

**The Members  
Mdina Local Council**

Corte Capitanale,  
Misrah il-Kunsill,  
Mdina  
Malta

15 May 2023

Dear Members of the Mdina Local Council,

We have completed our audit of the financial statements of Mdina Local Council for the year ended 31 December 2022. Our audit is primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation.

Our aim is to offer guidance to the Council such that it would be in a better position to improve its internal controls, enhance its book-keeping function and consolidate its overall governance. We would like to point out that, in accordance with the Local Councils Act (CAP 63) 1993 and the Local Council (Financial Regulation) 1993, it is the responsibility of the Executive Secretary of the Local Council to ensure that a proper system of internal control is in operation to ensure that the proper accounting, recording and handling of financial operations are in place to safeguard the Local Council's assets at all times. For this reason, this document is of particular relevance to the Local Council's Executive Secretary.

The matters dealt with in this report, came to our notice during the conduct of our 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 systems of control but that of obtaining an understanding of the controls which are in place, on the basis of which, we design our audit procedures. For this reason, this report cannot be relied upon to necessarily disclose other defalcations or other irregularities which may exist, had a specific and more extensive assignment for this specific purpose been commissioned.

Our engagement obliges us to distribute copies of this report to the Council Members. Consequently, this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent, unless such disclosure is required by Law.

During the course of our audit for the year ended 31 December 2022, we examined the principal documents, systems and controls applied by the Council, to help it ensure, in so far as it is possible, far as possible, the accuracy and completeness of the accounting and to safeguard the assets of the Council.

In order to facilitate your responses to the deficiencies we noted in the course of our audit, have been presented these shortcomings in columnar form. On the left hand side of the document we specify the weaknesses and the recommended courses of action. On the left hand side you are required to insert the remedial action you intend to take and a time frame by which these will be remedied. We also attach for your perusal, a summary of the audit adjustments which we were put through the accounting records, once these were approved by yourselves. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to thank you for the courtesy and co-operation extended to us in the course of our audit.

Yours faithfully,

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**Arthur Douglas Turner**  
**Partner - Parker Russell Turner**

## **PREVIOUS MANAGEMENT LETTER**

During the course of our audit for the year ended 31 December 2022, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

### **i. Accrued and Deferred income**

We are pleased to note that we did not note any issues in the deferred income.

We have once again noted shortcoming in accrued income as per note 4 as on page 6, since at year end these were again not fully determined.

### **ii. Expenditure**

We have once again noted shortcoming in rent expense as per note 7.2 as on page 10.

### **iii. Fixed Assets**

We are pleased to note that we did not identify any issues relate to the grants received.

We have once again noted differences between the amounts disclosed in the fixed asset register and the financial statements, as per note 1.1 as on page 3.

### **iv. Trade and other payables**

We are pleased to note that we did not encounter any difficulties in obtaining supplier statements at year end, and any long outstanding creditors were reviewed by the Council and following their approval, the balances were reversed.

We have however, once again noted some inaccuracies in the accrued expenditure, as per note 5 as on page 7.

### **v. Financial statements presentation**

We have once again noted minor shortcomings in the presentation of the unaudited financial statements, as per note 10 as on page 14.

A summary of the deficiencies noted in the course of our audit and our recommendations thereto is as follows:

1. *PROPERTY, PLANT AND EQUIPMENT*
2. *CASH IN HAND AND AT BANK*
3. *DEBTORS*
4. *ACCRUED INCOME*
5. *CREDITORS*
6. *ACCRUALS AND PREPAYMENTS*
7. *REVENUE*
8. *DEBIT TRANSACTIONS*
9. *PAYROLL AND HUMAN RESOURCES*
10. *INFORMATION PROVIDED ON THE PORTAL*
11. *PRESENTATION OF FINANCIAL STATEMENTS*
12. *CONCLUSIONS*

## FINDINGS ARISING FROM 2022 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES
<p><b>1. PROPERTY, PLANT AND EQUIPMENT</b></p> <p><b>1.1. Fixed Asset Register</b></p> <p><i>Weakness</i></p> <p>1.1.1. Despite the fact that the Council has taken the necessary measures to compile a fixed asset register, it is not robust enough to incorporate all asset types, category and location, linked to a labelled physical asset. Further, the system is not integrated with the Fixed Asset Module and to the General Ledger of the accounting software. This leads to differences between the total net book value of the fixed asset register with that of the accounting system with the net book value as per the fixed asset registry being understated by € 19,487.</p>	<p>The Council has taken note of the auditor's recommendation. The Council is doing its utmost to sort out the FAR matters. As a Council we will be contacting the SAGE suppliers to implement this process</p>
<p><i>Recommendation</i></p> <p>1.1.2. We strongly believe that the implementation of the fixed asset register should be kept on an appropriate software and should be synchronised within the accounting system. We recommend that the fixed asset register implementation process is discussed in detail with the IT service provider and the accountant in charge, in order to adapt the necessary</p>	

<p>software for the needs of the Council and incorporate the integration of the plant register within the general ledger.</p>	
<p><b>2. CASH IN HAND AND AT BANK</b></p> <p><i>Weakness</i></p> <p>2.1. During our audit fieldwork, it was noted that cash in hand pertaining to LESA Contraventions for the month of December amounting to € 261 were excluded from the financial statements. An adjustment was affected to this effect with the corresponding entry being against the account called 'Amounts due to other third parties'.</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordinglyT</p>
<p><i>Recommendation</i></p> <p>2.2. We recommend that a cash count is carried out on a frequent basis prior to amounts deposited in the Council's bank accounts, and a cash reconciliation is documented and kept by the Council. We suggest that more control is carried out to ensure that cash in hand agrees to cash amounts in the accounting records at all times.</p>	

<p><b>3. DEBTORS</b></p> <p><b>3.1. LES Debtor</b></p> <p><i>Weakness</i></p> <p>3.1.1. We have noted that the Council has a debtor balance relating to LES Pre-Regional contraventions amounting to € 43,275 which is fully provided for in the accounts, and which was not agreeing with the balance as per the LES Report 622 generated from the Loqus system, which amounted to € 37,627. Therefore, an adjustment was affected at audit level against the debtor balance and the corresponding provision for the difference of € 5,648 in order to reconcile with the LES Report generated.</p>	<p>With regards to the LES Pre- regional contraventions it is to be noted that this is a recurring issue on which the Council has no control</p>
<p><i>Recommendation</i></p> <p>3.1.2. We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences with the LES system. In addition, an exercise needs to be carried out on the LES Pre-Regional contraventions to understand whether such amounts are recoverable or otherwise. If these amounts are irrecoverable, we propose that the Council should consider reversing the provision and accounting for the amounts as 'bad debts write-offs'. A disclosure note is also required to bring this matter to the attention of the Council.</p>	

<p><b>4. ACCRUED INCOME</b></p> <p><i>Weakness</i></p> <p>4.1. During our audit fieldwork, we noted that the Council failed to record various accrued income pertaining to the following:</p> <ul style="list-style-type: none"> <li>• Water and electricity contributions relating to MTA Howard Garden amounting to € 85.</li> <li>• Financial assistance for the Distribution of flyers and Christmas Decorations received from the Regjun Punent amounting to € 2,030.</li> </ul> <p>An adjustment was affected at audit level to account for these amounts.</p> <p>4.2 Accrued income in the previous year and relating to Other Government Income, was overstated by € 5,000. Consequently, the income disclosed in the financial statements have decreased accordingly, showing a lower surplus than actually generated.</p>	<p>Matter noted and while stressing that every effort is made to record for all accrued income mentioned, instance of omission is regretted and suggested audit adjustments included in the updated FS.</p>
<p><i>Recommendation</i></p> <p>4.3 We recommend that the Council's books of accounts should be recognised on an accrual basis, whereby any income pertaining to the current year, irrespective of whether they were received or not, should be accounted for in order to ensure completeness of income.</p>	

<p><b>5. ACCRUALS AND PREPAYMENTS</b></p> <p><i>Weakness</i></p> <p>5.1. We have noted the following weaknesses in accounting for accruals and prepayments:</p> <ul style="list-style-type: none"> <li>• Performance bonus accruals were overstated by € 718. An adjustment was affected at audit level to account for this.</li> <li>• Water and electricity accruals were understated by € 377. An adjustment was affected at audit level to account for this.</li> </ul>	<p>Every effort is made to accrue for any expenses accordingly mentioned, overstatement is regretted.</p> <p>However please note that it was calculated on the maximum percentage allowed by the Local Council's procedures. However percentage paid out after approval by DLG was slightly lower</p>
<p><i>Recommendation</i></p> <p>5.2. We recommend that a procedure is in place to ensure that invoices relating to goods or services hovering around the year end, are properly verified to ensure that these are accounted for in the correct period. Failing to do so could result in the understatement of assets and liabilities at year end.</p>	



<p><b>6. REVENUE</b></p> <p><b>6.1. General income</b></p> <p><i>Weakness</i></p> <p>6.1.1. During our audit fieldwork, while performing a proof in total test between the total receipts issued from the Council's online permit system and the total income recorded in the accounting system, an overall difference of € 1,920 resulted in over declaration in the financial statements.</p>	<p>Matter has been noted and already started to implement the recommendation listed by the Local Government Auditors.</p>
<p><i>Recommendation</i></p> <p>6.1.2. We recommend that a receipt is issued from the Council's online permit system for each specific income, and that the Council regularly reconciles the receipts issued from the online system with the income recorded in the accounting system to ensure accuracy and completeness.</p>	
<p><b>6.2. Contributions of MTA Howard Garden</b></p> <p><i>Weakness</i></p> <p>6.2.1. During our audit fieldwork, it was noted that water and electricity income for the MTA Howard Garden was understated by € 1,185. An adjustment was affected to account for the income for the year amounting to € 1,100 as per invoices, against the debtor control account, with the remaining balance of € 85 being accounted for against the accrued income as described in note 4.</p>	<p>Matter has been noted and adjustments accounted for in the FS</p>

<p><i>Recommendation</i></p> <p>6.2.2. We recommend that all sales invoices are included in the system when they are issued to ensure accuracy and completeness. Further, we recommend that regularly reviews are done for the Contributions to ensure that for every third-party expenditure incurred by the Council, a corresponding invoice is issued.</p>																					
<p><b>7. DEBIT TRANSACTIONS</b></p> <p><b>7.1. Procurement Guidelines</b></p> <p><i>Weakness</i></p> <p>7.1.1. During our audit fieldwork on the debit transactions, the following irregularities were noted:</p> <table border="1" data-bbox="304 932 1361 1342"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> <th>Notes</th> </tr> </thead> <tbody> <tr> <td>Lighting Office - adapters, cables</td> <td>The LightShop</td> <td>24/01/2022</td> <td>590</td> <td>(a)</td> </tr> <tr> <td>Parker at Tomba from May to July</td> <td>Phyllis Zahra</td> <td>11/07/2022</td> <td>585</td> <td>(b)</td> </tr> <tr> <td>Advertising Medieval Mdina 2022 on Social media</td> <td>Loving Malta</td> <td>30/05/2022</td> <td>1,507</td> <td>(a)</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Notes	Lighting Office - adapters, cables	The LightShop	24/01/2022	590	(a)	Parker at Tomba from May to July	Phyllis Zahra	11/07/2022	585	(b)	Advertising Medieval Mdina 2022 on Social media	Loving Malta	30/05/2022	1,507	(a)	<p>Matter has been noted and will do our utmost to get the three quotations unless the purpose of procurement is provided up to €500 excl. VAT as per Policy No.#32 (MFIN 03/2013) whereby the Head of Contracting authority may delegate his authority in writing to a senior official forming part of the contracting authority for the procurement by direct order and which shall not exceed a total value of €5000 exc. VAT during a period of one calendar year.</p>
Detail	Supplier	Date	Amount	Notes																	
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Advertising Medieval Mdina 2022 on Social media	Loving Malta	30/05/2022	1,507	(a)																	

Alternative Accommodation Medieval Mdina	Point De Vue	05/05/2022	1,026	(a)	
<p>(a) The Council did not obtain any quotations.</p> <p>(b) This was a particular case whereby the Council was making effort to find a car parker attendant, and the individual in question accepted the role.</p> <p><i>Recommendation</i></p> <p>7.1.2. In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government, the Council should obtain at least three signed quotations for purchases exceeding € 50 up to € 5,000 unless, for purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued.</p> <p>Despite the above irregularities, one cannot but mention that the various efforts are being made by the Council to adhere to Procurement Regulations. In fact, very few instances of non-compliance were found.</p>					
<p><b>7.2. Rent expenses</b></p> <p><i>Weakness</i></p> <p>7.2.1. Whilst reviewing rent expenses for the year, we noted that the agreement which the Council has with the Lands Authority for the rental of Torre dello</p>					<p>A new agreement with Lands on the renting of Torre Dello standard was signed on the 3<sup>rd</sup> October 2022. Ref.: L 0338/1963</p>

<p>Standardo is dated in August 2010 covering up to August 2013. The Council, to date, is still renting these premises with the same conditions stipulated within the expired contract.</p> <p>7.2.2. Furthermore, no formal agreement is in place between the Council and the Lands Authority for the rental of the Administration Offices in 'Corte Capitanale'.</p>	<p>With regards to the administration offices please note the auditor's comment about the absence of a proper rental agreement is an issue which the Council had already replied in previous management letters and unless the Lands Authority heeds to our concerns as the Council has done its utmost to have this in place without any response from the Authority, this will continue to be singled out by the auditor's.</p> <p>According to the Council, it was given the premises by the Department of Local Government in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Local Council and eventually Heritage Malta never insisted on this claim.</p>
<p><i>Recommendation</i></p> <p>7.2.3. We recommend that the Local Council adheres to the Memo 13/2013 issued by the Department of Local Government which highlights the importance that contracts in place should not be expired. We also recommend that the</p>	

<p>Council continues to chase for an updated contract to be in place as soon as possible.</p>	
<p><b>7.3. Christmas Dinner</b></p> <p><i>Weakness</i></p> <p>7.3.1. The Local Council exceeded the maximum amount allowed in organising the Christmas dinner by € 160. A maximum of € 240 should have been spent as per Memo 8/2011 issued by the Department of Local Government which states that for the Christmas dinner, only the members of the staff and councillors should be invited at the expense of the Council. The expense in the case of a reception should not exceed € 15 per person and in the case of a lunch or dinner, no more than € 30 per person should be spent.</p>	<p>Recommendation of Local Government Audit noted and will comply with MEMO 8/2011</p>
<p><i>Recommendation</i></p> <p>7.3.2. We recommend that the Local Council adheres to the Memo 8/2011 issued by the Department of Local Government with respect to any lunches or dinners organised by the Local Council.</p>	
<p><b>8. PAYROLL AND HUMAN RESOURCES</b></p> <p><b>8.1. Overall Payroll Procedures</b></p> <p><i>Weakness</i></p>	

<p>8.1.1. We have performed a wages reconciliation between FSS documentation submitted and the wages as per the accounts. Wages in the accounts were overstated by € 163. No adjustments were affected to this affect.</p> <p>8.1.2. During our audit fieldwork, we noted that the Executive Secretary's performance bonuses was not calculated on a pro rata basis for the gross salary generated in 2022. Instead, this was being computed on the gross salary plus the allowances as disclosed in the Working Conditions for Executive Secretaries within Local Government. A difference of € 422 arose. This was adjusted for at audit stage.</p> <p>8.1.3. During our audit fieldwork, we were not provided with the contract of the Executive Officer, Ms. Claire Camilleri, since the said employee has been engaged for a number of years, and no copy of the respective contract was in hand.</p>	<p>Matter noted and any immaterial difference is deeply regretted and adjusted in the FS</p> <p>Matter noted and it is important to note that no inconsistency was noted by the auditors between the FS documents and the Nominal Ledger and FS.</p> <p>Matter has been noted.</p>
<p><i>Recommendation</i></p> <p>8.1.4. We recommend that reviews are performed to ensure that FSS forms are completed properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.</p> <p>8.1.5. We also recommend that an agreement is entered into between the employees and the Local Council which discloses the employees' roles and responsibilities, their PayScale and all other relevant information.</p>	

<p><b>9. INFORMATION PROVIDED ON THE PORTAL</b></p> <p><i>Weakness</i></p> <p>9.1. Whilst checking the Local Council’s portal on the Local Government website, we have noted that the audited financial statements along with the management letter of the year ended 31 December 2021 were not uploaded on the Council website.</p>	<p>Matter has been noted and will comply with the recommendation of the auditors</p>
<p><i>Recommendation</i></p> <p>9.2. We recommend that the Council uploads all documents in pdf format within the required time for each specific report as per the Local Councils (Financial) Regulations.</p>	
<p><b>10. PRESENTATION OF FINANCIAL STATEMENTS</b></p> <p><i>Weakness</i></p> <p>10.1. The Local Council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU. During our audit, we identified that the Council’s unaudited financial statements needed updated and further corrections in accordance with IFRS as adopted by the EU.</p>	<p>Any shortcomings were adjusted in the updated FS.</p>

<p>Recommendation</p> <p>10.2. We recommend that the Local Council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.</p>	
<p><b>11. CONCLUSIONS</b></p> <p>11.1. We have noted that good internal procedures are being instilled by the Council. The Council and its employees should continue to strive to achieve a good control environment by ensuring that optimum use of public funds.</p> <p>11.2. We would be pleased to assist the Council to come up with an action plan, with clearly set target dates and by which the Council will address the weaknesses reported in this report. We are at your disposal should you need our assistance in any of the specific areas referred to in this report.</p>	<p>Noted with thanks</p>