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Our ref MB/mf/111821

29 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 Fixed asset register

We again noted discrepancies between the fixed asset register and amounts included in the financial statements (refer to note 5.9).

1.2 Re-imburement of repair work

We did not identify re-imburement of repair works during the year under review.

1.3 Capitalised projects

We did not note unrecorded liabilities in relation to capital assets.

1.4 Football ground project grant

The council is carrying forward deferred income for the football ground which was received over ten years ago (refer to note 8.1).

1.5 Income from pre-regional committees

The council failed to obtain recent financial statements of the Birkirkara Joint Committee (refer to notes 10.1 and 10.2).

1.6 Accrued income

We again noted a number of shortcomings in accrued income (refer to notes 6.7 and 6.9).

1.7 Budget vs actual expenditure

We noted that certain expenses exceeded the budgeted amount (refer to note 16.1).

1.8 Procurement procedures – tenders

The council is still utilising services from expired tenders (refer to notes 12.12 and 12.14).

1.9 Bank reconciliations

We are pleased to note that bank reconciliations were prepared monthly by the council during the year under review.

1.10 Stale cheques

Bank reconciliations provided by the council for the current year included a stale cheque (refer to note 7.6).

1.11 Frequency of deposits

We again noted that the council is not depositing income twice a week (refer to note 10.12).

1.12 Non-current payables

We are pleased to note that the council has rectified the issue during the year under review.

1.13 Allocation of payroll costs in the nominal ledger

The mayor's allowance was properly accounted for during the current financial year.

1.14 Performance bonus

Accruals for performances bonuses was properly accounted for during the year.

1.15 Presentation of financial statements

Shortcomings were identified in the presentation of financial statements (refer to notes 4.1 and 4.3).

1.16 Budget and business plan

We are pleased to note that the council prepared the business plan, however this was not uploaded on council website (refer to note 13.1).

2 Opening balances

2.1 Whilst testing opening balances we noted differences between amounts disclosed in the signed audited financial statements and the trial balance. The below are examples:

Details	Amounts disclosed in signed financial statements 2019 €	Trial balance as at 01.01.2020 provided during audit 2020 €	Difference €
Retained earnings	(354,460)	(355,454)	994
Property, plant and equipment – cost	1,947,576	1,940,976	6,600
Property, plant and equipment – grants	(1,051,155)	(1,043,560)	(7,595)

- 2.2 The council informed us that a grant of €6,600 was received with respect to the council hall equipment. The grant was netted off from the cost of the asset in the books of account. To this end we have proposed an audit adjustment to disclose the grant separately. The council approved to pass our proposed audit adjustments to correct the difference.
- 2.3 Furthermore, the difference in retained earnings of €994 resulted due to the incorrect allocation of an account which was allocated with the income statement rather than balance sheet. To this end we have proposed an audit adjustment to reallocate the grant to the appropriate category. The adjustment is reflected in the financial statements.
- 2.4 The council should ensure that the books of account are properly updated, particularly ensuring that all adjustments proposed and accepted by the council are included in the books of account.

3 Books of account

- 3.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions. We were not provided with an adequate breakdown or explanation of each figure, for example the general income and bank account.
- 3.2 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.

4 Financial statements

Presentation of financial statements

- 4.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs). The council's financial statements diverge from this requirement in the instances noted below:
- i. The financial statements fail to include the disclosures required by IFRS 9. The standard requires additional disclosures on impairment including the credit risk management practices and credit risk exposures.
 - ii. The financial statements do not include all disclosures required by IFRS 16 'Leases'.
- 4.2 The council has rectified the issues presented in note i and ii in the audited financial statements.
- 4.3 In addition to the above, we identified further shortcomings in the council's financial statements:
- i. The Statement of Cash Flows for 2019 does not cast.
 - ii. The council failed to update note (e) Property, Plant and Equipment with the range of years in the audited financial statements.
 - iii. The sub-heading on page 11 refers to the financial year ending 2019.
 - iv. Note (m) to the financial statements states that the council had joint control of the Gozo Joint Committee. The council formed part of the Birkirkara Joint committee.

- v. The construction and office equipment category are not casting in note 3, *Property, Plant and Equipment 2020*. Furthermore, the total charge for the year in the same note is not casting.
- vi. The council failed differentiate between the financial and non-financial receivables.
- vii. The council failed to present the minimum lease payments for a period not later than one year, later than one year but not later than five years and a period later than five years.
- viii. Furthermore, the council is disclosing all lease liabilities as current. Separate disclosure is required for current and non-current lease payments.
- ix. The comparatives for note 13 to the financial statements do not cast.
- x. The executive secretary's wage for 2019 in note 18 does not agree to amounts disclosed in note 13 'personal emoluments'.
- xi. Trade and other receivables in note 19.1, 'Credit Risk' includes non- financial assets.
- xii. The council failed to include the bank credit rating in note the 'Credit Risk' note.
- xiii. The council failed to disclose separately the contractual maturities of leases in note 19.2.
- xiv. Note 19.4 'Summary of financial assets and liabilities by category' include non-financial assets.

- 4.4 We recommend that the council gives more attention to the preparation of the financial statements and includes all the disclosures required by accounting standards. The council has rectified the issues presented in note i, iii to xiv in the audited financial statements.

Groupings

- 4.5 We also noted that expenses are not being classified consistently from year to year.
- 4.6 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

Specimen chart of accounts

- 4.7 During the year under review we noted that the account numbers do not agree to the specimen chart of accounts that is standard to local councils and regional committees.
- 4.8 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 enhance comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

5 Fixed assets

Fixed asset register

- 5.1 We have noted that the fixed asset register does not contain complete details such as reference numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.

5.2 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

5.3 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.

Tagging of fixed assets

5.4 We would also like to point out that furniture, fittings, office and computer equipment are not tagged.

5.5 The Local Councils (Financial) Procedures, 1996 required assets to be tagged (where applicable) and referenced to the fixed asset register.

Reconciliation of financial statements with accounting records

5.6 We identified some differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in nominal ledger €	Difference €
Construction	55,673	27,808	27,865
Office furniture and fittings	3,761	6,548	(2,787)
Urban improvements	79,392	12,319	67,073
Office equipment	6,923	9,039	(2,116)
Special programmes	62,562	181,449	(118,887)
Projects under construction	57,502	6,737	50,765
Unallocated accounts	-	22,879	(22,879)
	265,813	266,779	(966)

5.7 Unallocated accounts in the table above refer to accounts 4022, 4023, 7311, 8041 and 8042. The council failed to provide a complete list of fixed asset accounts classification agreeing to the financial statements. We were thus unable to allocate these accounts accordingly.

- 5.8 We remind the council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and reclassified accordingly before closing the year end.

Reconciliation of financial statements to excel fixed asset register

- 5.9 During our fieldwork, we noted that the fixed asset register provided in excel does not agree to the financial statements. The following is a summary of the differences:

	NBV in fixed asset register	NBV in financial statements	Difference
	€	€	€
Construction	35,082	55,673	(20,591)
Office furniture and fittings	3,428	3,761	(333)
Urban improvements	94,158	79,392	14,766
Computer equipment	5,987	6,923	(936)
Plant & machinery	-	39	(39)
Special programmes	45,207	62,562	(17,355)
Motor vehicles	447	1,176	(729)
	184,309	209,526	(25,217)

- 5.10 Circular 1/2021 states that the council should ensure that the fixed asset register agrees to the nominal ledger and hence the financial statements. To this end we recommend to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

Additions to fixed assets

- 5.11 Whilst testing fixed asset additions, we noted that the council capitalised patching works carried out at Triq San Mikiel amounting to €48,940.24. We have proposed an audit adjustment to expense the cost of the works since patching works constitute of an expense nature. Furthermore, other audit adjustments were proposed to reverse the depreciation and grant received of €124.50 and €34,000 respectively. Our proposed audit adjustments were accepted by the council and corrected in the final set of financial statements.
- 5.12 The council should not capitalise costs which are of an expense nature. IAS 16 states that the asset purchased should provide future service potential. In these cases, the expenses were incurred to maintain their use rather than to add economic benefits or service potential.
- 5.13 We also noted that in 2020, the council made a payment to Joseph Gili of €30,198.32 in relation to Measure 4.4. Upon further enquiry, we noted that works in relation to this payment had not yet commenced as at 31 December 2020. To this end, we have proposed an audit adjustment to include the above amount with advance payments. The council approved to pass our proposed audit adjustments to correct the difference.
- 5.14 We advise the council that assets should be capitalised once the asset is completed. To this end payments made in advance should be included with advance payments. Furthermore, the council should monitor the status of all ongoing projects regularly.

IFRS 16 'Leases' assessment

- 5.15 Whilst performing audit procedures on the right-of-use asset and lease liability of the council, we noted that the workings provided to were not prepared in line with IFRS 16 'Leases'. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 5.16 We recommend that the council pays more attention to the calculations prepared, so that any releases from the right-of-use asset are stated correctly. This would ensure that the amounts are properly recorded in the books of account and are correctly reflected in the financial statements.

6 Receivables

Pre-regional LES debtors

- 6.1 According to report 622 generated from the Loqus system, the tribunal payments as at 31 December 2020 were €55,901.98, which amount was not identified in the financial statements. We did not propose an audit adjustment to account for these LES debtors because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 6.2 We recommend that the council should obtain plausible explanation and evidence from Loqus supporting the tribunal pending payments.

Overdue receivables

- 6.3 We have noted a long overdue receivable. This is summarised below:

Debtor	€
Wasteserv Malta Ltd	1,115.99
	<u>1,115.99</u>

- 6.4 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.

Trade receivables

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

Debtors	Balance in books of accounts €	Balance confirmed by debtor €	Difference €
Wasteserv Malta Ltd	21,194.69	20,078.70	1,115.99

- 6.6 We recommend the council to investigate the difference. The council should review the debtor's transaction history to determine how this difference arose. Once the correct amount has been established the council should follow up the outstanding amount with Wasteserv to obtain settlement.

Accrued income

- 6.7 Included with accrued income is an amount of €5,603.92 brought forward from previous years for which no supporting documentation was available. The council informed us that that these were old balances which were previously accounted for and not received
- 6.8 We advise the council that obtaining and retaining signed copies of all the contracts is of vital importance. Furthermore, the council should establish if the amounts are still to be received and if not consider writing them off in the books of account after obtaining council approval.
- 6.9 We also noted accrued income of €28,931.09 in relation to Measure 4.3. During 2020, an amount of €24,867.95 was paid directly by ARPA to Asfaltar Limited on behalf of the local council. The council failed to record this direct payment made and thus the creditor balance and accrued income were incorrectly reported. We have proposed an audit adjustment to reflect the payment made in the books of account. The adjustment has been approved by the council and included in the audited financial statements.
- 6.10 We remind the council that the books of account should reflect the actual amounts received or still to be received.

Prepayments

- 6.11 During the year under review, we noted that the council failed to account for the prepayment of the combined insurance policy and motor vehicle insurance of €636.38 and €88.51, respectively. We have proposed audit adjustments to account for the omitted prepayments. Our adjustments were approved by the council and reflected in the audited financial statements.
- 6.12 During the year under review, we noted that the council paid €500 for the 2021 health insurance policy. The council included the above with current expenses and failed to account for it as prepayments. We have proposed an audit adjustment to this respect and this was included in the audited financial statements.
- 6.13 The prepayments list included an amount of €1,622.06 for a deposit made in 2018 with respect to the upgrade in the Sage software. The council confirmed that the upgrade was completed in 2019, and full settlement was made by the council. To this end the amount should have been expensed in the profit and loss in prior year. We have proposed an adjustment to expense the amount noted above. The adjustment is reflected in the financial statements.
- 6.14 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept.

7 Bank and cash**Bank reconciliation**

- 7.1 While reviewing bank reconciliations, we noted discrepancies between the balances noted in the books of account and amounts included in bank statements. A difference of €30 arose in the BOV reconciliation of account 40023509166 while a difference of €40 arose in BOV reconciliation of account 1341606601. Upon further investigations we noted that these differences were due to bank charges which were not recorded in the books of account. We have proposed audit

adjustments to record the above bank charges. Our proposed audit adjustments were approved by the council and reflected in the audited financial statements.

- 7.2 We have also noted that a transaction of €69.88 was erroneously posted twice in the books of account. To this end we have proposed an audit adjustment to rectify the issue. Furthermore, we also noted that interest received of €79.16 was allocated in the wrong bank account. We have proposed an audit adjustment to rectify the issue. Our proposed audit adjustments were approved by the council and reflected in the audited financial statements.
- 7.3 We recommend the council to ensure that amounts are allocated in the correct account and that bank balances are reconciled to the bank statements at the end of every month.

Unpresented cheques

- 7.4 During our testing on unpresented cheques we noted that cheque 9954, issued to Innovative Projects Ltd amounting to €855 and cheque 10697, relating to wages and salaries amounting to €1,177.36, were reversed by the council in 2021 but were still included in the reconciliation as at year end. The council confirmed that these cheques were cancelled, since these were either returned by the supplier or re-issued in 2020. To this end, we have proposed an audit adjustment to reverse both cheques in 2020. The council has amended the financial statements to include our audit adjustment.
- 7.5 We remind the council that bank reconciliations should be prepared and reviewed carefully to identify any exceptions on time.

'Stale' cheques

- 7.6 During the audit we were presented with the HSBC current account reconciliation. This included a 'stale' cheque which amounts to €212.30. In the bank reconciliation provided, there was no cheque number allocated to this cheque and as such, it was difficult to identify whether this had already been cashed or replaced with another cheque afterwards.
- 7.7 It is important that the council investigates any 'stale' cheques to determine why they were not cashed. If the cheque is unlikely to be cashed or has been replaced, the amount should be reversed against the respective expense or creditor after approval by the council.

'LC other entities' bank account

- 7.8 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfer of the amounts due to entities such as LESA and Lands Department. The council was transferring amounts to the respective parties from their bank account.
- 7.9 We recommend that the council opens a new account and adopt the new system to be in line with the Directive 05/2020.

Cash in hand

- 7.10 Whilst performing our cash in hand reconciliation, we noted that the books of account are showing a balance of €63.49 whereas the council had €213.93 as cash in hand. When enquired about this, the council remarked that, the petty cash till included the amounts which were collected on behalf of LESA and Lands Authority and which were not yet deposited.

- 7.11 We remind the council that funds received on behalf of LESA and Lands Authority are to be separated from petty cash and deposited within the appropriate timeframe.

8 Deferred income

Football ground project grant

- 8.1 We again noted that the books of account include €6,870 as deferred income in relation to the football ground project. The previous auditors pointed out that this grant was received over ten years ago. The project was stopped in its initial stages and the main expenses incurred relate to permits amounting to €11,800. The executive secretary indicated that the council is waiting for the Lands Department to issue a call for tenders. We were also informed that the project will fall under the responsibility of the Government and not the council.
- 8.2 We also noted that the books of account include an amount of €3,200 which was received from the Department in relation to the accessibility fund. We further noted that a total of €6,600 was received in 2011 in relation to this fund. The council only spent €3,400 and thus the remaining balance was left as deferred income. To date the council has no plans for the use of these funds.
- 8.3 We recommend the council to seek clarification with the department to see if the funds should be given back to the department or whether it can be used for another project.

9 Payables

Supplier statements

- 9.1 We again noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Memos and circulars issued from time to time by the Department specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 9.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Trade payables' reconciliation

- 9.3 According to the council's creditors' list as at 31 December 2020, trade payables amount to €101,756.60. The balance disclosed in the financial statements as trade payables amount to €99,247.79. This results in a difference of €2,508.81.
- 9.4 Furthermore, the council provided us with a creditors list in excel agreeing to the unaudited financial statements. The below were the differences identified between the list issued by sage and the excel list:

Supplier	Amount in creditor's list (sage) €	Amount in creditor excel list €	Difference €
Abbey Holdings	-	750.00	(750.00)
ADI Associates	271.55	114.54	157.01
Adrian Mifsud	-	368.75	(368.75)
ARMS Limited	562.10	360.41	201.69
Bordi Self Service	(15.00)	61.01	(76.01)
Department of information	25.00	-	25.00
Dimbros Ltd – other	(2,795.81)	-	(2,795.81)
Eco Pure	38.69	34.39	4.30
Emmanuel Muscat	202.00	301.32	(99.32)
ELC	-	99.58	(99.58)
G4 Security Services	227.65	186.21	41.44
Innovative Projects Ltd	3,904.98	1,301.66	2,603.32
Joseph Theuma	(590.00)	-	(590.00)
LESA	(212.40)	-	(212.40)
Maltacom PLC	86.66	-	86.66
Mica Med Ltd	(61.20)	-	(61.20)
Old Key Ironmongery	367.02	181.69	185.33
Parker Randall Turner	1,647.00	620.40	1,026.60
Perspettiva	-	70.80	(70.80)
R & A Waste Services Limited	4,808.54	1,311.02	3,497.52
Road Servicing Ltd	6,668.82	3,334.41	3,334.41
Sunny Galea	(34.50)	-	(34.50)
Transport Malta	-	250.00	(250.00)
WasteServe	(1,331.85)	1,911.27	(3,243.12)
Total	13,769.25	11,257.46	2,511.79

9.5 The council informed us that the differences noted was due to an error in the system. No further explanation was forthcoming for the above differences.

9.6 In view of the mistakes identified in the creditors' balances during the course of our audit, the council should appreciate the importance of creditor reconciliations to statements. We also remind you that the Procedures and memos specifically state the council should obtain monthly statements from suppliers and agree amounts to the balances in the accounts.

Long-outstanding creditors

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

Creditor	€
Assocjazzjoni Kunsilli Lokali	80.00
Alfred Vella	88.00
ARMS Limited	183.29
Bitmac Limited	56.60
Dimbros Bulky	734.23
Emmanuel Muscat	309.32
G4 Security Services Limited	50.06
Med Developers, Designers and Consultant	1,114.34
Road Servicing Limited	3,334.41
	5,950.25

- 9.14 We remind the council that circular 1/2021 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Alternative procedures on creditors

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

Supplier	Amount in council's books of account (excel list) €	Payments after year end and outstanding invoices €	Difference €	Note
Innovative Projects Limited	1,301.66	2,603.32	(1,301.66)	a
Koperattiva Tabelli u Sinjali	3,211.43	3,162.48	48.95	b
Parker Randall Turner	620.40	531.00	89.40	b
R & A Waste Services Limited	1,311.02	3,363.00	(2,051.98)	c
Spinning Photos	1,000.00	500.00	500.00	d

- a) Invoices paid in 2021 pertaining to 2020 amount to €2,603.32. Due to the fact that the creditors transactions history (creditors list issued by sage) does not agree to the trial balance we could not identify if all invoices were recorded. Furthermore, the council failed to provide an explanation for this difference.
- b) No explanation was forthcoming for the above noted differences.
- c) Whilst reviewing payments made to R & A Waste Services, we noted that the council failed to reverse cancelled cheque 10366 which was previously issued to R & A Waste Services Limited. We also confirmed that the cheque is still at the council. To this end we have proposed an audit adjustment to reverse the cancelled payment. The adjustment is reflected in the financial statements.
- d) Whilst reviewing the creditors transaction history, we noted that the payment made for spinning photos was allocated to the SV Beauty creditor account rather than the spinning photos account. The council should ensure that the above is reclassified to the correct creditor account.

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

10 Income**Joint Committee**

- 10.1 We also noted that Ikin Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 10.2 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.
- 10.3 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

- 10.4 In 2020, the council received €9,653.61 from the Department for Local Government for Wasteserv tipping fees. The council erroneously included this amount with other Government income. To this end we have proposed an audit adjustment to reclassify revenue in the appropriate account. The council has amended the financial statements to include our audit adjustment.
- 10.5 The council should ensure that transactions are accounted for properly so that the revenue of the council is properly reported. May we remind the council that in accordance with circular 1/2021 this income should be disclosed with 'Other Supplementary Government income'

Other Government income

- 10.6 During our audit testing we have identified income received in 2020 which was in relation to various schemes applied for in 2019. Amounts received were in relation to the Christmas decorations, sports physical activity and transport scheme in total amounting to €6,285. The council failed to account for the accrued income of such schemes in 2019 but only recorded the income in 2020.
- 10.7 Whilst reviewing other Government income, we noted that the council has applied for the 'transport fund scheme' and the 'spinning photos scheme' but has not accounted for such schemes in the books of account. We have proposed audit adjustments to account for €1,162.79 and €1,000 with respect to Regional scheme 08/2020 and 03/2020 respectively. Furthermore, we confirmed that these funds were received in 2021. The council has amended the financial statements to include our audit adjustment.
- 10.8 During the year the council applied for the reimbursement of Covid-19 packs of €5,000 from Regjun Centru. We noted that the books of account include an amount of €5,597.60 receivable from Regjun Centru for the same scheme. We have reversed the amount of €597.60 which was over provided for in the unaudited financial statements. Furthermore, we also confirmed that the actual amount received from the region was of €5,000. The adjustment is reflected in the financial statements.
- 10.9 We recommend that accrued income is properly accounted for so as to reflect the actual income receivable.

LES administration fees

- 10.10 We noted that the LES administration fees, when checked against the Loqus reports 483, are understated by €30. The council failed to provide an explanation for this.
- 10.11 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there are no mispostings.

Custodial receipts

- 10.12 Shortcomings were noted during the course of our audit work on the council's custodial receipts of Lands Department and LES fines:

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	926099	03.06.20	19.06.20	60.52
Lands Department	943256	28.08.20	04.09.20	13.17
Lands Department	958472	16.10.20	23.10.20	30.28
LES income	4450816	23.01.20	31.01.20	23.29
LES income	4506125	17.04.20	24.04.20	11.65
LES income	4521435	22.05.20	29.05.20	23.29
LES income	4524785	29.05.20	26.06.20	34.94
LES income	4545730	03.07.20	10.07.20	23.29
LES income	4620563	08.10.20	16.10.20	23.29
LES income	4651070	09.11.20	13.11.20	23.29

- 10.13 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period of time since, apart from contravening the Procedures, it can give rise to security concerns.

11 Payroll
Wages' reconciliation

- 11.1 Whilst reconciling the amounts declared in FS5 forms to that declared in the FS7 form of the council, we came across the following differences:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
Gross salary full-time	87,791	88,676	885

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

Reconciliation of wages between FS5s and books of accounts

- 11.3 During the audit we noted that a difference of €953 was unreconciled from the wages accounts to the personal emoluments found in the FS5 forms sent to the Commissioner for Revenue (see appendix 1). This is mainly arising from the discrepancies mentioned in note 11.1 between the FS5 and the FS7 forms.

- 11.4 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. We recommend that the council reconciles the wages and salaries on a monthly basis and investigates any identified differences immediately.

Performance bonuses

- 11.5 We noted that the council did not distinguish between employee bonuses and wages and salaries in the books of account.
- 11.6 We recommend the council to keep separate accounts for bonuses and employee wages and salaries for ease of extraction.

12 Expenses

Petty cash summary

- 12.1 We again noted that the petty cash summaries do not include all necessary details, namely account numbers and petty cash voucher reference numbers. This lack of information renders it difficult to identify which petty cash expenditure was included in the summaries.
- 12.2 We recommend that the council should include all necessary information in the petty cash summaries to ensure no payments are omitted or double posted in the summaries and the council has a clear view of its petty cash expenditure.

Petty cash expenditure

- 12.3 Moreover throughout the audit we discovered petty cash expenses that are only supported by non-itemised chits and are not supported by a petty cash voucher. The description is only given on the monthly summary. Below are some examples:

Details	Supplier	Date	€
Stationery	Eduline Limited	25.09.2020	15.00
Stationery	Eduline Limited	10.11.2020	22.90

- 12.4 We recommend the council fills in a petty cash voucher in accordance with Directive 3/2017 and LN 269 of 2017. The petty cash voucher should include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchaser and the executive secretary. This legal notice came into force on 1 January 2018.

Procurement

- 12.5 Our testing on cheque payments revealed numerous instances where a purchase was not supported by a purchase order and three quotations in accordance with the Procedures. We were not provided with any evidence of the relevant purchase orders and quotations during our fieldwork. Examples include:

Supplier	Details	€	Note
Joseph Theuma	Outdoor furniture	675.00	a
Smart Technologies Ltd	WinPro 10 update * 4 and support charges	1,709.73	a
Jurgen Baldacchino	Fuljett no. 4 digital design	165.20	b
Joe Cacciattoli	5 stands Triq il- Hwawar Measure 4.3	826.00	a
Magri Autocare	Rhono linings of floor for van	360.01	a

- a) Only one quotation was obtained
- b) The council failed to obtain quotations and prepare a purchase order.

12.6 In accordance with the Procurement guidelines issued by the Department for Local Government the council should raise purchase orders for all purchases more than €50.00. Furthermore, the council should obtain at least three signed quotations for purchases exceeding €50 and up to €5,000.

Payment vouchers

- 12.7 During the audit we noted that payment vouchers are not being signed by the mayor. All payment vouchers were only signed by the executive secretary.
- 12.8 We recommend that all payment vouchers are to be signed by the mayor and executive secretary to ensure proper authorisation.

Asset insurance

12.9 During our audit we identified the following discrepancies between the asset insurance cover and the NBV as stated in 2019 audited financial statements:

	Sum insured €	NBV in 2019 audited financial statements €
Buildings	165,000	-
Furniture and fittings	2,000	3,273
Plant and machinery	100	45
Electronic equipment	2,000	1,752
Total	169,100	5,070

- 12.10 It is evident that some of the fixed assets are over/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.
- 12.11 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. However, in view of the fact that last year a significant number of assets had a nil net book value (because of the change in depreciation and inclusion of grants) we advise that the insurance at least covers the replacement value of assets.

Tendering procedures

- 12.12 During the year under review, we noted that the evaluation report of tender ILC/T/1/2020 'Demolition & reconstruction of rubble walls' was not signed by all the evaluators.
- 12.13 We recommend that the council adheres to section 15.1 of the Procurement Guidelines 2017 issued by Department for Local Government which states that the council shall nominate members to sit on a committee to evaluate the bids received. The council should make sure that all evaluators sign the report in order to obtain approval and ensure the completeness of the report. The council should ensure that the opening of tenders is signed by the opening staff in conformity with the ePPS Guidelines.

- 12.14 During the year under review, the council issued tender ILC/T/1/2019 for the collection of household waste in the locality. We noted that the agreement was signed on 1 February 2020. Furthermore, we also noted that the performance guarantee was only provided to the council on 10 March 2020.
- 12.15 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.

Expired contracts

- 12.16 We noted that the council continued using expired contracts during the year under review. The council kept on using the services from the same suppliers under the old terms and conditions. The following are the expired contracts:

Tender number	Details	Date of expiry	Notes
ILC/T15	Traffic signs and road markings	02.03.2019	(a)
ILC/T13	Contract Manager	10.09.2018	(b)

(a) After expiry date, the total expenditure incurred, was €5,459.

(b) The council issued a new tender in 2019, however agreement was only signed on 1 July 2020.

- 12.17 We would like to remind the council that the Procurement Guidelines 2017 issued by the Department for Local Government state that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts for those expenditure exceeding €10,000. May we also remind the council that, purchases equal to or above €5,000 but below €10,000 should be supported by a call for quotations issued through ePPS system.

Expired contracts

- 12.18 During the year under review we noted that the council was using services provided by MicaMed Limited for street lighting in the locality of Iklin even though the contract has expired. We further noted that the total cost incurred in 2020 amounts to €2,072. However, the council failed to obtain quotations and issue a purchase order for the above mentioned services.
- 12.19 In accordance with the Procurement guidelines issued by the Department for Local Government the council should raise purchase orders for all purchases more than €50.00. Furthermore, the council should obtain at least three signed quotations for purchases exceeding €50 and up to €5,000.

Allocation of expenses

- 12.20 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €1,142.15 pertaining to 'consumables' as other office services. We have proposed an audit adjustment to reclassify the amount in with office consumables. The council has amended the financial statements to include our audit adjustment.
- 12.21 Testing on expenditure also revealed that the council accounted for the invoices received by G4 Security Services for the collection of money in the 'studies and consultation' account and 'other support services' account amounting to €97.35 and

€876.65, respectively. We have proposed an audit adjustment of €974 to reclassify the above to the other office service account. The council reflected our audit adjustment in the audited financial statements.

- 12.22 Whilst reviewing the donations account, we noted that the account erroneously included invoices of €324.50 issued by G4 Security Services for money collection. An audit adjustment was proposed to reclassify the amount to the correct expense account. Furthermore, the adjustment has been approved by the council.
- 12.23 During the year under review the council included €1,534 for the live streaming subscription with IT development services. We have proposed an audit adjustment to reclassify the amount to the 'subscriptions' account. This was correctly reflected in the audited financial statements.
- 12.24 Furthermore, testing on expenditure revealed that cleaning services of €1,740 were included with the 'bins on wheels' account. An audit adjustment was proposed to allocate the expense in the correct account. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 12.25 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

Christmas lunch

- 12.26 We noted that an amount of €111.75 was spent on food and drinks for a Christmas lunch held during 2020. OPM Circular 23/2020 states that government entities were specifically required not to pay out, in total or in part, any expenses related to Christmas staff parties through government funds. This was done to conform with directives issued by the health authorities.
- 12.27 We emphasise the importance of following government issued circulars, and it is the full responsibility of the executive secretary to ensure compliance with amendments issued from time to time.

13 Electronic site

Uploading of meeting minutes and schedules of payments on website

- 13.1 During our audit fieldwork we noted that the council has not uploaded documents such as schedules of payments, minutes of meetings, quarterly financial reports, business plan, audited financial statements and annual administration report within the required time frame. The following are some instances and weaknesses encountered:
- i. The annual financial statements, management letter and reply to the management letter for 2019 were uploaded late on the council website.
 - ii. To date the council did not upload the quarterly report for October to December 2019.
 - iii. The council failed to upload the quarterly reports for January to March, April to June, July to September and October to December 2020 within the stipulated time frame.
 - iv. To date of fieldwork meeting minute 12 has not been uploaded on the council website. The council has uploaded the agenda for the meeting.
 - v. The business plan 2020 - 2024 was not uploaded on the website.

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

Uploading of management letter and other documents

- 13.3 During the audit fieldwork we noted that the council uploaded the 2019 management letter in accordance with Circular 21/2019.
- 13.4 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.
- 13.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

14 Schedules of payments

- 14.1 During our review of the schedules of payments, we noted various deficiencies relating to the amount of detail shown in the schedules. Some instances include:
- i. Account numbers are not included on the schedules of payments.
 - ii. Purchase orders are not listed on the schedules of payments.
- This is not in accordance with the template schedule of payment issued by the Department for Local Government.
- 14.2 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.
- 14.3 We also noted that the council approved schedules of payments during meetings. However it is not specifying which schedule of payments was approved. It was further noted that in meeting 32 the council failed to approve the schedule of payments for the period.
- 14.4 We recommend that the council includes the schedule of payments reference in the minutes to ensure that all schedules have been presented.
- 14.5 Whilst reviewing schedules of payments we identified that HSBC cheques 10624, 10803 and 10868 were cancelled and not listed in the schedules of payments.
- 14.6 Whilst reviewing schedules of payments we noted instances where the council included the same cheque number twice with a different supplier and amount. Examples include HSBC cheque 10408 which was included in schedule 11 as payable to the Commissioner for Revenue and in schedule 12 payable to Parker Randall Turner. Cheque 10580 was payable to Central Bank of Malta in schedule 16 and payable to LESA in schedule 18.

- 14.7 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for committee's approval. All cheques, including those cancelled should be included on the schedule. The cancelled cheque should be retained as proof of its cancellation.
- 14.8 We noted that all schedule of payments for 2020 do not include all cheque numbers. Upon further investigation we also noted that the council is not including cheque numbers for wages.
- 14.9 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. In the case of payroll cheques, it is advisable to list cheque numbers together but add as a description 'payroll'. This will ensure that all cheques are approved.

15 Capital commitments

- 15.1 During the year under review we noted that the council has €18,000 in capital commitments included in the 2019 budget. The financial statements include capital commitments of €143,485. 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.

16 Reports

Comparison with the annual budget

- 16.1 We noted that some expenditure incurred in 2020 exceeded the budgeted amounts as follows:

	Budget €	Actual €	Difference €
Expenses			
Operations and maintenance	182,890	176,299	6,591
Administration expense	98,537	115,595	(17,058)

- 16.2 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.

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 Etienne Montfort and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Iklin Local Council Wages Reconciliation 2020

Appendix 1

As per FS5's

Month	Gross (€)	SSC (€)
January	11,440.00	857.92
February	6,687.00	857.92
March	6,989.00	1,072.40
April	6,687.00	857.92
May	6,687.00	857.92
June	8,224.00	1,072.40
July	5,803.00	857.92
August	6,687.00	1,072.40
September	6,989.00	857.92
October	6,687.00	857.92
November	6,687.00	1,072.40
December	8,224.00	857.92
	<hr/>	
	87,791.00	11,152.96
add 1/2 of total NI	5,576.48	
Total	<hr/>	
	93,367.48	

As per FS7

Gross Salary	88,676.00
add 1/2 of total NI	5,576.46
Total	<hr/>
	94,252.46

As per Accounts

Account No. & Name	Amount (€)
1100 PE - Mayor's allowance	10,403.52
1200 PE - Employees' Salaries/Wages	13,000.00
1201 PE - Executive Secretary Salary	35,722.51
1300 PE - Bonuses	29,754.53
1301 PE - Executive Secretary Bonus	5,576.48
	<hr/>
	94,457.04
Add opening accruals	4,555.93
Less closing accruals	-4,692.93
	<hr/>
	94,320.04
	<hr/>
Difference	-952.56