



Grant Thornton

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The Mayor
Marsaxlokk Local Council
2, Triq Vittorjo Cassar,
Marsaxlokk MXK

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Our ref ABC/mf/46619

9 April 2019

Dear Sir,



Financial statements for the year ended 31 December 2018

During the course of our audit for the year ended 31 December 2018 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 Income from LESA distribution

During the year under review, the council did not receive a distribution from LESA.

1.2 Income from LESA

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

1.3 Payment of FSS and NI

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

1.4 Petty cash expenditure

The council has rectified the issue during the year under review.

1.5 Payment approval

We did not note any cheque payments issued prior to approval by the council.

1.6 Tendering procedures

We did not note any shortcomings in the tendering procedures.

1.7 Insurance policy

The council's assets are still not being appropriately insured (refer to note 4.1).

- 1.8 **Gal Xlokk membership**
We are pleased to note that the council received the financial statements from the Gal Xlokk Foundation.
- 1.9 **Reconciliation of fixed assets in the financial statements to accounting records**
We are pleased to note that the net book value of assets in the financial statements agrees to accounting records.
- 1.10 **Upkeep of fixed asset register**
We have still noted missing information in the fixed asset register (refer to note 5.1).
- 1.11 **Reconciliation of financial statements to fixed assets register**
We did not encounter any difference between the financial statements and fixed asset register.
- 1.12 **Tagging of fixed assets**
The council is still not tagging its fixed assets (refer to note 5.4).
- 1.13 **Disposal/ write-off of fixed assets**
No disposals took place during the year under review.
- 1.14 **Overdue receivables**
We have again noted that the debtors' list still includes long overdue receivables (refer to note 6.1).
- 1.15 **Trade receivable**
A difference was again noted between a debtor balance in the books of account and the debtor's reply (refer to note 6.3).
- 1.16 **Garnishee order**
The garnishee order is still included in the books of account (refer to note 6.5).
- 1.17 **Pre-regional LES Debtors**
We have again noted a difference between the report 622 issued from the Loqus system and the receivables included in the books of account (refer to note 6.7).
- 1.18 **Credit balance in debtors' list**
As in the previous year we have still identified a credit balance in the debtors' list (refer to note 6.9).
- 1.19 **Cash in hand reconciliation**
The cash in hand still does not agree to the nominal ledger (refer to note 7.1).
- 1.20 **FWT on bank interest**
The council did not rectify the issue of final withholding tax on a council bank account (refer to note 7.3).

1.21 Suppliers' statements

The council did not obtain suppliers' statements from all suppliers (refer to note 8.1).

1.22 Amount in dispute

We are pleased to note that the council has obtained written confirmation that the amount is no longer in dispute.

1.23 Payments on account

We have again noted that the council is still making payments on account (refer to note 8.3).

1.24 Councillors' excuse letters

We are pleased to note that the council obtained written excuse letters for absences from meetings.

1.25 Schedule of payments

We have again noted irregularities regarding schedule of payments (refer to note 9.1).

1.26 Electronic website

The council's electronic site is not updated in accordance with the Local Council Procedures (refer to note 10.1).

1.27 Change in executive secretary

The council did not have a change in executive secretary during the year under review.

2 Income**Other Government income**

2.1 In 2018, the council received €31,662 from the Department for Local Government for the commercial zone and adjustment fund. The council has included this amount with the annual allocation. In view of this we passed an adjustment to record the above as other Government income. The council has amended the financial statements to include our audit adjustment.

2.2 We recommend that the council records income obtained from the Department through various schemes to be recorded under other Government income unless otherwise directed by the Department.

Custodial receipts

2.3 During our audit fieldwork we noted an instance where a Lands Department payment was not deposited in a timely manner. Receipt number 802039 dated 23.05.2018 was deposited on 30.05.2018.

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

Prepayments and accrued income

- 2.5 We noted that in the financial statements, prepayments erroneously includes an invoice issued to Malta Tourism Authority which amounts to €317. The books of account correctly classified the above invoice with accrued income. We requested the council to reclassify the amount in the financial statements to agree to the books of account. The council has amended the financial statements accordingly.
- 2.6 We recommend the council correctly presents debtors and prepayments in the financial statements to ensure figures agree to the books of account.

3 Payroll

Councillors' allowances

- 3.1 Whilst testing wages we noted that the €1,600 mayor's allowance was included in the mayor's honorarium account. We have proposed an audit reclassification to adjust the books of account. The council has amended the financial statements to include our audit reclassification.
- 3.2 We recommend that the council classifies councillor allowances separately from employees' wages and salaries.

4 Expenditure

Insurance policy document

- 4.1 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	74,221
Electronic and office equipment	9,230	37,542
Plant and machinery	2,492	10,048
Total	20,677	121,811

- * NBV is at 31.12.2017 before adjusting grants and depreciation.

Furthermore the council has insured "property in the open", i.e. community assets.

- 4.2 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.
- 4.3 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. However, in view of the fact that last year a significant number of assets had a nil net book value (because of the change in depreciation and treatments of grants) we recommend that the insurance at least covers the replacement value for assets.

Procurement

- 4.4 Our testing on cheque payments revealed instances where a purchase was not supported by quotations in accordance with the Procurement Guidelines. We were not provided with any evidence of the relevant quotations during our audit fieldwork. Examples include:

Details	Supplier	€
Spec and drawings	Attard Woodworks	375.00
Generator	M.G Pulis	420.00
Computer problem network connection	C. Planet IT Solutions Limited	1,132.51
Repairs on parish square barrier	FGP Limited	620.00

- 4.5 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.

Travel

- 4.6 During the audit we noted that the council incurred travel expenses for the Sicily conference amounting to €349.92. The council did not submit a report to the Department for Local Government giving details of the conference attended.
- 4.7 The council is required to prepare travel reports for each project or event which the council or delegates attend and submit this to the Director for Corporate Services as required by MF/5/2012. The report should be submitted to the Department for Local Government by not later than one month after the trip and needs to include the for purpose of the visit and any remarks such as benefits achieved from such trips.

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
 - 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.

Addition to fixed assets

- 5.6 During the audit we noted that the council has purchased a generator for €420 for which no VAT invoice or receipt was provided.
- 5.7 This contravenes the Local Council (Financial) Procedures. We would like to emphasise that it is of utmost importance that the council is obliged to obtain a valid tax invoice or receipt addressed to the council for all purchases.

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 (refer also 6.3).
- 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:

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
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 identified 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 2018 were €110,159.44, compared to the amount of €49,625.12 reported in the unaudited financial statements. This results in a difference of €60,534.32 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.

Credit balance in debtors' list

- 6.9 We have identified a credit balance in the debtors' list amounting to €116.92 (Gozo Regional committee) for which an audit reclassification was proposed to reclassify this amount. This was approved by the council and properly reflected in the audited financial statements.
- 6.10 We recommend that the council presents credit balances separately from debtors and includes them with other creditors in the financial statements.
- 6.11 Further to the above, the council should investigate all credit balances in the debtors' list as these could indicate payments allocated to the wrong debtor account, invoices not recorded or overpayments.

Bank and cash

Cash in hand reconciliation

- 7.1 Whilst performing our cash in hand reconciliation, we noted that the books of account include €51.16 as cash in hand; however the local council does not physically hold any cash in hand. At the date of the cash count, the clerks failed to provide an explanation for the difference. Subsequently, the council informed us that this difference arose from permits not deposited as at year end.
- 7.2 We remind the council that regular cash counts and reconciliation to the books of account assist the council in identifying differences and resolving them immediately. To this end, we recommend that the council performs this exercise on a regular basis.

FWT on bank interest

- 7.3 We noted that the BOV account 40025256734 is subject to final withholding tax.
- 7.4 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

Cheque payments

- 7.5 While reviewing cheque stubs we noted that BOV cheques 1459 to 1463 were pre-signed by the mayor without any payee and amount written on it (i.e. a blank cheque).
- 7.6 The mayor should not sign blank cheques before all details have been included on the cheque payment. Furthermore, the council should ensure that all payments are approved during council minutes prior to any payments being made.

8 Trade and other payables

Suppliers' statements

- 8.1 During the course of our audit we noted that the council did not manage to obtain monthly suppliers' statements for all suppliers.
- 8.2 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.

Payments on account

- 8.3 Whilst reviewing the supplier activity we again noted that the council is making payments on accounts rather than on specific invoices. This was noted on the following suppliers: ARMS Limited, Image Systems Limited, V & A Services Limited and WasteServ Malta Limited. In this respect we were unable to identify long-outstanding invoices and match invoices to payment received.
- 8.4 We recommend that the council should issue payments against specific invoices. Thus the council will be able to reconcile creditor balances and promptly identify any differences. Payments should be allocated to specific invoices in order to immediately identify any misallocation.

Long outstanding trade creditors

- 8.5 We noted that the council's trade creditors' list includes a long outstanding balance of €2,207.65 due to Saviour Mifsud.
- 8.6 We advise the council to review this amount and either settle it or, if not due, reverse it after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Accrued legal expenses

- 8.7 During our testing we noted that the council's list of accruals includes €17,381 as legal expenses. Upon further enquiry of the executive secretary 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.
- 8.8 We advise the council to review this amount after the final judgement has been received and reflect the decision in the books of account.

9 Schedule of payments

- 9.1 We have again noted that the council had a number of cheques which were not included in the schedules of payments. Examples are cheque numbers 984 to 992 and 1028 to 1032 issued from the BOV account. During further investigation we identified that all omitted cheques were pertaining to personal emoluments. We also noted that as from March 2018 the council started to include personal emolument payments in the schedules of payments.

- 9.2 We reiterate our recommendation from the previous management letter stating that the council is 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 DLG 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.

10 Electronic website

- 10.1 We noted that the council did not upload the following documents on the website of the council within the required time frame:

- i. Quarterly reports January - March, April - June, July - September, October - December were uploaded late on the website.
- ii. Business plan 2018 - 2020 and annual administrative report were uploaded late on the website and they were not indicated as signed.
- iii. The council failed to upload the annual budget within the stipulated time frame.
- iv. To date of the audit fieldwork the council failed to upload the management letter and reply to the management letter.
- v. Meeting minutes: 48, 49, 50, 53, 54, 56, 60, 61 and 64 were not uploaded on the website within the specified time period.

- 10.2 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

- 10.3 Memo 7/2016 required the council to upload the management letter on the website. We have noted that the council does not upload the letter on the website whilst other councils do so. We would like to point out the Local Councils (Audit) Procedures, P2.10.06b states that "such correspondence would not be made public....".

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

- 10.5 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 the GDPR prior to uploading on the website.

11 Meetings

Meeting regulations

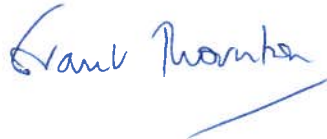
- 11.1 During the year under review we noted that meetings 48, 53, 54, 55 and 57 lasted more than three hours without obtaining the required consensus.
- 11.2 We would like to remind the council that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless consensus is obtained from all those present to extend the meeting.

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 Ms Emanuela Vella and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,





10 May 2019

**Local Government Auditor
National Audit Office
Notre Dame Revelin
Floriana
FRN1600**

Reference is made to the Auditor's letter dated 25 April 2019 which the Local Council received on the 25 April 2019, from the Auditors Grant Thornton In terms of section P2.06B(c.02) of the Local Councils' (Audit) procedures 2006, on behalf of the Marsaxlokk Local Council we are presenting herewith the following comments:

1 Follow up on previous Management Letter

The Local Council is pleased to note the Auditor's remarks in this section whereby most of the main issues which were highlighted last year were tackled. These mentioned issues are as follows;

- 1.1 LESA Invoices
- 1.3 Timely Payments of FSS and NI
- 1.4 Detailed petty cash expenditure
- 1.5 Cheque payments issued following Council's approval
- 1.6 No shortcomings in the Tendering Procedures
- 1.8 In receipt of all Gal Xlokk financial statements
- 1.9 Reconciliation of fixed assets in the financial statements to accounting records
- 1.11 Reconciliation of financial statements to fixed assets register

2 Income

- 2.1 / 2.2 The Local Council received €31,662 from the Department for Local Government which is part of the total annual allocation for the commercial zone and adjustment fund. Nonetheless reclassification was done and the Council will do its utmost so this will not happen again.
- 2.3 / 2.4 The payment for the Lands Department noted by the Auditor's was deposited in a timely manner, it was paid by the customer on the 23 May 2018 and deposited by the Council on 25 May 2018. Relevant documents have been enclosed with the Management Letter, for your kind attention.
- 2.5 / 2.6 The invoice amounting to €317 issued to the Malta Tourism Authority was erroneously included in the Financial Statements yet, it was adjusted. The Council will do its utmost to address such issues.



3 Payroll

3.1 / 3.2 The Mayor's allowance was reclassified as suggested by the auditors. Nevertheless the Council will be classifying Councillor's allowances separately from employees' wages and salaries.

4 Expenditure

4.1/4.2/4.3 The Council will review the insurance policy during the current year 2019.

4.4/4.5 The Local Council always does its utmost to obtain three signed quotations for purchases exceeding €50 up to €5000 as per procurement guidelines. Please take note of the below Council's comments to the Auditor's findings;

Spec and drawings / Attard Woodworks - The Local Council needed another piece of furniture for administration use and since the furniture which the Council holds was previously ordered from the mentioned supplier it was not practical to obtain three quotations as we had to stick with the original material and design;

Generator / M.G Pulis - Three quotations were obtained and are enclosed with this Management Letter for your kind attention;

Computer problem network / C.Planet IT Solutions Limited - Three quotations were not obtained due that the mentioned supplier had in the past installed all the Council's network system and is aware of certain issues and requirements. In addition, all suppliers need to check for the problem before giving a quotation and the Council would have paid for three service charges to obtain three quotations;

Repairs on parish square barrier / FGP Limited - The Local Council had bought the barrier from the mentioned supplier therefore, when the Council needs repairs such as remote configuration, damages by third parties and other faulty issues it always reverts to the same supplier for immediate repairs. Moreover, if the Council opts to ask for quotations it will be charged for service charge more than once.

4.6/4.7 The auditor's recommendation has been noted and a detailed Report of the conference along with the travel reports will be submitted to the the Department for Local Council and to the Director for Corporate Services.



5 Fixed Assets

5.1/ 5.2/ 5.3/5.4/5.5 The Generic titles relate to old assets and most of these assets have NIL balances. It is also difficult for the Council to find the necessary information relating to 20 years ago, especially due to change in accounting software and staff.

5.6 / 5.7 The Local Council holds a VAT receipt as well as an invoice for the purchased generator as per Local Council Financial Procedures. Please find enclosed with this Management Letter for your kind attention.

6 Receivables

6.1/6.2 The Council will be looking into the matter and try to settle this issue in the current year.

6.3/6.4 The Auditor's recommendation has been noted and the Council will investigate the variance during the current year.

6.5/6.6 The Local Council will be following up the Garnishee order dated 2008, as to confirm whether it has been released, following the book of accounts will be adjusted accordingly.

6.7/6.8 The Auditor's recommendations regarding pre-regional LES debtors has been noted and will be followed up and actioned accordingly.

6.9/6.10 / 6.11 The Council will do its utmost to classify the credit balance in aged debtors list. The mentioned balance was investigated in previous years and the Council is sure that it is an over payment made by the said region.

7 Bank and Cash

7.1/7.2 During the Auditor's visit the petty cash was counted and no variance was found. On the other hand the Council properly maintains deposit slips and reconciliations for cash received from permits and other by law. The amount of €51.16 could have been easily traced by cut off testing. Kindly refer to the reconciliation sheets which are enclosed with this Management Letter for your kind attention.

7.3/7.4 The Auditor's recommendation has been noted and this matter will be discussed with the Bank and rectified accordingly.

7.5/7.6 The Auditor's recommendation has been noted and this issue will not happen again.



8 Trade and other payables

- 8.1/8.2 The Local Council reconciles regularly all statements received by various suppliers however, due to the fact that payments by the Local council are usually effected on a regular basis, a number of suppliers do not send monthly statements. Nevertheless, the Council will keep doing its best to obtain such statements within the stipulated timeframe.
- 8.3/8.4 The mentioned suppliers are all paid against an invoice hence, no payments on accounts are done except for Wasteserv. The latter is paid accordingly to the allocation received by the Department for Local Government.
- 8.5/8.6 The amount relates to a stale cheque and the Council was seeking legal advise to check whether it is due or not. The necessary adjustments will be carried out in 2019 and minuted accordingly.
- 8.7/8.8 The accrued expense is in line with first judgement. Even though the Council filed an appeal it was prudent and provided for the amount in line with the court judgement. This case will be followed and the necessary adjustments will be carried out as directed by the auditors.

9 Schedule of payments

- 9.1/9.2 These instances were noted and brought to the Council's attention in the previous Management Letter therefore the Council had started to include personal emolument payments in the schedule of payments from March 2018 as per the Auditor's recommendation.

10 Electronic website

- 10.1/10.2 Whilst the Auditor's recommendation has been noted and shall be implemented during 2019 the Council would like to add that during the migration of the new Local Council's website certain documents were lost and the Council sent several emails in this regard.
- 10.3/10.4 /10.5 The Auditor's recommendation on this issue which is also related to GDPR has been noted and this query will be communicated with the Department for Local Government. Following, the Council will act according to the guidelines provided by the Department for Local Government.

11 Meetings

- 11.1/11.2 The Auditor's recommendation has been noted and consensus will be obtained by the Council when council meetings exceed three hours.



The reply has been approved by the Local Council during a council meeting held on 9 May 2019.

The Marsaxlokk Local Council would like to thank the Auditors for their professional advice as provided during the course of the audit.

Yours faithfully,

Horace Gauci
Mayor

Emma Vella
Executive Secretary