/2019.
- 5.25 Directive 03/2019 states that the council had to appoint a contract manager by 31 December 2019.

Majjistral Action Group membership

- 5.26 The council's membership expenditure account includes an amount of €900 relating to a membership fee paid to Majjistral Action Group. The council failed to obtain a copy of the audited financial statements as at 31 December 2020.
- 5.27 We recommend that as members, the council obtains the audited financial statements from Majjistral Action Group so the council would be able to assess the cost/benefit of this membership.

6 Fixed assets**Tagging of fixed assets**

- 6.1 We noted that the council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 6.2 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

Upkeep of fixed asset register

- 6.3 When reviewing the fixed asset register, we noted that relevant details like invoice number, location and depreciation for the year are missing.
- 6.4 We recommend that every possible effort should be made to update the fixed asset register and include 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.

- 6.5 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

Reconciliation of financial statements with fixed asset register

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

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Urban improvements	28,029	32,493	(4,464)
Street lights and mirror	13,427	8,964	4,463
	41,456	41,457	(1)

- 6.7 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and reclassified accordingly.

Reconciliation of financial statements to accounting records

- 6.8 We identified several differences between the net book value of certain asset categories in the unaudited financial statements and the net book value in the nominal ledger. These are summarised below:

Category	NBV in unaudited financial statements €	NBV in nominal ledger €	Difference €
Urban improvements	28,029	27,773	256
Street lights and mirrors	13,427	13,683	(256)
Assets under construction	12,214	(219,954)	232,168
Special programmes	91,612	323,781	(232,169)
	145,282	145,283	(1)

- 6.9 We remind the council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and adjusted accordingly.

Assets under construction

- 6.10 In 2019 the council accounted for the embellishment works at Triq l-Uqija, Swieqi amounting to €132,085.01 under the assets under construction category. This amount was accounted for against accruals as 31 December 2019 as the council still had not received an architect certificate. During prior year audit fieldwork, the council provided to us invoice issued by the contractor Road Servicing Limited on 23 January 2020.

- 6.11 During the year under review the council in the unaudited financial statements reclassified an amount of €132,085 and corresponding grant of €130,257 from assets under construction to the category of the special programmes. Up to the signing of management letter the council failed to provide to us signed architect certificate. Furthermore, we noted that the council reclassified grant of €130,257 in the unaudited financial statements but did not reclassify it in the books of account. We have proposed an audit adjustment to reclassify the amount of €132,085 as asset under construction and to amend the presentation of the grants in the financial statements. This was approved by the council and incorporated in the financial statements.
- 6.12 May we remind the council that obtaining and retaining all architect certificates is of vital importance. The payment to contractor must be done only after obtaining the architect certificate.

Additions to fixed assets

- 6.13 We noted the following shortcomings in fixed asset additions:

Supplier	Details	€	Notes
PC Generation Limited	3 HP notebooks	2,909.29	a, c
PC Generation Limited	Power Edge T440 and Windows Server 2016	5,898.82	a, c
Audio System Malta	Stage/platform for council hall	1,239.00	a, c
Strand electronics Limited	Mobile camera	1,319.24	a, c
JGC Limited	Safety rubber tiles	1,003.86	b, d, e
JGC Limited	Safety rubber tiles	5,664.00	b, d, e
JGC Limited	Safety rubber tiles	2,371.59	b, d, e

- (a) The council failed to obtain any quotations.
- (b) The council obtained only 1 quotation.
- (c) No purchase order was available.
- (d) The council failed to issue a call for quotations for items of similar nature exceeding the amount of €5,000.
- (e) The council incorrectly classified purchased items with street and lights category rather than with the urban improvements.

- 6.14 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. The council should make a public call for quotations for expenditures in the range of €5,000 to €10,000. May we also remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Furthermore, the council should ensure that the additions are allocated to the appropriate categories thus ensuring that the depreciation is being calculated using the appropriate depreciation rate and showing the correct net book value.

7 Intangible assets

Addition to intangible assets

- 7.1 During the audit fieldwork we noted that the council capitalised an amount of €5,931.86 as an addition to intangible assets. This amount was described as 'new online permit system' in the books of account. The council failed to provide us with the supporting documentation. Our audit report has been qualified in this respect.
- 7.2 We remind the council that obtaining and retaining copies of all the quotations, invoices, contracts and other supporting documentation is of vital importance

8 Trade and other receivables

Pre-regional receivables

- 8.1 In our testing on LES debtors, we obtained report 622 generated from the Loqus system and found that tribunal pending payments as at 31 December 2020 were €107,842.60. The council had passed an entry of €1,163.95 against LES debtors to agree the books with the LES report. We have proposed an adjustment to reverse the entry passed by the council as there is uncertainty as to whether the LES reports are correct. The council has amended the financial statements to include our audit adjustment.
- 8.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Overdue receivables

- 8.3 We noted the following long-term receivables which have not been provided for in the books of account:

Debtor	€
4 Elements	86.40
Active Enterprises	2,940.00
Activision	88.00
AFG Hardware	102.00
St Andrew's Pharmacy	96.00
Bio market	82.00
BOV	100.00
Candy's confectionary	388.00
Clothes Shop	40.00
The Convenience Shop	90.55
The Deli	77.00
D&F Boutique	54.00
Dolce Fresci	70.84
Eye Club	178.30
The Flower House	86.40
Forex	96.00
Frank Salt (Real Estate) Ltd	192.00
The Fruit Basket	86.40
Golosa	40.00
Gozo region	178.02
Greens Green Grocer	310.55
H.H. Espresso	77.00

Debtor	€
Kirsten Refalo	90.70
LESA	01.31
Life Style	142.00
Margerite	96.00
Marlows	90.71
Mercato	80.00
The Model Shop	82.00
North region	119.26
Pappilon	100.00
Plantastic	104.70
Print shop	82.00
Raphael Azzopardi	565.88
Remax	77.00
Renaissance Hair Dressing	160.55
Shoe Tree	830.19
Xlokk region	38.44
South region	55.77
Swan	78.55
Sylvia Fisheries	155.41
	<u>8,509.93</u>

- 8.4 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due.

Confirmation of trade receivables

- 8.5 During our audit fieldwork we identified a difference between a third-party confirmation and the debtors' list provided by the council, namely:

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
WasteServ Malta Limited	115,499.01	106,080.00	9,419.01

The council failed to reconcile the above difference

- 8.6 We recommend that the council should prepare regular reconciliations to promptly highlight any differences.
- 8.7 As part of our audit procedures we prepared confirmation letters to be sent to selected debtors, however for the below listed debtors we did not receive reply. Furthermore, the council did not provide to us necessary information to perform alternative procedures on the selected debtors and therefore we could not confirm the balances recorded in the council's books of account. Our audit report has been qualified in this respect. The selected sample included:

Debtor	€
LESA	3,709.46
Frank Salt	3,438.67
Time International (Sports) Limited	1,000.00
Shoe Tree	1,063.11
	<u>9,211.24</u>

- 8.8 We again remind the council that regular reconciliations must be prepared and agreed against the books of the debtors.

Accrued income

- 8.9 During the year under review, we noted that the council has accounted for accrued income with respect to October to December 2020 organic waste collection invoices amounting to €15,500. Whilst reviewing invoices issued by the council to WasteServ Malta Limited we noted that the invoice covering services received during October 2020 was issued and recorded in the books on 3 December 2020 and hence should not be included with accrued. Due to above accrued income was overstated. We have proposed an audit adjustment to reduce overstated accrued income by €5,360. This was approved by the council and incorporated in the financial statements.
- 8.10 We recommend the council to ensure that once the invoices are issued, the corresponding accrued income is reversed thus not to overstate income.
- 8.11 Furthermore, we noted the following shortcomings in the accrued income:
- (a) As at 31 December 2019 the council has recorded an accrued income and corresponding deferred income amounting to €15,000 with respect to the tennis court project. During 2020 the council reversed the entry passed in 2019 thus resulting in the NIL accrued income as at 31 December 2020. The council failed to provide an explanation in this respect.
 - (b) During 2019, the council provided workings for accrued income of €3,640 with respect to Christmas decorations. During 2020 council reversed this amount against account 0098 'Christmas Street lightning decorations recharged' and recorded receipts which were received in 2020. Council did not provide us with a reconciliation of the amounts received during the year. Furthermore, we could not ensure if all income had to be released to profit and loss. As at 31 December 2020 the council reported accrued income of €5,000 with respect to Christmas decorations. No supporting documentation was provided for accrued income.
 - (c) In 2019 the council reported accrued income of €416.67 with respect to 'Frank Salt – maintenance parks and gardens'. During the year under review the council reversed this accrued income against account 0066 'General' rather than against account 0056 'Sponsorships' where the original entry was recorded in 2019. We have proposed an audit adjustment to correct the entry. The council has included this adjustment in the final set of financial statements. Furthermore, the council failed to provide an explanation for this reversal of accrued income.
 - (d) In 2019 the council's accrued income included an amount of €5,333.33 with respect to 40 sets of advertising panels for the period March 2019 to February 2020. During 2020 the council issued an invoice dated 27 January 2020 amounting to €6,400. The council failed to record the invoice in its books of account and failed to

provide us with payment received from the customer. We also noted that in 2020 the local council reversed the accrued income accounted for in 2019. We did not propose an audit adjustment as the council failed to provide us with explanation and whether the amount is still due to the council.

- (e) On 14 November 2019, Malta Tourism Authority committed itself to support Swieqi Local Council for infrastructural works and lighting in Pjazza Uqija amounting to €15,000. On 04 March 2020 council issued an invoice and on 08 April 2020 a receipt was also recorded. The council failed to provide us with the proof of receipt.

- 8.12 We recommend that the council obtains proper documentation, explanations and approval from the council regarding any reversals made in the books of account. Furthermore, all reversal entries in the books of account should be posted in the appropriate accounts against which the initial entries were taken.

Prepayments

- 8.13 Whilst reviewing the list of prepayments, we noted that the council failed to record the expense and prepaid portion of the insurance for the council's premises amounting to €3,039.08. To this end we have proposed an audit adjustment to record an expense of €1,523.70 and prepayment of €1,515.38. This was approved by the council and incorporated in the financial statements.

- 8.14 We recommend that the council records expenditure and makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept.

- 8.15 We also noted that the council recorded the following prepayments as at 31 December 2019, however the prepayment as at 31 December 2020 was not recorded in this respect. The council failed to provide an explanation and therefore we could not propose an audit adjustment.

	€
MIB Insurance motor vehicle	368.41
Technosoft payroll software	137.67
Online live streaming	860.42
	<u>1,366.50</u>

- 8.16 We remind the council that it is of utmost importance to record expenditure in the appropriate accounting period in accordance with the accrual concept.

9 Bank

Bank accounts

- 9.1 We noted that during the year under review the council opened two new bank accounts named LC other entities and LESA. Both bank accounts were not recorded in the council's books of account. One of the bank accounts had a balance as at year end amounting to €2,860, whereas the other account had a balance of €565. The council failed to provide us with an explanation for this.

- 9.2 We remind the council that bank statements must be obtained and reconciled frequently to ensure proper accounting records are being kept.

Final withholding tax

- 9.3 We noted that the following BOV accounts are taxable:
- 50010383657
 - 50010388830
 - 50010388843
- 9.4 Even though these bank accounts do not normally earn any interest it is still recommended that the council instructs the bank not to withhold tax since it is exempt from income tax.
- 9.5 Whilst testing internet banking payments we noted instances of payments being authorised only by the executive secretary and not by both mayor and executive secretary.
- 9.6 May we remind the committee that in accordance with the Directive 4/2020 online internet banking payments must be authorized by both president and executive secretary. Furthermore, the president and executive secretary must have two separate bank internet security keys.

10 Trade and other payables
Supplier statements

- 10.1 We again noted that the council did not obtain all statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department of Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 10.2 We again recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Long-outstanding creditors

- 10.3 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€	Note
Dieter Falzon	1,175.63	
Lands Department	3,986.62	
J Micallef Group	4,802.60	(a)
MICA MED Limited	214.24	
Que Sound	2,062.00	
	<u>12,241.09</u>	

- (a) The executive secretary explained to us that the council has a dispute with the creditor with respect to the tender 'Embellishment/upgrading of FX Ebejer garden, Swieqi into a sensory garden utilising environmentally friendly construction material and products. The council is claiming that the specifications of planted shrubs were not in accordance with the tender and therefore council refused to settle the invoice.

- 10.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. We also recommend the council to follow up on the dispute and to update its books accordingly once the dispute is resolved. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Debit balance in creditors' list

- 10.5 The council's creditors' list includes a long overdue debit balance of €2,611.33. The council explained to us that this amount pertains to ARMS Limited. From 2012 to 2014 the council was operating from another premises which had solar panels, however when the council changed the premises the solar panels could not be installed. The council informed us that it is currently reconciling the balance with ARMS Limited. We have proposed an audit reclassification to reclassify the amount above to other debtors. The council did not approve audit reclassification.
- 10.6 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore, the council should continue investigate this balance and update its books accordingly.

Confirmation of trade creditors

- 10.7 As part of our audit procedures we prepared confirmation letters to be sent to selected creditors and forwarded them to the council for signature. The council up to date of management letter failed to provide us with the invoices and proof of payments made from 1 January 2021 up to date of audit fieldwork with respect to outstanding balances as at 31 December 2020 as well as we were not provided with the suppliers' statements as at year end. Hence, we could not perform audit procedures on the selected creditors' balances. Our audit report has been qualified in this respect. The selected sample included:

Creditor	€
Galea Cleaning Solutions Limited	22,260.00
Mica Med Limited	890.38
	<u>23,936.83</u>

- 10.8 We again remind the council that effort must be done in obtaining monthly statements from its suppliers and if any discrepancies are identified promptly address them.

Accruals

- 10.9 During our audit procedures we requested workings and invoices received after year end to verify accruals. The council up to date of the management letter did not provide any of the requested documents. Hence, we could not perform audit procedures on the selected accruals. Our audit reports has been qualified in this respect. The selected sample included:

	€
Waste disposal	8,769.78
Bulky refuse December	3,400.00
Road & Street Sweeping June – Sept, Dec	29,679.58
Triq Uqija. Retention money	7,085.11
	<u>48,934.74</u>

- 10.10 We again remind the council that effort must be done in providing invoices or calculations during audit procedures so that selected accruals can be verified.

Deferred income

- 10.11 In November 2019, the council entered into an agreement with the Department for Local Government in order to extend the originally signed agreement for the capital project 'Tennis court'. The extension agreement was only signed by the mayor and executive secretary and not by the Department.

- 10.12 It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

- 10.13 During the year under review the council received an amount of €50,000 from the Forum Complex developer. Upon enquiry with the council, it was established that the Planning Authority ordered the developer to undertake a project worth of €50,000 in the locality. However, the developer opted to donate €50,000 to the council so the latter can undertake the project which they deem to be necessary in the locality. The council is establishing which project they can implement in Piazza Uqija using the above funds. The council erroneously recorded €50,000 in profit or loss for the year. Therefore, we proposed an audit adjustment to account for received funds as deferred income. This was approved by the council and incorporated in the financial statements. Furthermore, the council failed to provide us with the official documentation supporting the decision taken by Planning Authority.

- 10.14 We recommend that 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. Furthermore, the council should obtain signed agreements with the planning authority for the above received funds.

Search for unrecorded liabilities

- 10.15 As part of our audit procedures we request invoices for payments done after year end to verify if the invoices were properly recorded in the correct accounting period. The council up to date of management letter did not provide the invoices requested. Hence, we could not perform audit procedures on the selected payments. The selected sample included:

Payment date	€
02.01.2021	2,930.96
13.01.2021	2,159.40
14.01.2021	2,389.78
18.01.2021	2,584.20
25.01.2021	1,178.46
	11,242.80

- 10.16 We again remind the council that effort must be done in providing invoices during audit procedures so that selected these can be verified if they are recorded in the correct period.

11 Books of account

- 11.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions. This was noted mainly in deposits for permits accounts.
- 11.2 Transactions in the books of account should be posted individually. In particular all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

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. Note 2, the sub-header 'New and Amended Standards Adopted by the Local Council' was not updated for the accounting periods which begin on or after 1 January 2020.
- 12.2 We recommend that the council gives more attention to the preparation of the financial statements. The council amended audited financial statements.
- 12.3 Furthermore, in the audited financial statements the council erroneously classified income raised under Council Bye-Laws amounting to €442.82 as general income.

Groupings

- 12.4 The council failed to provide us with the groupings of the personal emoluments, operations and maintenance and administrative and other expenditure categories used in the financial statements.
- 12.5 We recommend that the classification of expenses is applied consistently and provided upon the request of the auditors thus ensuring that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years and other local councils.

13 Meetings

Binding of minutes

- 13.1 We noted that up to the date of audit fieldwork the council did not bind the minutes of the seventh legislature.
- 13.2 We recommend that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous year's minutes to be bound. The binding of minutes should be given due importance since this provides the only permanent, unchangeable record of council meetings and discussions taken.

Council meetings

- 13.3 We observed that some of the council's meetings commenced before 5.30 pm. We did not identify unanimous decision by the council in this respect.
- 13.4 In accordance with the Local Councils Act meeting should commence not before 5.30 pm unless there is unanimous decision of all the councillors.
- 13.5 We noted that meetings 8, 12 and 16 lasted more than three hours while meetings 17, 18 and 19 had no details when the meeting started or ended, therefore we could not identify if meeting exceeded 3 hours.
- 13.6 We would like to remind the council that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless the consensus of all those present to extend the meeting is obtained and minuted.
- 13.7 In meeting minutes numbered 10, 14, 16 and 20 the date of the subsequent council meeting was not adhered to.
- 13.8 According to the Local Councils (Meeting) Procedures, 1996 at the end of every meeting the council must set the next council meeting which shall be fixed. If no unanimous agreement is reached, the councillors are to vote and decide according to the majority. This shall not be changed for any reason. Therefore, we recommend that these requirements are followed.

14 Electronic site

- 14.1 We noted that the council did not upload signed copies of the following documents on the website of local councils within the required time frame:
- (a) Quarterly financial reports covering January – March 2020, April – June 2020, July – September 2020 and October – December 20120 were not uploaded on the council website up to date of management letter.
 - (b) The audited financial statements for 2019 were uploaded late on council's website.
 - (c) To date of the management letter the council failed to upload the annual budget for 2020 and 2021.
 - (d) To date of the management letter the council has failed to upload letter and reply to the management letter for 2019.
 - (e) To date of the management letter the council failed to upload annual administrative report for 2020.
- 14.2 May we remind the council the council that council should upload all reports, audited financial statements and management letter within the specified time frame.

Uploading of management letter and other documents

- 14.3 During the audit fieldwork we noted that the council did not upload the 2019 management letter in accordance with Circular 21/2019.
- 14.4 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular

7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.

- 14.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

15 Schedules of payments

- 15.1 We noted that schedules of payments did not include all cheque numbers. Examples include cheques 10378 and 10388 in schedule of payments 12. We further noted that these cheques were cancelled and omitted from the schedule of payments.
- 15.2 Whilst reviewing schedule of payment 15 we noted that cheque 10448 was omitted and cheque was issued to ARMS Limited.
- 15.3 We remind the council of the importance to abide by the Local Councils (Financial Procedures section P1.11 and present accurate schedules of payments. The executive secretary is to ensure the correctness of documentation prior to each council meeting.

16 Comparison with the annual budget

- 16.1 When comparing the budgeted figures with the actual figures of the year under review, we identified the following differences:

	Budgeted €	Actual €	Difference €
Expenditure			
Personal emoluments	168,777.00	158,021.15	10,755.85
Administrative and other expenditure	115,751.00	142,414.96	(26,663.96)
	284,528.00	300,346.11	(15,908.11)

- 16.2 The council should categorise expenditure of the annual budget in line with the financial statements as it will facilitate the comparison of expenditure. Furthermore, we recommend that the council compares budgeted figures to actual figures at least on a quarterly basis to ensure expenditure is in line with budgeted amounts. The council should apply due care and diligence when compiling the budget figures as required by the Financial Regulations.

17 Budget

- 17.1 The council provided us with the hard copy of the meeting minutes 22 held on 10 December 2020 where it was stated that the budget for 2021 was approved. At the same time, we reviewed the signed meeting minutes 22 uploaded on the council's website and the uploaded minutes differed from the provided hard copy as in the former the budget was not approved. To this end, we are unsure if the budget was approved during the respective meeting.

- 17.2 According to article 56 of the Local Councils Act a budget should be prepared, submitted and approved by the council not later than 15 February of each year and must be in accordance with the specimen format provided. Furthermore, we remind the council that the minutes should be signed and not changed for any reason as it provides permanent, unchangeable record of council meetings and discussions.

18 Capital commitments

- 18.1 During the year under review we noted that the council has €588,756 in capital commitments included in the 2021 budget. The financial statements include capital commitments of €1,217,427. Therefore, there is some confusion since the cash budget indicates capital expenditure for the next twelve months whilst the note to the financial statements indicates both short-term and long-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council's future intentions.
- 18.2 We recommend that the financial statements should properly 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.

19 Specimen chart of accounts

- 19.1 We noted that the council is not using the specimen chart of accounts that is mandated for local councils and regional committees.
- 19.2 The chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will facilitate comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

Conclusion

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

We would like to take this opportunity to thank Mr Vincent Tanti and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

