



Kunsill Lokali

SAN PAWL IL-BAĦAR

**Reply
to
Management Letter**

Audit 2019

**Triq San Pawl, San Pawl il-Baħar,
SPB 3411 Malta, Europe**

sanpawil-bahar.lc@gov.mt, Tel: 21585888



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

E-Mail: sanpawlil-bahar.lc@gov.mt, Tel: 21585888

05th January 2021

SPB Ref: 55/0125/20/OMS

NAO Ref:107/2015/55

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601

To Auditor General

Dear Sir/ Madam

Re. Management letter for audit of the year ended 31st December 2019

In terms of Section P2.06 (c.02) the Local Council (Audit) procedures 2006 we hereby attach a copy of the management letter by the Local Government Auditors whilst including hereunder Council's comments on observations made as stipulated in Section P2.06 (d) of the same procedures.

Whilst reviewing observations made by the Auditors, it was noted that the reply did not make reference to the fact that the Audit year 2019 had a change in Mayorship and Councillors as a result of National Election of the Local Councils held in 31st May 2019. Decision making was somehow prolonged during the last 6 months of the 8th Legislature (the reply made a reference to 7th Council which should have been 8th) , however the first 6 months of the 9th legislature were more structured – (Point 13 Meetings).

Other observations were noted in **Point 3.8** whereby a reference was made to previous Auditors Management Letter stating recommendation was made in previous management letter when Audit was conducted by another company. **Point 4.3** Procurement Procedures, made reference that quotations weren't obtained when in fact quotations are at hand. These were not requested during the fieldwork Audit. Further reference is made in a detailed reply given below. **Point 4.16** Insurance Policy, made a reference to stock of wine, spirits and tabacco-The Council does not purchase or keep such stock. **Point 1.7** the Council has acted to rectify the Tendering Procedures from 2018 as stated in Points a,b,c,d and e.

Approval of the financial statements 2019 was concluded on the 12th February 2020 whilst the first Audit visit was scheduled to be held on the 16th March 2020 however this was postponed till the 13th July 2020 due to the Covid-19 situation. In the meantime correspondence with appointed Auditors remained constant according to the documentation that was requested from as early as

WB
L.G.

January 2020. Hence it was of a great disappointment to learn that the Audit was not concluded according to the timeframe set by NAO. This was the first year for the appointed Auditors to conduct an Audit for the San Pawl il-Bahar Local Council. In this scenario one could note that the Audit took into consideration procedures of years beyond 2019.

The Council received the management letter dated 30th November 2020 in connection with the annual audit of the Council's financial records for the year ended 31st December 2019 on the 1st December 2020. Consequently the following comments were discussed and approved during the Council Meeting No 26 held on the 10th December 2020.

Reply to Management Letter

Financial statements for the year ended 31 December 2019

1.1 Local Enforcement System

We again noted that the council failed to obtain the audited financial statements for the North Joint Committee (refer to note 2.1)

Council reply: The matter is beyond Council control

1.2 LES Post Regional 10% commission

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

1.3 Income recognition

We again noted instances where the council failed to classify income in the correct account (refer to notes 2.4).

Council reply: Action will be followed up accordingly.

1.4 Income recognised on a cash basis rather than on an accrual basis

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

1.5 FSS statutory documentation and reconciliation with the nominal ledger

We again found a difference in the wages' reconciliation (refer to note 3.1).

Council Reply: Recommendation noted and action will be followed up accordingly

1.6 Payroll shortcomings

The council failed to account for all bonuses with the list of accruals (refer to note 10.22).

Council Reply: Recommendation noted and action will be followed up accordingly

1.7 Tendering & procurement procedures

We again noted shortcomings in the tendering procedures. The council is still utilising expired tenders (refer to note 4.8).

Council Reply: As the Auditors have pointed the Council has acted to rectify the Tendering Procedures from 2018 as stated in Points a,b,c,d and e . Point f, the Council stopped using the services related to this contract on the 30th November 2020

RB
A.G. 2

1.8 Inappropriate expenditure documentation

We again identified an instance where the service provider has not provided the council with a VAT fiscal receipt in terms of the VAT Act (refer to note 4.1).

Council Reply: Recommendation noted and action will be followed up accordingly

We have also noted purchases for which no purchase order was issued by the council (refer to note 4.3).

Council Reply: It was noted that during fieldwork the Auditors did not check the Quotations since most of the purchases mentioned are supported by an a Request for Quotations.

1.9 Twinning project

We again identified shortcoming in the twinning agreement (refer to note 4.23).

Council Reply: The Agreement stopped since communication and follow up by both parties stopped

1.10 Re-imbusement to employees

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

1.11 Expenditure recognised on a cash basis rather than on accrual basis

We did not encounter any expenditure accounted for on a cash basis

1.12 Expenditure for organisation of events

We did not identify shortcomings in the expenditure for organisation of events.

1.13 Approval of cheque payments

We noted one instance where the Council failed to approve the payment prior to issuing the cheque (refer to notes 4.6).

Council Reply: This payment was related to a Claim which was already approved by the Claims Board during 8th Legislature.

1.14 Rental agreement and rental recognition

The council failed to obtain a signed rental agreement for all properties rented out by the council (refer to notes 4.10 and 4.19).

4.10 Council Reply: The owner had been notified about the discretion with price, however it the rent is accepted by him annually . The owner is also aware of the expired contract.

4.19 Council Reply: Reply: Leases assessment and treatment as per IFRS will be done in 2020

1.15 Upkeep of the fixed asset register

The fixed asset register does not include all the necessary details (refer to note 5.3).

Council Reply: Recommendation noted and action will be followed up accordingly

1.16 Tangible fixed assets tagging

The council has again failed to tag fixed assets in accordance with the Local Councils (Financial) Procedures, 1996 (refer to note 5.1).

Council Reply: Recommendation noted and action will be followed up accordingly

1.17 Reconciliation of asset categories in fixed asset register to nominal ledger/financial statements

We again noted difference between the fixed asset register and amounts included in

WS
A.G.

the books of account (refer to note 5.8).

Council Reply: The fixed asset register makes a reference to Furniture & Fittings and Office Equipment

1.18 Depreciation

The fixed asset register still includes assets which are not being classified in the correct category (refer to notes 5.6).

Council Reply: The Council will check the fixed assets register so that the net book value agrees with the financial statements

1.19 Capital expenditure incorrectly accounted for

We did not identify items in expense accounts which should have been capitalised.

1.20 Insurance policy

The council's assets are still not being appropriately insured (refer to note 4.16).

Council Reply: The Council Insurance policy incorporates the Local Council building which is rented from a private owner and a garage which is rented from the Housing Authority. Hence the insurance policy has to abide by the respective contracts. Other items (Christmas Decorations) referred to is in correct as these are insured by Contractors. The stock of wine, spirits and tobacco is not correct as the Council does not make use of such purchases.

1.21 Capitalisation of tangible fixed assets

During the year under review the council has capitalised road resurfacing and patching works without an architect certification (refer to note 5.16).

Council Reply: The Auditors were presented an MOU that the Council has with Infrastructure Malta and were notified also notified that the Council was still awaiting the rates from Infrastructure Malta in order for Architect Certification to be concluded. A copy of the correspondence with IM of a large number of reminders was handed to the Auditors. An Invoice of the works was also presented.

1.22 Assets not yet capitalised

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

1.23 Variance in the NBV of intangible assets

The council failed to reconcile the difference in NBV between the fixed asset register and financial statements (refer to note 6.1).

Council Reply: In FA Register Category 20, Computer software NBV €1222.30, Cost €4964.35, Dep'm €3742.05

1.24 Trade debtors' overdue balances

The council did not address the issue of long-outstanding debtors (refer to notes 8.3).

MS
A.G.

Council Reply: As pointed by the Auditors in their notes the Council is taking steps to rectify the situation

1.25 Prepaid expenditure

We did not identify any irregularity in prepayments.

1.26 Accrued income regarding road resurfacing / Thallassalejn Project

The council failed to address the issues during the year under review (refer to notes 8.10 and 8.12).

Council Reply: The Council has sent various reminders to the Planning Authority regarding the matter.

1.27 Accrued income with respect to Wasteserv tipping fees refund

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

1.28 Pre-regional receivables

We noted certain irregularities between the gross carrying amount of LES debtors and the reports generated from the LES system (refer to note 8.1).

Council Reply: Such issues are beyond Council control however the Council will send a reminder to LESA in order to address the situation as possible.

1.29 Council's bank accounts

We are pleased to note that the council cleared its nominal ledger with respect to bank accounts which have been closed in prior years.

1.30 Bank account held with Central Bank

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

1.31 Cash deposits

We regret to note that the council is not depositing receipts as required by the Procedures (refer to note 2.12)

Council Reply: It should be noted that collections are done twice a week – Tuesdays & Fridays. Above receipt dates are Fridays and deposit dates are Tuesday. Hence procedures are being followed.

1.32 Petty cash payments and withdrawals from the petty cash box

We again noted instances where the petty cash vouchers are not being signed by the executive secretary (refer to note 4.1).

Council Reply: Recommendation noted and action will be followed up accordingly

1.33 Supplier balances

The council failed to reconcile balances recorded in the creditors list and amounts confirmed by third parties (refer to note 10.1).

Council Reply: Recommendation noted and action will be followed up accordingly

1.34 Accrued expenditure

We have again noted shortcomings in accruals (refer to notes 10.19, 10.21 and

WS
d.G. 5

10.22).

Council Reply: Recommendation noted and action will be followed up accordingly

1.35 Long outstanding creditors

We have again noted long outstanding creditors in the books of account (refer to note 10.3)

Council Reply: The item has been brought before Council and discussed during Council Meeting no 25 on the 5th November 2020. A number of decisions have been taken however other payments are still to be discussed.

1.36 Debit balances in creditors list

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

1.37 Long-term payables to supplier of road surfacing works

The council failed to differentiate between short and long-term payments for the PPP payables (refer to note 10.24).
(refer to note 10.27).

Council Reply: Recommendation noted and action will be followed up accordingly

1.38 Financial statements presentation

We have again identified shortcomings in the presentation of financial statements (refer to note 12.1).

Council Reply: Recommendation noted and action will be followed up accordingly

1.39 Publishing of council documents and other matters

We also noted that to date of the management letter the council did not upload the management letter and reply to the management letter (refer to note 14.1).

Council Reply: The documents have been uploaded on DLG website

1.40 Opening balances

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

1.41 Membership in Majjistrat Action Group

The council did not specify the benefits obtained from the membership paid in the Majjistrat Action Group (refer to note 4.27 & 4.28).

Council Reply: Beyond Council's control however the Council will notify MAG

1.42 Comparison with the annual budget

We again identified a shortcoming when compared actual expenditure with the budgeted (refer to note 16.1).

Council Reply: This done on a quarterly basis when the Financial Indicators are presented to the Council Meeting

1.43 Mid-term audit

The council did not require a mid-term audit during the year as there was no change in executive secretary.

RB
A.G.

Conclusion

Replies to other points highlighted in the Management Letter are Annexed with this document
The Council is admnt to ensure correctness of procedure and value the necessity of the Annual Audit to ensure good governance. Hence the Council would like to thank the appointed Auditors for highlighting areas that require improvement of procedure.

Cordially



Mariella Strout
Executive Secretary



Alfred Grima
Mayor



CC: Director General at the Department of Local Government
Appointed Auditor, Grant Thornton at Fort Business Centre

Annex



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Annex

The following are detailed other detailed replies that were not referred to in Point 1

2 Income

Income from Joint Committee

2.1 We noted that the North Joint Committee, of which San Pawl Il- Baħar local council formed part up to 31 August 2011, has not provided the council with recent audited accounts.

Council reply: Beyond Council's Control

2.2 In the absence of the audited financial statements of the Joint Committee, we were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.

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

Council Reply: Recommendation noted

Supplementary Government income

2.4 The council has classified accrued income of €3,509.77 from the Department for Local Government in accordance with the scheme 'Financial Initiatives – Local government Culture Fund 2018 – 2020' with respect to the Wignacourt Tower Festival as 'supplementary Government income'. We proposed an audit adjustment to reclassify this amount to 'other Government income'.

2.5 The council should ensure that transactions are properly allocated to the correct account.

Council Reply: Point Noted

Other Government income

2.6 When testing other Government income, we noted that the income statement account has opening balance of €1,143.10. Upon further investigation we established that this account had opening balance as at 1 January 2018 amounting to



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

€1,143.10. The council explained to us that erroneously in prior year this account was marked in the accounting system as a balance sheet account rather than income statement account. This error was corrected during the current year and €1,143.10 was recorded as an income for the year. We did not propose a prior period adjustment due to immateriality.

2.7 We recommend that council carefully establishes whether the accounts in the books are of a balance sheet or income statement nature in order to avoid similar situations in the future. Furthermore, income should be reported in the correct accounting period.

Council Reply: Point Noted

General income

2.8 When testing General income, we noted that the council recognised an amount of €461.16 as income from recharges made to Malta Tourism Authority for the 50% of water and electricity bills for the usage in sub-office. During the audit fieldwork the council failed to provide an agreement for the recharges made.

2.9 We advise the council that obtaining and retaining signed copies of all the contracts is of vital importance.

2.10 In the unaudited financial statements the council has classified income from organic waste collection amounting to €187,867.24 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate the above amount to 'other Government income'.

2.11 We recommend the council to disclose all income received from Government, which is not part of the annual allocation, as other Government income, unless otherwise directed by the Department for the Local Government

Council Reply: Recommendation Noted

Custodial receipts

2.12 During our audit fieldwork we noted that in certain instances the council failed to fulfil its obligation to deposit income received on a timely basis, namely:

Description	Receipt number	Receipt date	Deposit Date	€
Crane permit	25474	06.09.2019	10.09.2019	15.00
Crane permit	26434	25.10.2019	29.10.2019	60.00



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

2.13 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (financial) procedures but also for security purposes.

Council Reply: Collections are done twice a week – Tuesdays & Fridays. Above receipt dates are Fridays and deposit dates are Tuesday

3 Personal emoluments

Reconciliation of wages between FS5s and books of accounts

3.1 During the audit we noted a discrepancy of €214.31 between the wages account and personal emoluments found in the FS5 forms sent to the Commissioner for Revenue (see appendix 1).

3.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the Commissioner for Revenue are correctly declared.

Reconciliation between FS7 and FS5s

3.3 We noted a difference of €13 between the FS5s and FS7 submitted to the Commissioner for Revenue. No reconciliation was provided to us during the audit (see appendix 1).

3.4 We recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue

Council Reply: Recommendation noted

Commissioner for Revenue payments

3.5 During the year under review we noted that the council failed to submit the payment on time for the October FS5 to the Commissioner for Revenue.

3.6 The council must submit FS5s and remit FSS tax and NI to the Commissioner for Revenue by the last working day of the month following that during which the council has paid the emoluments. Thus the council should abide by the applicable laws and rules to avoid legal action and unnecessary penalties.

Payment of overtime

3.7 We have again noted that a payment of €11,604 was made to employees with respect to overtime. This payment was made prior to obtaining approval in council meetings.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

3.8 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

Councillors' excuse letters

3.9 When reviewing the excuse letters presented by council members, we noted that in meeting 82 and 9-1 a councillor failed to provide a formal excuse letter however he was still excused from attending the meeting.

3.10 We recommend that the council obtains written letters of excuse. Following discussion as to acceptance or otherwise, letters should be attached to the minutes.

We remind the council that memos and circulars state that a valid reason should be presented in writing to the council. **Council Reply: According to Article 84 of the Local Government Act the Councils Data Protection; is barred from publishing personal information about Councillors – making reference to the publishing of the letters being attached to the minutes.**

4 Expenditure

Petty cash vouchers

4.1 We have noted that the following cash payments are supported by petty cash vouchers, which were not signed by executive secretary:

Furthermore, the council failed to provide us with tax invoice/VAT receipt with respect to hire of taxi from Luqa to San Pawl il- Baħar local council.

4.2 We remind the council that all petty cash vouchers should be signed by the purchaser and the executive secretary. This is in accordance with Directive 3/2017 and LN 269 of 2017. Furthermore, the council must obtain a tax invoice/ VAT receipt duly addressed to the council for all payments issued by the council. **Council Reply: Recommendation Noted**

Procurement procedures

4.3 Testing on cheque payments revealed the following irregularities for the below listed purchases:

Details	Supplier	€	Note
Father Christmas and van with driver for 5 days and rent of tent	Scerri Maria	700.00	(a) Noted
Uniforms for local council staff	Jon David Limited	1,890.31	(a), (b)

4
A.S. A.G.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

Council Reply: **RFQ in Hand**

Provision of consultancy

services in relation to drafting

of tenders

European Funds Info Limited 5,074.00 (a), (b) **RFQ in Hand**

Catering during Paulus

09.02.2019

Neriku catering 1,397.39 (a), (b) **Noted**

Supplies for maintenance of

Tal-Vecc playing field

Jonstor Ironmongery 1,912.34 (a), (b) **The Council**

applies a method to rotate purchases from Ironmongers in the locality

Summer carnival mementos
Hand

Alka Ceramics 896.80 (a) **Quotations in**

Pavement works at Triq Qalb

ta Gesu
Hand

Bartolo Lauro 1,500.00 (a) **Quotations in**

A1 water based free standing

boards
Hand

Printing Dome 1,486.80 (a) **Quotations in**

Reimbursement of costs for

the Malta International Folk

Festival 2019

Leon Promotions 2,500.00 (a) **the event was**

organised by North Region and procurement was also issued by North Region



Repairs to public convenience Borg Andrew – A&H Installations 2,992.45 (a), (b) **works issued due to emergency since Council's service provider was not available**

(a) The council obtained only 1 quotation.

(b) No purchase order was available.

4.4 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.

4.5 May we also remind the council that the purpose of a purchase order is to confirm in writing the order for goods or services from third parties. The purchase order is the evidence of the council's approval for a proposed purchase or service. Upon receipt of the invoice, this should be checked and matched to the purchase order,

 5 



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

with any discrepancies referred to the supplier.

Reply: Point noted, however such procedure is already practised and adhered too at this Council

Payment approval

4.6 Whilst performing tests on cheque payments must be approved by the Council in the meeting prior to issuing the cheques. This procedure minimises the risk of unapproved purchases or uncertified work.

Reply: This was a payment for Claim which was approved by the Claims Board during 8th Legislature

4.7 We remind the council that cheque payments must be approved by the council in the meeting prior to issuing the cheques. This procedure minimises the risk of unapproved purchases or uncertified work.

Reply: Point Noted

Expired contracts

4.8 We noted that the council continued using expired contracts during the year under review. The council kept on using the service from the same supplier under the old terms and conditions.

Reply: Points a,b,c,d,e noted. Point f, the Council stopped using the services related to this contract on the 30th November 2020

4.9 We would like to remind the council that the Procurement Guidelines 2017 issued by the Department for Local Government state that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts for those expenditure exceeding €10,000.

Reply: Noted

4.10 During the audit we noted that the council is still making use of an expired contract for the rental of the 'Leli Garage' in Patri Wistin Magro Street, Burmarrad, San Pawl il-Baħar. This expired on 12 August 2012. We were not provided with the new contract agreement. In accordance with the expired agreement the total rent for the garage is €4,015.00 per annum, however the amount recorded in the books is €3,825.00. The council explained to us that the amount recorded in the books of account is based on the received invoices and the amount stated in the invoices is paid to the landlord.

Reply: The owner had notified about the discretion with price, however it is accepted by him. The owner is also aware of the expired contract.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

4.11 We recommend that the council should obtain a contract agreement for all properties being rented by the council. This will ensure that the rights and obligations of each party are clear and the rate charged is in accordance with the agreement.

Reply: Point noted

Tendering procedures

4.12 Our audit revealed that during the year under review the total invoices received from Bad Boy Cleaners amounted to €20,815.20. This expenditure was not supported by a call for tenders.

Council Reply: A Request for Quotations had been issued, the bidder who was awarded decided not to take on the work. Hence another Request for quotations was issued and awarded to Bad Boy Cleaners. When the payment superseded the 5000 euro, some Councillors abstained from approving the payments, however the overall the payment up till the 3rd invoice was approved. The service was immediately stopped with the last invoice being paid because the service providers issued a garnishee order against the Council. During the same period a tender for the Cleaning Services of the Public Conveniences was being evaluated. This issue happened during the last 6 months of the 8th Legislature. The situation has been rectified since the Council has contracted a service provider through Tender.

4.13 We recommend the council adheres to Procurement Guidelines, 2017 which states that councils are required to make a call for tenders for expenditures above €10,000.

Reply: Point Noted

4.14 During the year under review we also noted the below shortcomings to tendering procedures:

(a) The council did not obtain the performance guarantee within established timeframe.

(b) The accepted offer exceeded the established council's budget. Accepted offer was amounting to €1,162,240, excluding VAT, whilst the budget was set at €350,000.00.

Reply

(c) The opening of tenders document was signed only by one of opening staff.

(d) The contractor did not submit performance guarantee from the bank but instead provide a cheque to the council which is being kept at the council's premises.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Reply: The performance guarantee has since been deposited

(e) The council failed to publish an advert in Government Gazette.

(f) The council failed to obtain performance guarantee of 4%.

Reply: The performance guarantee was submitted when the van was delivered and dated according to the log book

(g) The contract was signed only by the supplier and not by the council.

4.15 Procurement Policy note 22 states that the committee should obtain a performance guarantee of 4% for purchases with a value between €10,000 to €500,000 and a 10% guarantee for purchase above €500,000. We remind the council that in accordance with General Conditions for Service Contracts V.2.0 states that the performance bond should be submitted to the council within 15 days of receipt of the contract. May we also remind the council that the budget is prepared to control the income and expenditure of the council. Thus, diverting from the budget will result in cash constraints for other services. The council should ensure that the opening of tenders document is signed by all the opening staff in conformity with the ePPS Guidelines. In accordance with Part XII article 12.1 of Procurement Guidelines the council shall give notice of its intention to issue a tender by publishing a notice in the Government Gazette. It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

Reply: Noted

Insurance policy

4.16 During our audit we identified the following discrepancies between the asset insurance cover and net book value of assets included in the prior year audited financial statements:

Asset	Sum insured €	NBV €
Buildings	895,000	



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Reference made to Garage in J. Quintinos

Office furniture, fittings and equipment	21,500	16,488
Insurance on 12 months' rent	18,600	-
Community assets	102,502	-
Plant and machinery	8,800	3,434
Christmas decorations	40,000	-

Reply; Insurance paid by Contractors

Stock of wine, spirits and tobacco	100	-
------------------------------------	-----	---

Reply: The Council does not make use of such stock

	1,086,502	19,922
--	-----------	--------

4.17 It is evident that the above 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. Furthermore, we also noted that the council is insuring property in the open. This is in breach of Directive 3/2017 which states that community assets should not be insured.

4.18 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. We recommend that the insurance at least covers the replacement cost of the assets.

Reply: Point Noted

IFRS 16 'Leases' assessment

4.19 Whilst performing our audit procedures we noted that the council recorded a rent expense amounting to €29,023.85 in the books of account in relation to four properties leased by the council. The council failed to assess and account for the leases in accordance with IFRS 16.

Reply: Leases assessment and treatment as per IFRS will be done in 2020

4.20 We recommend that the council performs an IFRS 16 assessment to establish whether the council should account for the rent expense in accordance with IFRS



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

16 accounting treatment. In accordance with the new standard, at lease commencement date, the council should recognise a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the council, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The council should depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of, the end of the useful life of the right-of-use asset, or the end of the lease term. The council should also assess the right-of-use asset for impairment when such indicators exist. At the commencement date, the council should measure the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the council's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After initial measurement, the liability should be reduced for payments made and increased for interest.

Reply: Noted

Contract Manager

4.21 We noted that during the year under review the council did not appoint a contract manager in accordance with the directive 03/2019.

4.22 Directive 03/2019 states that the council had to appoint a contract manager by 31 December 2019.

Reply: Tender has been published and evaluated however evaluation recommended that the Tender is reissued since non of the submitted bids were eligible. The Tender has been reissued.

Twinning agreement

4.23 During the audit fieldwork we enquired with the council whether the latter has any twinning agreements in force and the council confirmed that there is no such agreement. However, in prior year the predecessor auditors in management letter



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

stated that the council has a twinning agreement with Agios Pavlos in Tesseloniki.

Reply: The Agreement stopped since communication and follow up by both parties stopped

4.24 We recommend the council to establish whether the council has entered into any twinning agreement in prior years and to obtain copy of the agreement, if applicable. Furthermore, at the end of each financial year the council shall prepare a report to DLG stating the results and benefits of twinning agreement, even in the case if the council did not incur such expenditure during the year under review.

4.25 We also note that during the year under review the council incurred €734 with respect to Youth Council travelling to Ayia Napa. The council did not sign twinning agreement with this city.

Reply: There is no Twinning Agreement but Youth Council travelled as an educational visit. The visit was funded from the allocated budget for the Youths Committee

4.26 May we remind the council that in accordance with the Local Councils (Twinning) Regulations before initiating a twinning process the council must submit a report to the Director of DLG stating the objects and reasons of the proposed twinning and an estimate of the expenditure for the activities related to the twinning. After the approval by the DLG the agreement shall be signed.

Majjistral Action Group membership

4.27 The council's membership expenditure account includes an amount of €929 relating to a membership fee paid to Majjistral Action Group. The council failed to obtain a copy of the audited financial statements as at 31 December 2019.

4.30 We recommend that as members, the council obtains the audited financial statements from Majjistral Action Group so the council would be able to assess the cost/benefit of this membership.

Reply: Not in Council's control

5 Fixed assets

Tagging of fixed assets

5.1 We noted that the council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.

5.2 We recommend that the council tags its fixed assets, where applicable, as soon as



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

Upkeep of fixed asset register

5.3 During the audit fieldwork we noted that assets in the fixed asset register had generic names such as laptops, swings with chain, grey paving, gym and phone.

Reply: Noted

5.4 The fixed asset register should at least include the following details:

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

5.5 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

Classification of assets

5.6 During the year under review we noted that certain fixed assets are not being classified under the appropriate fixed asset category. For example:

Asset category	Asset code	Description	Net book value
			€
Office equipment	OEQU049	Wall Safe	3.53

Reply: Furniture & Fittings

Reply: Office equipment

5.7 Once again, we suggest the council updates its fixed asset register and allocates assets appropriately. This would ensure that the council is calculating depreciation using the appropriate depreciation rate and thus showing the correct net book



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawlil-bahar.lc@gov.mt, Tel: 21585888,

value.

Reconciliation of financial statements to fixed asset register

5.8 During our audit fieldwork, we noted that the fixed asset register does not agree to the unaudited financial statements.

5.9 The council failed to provide an explanation for the above-mentioned differences.

Whilst reviewing the 2018 management letter we noted that the previous auditor noted that the difference was a result from the application of Directive 1/2017 whereby the NBV has been adjusted for including deferred income and depreciation was recalculated based on the remaining useful life of the asset.

5.10 Circular 1/2020 states that council should ensure that the fixed asset register agrees to the nominal ledger and hence the financial statements. To this end we reiterate our recommendation to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

Reply: The Council will check the fixed assets register so that the net book value agrees with the financial statements

Additions to fixed assets

5.11 Whilst reviewing fixed assets we found that the council has capitalised an amount of €29,825 payable to Nextbike. Upon reviewing the agreement, we noted that the council has paid the above amount as a one-time financial contribution. The same agreement specifies that the Nextbike stations shall remain the property of Nextbike Malta. The council has also accounted for depreciation of €2,485 for the same asset. To this end we have proposed an audit adjustment to account for the payment as an expense and reverse its depreciation.

Reply: Depreciation was reversed & audit adjustment taken up

5.12 The council should not capitalise costs which are of an expense nature. IAS 16 states that the asset purchased should provide future service potential. In these cases, the expenses were incurred to maintain their use rather than to add economic benefits or service potential.

5.13 During the year under review we noted that the council has capitalised €500,000 for resurfacing and patching works of various roads. We were only provided with the memorandum of understanding and respective invoice for the above works. The



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

council failed to obtain an architect certification prior to issuing payment to the supplier and capitalising works in the financial statements. Furthermore, the council failed to distinguish between patching and resurfacing works. We have proposed an audit adjustment to reclassify the amount as asset under construction. This will be then capitalised once the council obtains the architect certification. We have also proposed an adjustment to reverse an amount of €4,167 which was accounted for as depreciation for the same assets noted above.

Reply: Infrastructure Malta

5.14 Furthermore, the council has received €22,200 from Regjun Tramuntana for the tarmac scheme. The grant received was utilised against works carried out by Infrastructure Malta as noted in note ____. The council included the grant addition with special programmes in the unaudited financial statements. The cost of the assets was then included in the construction category. Due to the adjustment noted in note __ we have proposed another adjustment to reclassify the grant received with assets under construction.

5.15 We recommend that prior to issuing payments the council obtains all necessary documentation and invoices to establish the correct treatment in the council's books of account. May we remind the council to obtain and review architect's certificates to establish whether the above costs should be expensed as patching works or capitalised as resurfacing costs.

European Agricultural Fund for Rural Development 2014-2020 measure 4.3

5.16 Whilst performing audit procedures on fixed assets additions we noted that the council capitalised additions amounting to €515,223 pertaining to works in Triq Ras il-Wied, Triq Qarbuni, Triq Burmarrad, Wied Qannotta, Triq Bidnija and Triq San Martin in the construction category. The council informed us that these works were carried out in 2019 in relation to the European Agricultural Fund for Rural Development (EAFRD) 2014-2020 measure M4.3. This pertains to a grant which is to be paid in respect of the eligible costs to the council in relation to the improving accessibility to rural areas in the locality whereby various road resurfacing or construction works will be carried out.



KUNSILL LOKALI **SAN PAWL IL-BAĦAR** LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawlil-bahar.lc@gov.mt, Tel: 21585888,

Council Reply: Road Works on Measure 4.3 were carried out according to the obligations of the Grant Agreement.

5.17 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.

5.18 To this end, we have proposed an audit adjustment to reverse the grant received amounting to €238,527 which was transferred as a grant addition in the property plant and equipment schedule. We have also proposed an audit adjustment to reverse the eligible costs amounting to €463,701 against the 'other creditors'. The remaining amount of the grant received of €225,174 was included in the 'other creditor' account. The 'other creditor' account was eliminated by our audit adjustments as the council had completed all the works for the above roads by end of year.

5.19 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.

Reply: Point Noted

Obsolete assets and disposals

5.20 The council still has various fixed assets which are not in a good state or no longer exist. An example of this is the skate park which has a net book value of €4,165.

The council informed us that the skate park is abandoned and can not be used.

Reply: Fully depreciated in 2020

5.21 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain and control an accurate and up-to-date inventory of council fixed assets. Therefore we recommend that any disposals and obsolete items included in the fixed asset register are identified and written off. If the council scraps assets, the list of items scrapped or written off should be approved in a council meeting.



KUNSILL LOKALI **SAN PAWL IL-BAĦAR** LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

Reconciliation of financial statements to fixed asset register

6.1 Whilst reviewing the fixed asset register and books of accounts, we noted that the net book value of intangible assets does not agree by €21. The council failed to provide an explanation for this difference.

Reply: In FA Register Category 20, Computer software NBV €1222.30, Cost €4964.35, Dep'm €3742.05

6.2 Circular 1/2020 states that council should ensure that the fixed asset register agrees to the nominal ledger and hence the financial statements. To this end we reiterate our recommendation to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

Reply: Incorrect

7 Inventory

Stock insurance

7.1 In previous years the council has published a number of books namely: St. Pauls Bay – A Guide, Wignacourt Walks, Rooted, Il-Qawra Titkellem and Tisjir Mil- Qalb 2018. The council failed to insure the stock of booklets and books.

7.2 May we remind the council that assets should be adequately insured. Unless stock is insured the council will not be able to recover any losses in stock in case of theft, fire and any other accident.

Reply: Point Noted

Net realisable value of inventory

7.3 Furthermore, we noted that the council's inventory is slow moving. We have also noted that the majority of the books are given as complimentary and not sold.

7.4 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. Write-offs or provisions of inventories might be necessary if the books remain slow-moving or have no realisable value.

Movement in stock

7.5 During the year under review the council sold books amounting to €78. The council



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawlil-bahar.lc@gov.mt, Tel: 21585888,

failed to adjust the books of account and reclassify stock to cost of sales. To this end we have proposed an audit adjustment to record the movement.

7.6 We recommend that the council accounts for stock movement on a regular basis and ensures that the list is constantly updated and reflects the actual amount of books available at council premises.

Reply: Point Noted

8 Trade and other receivables

Pre-regional LES debtors

8.1 In our testing on LES debtors, we obtained report 622 generated from version 1 of the Loqus system and found that tribunal pending payments as at 31 December 2019 were €97,402.93. The council had passed an entry of €6,195.32 against LES debtors and corresponding provision to agree the books with the LES report. We have proposed an adjustment to reverse the entry passed by the council as there is uncertainty as to whether the LES reports are correct.

8.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Reply: Point Noted

Overdue receivables

8.3 We noted that the council has the following long overdue receivables:

Debtor	€	Note
Bobby's Tattoo Studio	465.88	(a) Blues Limited 24,000.00 (b) Dimbros Limited 1,249.57 (a) Green MT 3,904.32 (a) Gozo region 395.88 (a) Horejsi David 165.00 (a) Incognito Restaurant 343.10 (c) Malta Tourism Authority 8,675.47 (d) Malta Classic car Collection 465.88 (a) Mecca Enterprises Limited 90.00 (a) Pepe Nero 514.65 (a) Sounsource & Co Limited 360.00 (a) Waterservices Corporation 78,461.56 (a) Regjun Xlokk 42.90 (e) 119,134.21

(a) Fully provided for (refer to note ____).

(b) Recognised provision in the books amounts to €6,500(refer to note ____).

Furthermore, the council explained to us that there is an open court case with the respect to receivable of 24,000.00.

(c) This balance was not provided for in the books of account.

(d) Recognised provision in the books amounts to €6,257.97.

(e) Recognised provision in the books amounts to €39.41.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Reply: Point Noted

8.4 We also noted that a total provision of €99,168.60 was recorded as at 31 December 2019 in the books of account for the trade:

(a) We have noted that although these provisions were recognised in the books of account, there was no corresponding receivables recorded in the unaudited financial statements.

8.5 We recommend that, although in most of the cases a provision has been made, the council should continue trying to obtain settlement from these debtors reminding them that the amounts have been long overdue. We also recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due. The council should regularly review provision for bad debts, ensuring its accuracy and completeness. We also advise the council to review the amount due from Blues limited after the final judgement has been received and reflect the decision in the books of account.

Reply: The Council will chase debtors & write off any bad debts after Council approval

Confirmation of debtor

8.6 We have obtained a statement from Wasteserv Malta Limited showing a balance of €11,876.54 due to the council. However, the council's books of account indicate a balance of €187,867.24. This resulted in a difference of €175,990.70. We also noted that in the statement provided by Wasteserv Malta Limited the payment to the council amounting to €23,753.08 was recorded in October 2019. This entry was never recorded in the council's books of account. Upon our request the council contacted Wasteserv Malta Limited and it was established that the council never received said payment and it was reversed by Wasteserv Malta Limited in 2020. The revised difference of €152,237.62 is arising from invoices issued by the council for October 2018 and February to December 2019 which were not recorded by Wasteserv Malta Limited.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Reply: Wasteserve has not posted in their books invoices for organic waste collection

8.7 We recommend that the council contacts Wasteserv Malta Limited and ensures that all invoices are approved and recorded in their books. The council should also chase for the payment.

Other debtors

8.8 While reviewing other debtors we identified an amount of €8,150 brought forward from prior years with the description stating 'Commissioner of Inland Revenue'. The council provided to us an agreement dated 29 July 2011 with Joseph Muscat in accordance with which the council agrees to buy or rent the premises, currently being used as a local council office. At that time the agreed purchase price was €815,000.00. The amount of €8,150.00 represents 1% duty paid at that time to the Commissioner of Inland Revenue. Furthermore the agreement contains a clause stating that an amount of €35,000.00 had to be blocked in the council's bank account and in case the council decides to continue renting rather than purchasing the said premises the amount will be transferred to the seller/landlord. We received and reviewed bank confirmations and did not identify blocked amount in the council's bank accounts. We have inquired with the council and it confirmed that it has no intention to purchase the property.

8.9 We recommend the council to discuss and review this agreement during council meeting and if there is a need to seek legal advice.

Accrued income

8.10 During audit fieldwork we noted that the council failed to account for accrued income amounting to €8,000 in accordance with the scheme 'Financial Initiatives – Local government Culture Fund 2018 – 2020' with respect to Summer Carnival 2019. The council submitted report to the Department for Local Government in accordance with which the council has incurred expenditure of €10,769.97 with respect to Summer Carnival 2019. We have proposed an audit adjustment to account for accrued income amounting to €8,000 as capped by the scheme.

8.11 We recommend that the council records such amounts in accordance with the schemes when it is certain to be received thus ensuring that the income is reported in the correct accounting period on the accrual basis.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

Reply: Point Noted

8.12 While reviewing accrued income we noted an amount of €132,269.76 with respect to Thallasssalejn playing field. The council provided to us an agreement with MEPA dated 20.10.2011. As stated by the predecessor auditors the project was finalised in 2018 and the respective accrued income was accounted for in the same year. Up to date no amounts were received by the council for this Project.

8.13 We recommend the council to contact MEPA (Planning Authority) and to chase for the payment and if any issues arise to ask assistance from the Department for Local Government.

Reply: Reminders sent to Planning Authority

8.14 In June 2017 the council entered into agreement with the Planning Authority for the 'Resurfacing of roads' project for the amount of €154,694.24. As stated by the predecessor auditors, the council recorded the amount of €210,381.71 as accrued income as at 31 December 2018, thus overstating the agreed amount by €55,687.47. During the year under review the council received an amount of €102,053.80. No further payments were made by the Planning Authority up to the date of audit fieldwork. The balance of accrued income in accordance with the books of account as at 31 December 2019 is €108,327.91 which is overstated by €55,687.47 compared to the signed agreement.

8.15 We recommend that the council accrues for the income in accordance with the signed agreement thus avoiding overstating of the income and receivables.

9 Bank and cash

Unpresented cheques

9.1 During our testing on unpresented cheques we noted that the council omitted BOV cheque 19261 dated 11 December 2019 and amounting to €900.00 from bank reconciliation of the current as at year end. We have proposed an audit adjustment to include the omitted cheque.

9.2 We remind the council that bank reconciliations should be prepared and reviewed carefully to identify any exceptions on time.

Reply: Point Noted

10 Trade and other payables



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

Supplier statements

10.1 The council did not obtain monthly statements from all of its suppliers. Directives and circulars issued from time to time by the Department for Local Government specifically state that the council should obtain monthly statements from all suppliers.

10.2 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.

Reply: Point Noted

Long-outstanding creditors

10.3 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
Armeni Daniele	460.20
A & E Borg Tower Ladder Service	1,050.00
A.R.M.S Limited Acc. 411000055730	500.00
Bonnici Brothers	7,036.66
Design & Technical Resources Limited	1,947.00
Dimbros Limited	6,952.17
Eagle Security	177.00
B. Grima & Sons Limited	3,916.83
Grima Ironmongery	945.00
J. Farrugia Electrical & Plumbing installation	1,096.85
Perit William Lewis	559.70
Mario Mallia	64.90
Mecca Enterprises	450.60
Mica Med Limited	389.40
Road Servicing	53,976.98
Ron Fleur	40.00
Sijon Ironmongery	788.24



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Sado Co Ltd	732.78
WasteServ Malta Limited	24,246.50
	105,330.81

10.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council.

Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Reply: This amounts have been brought before the Council and decisions have been taken

Confirmation of trade creditor

10.5 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Bonnici Brothers Limited	7,036.66 -		7,036.66

Reply: PPP Agreement

B. Grima & Sons Ltd	13,987.69	17,547.88	(3,560.19)
---------------------	-----------	-----------	------------

Reply: Old Balances Council agreed not to pay as not approved by Council

To date of the management letter the council did not provide a reconciliation and explanation for the above differences.

10.6 We remind the council that circular 1/2020 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Alternative procedures on creditors

10.7 When performing alternative confirmation procedures on the balance due to creditors by verifying payments after year-end and outstanding invoices, we identified the below differences:

Amount in council's books	Payments after year end and
------------------------------	--------------------------------



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawlil-bahar.lc@gov.mt, Tel: 21585888,

Supplier	of account €	Outstanding invoices €	Difference €
Road Servicing Limited	53,976.98	50,683.43	3,293.55

Reply: PPP Agreement

10.8 To date of the management letter the council failed to provide an explanation for the above differences.

10.9 The above situations highlight the importance of reconciling creditors' balances to suppliers' statements. Thus, once again we recommend obtaining suppliers' statements on a monthly basis and reconciling immediately in order to identify any discrepancies promptly. We suggest that all differences identified are investigated and adjusted accordingly.

Other creditors

10.10 Included with other creditors is a balance amounting to €2,363.11 receivable with respect to 'amounts due from Paying Agency and Measure 313'. This balance is being carried forward from previous years. The council failed to provide us with supporting documentation. We have proposed a reclassification to include the balance with other debtors.

10.11 We also noted that the other creditors include a debit balance of €5,859.54 for a payment made with respect to arbitration. The council is unsure of the result of the case, thus we were informed that this will be expensed if the arbitral tribunal awards it to Dimbros Limited.

10.12 We advise the council to review this amount, and request for payment, if amount is no longer receivable, the council should reverse this after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Reply: Point Noted

10.13 We noted that other creditors also include a balance of €7,872.85 respect to 'other creditors – performance guarantees. The council informed us that performance guarantees of €1,010 were received for tender T12/2018 for Christmas Lighting and



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

€6,862.85 for tender T07/2018 for the resurfacing and patching of 8 farm roads in San Pawl under Measure 4.3. The above guarantees were provided to the council by a cheque and deposited in the council bank accounts.

10.14 According to the Local Councils (Tendering) Procedures, 1996 such performance bonds are important as this protects the council in the event that the contractor fails to honour his obligations laid down in the contract. The performance bond should be provided by the bank and it should remain valid for the duration of the contractual period and shall only expire one month after the completion project as agreed upon by the council and the contractor.

Reply: Money was deposited in the Council's bank account instead of performance guarantee issued by the bank

Refundable deposits

10.15 During our audit fieldwork we noted that the council collects deposits for permits of construction works carried out in the locality of San Pawl il-Baħar. The deposits are refunded back only if the council obtains assurance that the sites were left in a good condition after all works have been carried out.

10.16 The books of account include an amount of €6,150 in relation to refundable deposits. Whilst reviewing the list of refundable deposits we also noted deposits of €1,000 collected for construction works. The council informed us that a higher deposit is obtained to cover higher risks. S.L 441.04 of 2002 legislating deposits states that deposits obtained for permits cannot exceed €232.94.

10.17 The council should review this balance and seek legal advice to check if these deposits are time-barred and in that case recognise them in income accordingly.

10.18 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council.

Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Reply: Point Noted

Accruals

10.19 The list of accruals included an amount of €4,705.64 in relation to the December FS5. Upon reviewing supporting documentation, we noted that this was already submitted



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

to the Inland Revenue and this should have been recorded as a non-financial creditor.

We have proposed an audit adjustment to reclassify this amount with creditors.

10.20 We recommend that the council distinguishes between accruals and creditors.

10.21 Our testing of accruals revealed that the council has erroneously over accrued the cleaning and maintenance of non-urban areas by €3,000. An audit adjustment was proposed to decrease the expense and accruals.

10.22 We also noted that the council's provision for performance bonuses was understated by €727.60. It was further noted that the council has excluded the performance bonuses of two employees. We have proposed an audit adjustment to rectify the issue.

10.23 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.

PPP payables

10.24 We again noted that the council did not distinguish between trade creditors and capital creditors in the trial balance. We have proposed an audit reclassification to reclassify PPP payables of €53,976.98 to a separate account.

10.25 We have also proposed an audit reclassification of €34,295.35 and €16,388.08 to distinguish between the short-term and long-term capital creditors respectively.

10.26 We reiterate our recommendation from our previous management letter that capital creditors are disclosed separately, especially when they are long term, to avoid taking incorrect figures when calculating liquidity and FSI ratios. Separate disclosure will also aid in the preparation of the cash flow statement.

10.27 The council is not discounting to present value the long-term liabilities with respect to PPP agreement as stipulated by IFRS 9 - Financial Instruments.

10.28 We recommend that the council adheres to IFRS9, 'Financial Instruments' and does carry out an exercise using a reasonable discount rate to determine if the net present value of the long term creditor is materially different from its carrying amount. If so, we recommend that an adjustment is passed to reflect the present value at the balance sheet date.

Reply: Points Noted



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

11 Books of account

11.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions. The nominal ledger did not include details identifying the items which are reclassified and thus it was difficult to trace all movement. This was noted in deposits for permits and general income.

11.2 Transactions in the books of account should be posted individually. In particular all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

Reply: Point Noted

12 Financial statements

Presentation of financial statements

12.1 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. Note 2, the sub-header 'New and Amended Standards Adopted by the Local Council' includes incorrect information. Cases in point is the fact that the council is stating that IFRS 9 'Financial Instruments' will be effective from 1 January 2019 however these were effective from 1 January 2018.
- ii. Note 2, the sub-header 'New Standards and Amendments not yet effective' includes IFRS 16 'Lease'. This should be included in the standards adopted by the council during the current year.
- iii. Note 2, includes standards which are not applicable to the council.
- iv. The council failed to update the 'Leases' note on page 11 of the unaudited financial statements.
- v. The 'Local Enforcement System' note included in the notes to the financial statement still indicates that San Pawl il- Baħar Local Council forms part of the North Joint Committee. The council should update the note to include current information.
- vi. The council included non-financial assets in the Financial Risk Management note.



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

- vii. 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.
- viii. The council failed to disclose PPP payables separately in note 16 payables.
- ix. Note 15 to the financial statements does not disclose the financial and nonfinancial receivables.
- x. The council failed to include the credit risk note as required by new standards.

12.2 We recommend that the council gives more attention to the preparation of the financial statements.

Reply: Point Noted

12.3 In addition to the above, we identified further shortcomings in the council's financial statements:

- i. The comparative figures in the cash flow statement do not cast.
- ii. The council failed to disclose income from bye-laws separately from the other general income.

12.4 We recommend that the council gives more attention to the preparation of the financial statements and includes all the disclosures required by accounting standards.

13 Meetings

Binding of minutes

13.1 We noted that the council did not bind the minutes of the seventh legislature.

Reply: It has been noted that the reference of legislature is incorrect as it should be eight legislature

13.2 We recommend that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous year's minutes to be bound. The binding of minutes should be given due importance since this provides the only permanent, unchangeable record of council meetings and discussions taken.

Reply; The Minutes are filled in a hard bound file, however a clarification will be sent to DLG to enquire should be hard bound

Length of meetings

13.3 The council is not specifying the start time of the meeting in the meeting minutes.

This is not in line with the templates provided by the Department of Local



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

Government by memo 10/2016.

Reply: Incorrect as the start time is included in the minutes

13.4 May we remind the council to ensure that meeting minutes include all the details required by the template issued by the Department.

Approval of minutes

13.5 We have noted that the council is not approving the meeting minutes in the subsequent meeting. Meeting minutes 74 was approved in meeting 76, meeting 76 was approved in meeting 80 due to the lack of quorum and meetings 80 and 81 were approved in meeting 84. The council did not provide any explanation for not approving minutes in the subsequent meeting.

13.6 This contravenes the Local Council (Meetings) Procedures which state that the council should print the minutes and attach them to the agenda for the next formal meeting of the council for approval.

Holding of meetings

13.7 For meetings 77, 78, 79, 82, 83, 86 the council could not hold the meetings due to the lack of a quorum.

13.8 Based on the number of meetings held from January to June 2020 and 13 councillors, the maximum number of attendances is 89. When one considers that there were 10 absences and 83 excuse letters, the overall attendance is only 49%.

13.9 We reiterate our recommendation from the previous management letter that council members are obliged to attend all meetings under section 18 of the Local Councils Act. On the other hand, if a letter of excuse is provided the council must consider the reasons for excuse and document the approval or otherwise in the minutes of the council.

Reply: Point noted

14 Electronic site

14.1 We noted that the council did not upload signed copies of the following documents on the website of local councils within the required time frame:

- (a) Quarterly financial reports covering January – September 2019 were not uploaded on the council website within the stipulated time frame.
- (c) The annual administrative report for 2018 is still not uploaded on council



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawlil-bahar.lc@gov.mt, Tel: 21585888,

website.

(d) To date of the management letter the council failed to upload the annual budget for 2020.

Reply: Uploaded

(e) To date of the fieldwork the council has failed to upload the management letter and reply to the management letter for 2018.

Reply: uploaded

14.2 We remind the council of the requirements of memos 77/2009 and 102/2010 to upload the signed minutes on the website within three working days. In addition the council should upload all other reports, audited financial statements and management letter within the specified time frame.

Uploading of management letter and other documents

14.3 During the audit fieldwork we noted that the council did not upload the 2018 management letter in accordance with Circular 21/2019.

14.4 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.

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

Reply: Points noted

15 Schedule of payments

15.1 During audit fieldwork we noted that the council approved schedule of payments during the meeting 88, however it was not specified which schedule of payments was approved. It was also noted that during the meetings 9_01, 9_02, 9_03, 9_04, 9_05, 9_06, 9_07, 9_08, 9_09 and 9_10 no schedules of payments were approved and therefore we could not establish whether the payments stated in the schedules



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawliil-bahar.lc@gov.mt, Tel: 21585888,

of payments 06/2019, 07/2019, 08/2019, 09/2019, 10/2019, 11/2019 and 12/2019 were approved by the council and whether the payment was made prior to approval or not.

15.2 We recommend that the council includes the schedule of payments reference in the minutes to ensure that all schedules have been presented and approved.

Reply: Point Noted

16 Comparison with annual budget

16.1 When comparing the budgeted figures with the actual figures of the year under review, we identified the following difference:

	Budgeted	Actual	Difference
	€	€	€
Expenditure			
Administrative and other expenses (excluding depreciation)	105,570	268,090	162,520

16.2 We recommend that the council compares budgeted figures to actual figures at least on a quarterly basis to ensure expenditure is in line with budgeted amounts. The council should apply due care and diligence when compiling the budget figures as required by the Financial Regulations.

Reply: This done on a quarterly basis when the Financial Indicators are presented to the Council Meeting

17 Specimen chart of accounts

17.1 We noted that the council is not using the specimen chart of accounts that is mandated for local councils and regional committees.

17.2 The chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will facilitate comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

Reply: Point Noted



KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL
Triq San Pawl, San Pawl il-Baħar, SPB 3411 Malta, Europe

sanpawil-bahar.lc@gov.mt, Tel: 21585888,

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Mariella Strout and her staff for their cooperation and assistance during the course of the audit.

Yours faithfully,