

Our Ref: NAO 107/2015/36  
Your Ref:

29 May 2020

The Mayor and Executive Secretary  
Marsaxlokk Local Council  
Marsaxlokk

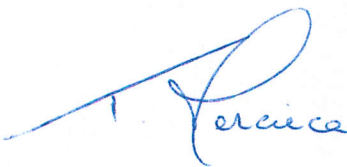
Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS  
YEAR ENDING 31 DECEMBER 2019**


In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2019.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



**Tanya Mercieca**  
Asst. Auditor General

	<b>RECEIVED</b>
DATE	29 MAY 2020
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# Grant Thornton

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Our ref MB/mf/44320

13 April 2020

Dear Sir,



## **Financial statements for the year ended 31 December 2019**

During the course of our audit for the year ended 31 December 2019 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 with the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and with 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 Other Government income**

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

#### **1.2 Custodial receipts**

We have again noted instances where the council failed to deposit general/ custodial receipts on a timely basis (refer to note 2.1).

#### **1.3 Prepayments and accrued income**

We did not identify any issues in the prepayments and accrued income accounts.

#### **1.4 Councillors' allowance**

We have again noted a difference in the councillors' allowance account when compared to FS3s (refer to note 3.1).

#### **1.5 Insurance policy document**

The council's assets are still not being appropriately insured (refer to note 4.5).

#### **1.6 Procurement procedures**

We have again noted shortcomings in procurement procedures (refer to note 4.10).

**1.7 Travel**

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

**1.8 Upkeep of fixed asset register**

The fixed asset register still does not include all necessary information (refer to note 5.1).

**1.9 Tagging of fixed assets**

The council is still not tagging its fixed assets (refer to note 5.4).

**1.10 Additions to fixed assets**

Whilst testing additions to fixed assets we have noted that the council failed to obtain 3 quotations (refer to note 5.9).

**1.11 Overdue receivables**

We have again noted long overdue receivables in the debtors' list (refer to note 6.1).

**1.12 Trade receivable**

We noted a discrepancy between a debtor balance in the books of account and the debtor's confirmation reply (refer to note 6.3).

**1.13 Garnishee order**

The garnishee order is still recorded in the books of account (refer to note 6.5).

**1.14 Pre-regional LES debtors**

Debtors in the Loqus IT system are higher than LES debtors recorded in the council's books of accounts (refer to note 6.7).

**1.15 Credit balance in debtors' list**

We did not identify credit balances in the debtors' list.

**1.16 Cash in hand reconciliation**

We did not encounter any differences in the cash in hand reconciliation.

**1.17 FWT on bank interest**

We are pleased to note that the council is not withholding tax on the council bank accounts.

**1.18 Cheque payments**

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

**1.19 Suppliers' statements**

The council did not obtain suppliers' statements from all suppliers (refer to note 7.1).

**1.20 Payments on account**

We are pleased to note that no payments on account were made during the year.

**1.21 Long outstanding trade creditors**

We did not identify any long outstanding creditors in 2019.

**1.22 Accrued legal expenses**

The council did not obtain the final judgement for the pending court case thus legal expenses have been left with accruals (refer to note 7.3).

**1.23 Schedule of payments**

We have again identified irregularities in schedule of payments (refer to note 10.1).

**1.24 Electronic website**

The council's electronic site is not updated in accordance with the Local Council Procedures (refer to note 8.1).

**1.25 Uploading of management letter and other documents**

We have noted that the council has uploaded the management letter on its website. May we remind the council that the GDPR requirements includes restrictions on transmitting/ publishing information regarding personal data (refer to note 8.3).

**1.26 Meeting regulations**

We have again encountered instances were the meetings lasted more than 3 hours (refer to note 9.1).

**2 Income**

**Custodial receipts**

2.1 We came across instances where the council failed to deposit its income received on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	1665793	07.08.2019	13.08.2019	250.00
Lands Department	1780113	15.10.2019	21.10.2019	44.25

2.2 The above is in contravention of the relevant regulations. Moreover, leaving cash and cheques on the premises can raise security issues.

**3 Payroll**

**Councillors' allowances**

3.1 During our audit fieldwork we noted that the council has erroneously classified €1,200 as mayor's allowances instead of councillors' allowances. We have proposed an audit adjustment to rectify this issue. The council has amended the financial statements to include our audit adjustment.

3.2 We recommend that the council properly classifies accounting entries to the respective nominals to agree to the financial statements.

#### Payment of overtime

- 3.3 The council is paying overtime without obtaining prior approval in council meetings. Overtime payments made in 2019 amount to €3,450.99.
- 3.4 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

#### Payment of FSS and NI

- 3.5 During the audit we noted that the council did not submit the August FSS tax and NI payments on time. This was submitted on 10 October 2019.
- 3.6 The Final Settlement System Rules, 1998 state that the council is required to remit FSS tax and NI to the Commissioner of Inland Revenue by the last working day of the month following that during which the council has paid the emoluments. It is highly recommended that FS5s are submitted on time to avoid any unnecessary penalties.

## 4 Expenditure

#### Petty cash purchases

- 4.1 During the year under review we noted that the petty cash lists prepared by the council do not include details of the nominal account to which the expenses were allocated.
- 4.2 To this end, it is suggested that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account.

#### Reimbursement

- 4.3 Whilst reviewing petty cash payments we noted that expenditure incurred during the year included €5 for the Mayor parking services for a meeting with the Department.
- 4.4 We would like to bring to the attention of the council the fact that the mayor receives an annual allowance of €2,400 for all costs sustained in executing council related duties. May we strongly recommend that the council should observe memo 107/2010 which clearly states that the councillors and mayor have no right to claim any other expenditure in relation to performing their council duties apart from the honorarium and the allowance.

#### Insurance policy document

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

Asset	Sum insured €	NBV in books of account €
Office furniture and fittings	8,955	16,599
Electronic and office equipment	9,230	7,614
Plant and machinery	2,492	1,701
<b>Total</b>	<b>20,677</b>	<b>25,914</b>

- 4.6 It is evident that some of the fixed assets are not appropriately 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. Furthermore, we also noted that the council is insuring property in the open amounting to €203,979. This is in breach of Directive 3/2017 which states that community assets should not be insured.
- 4.7 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, we recommend that the insurance at least covers the replacement value for assets.

#### **Personal accident insurance**

- 4.8 Whilst reviewing the insurance policies we noted that the council has two personal accident insurance policies, one with Island Insurance Brokers included with the combined insurance policy and another insurance purchased with the AKL scheme. The AKL insurance had a cost of €420. Both policies were paid as at year end.
- 4.9 We recommend that the council updates the insurance policy accordingly to include only current councillors and employees and limit coverage to the Maltese islands. The council should stop one of the insurance policies as the same individuals cannot be insured by two different policies.

#### **Procurement procedures**

- 4.10 Our testing on cheque payments revealed instances where the council did not obtain quotations. Examples include:

<b>Supplier</b>	<b>Details</b>	<b>€</b>	<b>Notes</b>
CIP Limited	Expenses public consultation	2,312.80	a, b
Branded Juice Ltd	Printing of receipt books	529.76	b
Compleet IS Services Ltd	Projector life-long learning	458.01	b
S & R Handaq	Road markings	500.00	b
360 Retail Supplies Limited	Purchase of bins	2,289.20	b
ITC Limited	Lighting installation for fish fest	3,386.60	b
Nazzarenu Camilleri	Cleaning of San Lucjan and pitch	826.00	b
Tal – Kawwar cash and carry	Beverages	91.10	b

- a) Only 1 quotation obtained  
 b) Payment vouchers were not signed by the mayor

- 4.11 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.
- 4.12 We recommend that the payment vouchers are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council.

**Expired contract**

- 4.13 During the year under review we noted that the council is using services provided by Nexos Street Lighting for street lighting in the locality of Marsaxlokk even though the contract has expired.

We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.

- 4.14 We would like to bring to the attention of the council memo 10/2013 which states that the council should not make use of expired contracts. Furthermore, the council should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires.

**5 Fixed assets****Upkeep of fixed asset register**

- 5.1 During the audit fieldwork we noted that assets in the fixed asset register had generic names such as resurfacing, central strip works, toroq 200 and supply and laying of base course.

- 5.2 As pointed out in our prior years' management letters, the fixed asset register must at least include the following details:

- i. Supplier details
- ii. Asset description
- iii. Invoice number
- iv. Amount
- v. Invoice date
- vi. Asset tag code (where applicable)
- vii. Location of asset
- viii. Depreciation and rates
- ix. Grants received

- 5.3 We suggest that the council updates its fixed asset register, classification and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and grants and hence net book value. It will also enable identification of the assets concerned and thus the council can maintain control over its assets by carrying out physical inspections.

**Tagging of fixed assets**

- 5.4 We noted that the council's fixed assets are not tagged, where applicable.
- 5.5 Assets should be tagged, where applicable, and referenced to the fixed asset register in accordance with the Local Councils (Financial) Procedures, 1996. This would enable the council to identify the assets and verify their physical existence and condition.

**Reconciliation of financial statements to fixed asset register**

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

	<b>NBV in fixed asset register</b>	<b>NBV in financial statements</b>	<b>Difference</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Office furniture and fittings	15,260	14,969	291
Computer and office equipment	7,114	7,405	(291)
	<b>22,374</b>	<b>22,374</b>	<b>-</b>

- 5.7 When reviewing the fixed asset register, we identified that the above discrepancy pertains to asset code CES14 for the PABX purchased in February 2019 with net book value of €291 which erroneously was recorded with office furniture and fittings.
- 5.8 Circular 1/2020 states that the council should ensure that the fixed asset register agrees to the nominal ledger. To this end we reiterate our recommendation to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

#### **Addition to fixed assets**

- 5.9 During the audit we noted that the council has purchased a computer and a PABX system from CT Planet Solutions Ltd for which only one quotation was obtained.
- 5.10 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.

## **6 Receivables**

### **Overdue receivables**

- 6.1 The council's debtors' list includes an overdue balance receivable from the South East Regional and South Regional committees amounting to €239.92 and €136.09 respectively.
- 6.2 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council's books of account are correct.

### **Trade receivable**

- 6.3 We identified a difference between a third-party confirmation and the debtors' list provided by the council, namely:

<b>Debtor</b>	<b>Balance in books of account</b>	<b>Balance confirmed by debtor</b>	<b>Difference</b>
	<b>€</b>	<b>€</b>	<b>€</b>
South East Regional committee	239.92	20.94	218.98



- 6.4 We recommend that the council matches any pending invoices with the receipts from the debtor and reconciles the difference. The council should prepare regular reconciliation of amounts due to promptly highlight any differences.

#### **Garnishee order**

- 6.5 As noted in the previous management letter, other debtors include the amount of €2,808.36 with respect to a garnishee order dated 2008. The latter was served on the council by Dr Gaetano. During 2017 audit the executive secretary informed us that it was released by the Joint Committee in 2014. If the garnishee order was released, it should have been adjusted for in the council's books of account.
- 6.6 We strongly advise the council to investigate the matter and verify whether the garnishee order was released. Once established and supported by documentary evidence, the council should adjust its books of account.

#### **Pre-regional LES debtors**

- 6.7 According to report 622 generated from version 1 of the Loqus system, the tribunal payments as at 31 December 2019 were €99,515.75, compared to the amount of €49,625.12 reported in the financial statements. This results in a difference of €49,890.63 for which the council did not provide us with any explanation. 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.
- 6.8 We recommend that the council should obtain plausible explanation and evidence from Loqus supporting the increase in tribunal pending payments.

## **7 Trade and other payables**

### **Suppliers' statements**

- 7.1 During the course of our audit we noted that the council did not manage to obtain monthly suppliers' statements for all suppliers.
- 7.2 We again recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

### **Accrued legal expenses**

- 7.3 In 2018 we noted that the council's list of accruals includes €17,381 in relation to legal expenses. We were informed that the council had a court case dating back to 2013. The parties involved are Mr Derek Fenech, Mr Jason Carabott, Enemalta Corporation and Marsaxlokk Local Council. The court case was filed due to a traffic accident which took place in Marsaxlokk. On 16 October 2018 the court decision stated that the total damage of €52,142 should be equally divided by Mr Fenech, Mr Carabott and Marsaxlokk Local Council. The council has filed an appeal in court. However, the final judgement has still not been given. In 2019 we have again noted that the accrual for legal expenses is still included in the accruals list. The council informed us that the final decision was not decided by the courts. Thus, the accrual will be carried forward until the final judgement.
- 7.4 We advise the council to review this amount after the final judgement has been received and reflect the decision in the books of account.

## **8 Electronic website**

- 8.1 We noted that the council did not upload the following documents on the website of the council within the required time frame:
- i. The council failed to upload the quarterly report for July to September 2019 within the stipulated time frame.
  - ii. To date of the audit fieldwork the council failed to upload the quarterly report for October to December 2019.
  - iii. Business plan 2019 – 2023 was uploaded late on the website.
  - iv. The council failed to upload the annual administrative report for 2018 within the stipulated time frame.
  - v. The council failed to upload the management letter and reply to the management letter within the stipulated time frame.
  - vi. Meeting minutes: 66, 67, 69, 70, 71, 72, 2, 3 and 4 were not uploaded on the website within the specified time period.
- 8.2 The council should ensure that minutes should be uploaded in pdf on the council website within three days of approval as required by memo 36/2011. All other reports plans and financial statements should be updated within the required time frame.

### **Uploading of management letter and other documents**

- 8.3 During the audit fieldwork we noted that the council uploaded the 2018 management letter in accordance with Circular 21/2019.
- 8.4 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.
- 8.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

## **9 Meetings**

### **Meeting regulations**

- 9.1 During the year under review we noted that meetings 70, 2, 3, and 4 lasted more than three hours without obtaining the required consensus.
- 9.2 We would like to remind the council that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless consensus is obtained from all those present to extend the meeting.

## **10 Schedule of payments**

- 10.1 During our audit fieldwork we noted that cheque 1527 was not included in the schedules of payments. The council informed us that this was erroneously omitted and will be approved in schedule 03/2020.

- 10.2 We advise the council to abide by section P1.11.c.c.01. of the Financial Procedures which dictates the amount of detail required on the schedule and a further memo issued by the Department for Local Government which requires the cheque number to be inserted. In the case of personal emoluments, the detail given need not be specific. However, the cheque numbers must be inserted.

## 11 Capital commitments

- 11.1 During the year under review we noted that the council has €175,000 in capital commitments included in the 2020 budget and audited financial statements. The cash flow budget includes €225,000 in capital commitment which does not agree to the property, plant and equipment schedule. Therefore there is some confusion since the cash budget indicates capital expenditure for the next twelve months whilst the note to the financial statements indicates both short-term and long-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council's future intentions.
- 11.2 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 as detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr Jordy Brincat, Mr Carmel Attard and their staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

