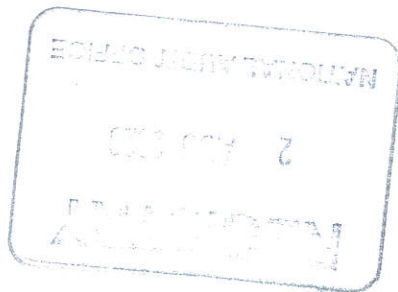


The Mayor,  
Ta' Xbieg Local Council,  
Triq l-Imradd,  
Ta' Xbieg

31 July 2020



**Financial Statements for the period 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 the Council. We have also reviewed the operations of the Council and how they conform to the Local Council 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 Property, plant and equipment**

The Council's fixed assets register is still maintained on Microsoft Excel (refer to note 2.1) and the Council still has laptops that are retained outside the Council premises by the Councilors (refer to note 2.3).

The Council is still calculating depreciation manually (refer to note 2.6) and the allocation of grants was a one-time transaction relating to 2018.

**1.2 Grants**

Once again we noted errors in accounting for funds received by the Council (refer to note 3.1).

**1.3 Income**

The situation with the Joint Committee has not yet been resolved (refer to note 4.1) and once again, we identified errors in accounting for the Government Subvention (refer to note 4.3).

We did not identify errors in allocation of funds received but we did identify errors in accounting for accrued income (refer to notes 4.5 – 4.7).

<b>1.4 Payroll</b>	<p>We again noted errors in the allocation of payroll costs to the appropriate category (refer to note 5.1) and with the pay rates used (refer to note 5.3). On the other hand, we did not identify similar issues with vacation leave.</p>
<b>1.5 Expenditure</b>	<p>We are pleased to note that we did not identify errors from our tests on accruals. On the other hand, we could not perform an analysis of actual versus budgeted costs since the 2019 was not formally approved.</p>
<b>1.6 Trade and other receivables</b>	<p>Once again, we identified an error in receivable balances (refer to note 7.1).</p>
<b>1.7 Trade and other payables</b>	<p>The Council did not obtain monthly statements from all suppliers as required by Memos issued by the Department for Local Government (refer to note 8.1).</p> <p>We also identified differences between creditors balances and the respective statements (refer to note 8.4).</p>
<b>1.8 Bank and cash</b>	<p>Once again, we identified limitations within the bank reconciliation process (refer to note 9.1) and we also noted instances of payments cleared prior to approval by the Council (refer to note 9.5).</p> <p>As from March 2018, the petty-cash payments were presented to the Council and our testing did not identify petty-cash payments in excess of the revised capping of EUR50.</p>
<b>1.9 Financial Statements</b>	<p>We did not identify any departures from IFRS requirements.</p>
<b>1.10 Forecasts</b>	<p>Once again, we noted that the Council did not prepare its budget for 2020 and the necessary business plan (refer to note 10).</p>

- 1.11 Council meetings and minutes**
- We again identified issues with the frequency of meetings (refer to note 11.1) but we did not identify instances where Councillors did not submit a medical certificate.
- 1.12 Tendering**
- We did not come across issues in relation to tendering procedures, but we did identify instances of expired contracts (refer to note 12).
- 1.13 Appointment of new Executive Secretary**
- The requirement to perform an interim audit on appointment of a new Executive Secretary has now become optional and hence we do not have any comments to make in this regard.
- Current year issues**
- 2 Property, plant and equipment**
- Upkeep of fixed assets register**
- 2.1 The Council started compiling a fixed asset register as from 1 January 2018, however, this is being compiled on an Excel spread sheet and also lacks basic information.
- 2.2 We recommend that the Council transposes the register onto the accounting system and the following additional information should be included for all assets acquired after 31 December 2017:
- Supplier details
  - Invoice number
  - Asset tag code
  - Location of the asset
- 2.3 As noted in previous management letters, the Council acquired laptops which are being taken out of the Council's premises by the Councillors. The reply to the management letter indicates that such acquisitions were made for the sole purpose of ensuring e-mail access to Councillors to carry out their duties. These assets are not held on the Council's premises although the Council is aware of who is in possession of each laptop.

2.4 In meeting 73 under points 12.1 and 12.2, it was agreed by the Council that the old laptops with an original cost of EUR3,386 should be written-off/ scrapped. Such write-offs were not reflected in the accounting records of the Council.

2.5 We reiterate our recommendation that the Council should ensure that the laptops remain the assets of the Council and that it retains a register of movement and location of such assets. The Council should also confirm and execute the decision to write off old laptops especially if it lost its control over them.

### Grants and depreciation provision

2.6 We noted that the Council is calculating depreciation manually on a spreadsheet rather than an automatic calculation within the accounting package.

2.7 We draw the attention of the Council to the Local Councils (Financial) Procedures, 1996 which require Councils to use the month-end facility in the Sage accounting package to calculate depreciation on all items included within property, plant and equipment.

2.8 We noted that the Council acquired a Seabin and financed this from funds received from the Central Regional Council. However, the Council did not allocate the amount of EUR5,664 from deferred income to grants. We proposed an adjustment to reflect the release of deferred income to grants. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

2.9 As a result of the adjustment proposed in note 2.8, we noted that the provision for depreciation was overstated by EUR424. Hence, we proposed an adjustment to reduce the depreciation charge for the year by this amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

2.10 We recommend that the Council adopts the necessary controls to ensure that the allocation of grants to capital expenditure is fairly reported.

### 3 Grants

#### Accounting for deferred income

3.1 Throughout the year, the Council received EUR11,550 from the Central Regional Council. The Council recognised this amount in income rather than deferred income. We proposed an adjustment to defer the amount accordingly. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

3.2	At the Financial Position date, the Council had EUR65,166 in funds received from the Central Region to be used for specific projects. The Council had allocated BOV account number 6016 for such funds however, the balance at year end in this account amounted to just EUR51,982.
3.3	Apart from the funds mentioned in note 3.2, the Council had brought forward funds amounting to EUR16,740 from 2018 that were intended to be used for allocated projects but not yet used. These include the amount of EUR3,750 for a car park study, EUR4,222 for plants project and EUR8,768 for Tarmac.
3.4	We recommend that the Council ensures that funds are recognised fairly between income and deferred income and also ensures that surplus funds distributed by the Central Region are kept in a separate account. We also recommend that the Council identifies projects to be financed from these funds to be utilised effectively for the benefit of the Community.
<b>4</b>	<b>Income</b>
<b>Income from pre-regional committees</b>	
4.1	The Sliema Joint Committee, of which Ta' Xbiex Local Council formed part of has not yet provided the Council with audited accounts.
4.2	We understand that the Council has consistently requested the audited Financial Statements from the Joint Committee. However, we necessarily had to qualify our audit opinion since, in the absence of the Committee's Financial Statements, we were unable to determine the Council's share of profit from the pooling system and LES debtors outstanding as at 31 December 2019.
<b>Government allocation</b>	
4.3	The Council's allocation from the Government's budget was EUR241,938, however the Council only recognised EUR240,826 as income in terms of section 55 of the Local Council Act (cap 363). We noted that the government allocation was netted-off with MITA expenses amounting to EUR1,112. Such balance should be shown separately as part of the expenses and hence we proposed a reclassification to remove such expense from the government allocation income account to expenses. The Council approved our adjustment and reflected it in the audited Financial Statements.
4.4	We remind the Council that the Government Allocation is to be recognised in full and any deductions are to be recognised as an expense for the Council.

<b>Accrued income</b>	
4.5	<p>At the Financial Position date, the Council recognised EUR6,585 in accrued income in relation to tipping fee shortages. From communications with DLG and WasteServ, we noted that income still to be received in relation to 2019 amounts to EUR6,760. Hence, such accrued income was understated by EUR175. We proposed an adjustment to increase accrued income accordingly. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.</p>
4.6	<p>The Council was allocated the sum of EUR2,500 to finance expenditure in relation to Christmas decorations. The amount was not recognised in accrued income. We proposed an adjustment to increase accrued income by this amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.</p>
4.7	<p>The Council brought forward accrued income amounting to EUR2,804 in relation to additional costs incurred on collection of black bags. From discussions held with the Council, it transpired that the amount is not recoverable and hence, we proposed an adjustment to reverse the overstated amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.</p>
4.8	<p>We recommend that the Council introduces the necessary controls and procedures to account for accrued income in a fair and timely manner.</p>
<b>5</b>	<b>Payroll</b>
<b>Payroll cost disclosure</b>	
5.1	<p>Our testing on payroll indicated that the Council did not allocate payroll cost against the appropriate heading in the nominal ledger. We proposed an adjustment to reclassify EUR280 from Mayor's salary account and EUR8,521 from the employees' salary account to the Executive Secretary salary account (EUR5,316) and the Councillor Allowances account (EUR3,485). We also recommended changes to the disclosure note in the Financial Statements. The Council approved our proposed adjustments and reflected them in the audited Financial Statements.</p>
5.2	<p>We remind the Council that separate disclosure is required as per the specimen Financial Statements of the Local Councils (Financial) Procedures and hence proper allocation should be maintained at all times.</p>

### Pay rates

5.3 During 2018, the Council appointed its Deputy Executive Secretary to take over the role of the outgoing Executive Secretary. We noted that payments for January and February 2019 were made at the rate of EUR 16.16 per hour for a total remuneration of EUR3,022. The Local Council (Human Resources) Regulations stipulate that payment to the Agent Executive Secretary for the first 10 consecutive days should be effected at maximum rate of Scale 11 and subsequently, at the rate he should have been entitled to had he been appointed as the Executive Secretary of the Council (Scale 7, notch 7) which amounts to EUR13.14. From our recalculation, we noted that the Deputy Executive Secretary remuneration for January & February 2019 should have amounted to EUR2,457 (for 187 hours), therefore resulting in an over payment of EUR565.

### 6 Expenditure

#### Insurance

6.1 As clarified by Circular 33/2016, the Council is required to insure its premises and contents including fire, theft and damage. The value to be insured is to be equal to the value of the assets as per last audited Financial Statements. We reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and the value as per last audited Financial Statements:

Description	NBV as per 2018 AFS	Sum Insured upon renewal of policy	Difference
Property	140,703	142,353	- 1,650
Office, Furniture and Fittings	11,740	20,466	- 8,135
Plant and Machinery	591		
Office Equipment	-	8,153	- 8,153
Computer Equipment	-		
	153,034	170,972	- 17,938
	EUR	EUR	

6.2 The Council should ensure that its insurance cover is adequate in view of the requirements emanating from Local Council Act as clarified by Circular 33/2016.

<b>Petty Cash Expenses</b>	6.3	<p>Whilst reconciling petty cash, we noted that the expenses for the month of September 2019 were omitted from the books of the Local Council. As a result, we proposed an adjustment to reflect the said expenses which amounted to EUR74. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.</p>
<b>Christmas party</b>	6.4	<p>The Council organised a Christmas meal for all the Councillors and employees of the Council at a cost of EUR411. The meal was attended by 13 Councillors/employees at cost of EUR31.62 per person which exceeds the capping of EUR30 imposed on a sit-down meal. Moreover, whereas 12 attendees were current Councillors or employees, one of the attendees was an ex-Councillor who served till the end of June 2019.</p>
<b>Trade and other receivables</b>	7	<b>Trade receivables</b>
<b>Trade and other payables</b>	8	<p>During the year, the Council had a receivable of EUR3,500 from a local corporation<sup>1</sup>. Such balance was received in two payments, these being of EUR1,000 and EUR 2,500. However, on receipt, the EUR2,500 part payment was accounted for against income rather than against the pending debtor balance. In view of this we proposed an adjustment to account for such balance against the receivable amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.</p> <p>We recommend that the Council regularly reviews the amounts due from debtors as per accounts and ensures that these are in line with separate records maintained by the Council's clerical staff.</p>
<b>Trade payables</b>	8.1	<p>During the course of our audit we also noted that the Council did not have monthly statements from all its suppliers readily available.</p>
8.2	<p>We reiterate the recommendation that the Council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the Council's ledgers. This will avoid any discrepancies between amounts recorded in the ledger and amounts in the suppliers' statements.</p>	



**Overdue Payables**

8.3 While testing payables, we noted that 21% of the total amount due by the Council has been due for more than 1 year. A breakdown of this amount can be found below under Appendix 1.

**Supplier statement reconciliations**

8.4 A reconciliation of the amount due to a contractor<sup>2</sup> indicated a balance of EUR3,186 as per creditors list and a balance of EUR1,514 as per statement. After eliminating timing differences of EUR1,200 a variance of EUR472 was also noted whereby this relates to an invoice issued by a supplier<sup>3</sup> which was incorrectly recorded under the wrong contractor<sup>3</sup>. This was also mentioned in the 2018 management letter.

8.5 The above discrepancies highlight the need that supplier balances need to be reconciled regularly to identify and correct any differences in a timely manner.

**Bank and cash**

**Bank reconciliations**

9.1 We requested copies of the monthly bank reconciliations and the Council only provided soft copies of these. From the soft copies provided, we noted the following:

- The bank reconciliations are not being printed, dated, and signed by the Executive Secretary,

- The dates on the reconciliations of the following accounts indicate that the documents were not prepared within 10 working days from the end of the month:

Bank Account	Month end balance being reconciled	Date of Reconciliation
BOV 2123	31/01/2019	29/04/2019
BOV 2123	28/02/2019	29/04/2019
BOV 2123	31/03/2019	29/04/2019
BOV 2123	30/04/2019	02/08/2019
BOV 2123	31/05/2019	06/08/2019
BOV 2123	30/06/2019	06/08/2019
BOV 2123	31/07/2019	23/10/2019
BOV 2123	31/08/2019	23/10/2019

<sup>2</sup> International Trading Company  
<sup>3</sup> GMM & Associates Ltd

Chq No.	Supplier	Amount EUR	Payment date	Schedule no	Approval date
6971	Catros	3,076.83	06/02/2019	53	08/03/2019
7020	Catros	9,041.63	18/03/2019	54	09/05/2019
7045	Catros	5,957.07	17/04/2019	54	09/05/2019

9.5 We noted that the following payments were cashed by the supplier prior to the approval of the respective Schedule of Payments by the Council:

### Approval of payments

9.4 We advise the Council to perform frequent checks of the reconciliations and any stale cheques are investigated and reversed as deemed necessary.

9.3 Whilst testing the BOV Current Account 2149 December reconciliations we noted that the unreconciled transactions included cheque numbered 6960 dated 25 January 2019 amounting to EUR80. This cheque has now become stale.

### Stale Cheques

9.2 We remind the Council that as per Article 22 of the Local Councils (Financial) Regulations, the Council is required to prepare monthly bank reconciliations within 10 working days from the end of the month. We also recommend that these reconciliations are printed, approved and filed with the respective bank statement.

BOV 2123	30/09/2019	31/10/2019
BOV 2123	30/11/2019	30/11/2019
BOV 2123	31/12/2019	31/12/2019
BOV 2123	30/09/2019	30/09/2019
BOV 6061	31/01/2019	31/01/2019
BOV 6061	28/02/2019	28/02/2019
BOV 6061	31/03/2019	31/03/2019
BOV 6061	30/04/2019	30/04/2019
BOV 6061	31/05/2019	31/05/2019
BOV 6061	30/06/2019	30/06/2019
BOV 6061	31/07/2019	31/07/2019
BOV 6061	31/08/2019	31/08/2019
BOV 6061	30/09/2019	30/09/2019
BOV 6061	31/10/2019	31/10/2019
BOV 6061	23/10/2019	23/10/2019
BOV 6061	06/08/2019	06/08/2019
BOV 6061	06/08/2019	06/08/2019
BOV 6061	06/08/2019	06/08/2019
BOV 6061	29/04/2019	29/04/2019
BOV 6061	29/04/2019	29/04/2019
BOV 6061	28/02/2019	28/02/2019
BOV 6061	31/03/2019	31/03/2019
BOV 6061	30/04/2019	30/04/2019
BOV 6061	30/04/2019	30/04/2019
BOV 6061	29/04/2019	29/04/2019
BOV 6061	29/04/2019	29/04/2019
BOV 6061	28/01/2020	28/01/2020
BOV 6061	28/01/2020	28/01/2020
BOV 6061	23/10/2019	23/10/2019

7115	Christian Schembri	5,820.00	08/06/2019	55	17/06/2019
7377	Simon Sammut	14,221.20	04/12/2019	59	20/12/2019
7430	SR Environmental Solutions Ltd	778.80	21/01/2020	60	31/01/2020
7426	Michael Calleja – Environmental Officer	600.00	04/01/2020	60	31/01/2020
9.6	We remind the Council that as per Art 26(3) of the Local Councils (Financial) Regulations and as highlighted in Memo 10/2016, orders for payment shall be certified by the Secretary and approved by the Council before these are settled.				
<b>10</b>	<b>Forecasts</b>				
10.1	We noted that the Council has still not prepared the 2020 budget and the business plan.				
10.2	We recommend that the Council prepares its annual estimates and business plan within the relevant time frames as required by the Local Council (Financial) Regulations. These should be scanned and uploaded on the appropriate portal.				
<b>11</b>	<b>Council meetings and minutes</b>				
<b>11.1</b>	<b>Council Meetings</b>				
11.1	We noted that in four instances, the period between Council meetings exceeded the limit of five weeks. These instances are tabulated below. We also noted that a meeting was not held during the month of November.				
	<b>Meeting no.</b>	<b>Date</b>	<b>Meeting no.</b>	<b>Date</b>	<b>Weeks Passed</b>
	77	05/12/2018	78	22/01/2019	6 weeks, 6 days
	4	09/09/2019	5	18/10/2019	5 Weeks, 4 days
	5	18/10/2019	6	20/12/2019	9 weeks
11.2	We remind the Council that meetings are to be held at least every 5 weeks and that at least one meeting should be held every month.				
11.3	The minutes of meetings 1, 2, and 4 uploaded on the online portal were not marked as "IFIRMA" as required by Memo 10/2016 whereas the minutes of meeting 81 which were uploaded on the online portal bearing the Mayor's signature and were not marked as "IFIRMA" by the Executive Secretary.				
11.4	We remind the Council that Memo 10/2016 sets the format for maintaining and uploading of minutes.				

## 12 Tendering

### Expired contracts

12.1 We reviewed the Council's tenders and identified the following expired contracts:

- The Council's contract for Street Sweeping and Weed Cutting with a local contractor<sup>4</sup> expired on 31 August 2018. The Council continued to operate under the expired contract and the amount incurred during 2019 amounted to EUR15,686.
- The Council's contract for Provision of services of Architect & Civil Engineer with a local contractor<sup>5</sup> expired on 31 July 2018. The Council continued to operate under the expired contract and the amount incurred during 2019 in relation to the period after the expiry amounted to EUR9,298.
- The Council's contract for collection of Bulky Refuse expired on 30 April 2018. The Council continued to operate under the expired contract<sup>6</sup> up till October 2019, as the person providing the service passed away. Hence the Council issued quotes to operate for the remaining months of 2019. The amount paid from January up to October amounted to EUR4,465.

12.2 We remind the Council that it is not permitted to operate under expired contracts and it should plan ahead to ensure that new tenders are issued and awarded before the expiration of the contracts under force.

### 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.

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<sup>4</sup> General Cleaners  
<sup>5</sup> Perit Daniel Camilleri  
<sup>6</sup> Twish Co Limited

We would like to take this opportunity to thank Ms. Yasmine Tonna and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernesto Riolo  
Partner  
for and on behalf of  
Mazars Malta

**Appendix 1**

Supplier	EUR
WasteServ malta Ltd	4,252
GAM Ltd	865
Other balances	1,983
	<b>7,100</b>