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Santa Lucija Local Council
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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 are pleased to note that the council has agreed the accounts with the fixed asset register.

1.2 Depreciation provision

We have noted that the council has addressed this issue.

1.3 LES debtors

The council has addressed this issue in 2020.

1.4 Supplier statements

The council did not obtain supplier statements from all suppliers as required by memos and circulars (refer to note 10.1).

1.5 Wages reconciliation

We noted differences between the accounts and the amounts per FS forms submitted (refer to note 5.1).

1.6 Reconciliation between FS5s and FS7

We identified differences between the monthly FS5s and the FS7 submitted by the council (refer to note 5.3).

1.7 Rent payable

We are pleased to note that the council has addressed the issue.

1.8 Financial situation indicator

During the year under review, the council has increased the financial situation indicator over 10%.

1.9 Donations

The council has not made any donations in 2020.

1.10 Tendering procedures

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

1.11 Accruals

We noted that the council has addressed the issue.

1.12 Bank reconciliation

We are pleased to note that the council has addressed the issue.

1.13 Debtors list

The council has reconciled the debtors list to the accounts in the year under review.

1.14 Wasteserv debtor balance

The council failed to address the issue during the current year.

2 Financial statements

Presentation of financial statements

2.1 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 cash flow statement is not casting.
- ii. The financial statements fail to include the disclosures required by IFRS 9. The standard requires additional disclosures on impairment including liquidity risk, the credit risk management practices and credit risk exposures.
- iii. The 'Property, plant and equipment' schedule in note 12 is not casting.

The council correctly amended point i to iii in the audited financial statements.

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

3 Income

Other Government income

3.1 In 2020, the council received €2,563 from the Department for Local Government in relation to the adjustment fund. The council has included this amount with the annual allocation. We have proposed an audit adjustment to include this amount with other Government income. This adjustment was correctly included in the audited financial statements.

- 3.2 We recommend that the council records income obtained from the Department under other Government income as appropriate, unless otherwise directed by the Department.

Supplementary Government income

- 3.3 During the year the council recorded an amount of €26.59 in relation to waste disposal costs together with supplementary government income. Therefore, we have proposed an audit adjustment to show this cost in the appropriate account. The council has amended the financial statements to include our proposed audit adjustment.

- 3.4 The council should ensure that transactions are properly allocated to the correct account.

Other Government income

- 3.5 During the year the council recorded income received from Government entities amounting to € 40,970.36 as general income. To this end, we have proposed an audit adjustment to show such income as 'Other government income'. Our audit adjustment was approved by the council and included in the audited financial statements.
- 3.6 May we again remind the council that proper allocations to the correct accounts are of vital importance.

LES administration fees

- 3.7 Whilst reviewing LES administration fees, we noted that reversal of LES debtors amounting to €2,515.90 was recorded in this account. To this end, we have proposed an audit adjustment to show this in an appropriate expense account. The adjustment was correctly included in the audited financial statements.
- 3.8 We also noted that the LES administration fees after our proposed adjustment included in note 3.7, when checked against the Loqus reports 483, are understated by €202. The council failed to provide an explanation for this.
- 3.9 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there are no mis-postings.

Custodial receipts

- 3.10 We came across numerous instances where the council failed to deposit custodial receipts of Lands Department and LES fines on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit Date	€
Lands Department	914384	14.02.20	21.02.20	46.25
Lands Department	917487	04.04.20	17.04.20	223.00
Lands Department	933203	21.07.20	31.07.20	46.58
Lands Department	949193	10.09.20	18.09.20	19.80
Lands Department	958328	15.10.20	23.10.20	46.25
Lands Department	961852	28.10.20	06.11.20	29.25
Lands Department	965355	25.11.20	09.12.20	45.54
LES income	4546929	06.07.20	10.07.20	232.94
LES income	4566747	03.08.20	07.08.20	23.29

LES income	4576170	17.08.20	21.08.20	11.65
LES income	4615091	02.10.20	09.10.20	23.29
LES income	4648340	05.11.20	13.11.20	50.00
LES income	4688128	22.12.20	27.12.20	50.00

- 3.11 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.

Joint committee

- 3.12 We noted that the Zejtun Joint Committee, of which Santa Lucija local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2014.
- 3.13 The reserves of the committee at that date amount to €840,665. 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.
- 3.14 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.

4 Expenditure

Petty cash vouchers

- 4.1 We have noted that the following petty cash purchases exceeded the €50 threshold:

Details	Supplier	Date	€
Masks, Sanitizers, Handwash	[REDACTED]	24.03.2020	111.90

- 4.2 Directive 3/2017 and Legal Notice 269 of 2017 state that cash transactions paid through petty cash should not exceed €50. If expenditure surpasses the established threshold, then the council should obtain prior approval by means of a signed purchase order, quotations and make payment by cheque. The Local Councils (Financial) Regulations specify that no petty cash transaction shall be made for items of expenditure costing €50 or over in aggregate.

Payment approval

- 4.3 Whilst performing the test on cheque payments we noted instances when cheques were issued and almost all encashed prior to being approved by the council. Examples include:

Supplier	Cheque no.	Encashment date	Approval date	€
[REDACTED]	8211	07.08.2020	20.08.2020	2,659.94
[REDACTED]	8246	19.09.2020	22.09.2020	326.04

- 4.4 No payments should be made without approval of council members. The above payments have only been authorised by the cheque signatories, i.e. mayor and executive secretary who do not constitute a quorum of members. All councillors should be aware of payments and purchases made in the name of the council.

Asset insurance policy

- 4.5 During our audit we identified the below discrepancies between the asset insurance cover and the net book value assets as shown in the prior year audited financial statements:

Asset	Sum Insured €	NBV in books of account €
Buildings	27,953	21,944
Furniture, fixtures and fittings	26,943	14,258
Electronic and office equipment	36,859	4,240
Plant and Machinery	20,936	1,190
Total	112,691	41,632

- 4.6 It is evident that some of the 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.

Expired contracts

- 4.7 During the year under review, it was noted that the council retained the provision of accountancy services provided by Dconsulta Ltd even though the agreement expired in December 2018. It was noted by the council that since the cost of these services does not exceed €5,000, the council did not issue a new call for quotations. However, the council did not obtain three quotations and retained the services of the Dconsulta Ltd.
- 4.8 We would like to remind the council that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract. Moreover, we reiterate our recommendation that 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.

5 Payroll

Wages' reconciliation

- 5.1 During the audit we noted a discrepancy of €464.06 between the wages accounts and personal emoluments found in the FSS forms sent to the Commissioner for Revenue (see appendix 1).
- 5.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

Reconciliation between FS7 and FS5s

- 5.3 Whilst reconciling the FSS tax 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 full-time	84,552	86,551	(1,999)
Gross part-time	22,608	20,599	2,009
Total	107,160	107,150	10

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

Allocation of expenses

- 5.5 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €400.00 pertaining to 'Mayor allowance' as 'Employees salaries'. We have proposed an audit adjustment to reclassify the amount to Mayor allowance. The audited financial statements of the council reflect this adjustment.
- 5.6 During our testing we noted that the council erroneously classified the amount of €40.00 pertaining to 'Allowances' as 'Employees salaries'. We have proposed an audit adjustment to reclassify the amount in with allowances. The council has included this adjustment in the final set of financial statements.
- 5.7 We have also noted that an amount of €817.95 pertaining to the 'executive secretary salary' was erroneously classified as 'Employees salaries'. To this end we have proposed an audit adjustment to reclassify the amount. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 5.8 We recommend that the council allocates payroll expenses to the appropriate accounts so that the expenses of the council are properly reported.

6 Fixed assets

- 6.1 We have noted that the fixed asset register does not contain complete details such as reference numbers, description of assets, invoice numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.
- 6.2 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

- 6.3 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

- 6.4 We would also like to point out that furniture, fittings, office and computer equipment are not tagged.
- 6.5 The Local Councils (Financial) Procedures, 1996 required assets to be tagged (where applicable) and referenced to the fixed asset register.

Assets under construction

- 6.6 In prior years the council recorded architect fees incurred back in 2012 as deferred expenditure. Upon enquiry, the related project is to be continued in 2021 and therefore, it was determined that this is to be classified as 'Assets under construction'. To this end, we have proposed an adjustment to show this as assets under construction in the balance sheet. The council approved our audit adjustment and included it in the final set of financial statements.
- 6.7 We remind the council to show the assets under the proper classification.

7 Stock

Net realisable value of inventory

- 7.1 During the year we noted that the council's inventory amounting to €4,217.62 is slow moving.
- 7.2 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. Write-offs or provisioning of inventories might be necessary if the books remain slow-moving or have no realisable value.

8 Receivables

Overdue receivables

- 8.1 We noted that a total provision of €7,328.00 was recorded as at 31 December 2020 in the books of account for the trade receivables. The below was the information provided:

Debtor	€
Green Hill	2,100.00
Water services corporation	5,228.00
	7,328.00

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

- 8.3 We have noted some long-term receivables. These are summarised below:

Debtor	€
Regjun Xlokk	23.29
Regjun Centru	50.95
Green MT	2,100.00
Water services corporation	5,228.00
Wasteserv Malta Ltd	8,019.36
	<u>15,421.60</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.

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:

Debtors	Balance in books of accounts €	Balance confirmed by debtor €	Difference €
Wasteserv Malta Ltd	24,983.47	21,537.87	3,445.60

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

9 Bank and cash

Bank accounts

- 9.1 While performing bank audit procedures we noted that the council has recorded a transaction amounting to €6.99 into nominal account 5009 instead of nominal account 5012. To this end we have proposed an audit adjustment to show the transaction in the appropriate account. The adjustment was correctly included in the audited financial statements.
- 9.2 We recommend the council to ensure that all bank transactions are allocated in the correct account.

10 Payables

Supplier statements

- 10.1 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.

- 10.2 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.

PPP liability

- 10.3 When testing the PPP liability, we noted that an amount of €14,021.50 related to the non-current portion of the liability, which was still shown as current in the books. To this end, we have proposed an adjustment to show this amount as non-current in the books of account. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.

- 10.4 We recommend that the council classifies current and non-current liabilities properly in the books of account.

Accruals

- 10.5 Accruals included an amount payable to Housing Authority in relation to rental expenses of €8,618.73. We have obtained the statement received from the Authority and since the amount payable related to old invoices dated back from 2009, we determined that this should have been classified as creditor rather than accruals. We have proposed an audit adjustment to show this amount as part of creditors. This adjustment was correctly included in the audited financial statements.
- 10.6 We would like to point out that any amounts due whose invoice is issued in or prior to 2020, should be included as creditors.

11 Electronic site

Uploading of meeting minutes and schedules of payments on website

- 11.1 During our audit work we noted that the council is not uploading schedules of payments, meeting minutes and business plan, in accordance with memos 36/2011 and 01/2014. Some examples are listed below:
- i. The council failed to upload the quarterly reports for January to March, April to June, July to September and October to December within the stipulated time frame.
 - ii. Meeting minutes 8-20, 9-20, 12-20, 14-20, 16-20, 19-20, 20-20 were not uploaded on the website within the required time frame.
 - iii. Schedules of payments 9-20, 12-20, 19-20 were not uploaded on the electronic site of local councils within three working days from their approval.
 - iv. The business plan 2019 – 2021 was not uploaded on the website.
- 11.2 We reiterate our recommendation that the council should abide by memo 02/2014 wherein it is stated that all meeting minutes and schedules of payments must be uploaded in pdf format on the electronic site of local councils within three days of approval in council meeting.

Uploading of management letter and other documents

- 11.3 We also noted that the council has uploaded the 2019 Management Letter in full in accordance with circular 21/2019.
- 11.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. 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 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 11.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

12 Meetings

Binding of minutes

- 12.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 12.2 We reiterate our recommendation from previous management letters stating that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

13 Capital commitments

- 13.1 During the year under review we noted that the council has €73,700 capital commitments included in the 2021 property, plant and equipment budget whilst €99,576 in 2021 cash budget. The financial statements include capital commitments of €106,727 which cover both long-term and short-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council's future intentions.
- 13.2 We recommend that the financial statements should adequately disclose the council's future capital expenditure plans, if any, as agreed to the budget and business plan. Where appropriate it is advisable to explain how such capital expenditure is to be funded.

Conclusion

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

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

Yours faithfully,



As per FS5's

Month	Gross (€)	SSC (€)
January	8,739.00	1,012.16
February	11,395.00	1,020.48
March	10,135.00	916.70
April	6,981.00	733.36
May	6,891.00	733.36
June	9,174.00	1,303.20
July	8,862.00	1,042.56
August	8,742.00	1,303.20
September	9,242.00	1,042.56
October	8,890.00	1,042.56
November	8,725.00	1,303.20
December	9,384.00	1,042.56
	<u>107,160.00</u>	<u>12,495.90</u>
add 1/2 of total NI	6,247.95	
Total	<u><u>113,407.95</u></u>	

As per FS7

Gross Salary	107,150.00
add 1/2 of total NI	6,250.03
Total	<u><u>113,400.03</u></u>
Difference	<u><u>7.92</u></u>

As per Accounts

Account No. & Name	Amount (€)
1100 Mayors allowance	12,003.52
1200 Employees Salaries/Wages	46,532.70
1300 Bonuses	3,978.34
1400 Income Supplements	908.21
1500 Social Security Cont.	6,247.95
1600 Allowances	13,000.00
1700 Overtime	2,473.95
1800 Executive Secretary Salary	31,707.00
	<u>116,851.67</u>
Less: Bonus to CWS	-2,965.34
Add opening accrual	5,059.56
Less closing accrual	-6,002.00
	<u><u>112,943.89</u></u>
Difference	<u><u>464.06</u></u>