

Our Ref: NAO 107/2015/46  
Your Ref:

29 May 2020

The Mayor and Executive Secretary  
Pembroke Local Council  
Pembroke

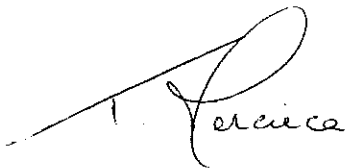
Dear Sir/Madam,

**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



Kunsill Lokali  
Pembroke

29 MAY 2020

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Encls.



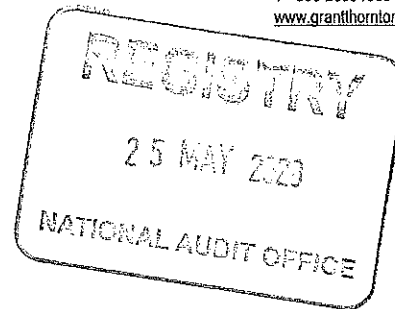
# Grant Thornton

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Our ref MB/mf/31720

30 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 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**

The council still failed to obtain the annual audited financial report of the Joint Committee (refer to note 2.11).

We did not encounter any instances where receipts were not issued in order.

We again identified irregularities in income recognition period (refer to note 2.1).

We did not identify grants included in income which was of a capital nature.

#### **1.2 Expenditure**

We again noted that the council is not insuring the assets appropriately (refer to note 3.3).

We are pleased to note that the actual expenditure was in line with the 2019 budgeted amounts.

#### **1.3 Fixed assets**

The fixed asset register is once again lacking information as requested by the Local Councils (Financial) Procedures, 1996 (refer to note 4.1).

We again identified discrepancies between the fixed asset register, financial statements, and books of account (refer to notes 4.6, 4.11 and 4.13).



We still identified assets that are no longer used by the council (refer to note 4.3).

We again identified intangible assets which are not being shown in the books of account (refer to note 5.1).

**1.4 Receivables**

We are pleased to note that we have not identified any shortcomings in prepayments, however we still identified some irregularities in accrued income (refer to note 6.1).

We are pleased to note that the movement in LES debtors is in line with the amount received during the year.

**1.5 Cash and Bank**

We did not encounter any stale cheques.

**1.6 Trade and other payables**

We again identified shortcomings in accruals (refer to note 7.5)

**1.7 Financial Statements**

We again identified shortcomings in the presentation and disclosure of the unaudited financial statements (refer to note 8.1)

**2 Income**

**Supplementary Government Income**

2.1 During our audit fieldwork, we noted an amount received for tipping fees amounting to €17,188 which was accounted for by the council as €18,363. This was also reflected in the year-end balance with WasteServ (refer to note 7.3). An audit adjustment was proposed by the council in this regard. This has been correctly incorporated in the audited financial statements.

2.2 We recommend that the council ensures that income recorded ties up to the actual amount received so that the income for the year is properly reported.

**Other Government Income**

2.3 We also noted that the agreement with the Ministry for Justice, Culture & Local Government in relation to the 'Clean Up the World 2019' initiative is not yet signed by a representative of the Ministry.

2.4 We recommend that the council contacts the Ministry so that the agreement is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.

**General Income**

2.5 During our audit fieldwork, we came across instances where the council did not deposit its receipts from permits on a regular basis. Examples are:

Receipt number	Details	Receipt date	Deposit date	€
5645	Crane Permit	16.04.2019	23.04.2019	15.00
5732	Lifter Permit	21.06.2019	28.06.2019	15.00



2.6 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the council implements procedures so that all receipts are deposited at least twice weekly.

**Custodial receipts**

2.7 We noted an instance whereby the council failed to deposit cash for LES contraventions on a timely in the instance as described below:

Details	Receipt no.	Receipt date	Deposit date	€
LES receipt	4333490	13/08/2019	19/08/2019	23.29

2.8 We remind the council 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 of time since, apart from contravening the Procedures, it can give rise to security concerns.

**Income from LES administration fee**

2.9 As part of our testing, we obtained the Loqus report 483 and reconciled it to income from LES administration fees. It was established that the council’s income from LES administration fees for 2019 is understated by €152. Part of the discrepancy is coming from accrued income amounting to €220 for December 2019 which was not accounted for (refer to note 6.1). This resulted in an overstatement of €68. No explanation for the revised difference was forthcoming and therefore no audit adjustment was proposed for the remaining difference.

2.10 We recommend the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council’s books.

**Joint Committee**

2.11 Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the Joint Committee. The Joint Committee ceased operations on that date. The council managed to obtain audited financial statements for year end 31 December 2015, however no financial statements for the year ended 31 December 2019 were provided and consequently we were unable to determine whether the Council is entitled to receive any further income from the Joint Committee. In view of this, we had to qualify our audit opinion.

2.12 We recommend that the council queries this issue with the Department for Local Government and tries to obtain audited financial statements to ensure whether the council has any amounts which are still due to the council.

**3 Expenditure**

**Payment approval**

3.1 We identified instances where the council issued a cheque before approval in council meetings. Cheque 299 dated 12 August 2019 issued to AKL was approved on 29 August 2019. Similarly, cheque 349 dated 20 September 2019 issued to Maltapost was approved on 26 September 2019.



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

**Asset insurance**

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

Asset	Sum insured €	NBV in books of account €
Buildings	74,100	-
Plant and Machinery	6,359	-
Other trade content	80,054	12,850
<b>Total</b>	<b>160,513</b>	<b>12,850</b>

3.4 It is evident that the council’s fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council’s insurance coverage is in line with current legislation.

3.5 Whilst reviewing the insurance policy we also noted that the council is insuring property in the open, for the sum of €365,502. This is in breach of Directive 3/2017 which states that community assets should not be insured.

3.6 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 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 Fixed assets**

**Upkeep of fixed asset register**

4.1 The fixed asset register does not include important information such as suppliers’ details, invoice number and location of assets. Although we appreciate that the council’s accounting system allows the fixed asset register to be issued in various formats, the council is still unable to furnish a single fixed asset register report showing all necessary details. Examples include:

Asset category	Asset code	Description	NBV €
Urban improvements	URBAN349	Pump for fountain	595
Construction & street paving	CONST137	Hot Tarmac in Triq il-Mediterran Plakka	8,085
Urban improvements	URBAN376	Kommemorattiva – Masgar 25 Sena	108



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 During our testing we noted that the fixed asset register includes the following fixed assets which were not located at the council's premises:

- COMP012 - Scanner and Zip Drive
- COMP023 – New Computer/Tel/Fax Network

4.4 It was noted that these assets have a nil net book value and were disposed of in prior years.

4.5 May we remind the council that 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 (Financial) Procedures P1.16b. It is recommended that the fixed asset register is reviewed, and any obsolete items included in the register are written off or scrapped. Any assets which are written off or scrapped should be approved in a council meeting.

**Reconciliation of financial statements to accounting records**

4.6 We identified several differences between the net book value of certain asset categories in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in nominal ledger €	Difference €
New street signs	-	79,077	(79,077)
Office equipment	6,626	6,888	(262)
Urban improvements	139,304	100,518	38,786
Special programmes	-	(40,556)	40,556
	<b>145,930</b>	<b>145,927</b>	<b>3</b>

4.7 It was noted that additions amounting to €59,164 were accounted for in 'new street signs' rather than in 'urban improvements' in the books of account. However, we noted that this was correctly classified in the unaudited financial statements. We have proposed an audit adjustment to reclassify amount to the appropriate category



- 4.8 Furthermore, we noted that a grant amounting to €40,292 in relation to urban improvements was included with the special programmes asset category. An audit adjustment was proposed to reclassify the amount of €40,292 to urban improvements. The figures were correctly shown in the unaudited financial statements.
- 4.9 We also noted that an amount of €19,913 was recorded in 'new street signs' rather than 'urban improvements' whilst an amount of €262 was incorrectly accounted for in 'office equipment' rather than in 'special programmes'. In this regard, an audit adjustment was proposed to the council to rectify such discrepancies. It was noted that the council has recorded the correct figures in the unaudited financial statements.
- 4.10 We remind the council that any variances between the assets disclosed in the unaudited financial statements and the nominal ledger need to be investigated and adjusted accordingly.

**Reconciliation of fixed asset register with accounting records**

- 4.11 We identified differences between the net book value of assets in the fixed asset register and the net book value in the accounting records of certain asset categories. These are summarised below:

Asset category	NBV in fixed asset register €	NBV in trial balance €	Difference €
Office equipment	256	6,888	(6,632)
Construction & street paving	49,069	10,419	38,650
Office furniture & fittings	4,226	4,062	164
New street signs	-	79,077	(79,077)
Special programmes	-	(40,556)	40,556
Urban improvement	154,073	53,555	100,518
	<b>207,624</b>	<b>113,445</b>	<b>94,179</b>

- 4.12 The Local Council Procedures state that the council is obliged to prepare a fixed asset register which reconciles with the nominal ledger. We recommend the council to identify where the discrepancies are coming from and adjust accordingly to have a fixed asset register which reconciles to the accounting records.

**Classification of fixed assets**

- 4.13 We also identified differences between the net book value in the fixed asset register and the net book value in financial statements of certain asset categories. These are summarised below:



Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Office equipment	6,626	256	6,370
Construction & street paving	10,417	49,069	(38,652)
Urban improvements	139,304	154,073	(14,769)
Office furniture & fittings	4,062	4,226	(164)
	<u>160,409</u>	<u>207,624</u>	<u>(47,215)</u>

- 4.14 We recommend that the council ensures that the fixed asset register is updated with the categories shown in the fixed asset register tying up with both the financial statements and the nominal accounts so as to have the correct net book value for tangible assets.

#### Depreciation of fixed assets

- 4.15 The depreciation charge in the fixed asset register amounted to €99,463 whilst that in the books of account amounted to €85,965. This resulted in a difference of €13,498. Upon investigation, the council noted that grants amounting to €64,271 were not yet included in the fixed asset register and this resulted in the depreciation charge in the fixed asset register to be overstated by €17,055. No explanation for the remaining difference of 3,557 was provided.
- 4.16 Furthermore, our depreciation recalculation resulted in a depreciation charge of €101,480. This highlights an under-depreciation in the books of account of €15,515. The difference mainly arises since our depreciation workings were based on the fixed asset register. Given that the fixed asset register is not fully reflecting the figures in the books of account, this resulted in the depreciation charge recalculation to be overstated as well. No adjustment has been proposed since this is an accounting estimate.
- 4.17 We reiterate our recommendation that the fixed asset register is updated to agree to the nominal ledger. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

## 5 Intangible asset

- 5.1 Once again we noted that the council has failed to recognise computer software which was purchased in prior years in the financial statements as an intangible asset.
- 5.2 May we remind the council that computer software falls under the definition of 'Intangible Assets' which should be accounted for in line with the requirements of IAS 38 – Intangible Assets. The council should ensure that the requirements of IAS 38 are properly applied with respect to any computer software which is purchased by the council.





## **6 Trade and other receivables**

### **Accrued income**

- 6.1 During our audit fieldwork, we noted that the council did not record accrued income amounting to €220 in relation to an invoice in relation to LES income for the month of December 2019 which was dated January 2020. We have proposed an audit adjustment to rectify the issue. This adjustment has been correctly incorporated in the audited financial statements.
- 6.2 We recommend that the council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.

## **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 or year-end statements for all suppliers.
- 7.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it may be difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly

### **Confirmation of payables**

- 7.3 During our audit fieldwork we noted that the creditors' list shows a balance of €1,147 due to Wasteserv Malta Ltd. The transaction history provided by the supplier shows an amount payable by the council of €2,200. Upon enquiry about the difference with the council, it was noted that there was an error in council books and an audit adjustment was proposed by the council to reconcile the difference noted. This adjustment has been correctly incorporated in the audited financial statements.
- 7.4 We remind the council that circular 01/2020 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

### **Accruals**

- 7.5 During the year under review, the council recorded an accrual amounting to €36,208 in relation to road and street pavements. During our testing, we were provided with invoices totalling €39,362. Thus, the balance was understated by €3,154. In view of this, an audit adjustment was proposed to increase the balance by €3,154. This has been correctly adjusted in the audited financial statements.
- 7.6 The council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.



## 8 Financial statements

### Presentation of financial statements

- 8.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS). During our audit we identified that the council's unaudited financial statements were not prepared in accordance with IFRS:
- i. In the statement of Profit or Loss and Other Comprehensive Income and note 7, the council is showing the amount of €26,758 pertaining to organic waste collection with general income instead of supplementary Government income.
  - ii. In the statement of Profit or Loss and Other Comprehensive Income and note 5, the council is showing the amount of €2,468 pertaining to contributions with income from bye-laws instead of general income.
  - iii. Note 2, the sub-header 'Standards and Interpretations issued by the IASB but not yet adopted' includes incorrect information. Case in point is the fact that the council is stating that IFRS 16 'Leases' will be effective from 1 January 2020, when this was effective from 1 January 2019.
  - iv. Note 2, the sub-header 'Standards and Interpretations issued by the IASB but not yet adopted' includes irrelevant information. Case in point is the paragraph in relation of IFRS 9 'Prepayment features with negative compensation'.
  - v. Note 2 Accounting Policies and Reporting procedures includes notes which are not updated such as the note of Leases and notes not relevant such as Foreign Currencies. In the same note, there are also omitted notes such as the inventories note.
  - vi. The accounting policy for property, plant and equipment includes the percentage rather than range of years or percentages due to the change in the depreciation method.
  - vii. In the note of property, plant and equipment, the comparative schedule for 2018 is missing.
  - viii. The council included non-financial assets in the financial risk management note.
- 8.2 The council correctly amended note i, ii, iv, vii and viii in the audited financial statements.
- 8.3 We recommend that the council gives more attention to the preparation of the financial statements.

## 9 Council meetings and minutes

### Schedules of payments

- 9.1 We identified that most of the cheque numbers were omitted from the schedule of payments and no cancelled cheques were listed in the schedules of payments.
- 9.2 Upon enquiry we were informed that the council approves the payment and once these are approved the cheques are written and signed. Furthermore, we were informed that the cheque numbers listed in the schedules of payments are the cheques which are issued before being approved in the council meetings.



- 9.3 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 Department for Local Government which requires the cheque number to be inserted even if cancelled. All cancelled cheques should be retained as proof of cancellation.

**10 Electronic website**

- 10.1 During our audit fieldwork we found that the council did not upload the quarterly financial reports within the stipulated timeframe.
- 10.2 We recommend that the council abides by the directive given in memo 02/2014 which states that all meeting minutes, schedules of payments and specified documents must be uploaded on the council's site within three days of approval. The "iffirmat" on the pdf documents is confirmation that the uploaded documents are the approved and correct ones.

**Uploading of management letter and other documents**

- 10.3 We also noted that the council has uploaded the 2018 Management Letter in full in accordance with circular 21/2019.
- 10.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 10.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

**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 Mr Kevin Borg and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,