

The Mayor
Qormi Local Council
392, Triq il-Vitorja
Hal Qormi (Citta' Pinto)
Malta

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24 August 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 Income

We again identified irregularities in LES administration fees (refer to notes 2.8 and 2.10).

1.2 Expenditure

We are pleased to note that the council did not exceed the budgeted figures.

1.3 Creditors

We again identified debit balances in the creditors' list (refer to note 6.5).

We are pleased to note that we did not identify any discrepancies in accruals.

1.4 Financial statements

We are pleased to note that the council prepared financial statements in line with IFRS.



2 Income

General Income

- 2.1 During our testing of general income, we noted that the council was including all the money received from Wasteserv Malta Ltd in relation to the organic bags amounting to €108,299.70 in general income. An audit adjustment was proposed to account for this amount as other Government income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.2 Furthermore, we also noted that the council received income amounting to €4,179.68 from the South Region in relation to a cheese and wine festival, Christmas lights and refunds on CCTV camera expenses with general income. An audit adjustment was proposed to account for this income with other Government income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.3 We recommend that the council allocates its income to the appropriate accounts so that the income of the council is properly reported.
- 2.4 Whilst conducting our audit, we noted that the council did not deposit its income on a regular basis.

Permit number	Receipt number	Receipt date	Deposit date	€
15405	46455	23.01.2020	28.01.2020	10.00
15924	47011	04.03.2020	10.03.2020	30.00
17786	48949	25.08.2020	01.09.2020	10.00
18317	49574	15.10.2020	20.10.2020	20.00

- 2.5 The above is in contravention of the relevant regulations. Moreover, leaving cash and cheques on the premises can raise security issues. We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedure.

Custodial Receipts

- 2.6 Similarly, we identified the following cases whereby Lands and LES custodial receipts were not deposited within the required timeframe.

Description	Receipt number	Receipt Date	Deposit date	€
Lands Department	952954	18.09.2020	18.09.2020	140.00
Lands Department	911652	25.01.2020	29.01.2020	27.95
Lands Department	914734	18.02.2020	25.02.2020	69.88
Lands Department	942688	26.08.2020	01.09.2020	60.00
Lands Department	935217	29.07.2020	04.08.2020	352.94
Lands Department	964989/JO	20.11.2020	24.11.2020	41.93
Lands Department	917511	06.04.2020	21.04.2020	210.00
LES Income	068176647	29.12.2020	05.01.2021	36.65
LES Income	14224705	13.11.2020	17.11.2020	50.00

- 2.7 We reiterate our recommendation that the council deposits cash twice weekly, primarily to comply with the Local Councils (Financial) Procedures but also for security purposes.

LES administration fees

- 2.8 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 €165.65. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.

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

Pre-regional LES debtors

- 2.10 During our testing, we compared the amount of pre-regional tickets as stated in report 622 which was generated from the Loqus system with the figure in the books of account. We found that the amount in the books of account is understated by €1,187.26. We did not propose an audit adjustment to correct this discrepancy since amounts are fully provided and therefore there will be no effect on the financial statements.

- 2.11 Furthermore, during our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in the books amounted to €2,082.87 which contrasts with the amount of €256.06 shown in report 483 for pre-regional contraventions paid during the year. We did not propose an audit adjustment in this respect since no explanation was forthcoming.

- 2.12 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend that the council takes the matter up with Loqus to determine what this difference pertains to. We also recommend that the council accounts for the movement from year to year so that the council is aware of what amounts are still due from pre-regional debtors at any point in time.

Joint Committee

- 2.13 We noted that the Central Joint Committee, of which Qormi Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2010.
- 2.14 We have obtained the last audited financial statements of the Central Joint Committee and noted that reserves at that date amount to €43,207. In the absence of audited financial statements 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.
- 2.15 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.

Accrued Income

- 2.16 During the year under review, we noted that the council accounted for €69,056.29 accrued other supplementary Government income for tipping fees. We have noted that, to date of the audit fieldwork, the council has received or is promised to receive the amount of €68,111.35. Hence, we have proposed an audit adjustment amounting to €944.94 to reverse the amount not yet approved for payment by the Department by the year end. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.17 We recommend that the council records such amounts when they have been approved for payment and are certain to be received.
- 2.18 Furthermore, in accrued income, there was also the amount of €71,123.68 in relation to a grant for Spiteri Freemond Road. Upon enquiry, the council notified us that after year end the council obtained funds amounting to €65,959.05. Therefore an audit adjustment amounting to €5,164.63 was proposed to show the correct accrued income amount. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 2.19 We reiterate our recommendation that the council records only amounts when they have been approved for payment and are reasonably certain of the amounts to be received.

3 Expenditure

Procurement procedures

- 3.1 Our testing on cheque payments revealed instances where a purchase was not supported by quotations in accordance with the Procurement Guidelines 2017. The following are examples:

Details	Supplier	€
Tindif Ta' Gonna Extra Service	Paul Curmi	1,090.00
Karnival 2020 Party - Sweet Cones	John Felice	3,245.00

- 3.2 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 lower than €500, a direct order approved by the executive secretary is issued. We also draw your attention to section e.01 of the Local Councils (Financial) Procedures, 1996 which states that a similar purchase within four months is to be considered as one single purchase.

Asset insurance policy

- 3.3 During our audit we identified the below discrepancies between the asset insurance cover and the net book value (NBV) assets as per prior year audited financial statements:

Asset	Sum insured €	NBV in books of account €
Property	961,280	724,945
Furniture and fittings	110,227	27,749
Plant, machinery and equipment	153,126	11,493
	1,224,633	764,187

- 3.4 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 to ensure that the council's insurance coverage is in line with current legislation.
- 3.5 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 have a nil net book value we recommend that the insurance at least covers the replacement value for assets.

4 Property, plant, and equipment

Fixed asset register

- 4.1 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail. Examples include:

Asset category	Asset code	Description	Net book value €
Trees	KLQ00292	57 Trees/670 Shrubs	6,295.39
Furniture and fittings	KLQ00937	19mm Laminated Glass w/structure	1,068.90
Furniture and fittings	KLQ00942	Galvanised Shelving	251.17
Furniture and fittings	KLQ01101	Computer Desk	87.69

- 4.2 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

- 4.3 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 fully updated.
- 4.4 During our testing we also noted that included in the fixed asset register there is a Corsa Panel Van with asset reference KLQ01059 which according to the council has been scrapped. The asset had a €nil net book value in the books of account.
- 4.5 The secretary is required to create, maintain and control an up-to-date inventory of the fixed assets held by the council, as required by the Local Council's (Financial) Procedures P1.16b. It is recommended that the fixed asset register is reviewed and any obsolete items included in the fixed asset register are written off or scrapped. Any write off or scrapped assets should be approved in council meeting.

European Agricultural Fund for Rural Development 2014-2020 measure 4.3

- 4.6 Whilst performing audit procedures on fixed assets we noted that the council capitalised in the urban improvements and construction category the amount of €337,058.45 in relation to the European Agricultural Fund for Rural Development (EAFRD) 2014-2020 measure 4.3. In 2018 the council received a grant amounting to €219,912.96 to cover eligible costs to improve accessibility to rural areas in the locality whereby various road resurfacing or construction works will be carried out. The council is also still to receive the amount of €115,669.17 when the project is fully finalised.
- 4.7 We noted that article 10 of the agreement states that *'ownership of results of the projects including industrial and intellectual property rights, and of the reports and other documents relating to it shall, in the case of public sector operations, be vested in the Government of Malta and not with the beneficiary'*, the latter being the council. To this end we have proposed an audit adjustment to reverse the cost amounting to €337,058.45 and the grant additions in the property plant and equipment schedule amounting to €335,582.13. Furthermore, its respective depreciation amounting to €147.63 was reversed by an audit adjustment as no depreciation should have been accounted for. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 4.8 We recommend that the council always evaluates whether works should be capitalised or expensed on a case by case basis. Furthermore, the council should also be in line with the agreements. In such case, article 10 of the agreement is specific that the ownership is not vested in the beneficiary that is the council.

5 Debtors

Overdue receivables

- 5.1 The council's books of account include the provision for doubtful debts of €11,156.41 for the below long outstanding balances:

Debtor	€
Ballut Blocks	460.74
Force 5 Limited	417.86
GreenMT	9,277.81
Qormi Football Club	1,000.00
	<u>11,156.41</u>

- 5.2 The council should ensure that the balances are valid and, if so, pursue these debtors by sending them reminders for the long overdue amounts.
- 5.3 We have also noted some long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Bugeja Lucas Maria Paula	1,000.00
Ben's Pizzeria	698.76
Electroit	232.90
Rokky Productions	232.92
Razzett l-Antik	465.84
Regjun Ghawdex	6.99
Regjun Xlokk	140.59
Romano Cassar Ltd	326.08
Royalty Bedding	186.34
Sarcia Tattoo Parlour	116.46
Water Services Corporation	491.63
X-Signs	116.46
	<u>4,014.97</u>

- 5.4 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 it still has the right to collect the amounts due.

Confirmation of debtors

- 5.5 As part of our audit procedures we circularised confirmation letters to selected debtors. From our testing of the balance with Wasteserv Malta Ltd, the supplier confirmed the amount of €54,158.52 which differs from the amount of €106,963.78 shown in the books of account by €52,805.26. From our analysis we noted that certain invoices which the council sent to Wasteserv Malta Ltd were not being taken into consideration, however these did not make up the full discrepancy noted above. No audit adjustments were proposed in this regard since no reconciliation was provided by the council to reconcile the discrepancies noted.
- 5.6 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences and is in a position to tackle these in a timely manner.

Prepayments

- 5.7 During our testing of prepayments, we noted an a prepayment amounting to €92,698.90 in relation to Measure 4.3 projects. Upon further queries and analysis, it was noted that the final Bill of Quantities was issued and amounted to €335,582.13. To year end, the council had paid, mainly through a grant the amount of €125,486.98. This means that at year end the council had a creditor balance amounting to €210,095.15 which contrasts with the creditor balance amounting to €302,794.07 shown in the books of account. An audit adjustment amounting to €92,698.90 was passed to transfer the amount shown in prepayments with creditors. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 5.8 We recommend that the council accounts for prepayments only when amounts have already been paid and relates to subsequent to year events. This would ensure that a true view of the creditors and prepayments is shown in the books.

6 Creditors

Supplier statements

- 6.1 It was noted that the council did not obtain monthly and year end statements from all suppliers. Memos and circulars issued from time to time by the Department specifically emphasise that every council should acquire monthly statements from all its suppliers.
- 6.2 We understand that the council does make effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend that 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.

Long outstanding trade creditors

- 6.3 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amount to €27,785.34 and have been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

Supplier	In creditors' list €
Munch & Crunch	326.80
Opal Limited	300.00
Road Maintenance Services Limited	22,653.61
Strand Electronics	41.30
Smartlight Systems	424.80
The Light Housekeeper	3,133.87
Water Services Corporation	904.96
Total	<u>27,785.34</u>

- 6.4 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Debit balances in creditors' list

- 6.5 We have identified the following debit balances in the creditors' list amounting to €43,325.02:

Supplier	€
Arms Ltd (note a)	5,012.29
Cassarino Salvatore (note b)	16,794.21
R&A Waste Services Ltd (note c)	21,458.52
TSS Sound Rental	60.00
	<u>43,325.02</u>

- (a) The council notified us that this is due to the fact that the council used to pay the electricity bills, even when the estimate used to be sent. This resulted in them making noting an overpayment when the results with the actual consumption arrived. The council is now netting off any amounts due with the amounts overpaid in prior years.
- (b) The council stated that this amount is in debit due to the fact that a payment was made twice to the supplier resulting in the debit balance. This will eventually be netted off with future invoices.
- (c) In the case of R&A Waste, the council stated that this resulted in a debit balance due to the fact that the council should not have been paying the supplier for the green bags.

Debit balances in the creditors' list have been reclassified to other debtors by means of an audit reclassification.

Deferred Income

- 6.6 During our testing of deferred income, we noted that the council included the amount of €65,434.42 in relation to a Gal Xlokk grant for the refurbishment of Garden in Triq is-Sajf. Upon obtaining the grant agreement, we noted that the council was only eligible for €57,870. Therefore, an audit adjustment was passed to reduce the deferred income and accrued income by €7,564.42 to agree to grant agreement. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.7 We recommend that the council keeps up to date with all grants received to make sure that the proper amounts of deferred and accrued income are taken in the books of account.
- 6.8 With regards to the same project mentioned in note 6.6, we also noted that the council has already started paying some of the project with the amounts being included in the assets under construction category. Therefore, an audit adjustment amounting to €57,870 was proposed to include the grant received in line with the amounts included in the assets under construction. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.9 We recommend that the council ensures that any grants which are used are matched with the expense being incurred to ensure that the capital approach for grants is adhered to.

7 Bank and Cash

Bank account representatives

- 7.1 During our testing of bank balances, it was noted that the previous mayor, is still listed as an account representative for the BNF bank account held by the council. As a result the council did not manage to obtain and provide us with bank statements as at year end nor were we able to obtain a direct bank confirmation due to the signatories between bank request and bank records not matching. The amount in the books of account amounted to €22,815. In view of the amount shown in the books of account and the fact that no confirmation of the balance could be obtained, our audit report is qualified in this respect.
- 7.2 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 loan

- 7.3 When re-performing loan calculations to measure the loan into its short and long-term portions, we noted that the Council does not distinguish between current and non-current loan liability in their accounting system. However, the split between short and long term was correctly passed in the financial statements. An audit reclassification was passed from our end to split the amounts agreeing to the financial statements.
- 7.4 We recommend that the council passes the reclassification when closing off to ensure that the correct split between the short- and long-term portion of loan is accounted for. This is because an overstatement in the current portion of loan impacts the council's liquidity position and FSI.

Cash float

- 7.5 During our audit fieldwork we performed a cash count and subsequent roll back of petty cash, we noted that the cash balance per books at year end amounted to €324.42.
- 7.6 This implies that the council contravened section 38(3) of the Local Councils (Financial) Regulations which state that the council's cash float should not exceed €232.94 at any time.
- 7.7 During the cash count as at 22 June 2021, we counted the cash balance and reconciled it back to 31 December 2020. A difference arose while comparing to the amount recorded in the books of accounts and the physical count thus revealing €90.97 less than the books. No audit adjustment was proposed since no reasonable explanation was provided by the council.
- 7.8 We reiterate our recommendation 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 on a monthly basis.

FWT on bank interest

- 7.9 We noted that the BOV savings account is subject to final withholding tax.

- 7.10 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

8 Inventory

Net realisable value of inventory

- 8.1 During the audit fieldwork it was noted that in its books of account the council has an amount of €4,537.91 worth of stock. The council's inventory comprises of books, tie-pins and stamps. It was noted that proceeds from two books are being donated to a third-party charity. An audit adjustment of €1,917.91 was passed to expense the value of these books since no income will be generated from the sale of these books and therefore the net book value of these books is €nil. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.2 After taking into account the adjustment in point 8.1, the council has stock amounting to €2,620. It was noted that this is made up of old stock, some of which were published in 2018, with the council still having a number of copies of these publications.
- 8.3 We recommend that the council assesses whether such assets are being carried out at the lower of cost and net realisable value in the financial statements as required by generally accepted accounting principles. Provision or write-off of this inventory might be considered if the council sees that such inventory is slow-moving.

9 Uploading of documents on local council's website

- 9.1 We noted that the council failed to upload the quarterly reports from January to June 2020, the 2021 annual budget and the 2020-2024 business plan, the 2019 Annual administration report, the 2019 financial statements, management letter and reply to management letter within the required time frame.
- 9.2 Moreover, the council did not upload the quarterly financial reports from July to December 2020 on the council website.
- 9.3 We recommend the council uploads all documents in pdf format within the required timeframe. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

- 9.4 During our audit fieldwork, we noted that the council has uploaded the 2019 Management Letter and reply in full in accordance with Circular 21 of 2019.
- 9.5 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 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.

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

10 Schedule of payments

10.1 During our review of minutes, we noted that the schedules of payments were approved by the council, but the schedules did not include a complete list of cheque numbers.

10.2 Furthermore, it was also noted that the cheques were not listed in a sequential order on the schedule of payments.

10.3 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.

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 Karen Camilleri and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

