



Isla
Città Invicta

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National Audit Office
Notre Dame Revelin
Floriana

Dear Sir/Madam,

RE- Management Letter for audit for the period ended 31st December 2020

We are in receipt of the management letter dated 22nd June 2021 in connection with the annual audit of the Council's financial records for the period ended 31st December 2020. Whilst we would like to take this opportunity to thank your firm for the services and co-operation provided the council during fieldwork, we would also like to comment as follows:

With reference to the report made by the government auditors regarding the deficiencies that were noted for the year ended 31st December 2020, hereunder you have the Isla Local Council actions that should take so that these deficiencies will no longer occur.

1. Previous Management letter

1.1 Supplementary Government income

During the year under review the council has again recorded other government income in the incorrect account (refer to note 2.1). This has been noted.

1.2 Pre-regional LES Debtors.

Debtors in the Loqus IT system are more than LES debtors recorded in the council's books of accounts (refer to note 2.17).

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 €115,840.89. The council had passed an entry of €3,569.35 against LES debtors to agree the books with the LES report. We have reversed the entry passed as there is uncertainty as to whether the LES reports are correct. The council has included this adjustment in the final set of financial statements.

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

2. Accrued Income

We noted that the council received €1000 after year end in relation to reimbursement from Regjun Xlokk for Christmas lights. To this end, we have proposed an audit adjustment to record accrued income against other government income. The audit financial statements of the council reflect this adjustment. We recommend that the council correctly accounts for grants received and accrued income.

This was noted accordingly.

3. Expenditure

3.1 Petty cash payments

We have noted that some cash payments are not supported by the appropriate petty cash voucher identifying the items being purchased. Examples include:

Details	Suppliers	Date	€
Drinks for meeting	Equinox Confectionery	23/07/2020	4.25
Public Convenience Xatt	Wefi Ironmongery	28/09/2020	11.90
Council Meeting	St. Catherine	24/11/2020	7.90

For next audit Isla Local Council will specify what type of soft drink and biscuits was purchased for council meetings; and what fixtures and fittings were bought for the public convenience maintenance which usually we write down on the petty cash voucher.

Procurement Procedures

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.

The Local Council took note of the auditor's recommendation and will do everything possible that such situations do not recur in 2021.

Expired contract

The Local Council is still waiting for the Region to issue a tender re Street Lighting.

Tender no.	Details	Exp Date
ISLC03/2015	Tender for the collection of Bulky Refuse	26.07.2019
ISLC08/2015	Tender for street sweeping and cleaning	16.03.2019
ISLC07/2015	Collection of Mixed House hold waste	10.02.2019

During local council meetings the executive secretary informed the councillors to issue tenders and the councillors approved that the tenders will be issued after councils elections. Tender for Mixed House Hold waste was issued twice since there was no contractor which had the vehicle Euro 6

We would like to remind the council that Procurment Guidelines 2017 state that the council should start preparing for a new call for tender ahead of the expiry date of existing contracts.

This was noted accordingly.

Tendering Procedures

Whilst performing tendering procedures we noted the following irregularities in the performance guarantee.

The council failed to provide us with the performance guarantee / the council failed to obtain the performance gurantee within 15 days of contract date.

Isla Local Council chased all contractors for guarantee which they all have presented guarantee at a later date. This was noted accordingly

Payment Approval

Whilst performing the test on cheque payments we noted that cheque 10250 dated 11 March 2020 amounting €597 was issued prior to being approved by the council.

Whenever there is an emergency of issuing a cheque the executive secretary informs all memebers of the council to approve by email.

Insurance Policy

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

Assets	Sum Insured €
Buildings	90,000
Computer Equipment	1,160
Furniture, fittings, plant and machinery	53,461
Urban improvements	52,175
Turf and Nylon netting	24,758
Non Portable equipment	21,352

We again noted that the council is insuring property in the open amounting to €51,078. This is a breach of Directive 3/2017 which states that the community assets should not be insured.

This was noted accordingly

Rent agreements

The council still failed to provide the full rental agreement.

The Local Council took note of the auditor's recommendation and will do everything possible to acquire full rental agreements from Land's Authority to ensure that the rights and obligations of each party are clear.

4. Fixed Assets

4.1 Reconciliation of fixed assets asset register to financial statements

We noted that the council had differences of €5,803, €2,965 and €141 in urban improvements, office equipment and office furniture and fittings respectively as stated in the fixed asset register when compared to the financial statements. These differences could not be reconciled.

The Local Council is going to continue the exercise started last year to maintain the standard as required by the Local Council Procedures.

Tagging of fixed assets

The Local council will provide to tag the fixed assets where possible to be identified and their physical existence can be verified with the plant register.

Reconciliation of financial statements with accounting record

We identify the following discrepancies between the net book value of assets in the unaudited financial statements and the net book value in the nominal ledger.

Asset category	NBV in unaudited f.s	NBV in Nominal ledger	Difference
	€	€	€
Office Furniture & Fitt	12,234	11,925	309
Computer Equipment	1,984	1,981	3

A compensating difference of €313 was also identified between the creditors amount as shown in the financial statements and the amount included in the nominal ledger. An adjustment was passed to re-allocate the amounts appropriately. The council approved our audit adjustment.

5. Trade and other receivables

Pre-regional LES debtors

5.1 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 Decemebr 2020 were €115,642.84. This results in a difference of €3,534.41 when comapred to €112,108.43 as disclosed in the financial statements.

We recommend that the council investigates this difference and adjusts the LES receivables at the reporting date to reflect alladjudicated contraventions not yet paid once the correct balance is established.

This was noted accordingly

Overdue receivables

The council's debtors' list includes overdue balances receivable from the Local Enforcement Systems Agency amounting to €838.48 and from the South East Regional Committee amounting to €226.81. These balances have been outstanding since late 2015 and early 2016.

During 2021, the local council will send statements of accounts to LESA and the Regional Committees to collect the long overdue amounts.

We further noted that the council has an amount of €11,024.67 due by Wasteserv exceeding one year.

We have obtained a statement from Waste serv Malta limited showing a nil payable balance. The Council's books of accounts show a receivable balance of €29,379.50. The difference arose from invoices issued by the council from June 2019 to December 2020 which were not recorded by Wasteserv Malta Ltd. We were informed that Wasteserv was not accepting invoices unless the council also provides the original supporting contractor invoice in relation to the collection of organic waste for the respective month for which payment is being requested.

This was noted accordingly.

Bank and Cash

Cash in hand

Whilst performing our cash in hand reconciliation, we noted that the books of account are showing a balance of €230 for petty cash and a nil balance for cash in hand. During the cash account we noted that the council had €230 and €100 as a petty cash and cash in hand, respectively. This results in a discrepancy of €100 in relation to cash in hand. We were not provided with any explanation for the difference.

The difference of €100 cash in hand is for the use of change.

We remind the council that regular cash counts and reconciliation to the books of account assist the council in identifying differences and resolving them immediately. To this end we recommend that the council perform this exercise on a frequent basis.

Petty Cash

We noted that during the year under review the council was issuing cheques in the name of the executive secretary for the petty cash withdrawals. The Executive secretary informed us that this was being performed since the bank was not accepting to encash cheques. Therefore, the cheques were being deposited in the executive secretary's personal account and subsequently withdrawn by the executive secretary from the ATM. The executive secretary performs a cash count of the amount withdrawn in the presence of a witness to confirm that all amounts deposited in her account has been fully encashed. A cash confirmation letter is signed by the executive secretary and the witness to support evidence of this procedure. During the audit fieldwork we have performed a cash count and no discrepancies in petty cash were found.

We recommend that the council liaise with Department for local Government about the matter and obtains approval for such procedure or an alternative solution.

The council will liaise with the Department for local Government as recommended.

7. Trade and other Payables

Supplier statements

During the course of our audit we noted that the council did not manage to obtain monthly suppliers' statements for all suppliers to confirm the year endbalances and to ensure the completeness of the books of accounts.

We again recommend that the council obtains monthly statements from all suppliers to ensure proper recording of creditors in the council's ledger. This will highlight any discrepancies between amounts recorded in the ledger and amounts in the suppliers' statements.

Suggestion by auditors noted.

Long-outstanding creditors

The Council's creditors' list includes the following balances which have been outstanding for more than one year.

Creditor	€
ARMS LTD – account 208000000739	615.17
ARMS LTD – account 101000247616	156.72
Chrisopher Falzon	80.00
Kasco	67.20
Projects Implementation Directorate	232.94
R & A Waste Services LTD	401.20
Waste ServMalta Ltd	14,557.36
Water Service Corporation	3,506.96
WJA Authorised Dealer	160.00

The Local council is reviewing these amounts to be settled.

Confirmation of Trade Creditors

As part of our audit procedures we circularised confirmation letters to the selected suppliers. We noted that Water Service Corporation confirmed that the amount due to them was of €5102.23 whilst the council's books of account include a payable balance of €3,506.96. This results in a difference of €1,595.27. No reconciliation was provided by the council. *However, we were informed that the difference relates to an old balance coming from the year 2010.*

The creditors' list shows a balance of €14,557.36 payable to Wasteserv Malta Ltd. The supplier has provided us with a statement stating that the amounts due to them is €11,280.56. This results in a difference of €3,276.80. We noted that the difference is in relation to the payments made directly by the Department of Local Government. To this end we have proposed an audit adjustment amounting to €3,276.80 to rectify the issue. *The council has included this adjustment in the final set of financial statements.*

Accruals

Whilst testing accruals we identified that the council recorded an accrual amounting of €2645.56 in relation to street sweeping for the month of November 2020. However, we noted that the invoice was dated 2nd December 2020. To this end, we have proposed an audit adjustment to reallocate the amount to creditors.

This has been incorporated in the financial statements.

8. Books of account

During audit fieldwork we identified certain transactions passed in the books of account which consisted of group transactions for example in fixed assets.

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.

This point was also noted.

9. Financial Statements

Presentation of financial statements

We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.

The recommendation of the auditors is noted

10. Electronic site

Auditors recommendation has been noted, and documents will in future be uploaded within the specified time frame.

11. Meetings

Binding of minutes

Suggestion for binding minutes to be hard bound for next audit is noted.

12. Reports

Comparison with annual budget

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.

The council compares budgeted figures to actual figures on a quarterly basis when the Financial Indicator reports are presented.

Regards

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Graziella Gellel

Executive Secretary