

The Mayor  
Rabat Local Council  
8, Triq l-Isptar,  
Ir-Rabat, RBT 1043  
Malta.

Grant Thornton  
Fort Business Centre  
Triq l-Intornjatur, Zone 1  
Central Business District  
Birkirkara CBD 1050  
Malta

T +356 20931000

[www.grantthornton.com.mt](http://www.grantthornton.com.mt)

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[DATE]

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**

The council once again failed to obtain the latest audited financial statements of the Joint Committee (refer to note 2.9).

We again identified discrepancies in LES reports (refer to note 2.5).

We also identified irregularities in accounting for grants (refer to note 2.1).

##### **1.2 Expenditure**

The council obtained the latest financial statements of Majjistral Action Group.

We again identified irregularities with the insurance policies (refer to note 3.6).

We did not encounter any irregularities between budgeted expense and actual expenses.

##### **1.3 Payroll**

We did not identify any irregularities in personal emoluments.

##### **1.4 Fixed assets**

The fixed asset register is once again lacking information as requested by the Local Councils (Financial) Procedures, 1996 (refer to notes 5.6).

We again identified discrepancies between the net book value in the fixed assets register and the net book value in the books of account (refer to note 5.3).

We again identified tangible fixed assets which are not tagged (refer to note 5.9).

**1.5 Receivables**

We again identified an instance where the receivable balance is not agreeing to the debtor statement (refer to note 6.1).

**1.6 Cash and cash equivalents**

We did not identify any irregularities in cash and cash equivalents.

**1.7 Trade and other payables**

We did not identify any discrepancies between the direct confirmation from a supplier and the creditors' list.

We again identified very old deposit guarantees (refer to note 8.5).

We did not identify any shortcomings in accruals.

**1.8 Financial statements**

We again identified shortcomings in the presentation of financial statements (refer to note 9.1).

**1.9 Council meetings and website uploads**

The council did not upload all the required reports on the electronic site on time (refer to notes 11.1 and 11.2).

**1.10 Chart of accounts**

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

**1.11 Mid-term audit**

During the year there was no need for the council to perform a mid-term audit.

**2 Income**

**Other Government Income**

2.1 During our testing of other Government income, the council accounted for a grant received in relation to Capital Vote XI in relation to refurbishment works at Rabat Local Council amounting to €200,000. Works have not yet started therefore an audit adjustment has been proposed to defer the amount.

2.2 We recommend that the council records income in the correct period as required by International Financial Reporting Standards.

**General income**

- 2.3 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples include:

Receipt number	Details	Receipt date	Deposit date	€
41359	Permits	06.01.2020	14.01.2020	150.00
41686	Permits	06.02.2020	21.02.2020	3.48
41863	Permits	02.03.2020	06.04.2020	10.00
42153	Permits	25.04.2020	04.05.2020	15.00
42335	Permits	22.05.2020	27.05.2020	10.00
42405	Permits	02.06.2020	11.06.2020	30.00
42874	Permits	10.08.2020	18.08.2020	2.33

- 2.4 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.

**Income from LES administration fee**

- 2.5 We obtained Loqus report 483 and reconciled to income from LES administration fees and established that the council's income from LES administration fees for 2020 is overstated by €5,596.60.
- 2.6 We did not propose an audit adjustment due to the fact that the council provided invoices and payments tying up to the amounts found in the books of account. However, we recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines. Any discrepancies should be reconciled with Loqus.

**Income account classification**

- 2.7 During the course of our audit we noted that in the unaudited financial statements revenue from permits amounting to €8,404 was incorrectly classified as supplementary Government income instead of other Government income. We have reclassified these to other Government income.
- 2.8 We recommend that income receivable is allocated to the appropriate accounts so that the income of the council is properly reported.

**Joint Committee**

- 2.9 We also noted that Rabat Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 2.10 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to €5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 2.11 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.

### 3 Expenditure

#### Procurement procedures

- 3.1 During our audit fieldwork, the council did not provide us with three quotations in the following cases:

Supplier	Details	€
Kurt Gauchi	Works Soft areas and removal of weeding	1,132.80
Jeffrey Scerri	Concrete works Fidien	500.00
B.Grima & Sons Ltd	Stencils	2,655.00
Carmelo Gauchi	Saqqi 01/05/20-31/07/20	2,310.00
Joseph Cutajar	Grass cutting and clean up Ghar id-Dwieb	1,945.00

- 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 not €500, a direct order approved by the executive secretary is issued.

- 3.3 We would also like to remind the council that in accordance with the Procurement Guidelines 2017, councils are specifically required to make a public call for quotations for expenditure in the range of €5,000 to €10,000 and issue a call for tenders for expenditures above €10,000. 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.

#### Payment approval

- 3.4 We identified an instance where the council issued cheques before approval in council meetings. Cheque 10454 issued to Advanced Telecommunications System Co Ltd was dated 18 March 2020 however, it was only approved on 26 March 2020. Cheque 10871 issued to SR Environmental Solutions Ltd was dated 31 August 2020 however, it was only approved on 16 November 2020.
- 3.5 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

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

Asset	Sum insured €	NBV in books of account €
Property	239,286	236,190
Furniture & Fittings	17,291	6,072
Plant & machinery	2,746	909
Electronic and computer equipment	6,500	12,873
Motor vehicle	1,600	-
<b>Total</b>	<b>267,423</b>	<b>256,044</b>

3.7 It is evident that some of the fixed assets are over/under 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.

3.8 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.

#### **Rent Expense**

3.9 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €39,509 in the books of account out of which €34,709 is short term. For the short-term rentals, the council opted for the exemption and are therefore accounted properly. For the remaining €4,800 we noted that the council did not account this amount in accordance IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.

3.10 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

## **4 Wages and salaries**

### **Wages' reconciliation**

4.1 Whilst reconciling the amounts declared in FS5 forms to that declared in the FS7 form of the council, we came across the following differences:

<b>Description</b>	<b>Declared in FS5s €</b>	<b>Declared in FS7 €</b>	<b>Difference €</b>
Gross salary full-time	168,545	164,626	3,919
FSS full-time National Insurance	24,172	25,563	(1,391)
	21,704	21,600	104
<b>Total</b>	<b>214,421</b>	<b>211,789</b>	<b>2,632</b>

4.2 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for inland revenue.

**5 Fixed assets**
**Classification of financial statements with accounting records**

- 5.1 We identified differences between the net book value of certain assets in the financial statements and the net book value in the accounting records of the same categories. These are summarised below:

Asset category	NBV in financial statement €	NBV in unaudited accounting record €	Difference €
Urban improvements	316,996	264,304	52,692
Special programmes	494,255	546,947	(52,692)
	<b>811,251</b>	<b>811,251</b>	-

- 5.2 We recommend that the council investigates these classifications and ensures that the financial statements reflect what is included in the books of account.

**Classification of financial statements with fixed assets register**

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

Asset category	NBV in unaudited financial statements €	NBV in Fixed assets register €	Difference €
Property	233,012	266,157	(33,145)
Office equipment	14,505	14,172	333
Urban improvements	316,996	283,492	33,504
Special programmes	494,255	602,158	(107,903)
	<b>1,058,768</b>	<b>1,165,979</b>	<b>(107,211)</b>

- 5.4 Whilst going through the fixed asset register, we noted various assets which were not included in their proper category. This includes various assets in relation to the public convenience in St. Rita which are included in urban improvements in the books of account and financial statements, however these are included under property in the fixed asset register. We also identified air conditioners in the fixed assets register which are included in computer equipment and office equipment.
- 5.5 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 both tangible and intangible assets.

**Details of fixed asset register**

- 5.6 When reviewing the fixed asset register, we noted that certain details like invoice numbers, location and suppliers' details are missing. For example:

Asset category	Asset code	Description	Net book value €
Property	PR015	Membrane works	464.94
Property	PR005	Gypsum wall	4,106.37
Property	I045	Bieb tal-bejt	576.37
Office furniture	F055	A.C unit	472.41
Urban improvements	UI264	Handrail	513.00

- 5.7 We recommend that every possible effort should be made to complete the fixed asset register to include at least all of the following:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

- 5.8 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 updated henceforth with all relevant details.

**Tagging of fixed assets**

- 5.9 We also noted that the council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 5.10 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

**Fixed asset addition**

- 5.11 We also noted that council has capitalised excavation fees amounting to €13,531.27. The audit procedures revealed that this amount pertained to dumping fees for excavation works in relation to road works. We have proposed an audit adjustment to expense this amount.
- 5.12 We again remind the council that it is of utmost importance to always evaluate whether incurred expenditure should be capitalised or expensed on a case by case basis.

### European Agricultural Fund for Rural Development 2014-2020 measure 4.3

- 5.13 Whilst performing audit procedures on fixed assets additions we noted that the council capitalised additions in the construction and street paving category amounting to €528,282.72 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 €806,537 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 ineligible costs will be incurred and paid by the council. The total eligible and ineligible costs incurred during the year for the road works in Triq l-Imtahleb amount to €528,282.72, respectively.
- 5.14 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 expense the eligible costs amounting to €475,454.45 against deferred income and eligible costs amounting to €52,828.27 against profit and loss. Furthermore, its respective depreciation amounting to €39,621.24 was reversed by an audit adjustment as no depreciation should have been accounted for.
- 5.15 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.

## 6 Trade and other receivables

### Confirmation of trade receivables

- 6.1 We have obtained a statement from Wasteserv Malta Ltd showing a balance of €66,666.37 due to the council. However, the council's books of account indicate a balance of €115,710.13. Difference is due to invoices for May and September to December 2020 invoices not being recorded in Wasteserve Malta Ltd statement.
- 6.2 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences. In view of the significance of the amounts involved we have to modify our audit report.

### Pre-regional LES debtors

- 6.3 During our review of pre-regional LES debtors, we noted that the tribunal pending payments in report 622 amounted to €219,173 which contrasts with the amount of €220,581 shown in the accounting records. 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.
- 6.4 We also noted that there was no movement in tribunal pending payments in the books of account which contrasts with the amount of €838 shown in report 483 for pre-regional contraventions paid during the year.
- 6.5 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend the council takes the matter up with Loqus to determine what this difference relates to.



**Other debtors**

- 6.6 During our review of other debtors, we noted that the council has a receivable for a guarantee amounting to €1,000. We were not provided with any supporting documentation or explanation for which project this guarantee relates to or an indication whether it is still receivable
- 6.7 We recommend that the council obtains advice on whether such amount is still receivable or not. Furthermore, before removing such amounts from the guarantees to the profit or loss, approval in council meeting should be obtained and approval minuted.

**Credit balance in debtors' list**

- 6.8 The council's debtors' list includes an amount of €279.79 credit balance in the debtors' list. We have proposed an audit reclassification to reclassify the amount above to other creditors.

Credit balances	€
LCA LTD Online Payments	279.79
	<u>279.79</u>

- 6.9 We reiterate our recommendation to separately disclose credit balances in the financial statements rather than set off against trade debtors. Furthermore, the council should investigate why this debtor account is in credit.

**7 Bank and cash**
**Bank reconciliations**

- 7.1 During our bank testing we also noted that for bank account 40013309101 there were some interest transactions that were not included in the books of account. Amount as per bank accounts show a balance of €411,611.10, however the books of account show €411,595.67.
- 7.2 We also noted that for bank account 40011047261 there were some interest transactions that were not included in the books of account. Amount as per bank accounts show a balance of €499,928.38, however the books of account show €499,910.78. We have proposed an audit adjustment to adjust for the unrecorded transactions.
- 7.3 We again recommend that the council prepares monthly bank reconciliations to ensure proper accounting records are being kept.

**8 Trade and other payables**
**Suppliers' statements**

- 8.1 During the course of our audit we noted that the council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.

- 8.2 We 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.

**Debit balance in creditors' list**

- 8.3 The council's creditors' list includes an amount of €573.32 debit balance in the creditors' list. We have proposed an audit reclassification to reclassify the amount above to other debtors.

Debit balances	€
ARMS	203.31
INDESIGN	272.80
GOPLC	97.21
	<u>573.32</u>

- 8.4 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore the council should investigate why this creditor account is in debit.

**Contractor's deposit guarantee**

- 8.5 Upon enquiry about the council's deposit guarantees amounting to €8,379, we were informed that these relate to deposits requested upon application for permits of construction/ work by an individual or body corporate. Some of these deposits go back to 2007 which were never claimed. We were not provided with the list making up the amount.
- 8.6 We recommend that the council obtains advice on whether such amounts are still due to the contractor or whether legally, these are now the council's revenue. Furthermore, before removing such amounts from the guarantees to the profit or loss, approval in council meeting should be obtained.

**9 Financial statements**

**Presentation of financial statements**

- 9.1 The council's financial statements are not compliant with IFRSs in the following instance:
- i. Note 'New and amended standards adopted by the Local Council' was not updated for the financial period ended 31 December 2020.

- 9.2 We recommend that the council gives more attention in the preparation of the financial statements.

**10 Council meetings**

**Schedules of payments**

- 10.1 During audit fieldwork we noted various cheque numbers which were omitted from the schedules of payments. Further testing revealed that the omitted cheques were cancelled and erroneously not listed on the schedules. Examples include cheque numbers 10331, 10373, 10424, 10438, 10442, 10446, 10453, 10463, 10473-10475, 10500, 10505, 10530, 10584, 10636, 10639, 10653, 10764, 10767, 10793, 10868 and 10870.

- 10.2 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. We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheques should be retained as evidence of their cancellation.

## **11 Electronic website**

- 11.1 During our audit work we found that the council did not upload the quarterly financial report for January to June, management letter and reply to management letter within the required timeframe.
- 11.2 Furthermore we noted that the quarterly financial report for July to December and business plan 2019 – 2021 were not uploaded.
- 11.3 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**

- 11.4 During the audit fieldwork we noted that the council uploaded the 2019 management letter in accordance with Circular 21/2019.
- 11.5 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.

## **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 Anthony Bonello and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

