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30 June 2021

Dear Madam,



Financial statements for the year ended 31 December 2020

During 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 from our review.

1 Previous management letter

1.1 Payroll

Once again, we identified shortcomings in relation to payroll (refer to notes 4.1 and 4.3).

1.2 Expenditure

We are pleased to note that the council did not organise a Christmas dinner during the year under audit.

1.3 Fixed Assets

We are pleased to note that we did not identify any shortcomings in depreciation.

1.4 Receivables

We are pleased to note that the council has rectified the related parties issue during the year under audit.

1.5 Bank and Cash

Once again, we noted shortcomings in cash in hand (refer to notes 6.7 and 6.8).

1.6 Trade payables

Once again, we identified irregularities when testing accrued expenditure (refer to note 7.7).



We are pleased to note that we have not identified any debit balances in the creditors' list.

We are pleased to note that the council has rectified the related parties issue during the year under audit.

1.7 Disclosures required in respect of certain IFRS

We are pleased to note that the council has included in the financial statements the appropriate disclosures as required by IFRS 9 *Financial Instruments*.

1.8 Financial Situations Indicator

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

2 Income

General income

2.1 During our audit, we came across the below instance where the council failed to deposit a receipt on a timely basis.

Description	Receipt number	Receipt Date	Deposit date	€
Open skip	30536	09.03.2020	16.03.2020	9

2.2 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

LES administration fees

2.3 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the figure in the financial statements. We found that the amount in the books of account is understated by €33. We did not propose an audit adjustment to correct this discrepancy since no explanation for the difference was forthcoming.

2.4 We recommend that the council regularly reconciles invoices with the 483 reports to ensure accuracy and completeness.

Income from LESA and regional committees

2.5 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

Invoice month	Invoice date
December 2019	14.01.2020
August 2020	11.09.2020

2.6 In accordance with memo 91/2011 local councils are required to issue the regional committees' and LESA invoices in the first week of each of the following month.

Custodial receipts

- 2.7 We noted the below instance whereby the council failed to deposit a cash receipt from Lands on a timely basis.

Receipt number	Receipt date	Deposit date	€
928339	02.07.2020	13.07.2020	33

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

Accrued Income

- 2.9 During our audit fieldwork, we noted that the council failed to record accrued income amounting to €250 in relation to financial assistance for 2020 Christmas decorations by the Southern Region. We have proposed an audit adjustment to account for the accrued income. The adjustment was approved by the council and properly presented in the audited financial statements.
- 2.10 We remind the council that the books of account should reflect the actual amounts received or still to be received.

Deferred Income

- 2.11 On 21 November 2020, the council signed an agreement with the LC Care Project Committee on behalf of the Ministry for Agriculture, Fisheries and Animal Rights. The council was granted the sum of €8,000 from this scheme, which are to be used for cat neutering. On 18 December 2020, the council received €4,000 out of the total amount granted. It was noted that during the year, the council expensed €578 for cat neutering. An audit adjustment was proposed from our end to release €578 from advance payments and record it as income in Profit and Loss. The adjustment was approved by the council and was properly presented in the financial statements.
- 2.12 The council must ensure that if any of the funds awarded are utilised, these are released from advance payments and recorded against the appropriate accounts. In this manner, the books of account are always kept up to date.

3 Expenditure

Petty cash expenditure

- 3.1 We have noted instances of petty cash payments which were not supported by an appropriate authorised petty cash voucher identifying the items being purchased. Examples include:

Details	Supplier	Date	€
Meeting	Kylie's Café	20.11.2020	29
Hospitality meeting	Kylie's Café	11.03.2020	30

- 3.2 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, the

same legal notice states that all petty cash vouchers should be signed by the purchasers and the Executive Secretary. This legal notice came into force on 1 January 2018. To this end, we recommend that, in cases where the supplier is not issuing itemised receipts, all the details are included in the petty cash voucher and signed as approval of the purchase.

Petty cash summary

- 3.3 We noted that the petty cash summaries do not include all necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts expenditures should be allocated.
- 3.4 We recommend that the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

Procurement procedures

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

Details	Supplier	Date	€	Note
Street names	Alka Ceramics	17.11.2020	425	(a, b, d)
Manhole covers	Andrew Vassallo	07.09.2020	237	(a)
Hosting of live streaming and VOD website	Infinite Fusion Tech Ltd	09.10.2020	1,416	(a, c)
Refurbishment works - Gnien il -Gibjun	V&C Contractors Ltd	14.10.2020	1,475	(a, c)
Final payment of flags	Bontex Ltd F.Zammit	06.07.2020	3,300	(a)
Pots-Promenade	Nursuries Co Ltd	19.05.2020	4,438	(a)
Limestone works in Hal Millieri	Camray Ltd	07.12.2020	1,888	(e)
Risk assessment in various locations	AME services	10.08.2020	1,652	(c)

- (a) The council did not obtain any quotations.
- (b) The council did not include the amount in the purchase order.
- (c) The council did not raise a purchase/works order.
- (d) The council did not provide us with a fiscal receipt/tax invoice.
- (e) The council noted that no purchase order was raised, and no quotations were obtained since a tender is in place. However, during the audit fieldwork it was noted that the tender expired in April 2013 since the contract was signed on 3 November 2011 and had a duration of 18 months.

- 3.6 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.
- 3.7 May we 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.

- 3.8 Furthermore the council must obtain a tax invoice/ VAT receipt duly addressed to the council for all payments issued by the council.
- 3.9 We would also 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.

Payment approval

- 3.10 Whilst performing testing on cheque payments, we noted instances whereby the payments were issued prior to being approved by the council. Examples include:

Supplier	Cheque no.	Cheque date	Approval date	€
Happy Paws	9809	09.12.2020	13.01.2021	578
Boom Consultancy & Advisory	9597	21.02.2020	11.03.2020	472
Camray Ltd	Bank Trf	27.10.2020	07.12.2020	1,888

- 3.11 May we remind the council that no payments should be made without the approval of council members. The above payments have only been authorised by the bank 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.

Tendering procedures

- 3.12 Whilst reviewing the documentation of tender RC 67/03/20, 'The Restoration of the Chapel and Yard of Sant' Andrija Zurrieq', it was noted that whilst the contract was signed on 20 November 2020, the performance guarantee was issued by the bank on 10 March 2021.
- 3.13 May we remind the council that the General Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract.

Insurance policy

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

Asset	Sum insured	NBV in audited financial statements 2019
	€	€
3.15		
Buildings	1,571,600	96,357
Furniture, fixtures, fittings, office equipment and electronic equipment	94,200	27,324
Total	1,665,800	123,681

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 to ensure that the council's insurance coverage is in line with current legislation.

- 3.16 Whilst reviewing the insurance policy we also noted that the council is insuring property in the open for the sum of €89,051. This is in breach of Directive 3/2017 which states that community assets should not be insured.
- 3.17 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, since a significant number of assets had a nil net book value, we advise the council that the insurance at least covers the replacement value of assets.

Personal accident insurance

- 3.18 It was noted that the combined insurance policy is covering instances of group personal accident on a worldwide basis instead of being limited to the Maltese territories. Should a council member require to go overseas on council business a separate policy should be taken out for the specific trip. Worldwide coverage for all personnel travelling abroad on personal rather than business activities may be construed as a benefit in kind.
- 3.19 We recommend that the council updates the insurance policy accordingly to limit coverage to the Maltese islands.

Rent expense

- 3.20 It was noted that the council has a rental expense of €2,923 in its books of account. The council did not account for rental agreements in line with IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.21 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases', if any, on the council's financial statements and adjust if the need arises.

Reimbursement

- 3.22 During the audit, it was established that the council is giving fuel reimbursement to two personnel for utilising their personal vehicle when conducting tasks on behalf of the local council. The council noted that the reimbursement amount is fixed and was agreed upon during a council meeting. Furthermore, it was also noted that the reimbursement granted to the Executive Secretary is also not being calculated on a mileage basis.
- 3.23 We remind the council that this contradicts the Local Council Procedures affirming that fuel expenses should be reimbursed on a mileage basis once being approved by the council in meetings.

4 Payroll

Wages reconciliation

- 4.1 Whilst reconciling the amounts declared in FS5 forms to the amounts declared in the FS7 form, we came across the following difference:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
FSS	15,909	15,866	43
Total	15,909	15,866	43

- 4.2 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the CIR.

Councillors' allowances

- 4.3 During our audit fieldwork we noted that the council has erroneously classified the mayor allowance amounting to €2,392 in the honoraria account. We have proposed an audit adjustment to include this amount with the councillors' allowances. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 4.4 We recommend that the council classifies councillor allowances separately from the honorarium.

5 Fixed assets

Reconciliation of financial statements to fixed asset register

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

Category	NBV in fixed Asset register €	NBV in Unaudited financial statements	Difference €
Urban improvements	47,768	47,664	104
Office furniture & fittings	14,510	14,614	(104)
	62,278	62,278	-

- 5.2 It was further noted that for the 'special programmes' category, the cost and accumulated depreciation as stated in the fixed asset register differ from the amounts stated in the unaudited financial statements. The identified differences are summarised below:

	As per unaudited financial statement €	As per fixed asset register €	Difference €
Special programmes			
Cost	3,023,033	3,383,311	(360,278)
Accumulated depreciation	(1,218,309)	(1,578,589)	360,280
	1,804,724	1,804,722	2

- 5.3 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and compares the figures shown in the fixed assets schedule to the fixed asset register to ensure proper preparation of the financial statements.

6 Cash at bank

Bank account representatives

- 6.1 It was noted that the vice mayor, Mr Ignatius Farrugia is still listed as an account representative for all BOV bank accounts. Furthermore, it was noted that for one of the bank accounts, the Mayor, Ms Rita Grima is not listed as an account representative.
- 6.2 May we remind the council that subsidiary legislation 363.01 states that the bank representatives of the council should only be the current Mayor and Executive Secretary. We recommend that the council instructs the bank to update the account representatives for security reasons.

Bank transfers

- 6.3 During the audit fieldwork it was noted that payments via bank transfers were being affected by a local council employee without obtaining prior approval from the Mayor and Executive Secretary.
- 6.4 We remind the council that Directive 04/2020 states that the Mayor and Executive Secretary should approve each payment which is affected via bank transfer. Whilst local council employees may prepare the transactions, these still must be approved by the Mayor and Executive Secretary. Therefore, we recommend that the council abides by Directive 04/2020.

Bank statements

- 6.5 During the audit the council did not provide us with the bank statement for the BOV account with account number ending 1347.
- 6.6 For audit purposes, statements as at year-end should be provided for all bank accounts recorded in the council's books of account.

Petty cash balance

- 6.7 During our audit fieldwork we performed a cash count on 13 April 2021 and reconciled it back to 31 December 2020. It was identified that the council recorded the amount of €50 from the sale of five 'Tisjir mill-Qalb' books at €10 each in the cash in hand account. These books were published by the Malta Community Chest Fund and not by the council. An audit adjustment was proposed from our end to reverse this entry since the amounts received should not be considered as income earned by the council. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.8 Moreover, following the adjustment proposed in note 6.7, a difference of €45 was still identified in cash in hand. A further difference of €70 was also identified between the petty cash counted and the amount recorded in the petty cash account. No adjustments were proposed from our end since no explanation was forthcoming about the identified differences.
- 6.9 We recommend that the council investigates any differences in its petty cash balance and passes appropriate adjustments in the books of account to agree to actual cash in hand. We also advise the council to reconcile petty cash monthly.

LC Other Entities Account

- 6.10 During the audit fieldwork it was noted that the council did not open a new bank account to be used for the deposits of cash and subsequent transfers of the amounts due to entities such as LESA and the Lands Department. Instead, the council continued to deposit cash receipts for LES and Lands in the council's bank account.
- 6.11 Directive 5/2020 states that the council should open a bank account with the name 'LC Other Entities Account' so that the council can deposit funds and subsequently transfer funds to the appropriate entity. This legal notice came into force on 1 September 2020. To this end, we recommend that the council makes the necessary arrangements to be in line with this directive.

7 Trade and other payables**Supplier statements**

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

Long outstanding creditors

- 7.3 The council's creditors' list includes an amount of €591 due to Schembri Infrastructure which has been outstanding for more than one year.
- 7.4 We recommend that the council reviews this amount and either settles it if still due, or else, reverses it after having obtained approval from the council. Furthermore, decisions and discussions regarding this balance should be minuted during the council meetings.

Other creditors

- 7.5 Memo 4/2009 'Fondi Specjali' was issued, whereby councils could apply to obtain funds for projects or initiatives within the locality. On 26 November 2009, the council was informed that it was awarded the amount of €25,000. It was noted that the project never materialised however, the council never reimbursed back the amount awarded since no request for reimbursement was ever made by the Department.
- 7.6 We recommend that the council contacts the Department for Local Government and establishes whether the funds are to be retained or refunded. The council should also seek clarification on how the money should be used if approval of the retention of funds is obtained by the council.

Accrued expenditure

- 7.7 The council recorded an accrual amounting to €3,608 which pertains to the cost of street sweeping services for the month of November. During our audit fieldwork, we noted that the invoice was issued by the supplier on 2 December 2020. Therefore, an audit adjustment was proposed from our end to reclassify this amount from accruals to trade creditors. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 7.8 We recommend that the council carefully distinguishes between accruals and trade creditors to correctly disclose liabilities in the financial statements.

Unrecorded liabilities

- 7.9 Whilst reviewing subsequent year-end payments, it came to our attention that the council omitted an invoice amounting to €333 from Bitmac Ltd which was dated 11 December 2020. We have proposed an audit adjustment to rectify the issue. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 7.10 We recommend that the council records expenditure when it is incurred so that expenses and liabilities are recorded in the correct financial year.

8 Trade and other receivables

Long outstanding balances

- 8.1 We noted that a total provision of €623 was recorded as at 31 December 2020 in the books of account for trade receivables, which amount is made up of the below long-outstanding debtors:

Debtor	€
Arriva	80
Azzopardi Moira	133
Force 5 Ltd	210
Portelli and Brincat	200
	<u>623</u>

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

council still believes that amounts are irrecoverable, it should evaluate the possibility of writing them off in the books of account after obtaining approval in council meeting.

- 8.3 We have further noted long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Maltarama	22
South Eastern Region	141
	<u>163</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 approval in council meetings. Furthermore, the council should send continuous reminders to its debtors to ensure that it still has the right to collect the amounts due.

9 Financial statements

Presentation of financial statements

- 9.1 We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The council's unaudited financial statements diverge from this requirement in the instances noted below:
- i. In note 2, the sub-header 'Local Enforcement System' includes incorrect information. The council started receiving 10% commission from LESA as from 2015.
 - ii. In note 2, 'Leases', was not updated in accordance with IFRS 16.
 - iii. The council failed to include the bank ratings in note 17 'Financial Risk Management' as required by IFRS 9.
- 9.2 In addition to the above, we identified further shortcomings in the council's financial statements:
- i. The total of the Statement of Changes in Equity for 2019 does not cast.
 - ii. In note 4, 'Local Enforcement Income', the income from LES administration fees amount stated in the financial statements does not agree to the amount recorded in the books of account.
 - iii. In note 7, 'Profit for the year', the depreciation amount for 2019 does not cast to the depreciation amount stated in note 10 'Administration and other expenditure', and in note 11 'Property, plant and equipment'.
 - iv. The 2020 total of the Operations and Maintenance expenses in note 9 does not cast.
 - v. In note 10, 'Property, plant and equipment' the total net book value amount for 2020 does not cross-cast to the property, plant and equipment amount stated in the Balance Sheet.
 - vi. In note 14, 'Payables', the deferred income amount and grants not yet utilised amount do not agree to the amounts recorded in the books of account.
 - vii. In note 18, 'Financial Risk Management', the cash and bank balance for 2019 was stated incorrectly. Consequently, this did not agree to the amount recorded

in the books of account and did not cross-cast to the cash and cash equivalent amount stated on the Balance Sheet.

- 9.3 We recommend that the council gives more attention to the preparation of the financial statements and includes all the disclosures required by accounting standards. The above shortcomings have been amended in the audited financial statements.

10 Electronic site

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

- i. The council did not approve the 2020-2022 Business Plan within the stipulated timeframe.
- ii. The council did not upload the management letter and the reply to the management letter for 2019 on the council website.

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

Uploading of management letter and other documents

- 10.3 During our audit fieldwork, we noted that the council has failed to upload the 2019 Management Letter in full in accordance with Circular 21 of 2019.

- 10.4 Furthermore, we would also 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 the GDPR prior to uploading on the website.

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

11 Meetings

Binding of minutes

- 11.1 We observed that the minutes of the council are not being hard bound at the end of each financial period or legislature.

- 11.2 We remind the council that in accordance with the Local Council (Office) Procedures, 1996, 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 may be required from time to time. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

Meeting regulations

- 11.3 We noted that meetings 10, 17 and 19 lasted more than three hours.

- 11.4 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.

12 Schedules of payments

- 12.1 Whilst performing audit procedures on the schedules of payments we noted that listed cheques were not in a sequential order. During the audit fieldwork we also noted that a bank transfer amounting to €1,515 made on 10 October 2020 to Delta Projects was omitted from the schedules of payments. Similarly, a bank transfer amounting to €200 made on 23 April 2020 to Gaetano Galea was also omitted from the schedule of payments.
- 12.2 Furthermore, it was also noted that the council issued several cheques which were not included in the schedules of payments. Examples include cheque 9586 issued to Assocjazzjoni Kunsilli Lokcali for €86 and cheque 9587 issued to Terence Sciberras amounting to €11.
- 12.3 We also noted that the council is not including cancelled cheques in the schedules of payments. Examples include cheque numbers 9581, 9759, 9521, 9755 and 9691.
- 12.4 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. We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedules of payments. The cancelled cheques should be retained as evidence of their cancellation. Furthermore, during 2020 the council adopted directive 4/2020 which enables the council to make online payments. We encourage the council to include the payment date and transfer reference in the schedules of payments.
- 12.5 It was noted that account numbers are not included on the schedules of payments. This is not in accordance with the template issued by the Department for Local Government.
- 12.6 The council should fill in all details in the schedules of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedules of payments and the expenses included in Sage.

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 Josianne Cilia Mumford and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

