

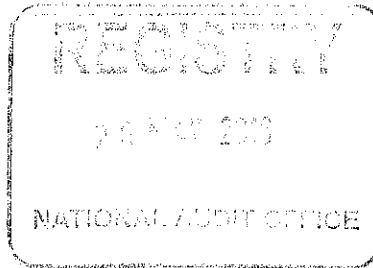


Grant Thornton

An instinct for growth™

The Mayor
Birgu Local Council
Auberge de France,
Triq Hilda Tabone,
Birgu BRG 1252

Our ref ABC/scl/033816
17 May 2016



Grant Thornton
Tower Business Centre, Suite 3
Tower Street
Swatar BKR 4013
Malta

Level 2
Regional Business Centre
University Heights
Msida MSD 1751
Malta

T +356 21320134
F +356 21331161
www.grantthornton.com.mt

Dear Sir,

Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We did encounter an instance where the Central Government income was not grossed up so that the income is recorded in full (refer to note 5.6).

We have encountered a number of cases where custodial and general receipts were not deposited within the stipulated time frame (refer to notes 5.11 and 5.17).

We still encountered differences between report 483 from the Loqus system and the books of accounts (refer to note 5.21).

We were unable to determine whether all grants received during the year were properly accounted for (refer to note 5.10).

The council failed to classify income properly in the books of accounts (refer to note 5.28).

1.2 Payroll

We have again identified a discrepancy between the FS5s and FS7 as reported to the Commissioner of Inland Revenue (refer to note 6.6).

It was again noted that the council failed to classify FSS and allowances in their respective accounts (refer to note 6.8).

We encountered instances where some councillors failed to attend all meetings (refer to note 6.11).

We are pleased to note that the council has rectified the issue of the number of employees as we were provided with the approval given by the Department of Local Government.

We still came across instances where the council paid overtime without approving the overtime beforehand (refer to note 6.19).

The mayor's remuneration was declared under the part-time rules (refer to note 6.13).

1.3 Expenditure

We still identified purchases which were not supported by the proper documentation (refer to note 7.1).

We identified instances where the council did not obtain the necessary quotations and purchase orders for purchases made during the year under review (refer to note 7.8).

During the year under review, the council did not make any calls for tenders.

We still encountered instances where schedules of payments were not signed by the mayor and the executive secretary (refer to note 7.24).

We still noted a number of discrepancies between the asset insurance policy and the books of accounts (refer to note 7.35).

Similarly to prior years, the council has a personal accident insurance policy covering council members on a worldwide basis (refer to note 7.37).

We did not note any discrepancies in the council's rental expense.

We noted that the council incurred various travelling expenses. Furthermore, the council is still not submitting a report on each visit in accordance with MF5/2012 (refer to note 7.39).

The council's expenditure on locality day was irregular (refer to note 7.49).

We did not encounter instances where the council made a donation.

1.4 Intangible assets

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

1.5 Capital assets

The fixed asset register has not yet been compiled (refer to note 8.3).

Similarly to prior years, depreciation is not being calculated correctly and we found a material difference (refer to note 8.6).

The council did not disclose any capital commitments. In the absence of the budget for the year ending 2016, which was not prepaid, we were unable to determine if this is correct (refer to note 17.1).

During the year under review, we were still not provided with information regarding the assets under constructions (refer to note 8.8).



1.6 Cash and cash equivalents

We did not come across any differences between the books of accounts and the bank reconciliation.

We still identified instances where the bank account representative is not updated (refer to note 9.3).

We identified instances where the bank is subject to final withholding tax on the HSBC bank account (refer to note 9.5).

We still encountered discrepancies between the physical petty cash count and the petty cash book balance (refer to note 9.9).

1.7 Trade and other receivables

The council did not investigate the long outstanding trade debtors (refer to note 10.1).

The council is still accounting for the five regional committees in one debtor account (refer to note 10.4).

The council did not rectify the issue of the other receivables (refer to note 10.6).

The council's creditors' list still includes debit balances (refer to note 12.28).

The council is still carrying accrued income of € 37,792. Furthermore, no supporting documentation was provided in relation to accrued income (refer to note 10.9).

We still identified differences between report 622 generated from version 1 of the Loqus system as at year end and the LES receivables in the books of accounts (refer to note 11.1).

1.8 Payables

The council did not obtain suppliers' statements from all suppliers as at year end (refer to note 12.4).

As in previous years, we identified a number of trade creditors which are long overdue (refer to note 12.26).

The council has rectified the issue of the € 7,000 debit balance for the stair lift.

Differences were again identified in the amounts due to the Inland Revenue Department for FSS tax and NI (refer to note 12.21).

During the year under review the council has taken a debit entry of € 45,670 as a "provision" for creditors' in the other creditors account (refer to note 12.1).

The council has provided us with a list of accruals; however we noted that the list was understated (refer to note 12.19).

We still identified instances where the classification of payables was incorrect (refer to note 12.24).

The council did not rectify the issue of long-outstanding creditors (refer to note 12.26).

1.9 Grant accounting

The council does not maintain a grant schedule. Furthermore, the council did not have any supporting documentation for these grants (refer to note 13.1).

Due to the lack of information, we were unable to verify whether the current and non-current portions of the deferred income are fairly presented in the financial statements (refer to note 13.11).

1.10 Financial statements

The financial statements of the council are not fully compliant with IFRS and consequently, our audit opinion was modified (refer to note 15.1).

The unaudited financial statements presented to us had a number of shortcomings (refer to note 15.3).

The council did not have any restricted cash during the year under review.

1.11 Meetings

It came to our attention that the council did not bind the preceding year's minutes (refer to note 16.12).

We noted instances where minutes were not numbered in a sequential order (refer to note 16.10).

During the year under review we did not encounter instances where meetings were not held within five weeks from the preceding meeting.

Whilst reviewing minutes we noted that council meeting number 44, 4 and 10 lasted more than three hours (refer to note 16.8).

1.12 General

It came to our attention that the council did not prepare the financial budget for 2016 (refer to note 17.1).

The council did not prepare the quarterly financial reports for June to December (refer to note 18.1).

The council did not provide us with a three-year business plan for 2016-2018 (refer to note 18.3).

We were again presented with a trial balance which does not agree to the financial statements as approved by the council and submitted for the audit (refer to note 3).

1.13 Financial position

The council is still facing liquidity problems and its Financial Situation Indicator is negative (refer to note 22.1).

1.14 Change in executive secretary

During the year under review the council had a change in executive secretary. The council did not carry out a mid-term audit in compliance with the Local Council (Procedures) Regulations (refer to note 20.1).

2 Audit opinion

As last year, we have had to issue a qualified audit report stating that we are unable to form an audit opinion because of significant matters encountered during our audit fieldwork. Further explanations are given in this management letter to enable the council to better understand the reason for the disclaimer of opinion.

3 Books of accounts

- 3.1 The trial balance initially provided by the council was not generated from the council's accounting system (Sage), but from a different accounting system used by the accountant (Apex). Therefore the account numbers did not agree to the prior year's trial balance. In addition accounts were grouped differently and therefore we were unable to compare grouped balances to the comparatives.
- 3.2 The accountant informed us that the transactions were initially recorded in Sage. During the process of finalisation of the books of accounts, the council migrated the trial balance as at 31 December 2015 to the Apex system by means of the following journal entries;
- Opening balances as at 1 January 2015 from Sage.
 - Total accumulated balance recorded in Sage.
 - Other journal entries.
- 3.3 The trial balance generated from the Apex system was then used in the preparation of the financial statements.
- 3.4 Further analysis revealed that some of the opening balances recorded in the Apex system were grouped and therefore we were unable to determine whether these were correct. Some examples are listed below:

Details	Opening balance in journal entry list €
Construction	678,876.00
Office equipment depreciation	44,104.06
Construction depreciation	179,950.28

- 3.5 In addition to the above, the list of journal entries passed in the Apex system consisted of grouped transactions and we were not provided with an adequate breakdown or explanation of each figure. Some examples are listed below:

Journal entry description	Account	Amount €
Deposits	HSBC Malta	11,580.00
Reversal/stale	BOV current account	5,995.99
Creditors recon	Creditors account	45,670.67
ADJ	Supplementary government income	54,780.03

- 3.6 After our notification the accountant provided a fresh trial balance from Sage which included all the listed journal entries passed in the Apex system. However, we noted that



journal entries were still passed as grouped amounts. This led to a loss of audit trail and we were unable to determine what the balances recorded were and if they were correct.

- 3.7 The points mentioned above indicate that the council's accounting function is of concern and needs to be addressed promptly and improved significantly. In addition, the management letter shows that the extent of our audit work was considerably limited due to poor book-keeping practices and lack of proper listings and documentation in support of the books of accounts. These are critical for proper financial reporting and therefore the council should take a more proactive role in the accounting function.
- 3.8 Because of the significance of these matters, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and consequently we did not express an opinion on the council's financial statements.
- 3.9 We recommend that greater attention is paid to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the council's results and statement of affairs. Also may we remind the council that memo 3/2016 states that the council must make sure that the person in charge of the preparation of the accounts, apart from possessing the CPA warrant, should be up-to-date with accounting standards and regulations. It is the accountant's responsibility to prepare the books of account and the financial statements, and not the auditor, as confirmed by the NAO.

4 Reconciliation of books of accounts to financial statements

- 4.1 The revised trial balance provided by the council did not agree to the amounts disclosed in the financial statements. Some examples are listed below:

Details	Amount disclosed in the financial statements €	Amount recorded in the books of accounts €	Differences €
Government grants release	17,139	-	17,139
Trade and other payables	220,635	199,279	21,356
Trade and other receivables	65,625	61,399	4,226
Non-current deferred income	193,524	227,803	(34,279)
Total expenditure	443,512	444,863	1,351
Property, plant and equipment	293,757	292,477	1,280

- 4.2 We recommend that all financial statements and accounting records are reconciled prior to commencement of the audit.
- 4.3 Furthermore, expenses and fixed assets are not being classified consistently from year to year.
- 4.4 We recommend that the classification of expenses and fixed assets in the financial statements is applied consistently to enhance the comparability of financial statements with previous years.



5 Income

Liabilities written back

- 5.1 The council's income for the year includes an amount of € 62,448 which is disclosed in the financial statements as 'liabilities written back'. This balance is made up of the following journal entries:
- i. A provision of € 45,670.67 posted against other creditors account (refer to note 12.2)
 - ii. A write off of other creditors' balances of € 10,781
 - iii. A reversal of € 5,995.99
- 5.2 No proper explanation was provided for the above journal entries. No audit tests could be carried out due to the lack of supporting information and documentation.

Supplementary Government income

- 5.3 Whilst reviewing supplementary Government income in the books of accounts, we noted that the council recorded a journal entry of € 54,708 in this account (as mentioned in note 3.5 above). This amount is presented as other Government income in note 4 to the financial statements.
- 5.4 Upon analysing WasterServ Malta Limited's statement we also noted that the Department paid € 3,419.88 to WasteServ Malta Limited, relating to prior year tipping fees in excess of the allocation, on behalf of the council. We were unable to identify whether this amount was recorded in the books of accounts due to the limitations described in note 3 above.
- 5.5 In view of the fact that we were unable to verify this balance, we modified our audit opinion

Government allocation

- 5.6 We also noted that the council's income from Central Government, as disclosed in the financial statements, did not agree to the stipulated annual allocation. We noted that fees for eGovernment of € 120 were not disclosed in the accounts and the allocation was recorded net of the expense.
- 5.7 We recommend that Government allocation is shown gross, that is, before deductions. Any deduction should be shown as an expense.

Community services

- 5.8 During our audit procedures we noted that community services income included a receipt of € 1,000 generated from IKIDS courses held in 2014. The council did not provide for this income in 2014.
- 5.9 We remind the council that income should always be recorded in the period to which it relates based on the accruals concept. If the income is not received at the end of the reporting period, then the council must record accrued income.

Public library scheme

- 5.10 Upon reviewing the minutes we noted that the council received the approval from the Department of Local Government with respect to:
- i. The public library scheme as stipulated in memo 10/2015 amounting to € 600;



- ii. The cultural events scheme as stipulated in memo 22/2015 amounting to € 15,000.

We were unable to determine whether these amounts were recorded by the council during 2015 due to the limitations highlighted in notes 2 and 3 above.

General income

- 5.11 We have identified instances where the council failed to deposit cash collected from general receipts on a timely basis. Examples are:

General receipts

Receipt number	Receipt date	Deposit date	€
6876	08.01.2015	14.01.2016	745.60
7473	01.04.2015	27.04.2016	18.56
7515	15.05.2015	22.05.2015	356.49
7548	02.06.2015	13.06.2015	3509.59
6949	07.08.2015	16.09.2015	32.48

Income from donations

Receipt number	Receipt date	Deposit date	€
7480	02.04.2015	27.04.2015	2,300
7508	07.05.2015	12.05.2015	1,000
7353	04.11.2015	21.12.2015	750
10408	19.01.2016	04.02.2016	2,500

- 5.12 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We again recommend that the council implements procedures so that all receipts are deposited at least twice weekly.
- 5.13 Furthermore, whilst testing income from permits, the council did not provide receipts for all the issued permits tested. To this end, we could not determine whether payments were requested.
- 5.14 We recommend that the council all payments for permits issued are validated by the issue of a receipt.
- 5.15 Whilst reviewing the receipt books we noted that the council is not issuing receipts in a sequential order. After enquiry with the executive secretary, we noted that multiple receipt books are used by different clerks.
- 5.16 We recommend that one receipt book is used at a time to maintain the sequential order of receipts. It is important that the council keeps control over the number of receipt books used to ensure completeness of all income received.

Custodial receipts

- 5.17 We came across instances where the council failed to deposit custodial receipts on a timely basis. Examples are:

Details	Receipt date	Deposit date	€
LES	27.02.2015	13.03.2015	350.00
LES	28.03.2015	27.04.2015	11.65



LES	23.03.2015	27.04.2015	58.00
LES	06.05.2015	21.05.2015	23.29
LES	25.08.2015	16.09.2015	23.29
Lands Department	24.02.2015	13.03.2015	46.59
Lands Department	20.03.2015	01.04.2015	210.00
Lands Department	17.06.2015	01.07.2015	66.76

- 5.18 We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.
- 5.19 We noted that the council is not reconciling cash collected on behalf of the Lands Department and LES to deposits made.
- 5.20 This is a serious control weakness and the council is bound to exercise adequate control over cash and bank procedures of receipts to ensure that all monies received are deposited. We therefore recommend that the council prepares detailed daily reports of all cash received during the day, including a reconciliation between deposits and the relevant receipts as required by the Financial Procedures.

Income from LES administration fees

- 5.21 While testing LES administration fees with reference to report 483 of the Loqus system, we noted that fees are overstated by € 1,398.11. Upon further analysis we identified that the difference is due to administration fee invoices raised in the prior period and received in 2015.
- 5.22 We recommend the council checks all receipts and invoices to determine whether the above mentioned LES administration fees were accounted for twice or whether these were completely omitted in the prior years.

Income from regional committees

- 5.23 The council is not issuing LES administration fees' invoices to the regional committees and LESA in the first week of the following month. The following are some instances identified during our audit fieldwork:

Month	Invoice date
January 2015	07.09.2015
February 2015	07.09.2015
March 2015	07.09.2015
April 2015	07.09.2015
May 2015	07.09.2015
June 2015	14.10.2015
July 2015	14.10.2015
August 2015	14.10.2015
September 2015	14.10.2015
October 2015	25.01.2016
November 2015	25.01.2016
December 2015	25.01.2016

- 5.24 In addition to the above, the council is grouping multiple monthly fees in one invoice. Two instances identified during our audit procedures are:



Invoice date	Details	Amount €
--------------	---------	-------------

07.09.2015	January and February 2015	85.02
14.10.2015	July and August 2015	116.46

- 5.25 In accordance with memo 91/2011 local councils are required to issue the regional committee and LESA invoices in the first week of the following month.

Rent receivable

- 5.26 Whilst testing general income we noted that the council is receiving rental income from the leasing of a garage. The council did not provide us with a signed contract.
- 5.27 We strongly recommend that the council and the lessee enter into a rental contract that lays down the rights and obligations of each party. The contract should be signed by both parties to be valid and should include the price, the rental period, responsibilities and duties of each party.

Income account classification

- 5.28 Whilst testing income we noted that the council has wrongly classified grant income received with respect to Auberge of France restoration works and the LADDER project as general income in the books of accounts. These amounted to € 25,974.69 and € 33,693.49 respectively.
- 5.29 In addition to the above, our review of the minutes revealed that the council was granted € 45,000 with respect to the restoration works. The executive secretary confirmed, by providing the supporting bank statements, that the full amount was received during the year under review. However, we were unable to determine whether the remaining amount of € 18,816.96 was accounted for due to the lack of audit trail in the books of accounts.
- 5.30 We recommend that the council classifies income in line with the specimen financial statements of the Local Councils (Financial) Procedures.

6 Payroll

Wages' reconciliation

- 6.1 During our audit fieldwork the council provided the wages' reconciliation with an unreconciled difference of € 731.75. Meanwhile our reconciliation of FS5s to payroll expenditure revealed a difference of € 1,188.63. No explanation was provided for the difference.
- 6.2 Furthermore we noted that FS5s for August, September and December 2015 were not signed. To this end we were not able to determine whether these were the final submitted documents.
- 6.3 We strongly recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue. In addition, it is advisable that the council prepares a wages' reconciliation to reconcile payroll expenses to FS5s at least on an annual basis to identify any discrepancies before the finalisation of the accounts.



Double payment to Commissioner of Inland Revenue

- 6.4 Whilst reviewing the receipts from the Commissioner of Inland Revenue we noted that the council paid FSS and NI due for September 2015 twice.
- 6.5 We recommend the council informs the Commissioner of this credit and requests an adjustment in the coming financial year. We also recommend that the council keeps all documents properly filed to avoid such errors.

Reconciliation between FS7 and FS5s

- 6.6 We noted a difference of € 179.89 between the FS5s and FS7 submitted to the Commissioner of Inland Revenue. We requested the council to reconcile the difference; however no reconciliation was provided.
- 6.7 We recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue.

Personal emoluments' classification

- 6.8 During our audit fieldwork we also noted the following wrong classifications in personal emoluments:
- i. Mayor's allowance of € 1,600 was incorrectly recorded as mayor's honorarium.
 - ii. Mayor's honorarium amounting to € 649 was incorrectly accounted for as social security contributions.
 - iii. Councillors' allowances amounting to € 915 were incorrectly accounted for as social security contributions.
- 6.9 In addition to the above we also noted that personal emoluments were disclosed incorrectly in note 7 in the financial statements.
- 6.10 To this effect, we recommend that the council complies with the specimen financial statements laid down in the Local Councils (Financial) Procedures.

Councillors' allowance

- 6.11 We noted that some councillors were paid a full year's allowance even though they failed to attend some of the meetings. We did not trace a letter of excuse attached to the council's minutes to justify the absences, neither could we trace a note in the minutes that these were considered and excused.
- 6.12 We refer to memo 89/2009 which states that the councillors' allowance is to be paid in proportion to the number of meetings attended in a calendar year. The memo further explains that no deductions should be made only where valid reasons in writing are put forward for the absence from meetings. These should be considered for acceptance by the council and a copy of the letter kept with the minutes.

Taxation of councillors' and mayor's allowances

- 6.13 During the financial year under review four of the councillors' allowances and the mayor's allowance were taxed under the part-time rules at the rate of 15%.
- 6.14 This is against the instructions given in memo 26/2010 stating that councillors' remuneration must be taxed at the personal progressive tax rates. The council should rectify this shortcoming.

**Payment of FSS tax and NI**

- 6.15 In addition, the council did not remit FSS and NI to the Commissioner within one month. For instance, FSS and NI payment for January and February 2015 were paid in January 2016.
- 6.16 We recommend that the Final Settlement System Rules, 1998 are adhered to. FSS and NI should be remitted to the Commissioner of Inland Revenue by the last working day of the month following that during which the council has paid the emoluments. Interest at the rate of 1% per month might be levied on unpaid amounts.
- 6.17 According to the books of accounts, the council owes the amount of € 30,186 to the Commissioner of Inland Revenue in respect of FSS tax and NI due from 2011 up to 2013. The council has not issued any payments during the year under review.
- 6.18 We were not provided with any supporting documents and thus we were unable to confirm the amounts in arrears due to the Commissioner of Inland Revenue. Our audit report was modified with respect to the limitation encountered.

Payment of overtime

- 6.19 The council is still paying overtime without obtain approval in council meetings.
- 6.20 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

Performance bonuses

- 6.21 We noted that the council's provision for accrued performance bonuses at year-end was understated by € 4,332.
- 6.22 The council should make adequate provisions for such accruals so that payroll expenditure is accounted for in the correct period.

7 Expenditure**Petty cash expenditure**

- 7.1 During our audit we found that the source document for most petty cash expenditure is a cash register chit. Some instances which were encountered during our audit fieldwork are the following:

Date	Details	Supplier	€	Note
28.07.2015	Stamps	Step In	13.00	a
05.03.2015	Stamps	Highlight Stationery	19.76	a
29.04.2015	Malta experience tickets	The Malta Experience	48.17	a,b
08.01.2015	Milk, coffee	Hanut tal-laham	6.26	a
11.09.2015	Registered letter	Maltapost	6.25	a
28.07.2015	Diesel for van	Nica Ltd	20.00	a
27.06.2015	Coffee, sugar and tea	Hanut tal-laham	11.16	a
05.06.2015	Baby oil	Vittoriosa Pharmacy	5.61	a

- i. Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 that supplies are only made on the provision of a valid invoice which is addressed to the council. To this end, we recommend



that, where possible, the council obtains a tax invoice or a VAT receipt appropriately addressed for petty cash purchases.

- ii. This payment exceeded the limit of € 23.29 imposed by the Local Councils (Financial) Procedures, 1996.

Approval of petty cash expenses

- 7.2 Whilst reviewing petty cash schedules we noted that the council has not followed our recommendation to include the allocation in the nominal accounts in the petty cash sheet.
- 7.3 In addition, petty cash expenditure is not approved during the council's monthly meetings in accordance with the Local Councils (Financial) Procedures.
- 7.4 We also observed that not all petty cash schedules prepared by the council were signed, namely the schedules for weeks 4 to 13.
- 7.5 We reiterate that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each category of expense to the correct account. We would also like to point out that these petty cash sheets should be presented to the council in meeting to be scrutinised, thus ensuring adequate control. Petty cash should be signed by both the mayor and the executive secretary upon approval by the council.

Petty cash accounting treatment

- 7.6 During our petty cash account review it transpired that no transactions were recorded in the petty cash account. Further analysis revealed that the council is omitting petty cash transactions completely from the petty cash account by accounting for the top-up cheque payment directly against the expense accounts.
- 7.7 We recommend the council records all cash transactions in the petty cash account, including the necessary details. This will ensure that petty cash payments are accurately recorded and a clear audit trail of the movement in petty cash during the period is maintained.

Procurement procedures

- 7.8 Our testing on cheque payments revealed the following irregularities for the purchases listed below:

Supplier	Details	€	Notes
MCE Ltd	Trunking	1,457.59	a
Tal-Familja restaurant	Hospitality	610.00	a, b, c
Edwin Camilleri	Hospitality	1,139.84	a
Mediterranean Ceramics Ltd	Hand painted vases	560.50	a, b
Mifsud Ironmongery	Ironmongery	404.14	a, c
Mario Darmanin	IT services	1,026.60	a, b
Smart Office Supplies	Stationery	951.01	a, b
Raymond Ciantar	Dismantling of tile layers	250.00	a, b, c
Nexia BT	Accounting services	2,806.28	d

- i. The council did not obtain quotations (refer to note 7.9).
- ii. The council did not raise purchase orders (refer to note 7.13).



- iii. The council did not list down the invoice number in the schedule of payments (refer to note 7.24).
- 7.9 We draw your attention to the Local Councils (Financial) Procedures, 1996 which state that councils should obtain at least one quotation for purchases between € 24 and € 1,165 and at least three quotations if between € 1,165 and € 4,658. In addition, as stated in memo 1/2010, all calls for quotations must be published on the Government Gazette and any other local newspaper.
- 7.10 We noted that the accounting services contract, signed by the council and accountant, expired on 17 November 2014. However this was still utilised until audit date. The council did not sign an agreement to extend the period of the contract.
- 7.11 We would like to refer you to memo 10/2013 which states that the council should not make use of expired contracts and should allow enough time to issue a fresh call for tenders and adjudicating it before the preceding contract expires.
- 7.12 Furthermore, we recommend that the council seeks approval during the council meetings and also from the Department of Local Government before extending existing contracts.

Purchase orders

- 7.13 During our audit procedures we identified the following weaknesses in the council's procurement procedures with respect to purchase orders:
 - i. In some instances purchase orders are not made in writing and neither approved during council meetings.
 - ii. Not all purchase orders are signed (examples include purchase orders numbered 2503, 2603 and 2690).
 - iii. Purchase orders are not approved during the council meetings.
 - iv. A purchase order log is not kept by the council.
- 7.14 The council did not raise purchase orders for the majority of capital acquisitions made during 2015. Examples are listed below:

Supplier	Details	€
Carini Stores	Disabled persons toilet	1,015
BCL Construction	Demolishing of two rooms	3,380
Roderick Orsini	Tile laying	1,500
Sandro Fava	Door of public convenience	3,870
Joseph Galea	Doors	1,380
Sandro Fava	Toilet doors	2,489
Compunet	Server	1,711
Toshiba Retail Outlet	Toshiba TV	985
PC Wise	3 laptops and 3 printers	1,572
Triple A	Fridge and cooker	1,149
BCL Construction	Construction works	3,880

- 7.15 We refer to the Local Councils (Financial) Regulations which state that all purchase orders shall be made in writing and authorised by the council. Such a purchase order is evidence of the council's approval for a proposed purchase quotations or service. Furthermore, the Procedures also require that all purchase orders, contracts and agreements are assigned a sequential number, logged and filed along with all



respective documents including respective quotations and approvals to facilitate easy access.

Call for tenders

- 7.16 Our audit revealed that the following cheque payments were not supported by a call for tenders:

Supplier	Details	Cheque number	€	Note
Nexos Lighting and Vision	Light system for Birgufest 2015	9506	7,972.72	
Genista Reseach Foundation	Project management	9478	5,551.00	7.17
BCL Construction	Demolition works	2287	3,380	7.18
BCL Construction	Construction works	2462	3,880	7.18

- 7.17 On the 23 December 2014 the council entered into an agreement with Genista Research Foundation for the provision EU consultation and project management services for project 'LADDER'. The council agreed to pay € 793 monthly over 36 months which in total amounts to € 28,548. The council did not issue a call for tenders for such service. Furthermore, we noted that the agreement was only signed by the mayor.

- 7.18 The council made various construction works in Auberge of France from the same supplier which exceed to tendering threshold. However, no tender call for such works was issued.

- 7.19 May we remind the council that in accordance with the Local Councils (Financial) Procedures, 1996 councils are specifically required to make a public call for tenders for expenditures in excess of € 4,658 and that once accepted a formal contract should be drawn up and signed by both parties. We draw your attention to the Local Councils (Financial) Procedures, 1996 which state that a similar purchase within four months is to be considered as one single purchase.

Contracts

- 7.20 The council did not provide us with the underlying signed contracts with Environmental Landscape Consortium and Saviour Mifsud for agricultural services and waste collection and street sweeping services, respectively. To this end we were not able to determine the covering period and the agreed terms.
- 7.21 The above instances contravene the Local Councils (Tendering) Procedures which specify that the contract agreement should be signed by the contractor, executive secretary and the mayor before commencement of work. In addition, the contract must be dated and include the commencement and expiration date.

Performance bonds

- 7.22 The council did not provide us with the performance bond documents with respect to the waste collection and street sweeping services provided to the council in 2015. However, during our audit we were provided with the performance bond for waste collection and street sweeping dated 18 April 2016.
- 7.23 Performance bonds are an important requirement of the Local Councils (Tendering) Procedures, 1996 because it protects the council in the event that the contractor does not honour or faithfully execute its obligations laid down in the contract. The performance bond is to remain valid throughout the contract period

and shall only expire one month after the completion date of the contract as agreed upon by the council and the contractor.

Schedules of payments

- 7.24 When reviewing schedules of payments we noted that not all of them were signed by the executive secretary, mayor and two councillors.
- 7.25 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must present a schedule of payment for council's approval. We recommend that the schedules of payments are jointly signed by the mayor, the executive secretary and two councillors to serve as evidence that these have been duly approved by the council.
- 7.26 In addition to the above, we also noted various other deficiencies with respect to the required details in the schedule of payment. Some instances are listed below:
- i. Schedules of payments are not numbered. The only reference on the schedules are the dates.
 - ii. Account numbers are not listed in all schedules of payments.
 - iii. Purchase order numbers are not listed in all schedules of payments.
 - iv. Invoice number details not listed (refer to note 7.27)
- This is not in accordance with the template schedule of payment from the Department of Local Government.
- 7.27 The council should comply with memo 37/2011 which lays down the minimum details that must be included in the schedules of payments. This information allows easy cross-referencing between the accounting system and the schedules of payment.
- 7.28 Moreover, the council has omitted cancelled cheques from the schedules of payments.
- 7.29 We recommend that if a cheque payment is cancelled this should be approved as such and properly indicated on the schedule of payments. The cancelled cheque should be retained in the cheque book as evidence of its cancellation.

Payments' approval

- 7.30 Whilst analysing the sample selected for procurement procedures mentioned in note 7.8 we also noted that the council issued cheque payments before their approval in meetings. Examples are as follows:

Cheque number	Details	Amount €	Payment date	Approval date
2345	Hospitality	610.00	13.02.2015	16.03.2015
2426	Hospitality	1,139.84	20.04.2015	24.04.2015
2420	Hand painted vases	560.50	20.04.2015	24.04.2015
2488	Ironmongery	404.14	18.05.2015	08.07.2015
2577	IT services	1,026.60	21.07.2015	04.08.2015
2583	Stationery	951.01	28.08.2015	04.08.2015
489595	Dismantling of tile layers	250.00	28.08.2015	15.09.2015
2660	Accounting services	2,806.28	28.09.2015	27.10.2015

7.31 We also noted that various payment vouchers are not signed by both the mayor and the executive secretary. Some examples are payment vouchers referenced 2640/15, 2671/15 and 2787/15.

7.32 We recommend that the council follows the requirements stated in the Local Council (Financial) Procedures wherein it is stated that only in rare situations of an urgent nature and for goods and services already approved by the council, may the executive secretary issue payments prior to approval. Furthermore, the payment shall not exceed € 1,165 and shall be authorised by the council, and this circumstance has to be brought before the council at its next meeting.

Rent expense

7.33 When testing rent expense, we noted that the council did not account for a rent expense of € 1,800 incurred in 2015 for the rent of Couvre Porte.

7.34 The council should try to avoid such errors in the future and to record rent expenditure (which is usually a fixed amount every year) in the period to which it relates.

Asset insurance

7.35 We reviewed the council's asset insurance policy to determine whether assets are adequately insured. The following discrepancies were noted:

Asset	Cost as per financial statements €	Sum insured €	Under (over) insured €
Office and computer equipment	61,570	-	61,570
Office furniture and fittings	100,593	53,500	47,093
Construction	690,340	-	690,340
Assets under construction	87,097	-	87,097
Buildings	-	95,000	(95,000)
	939,590	148,500	791,090

7.36 The above illustrates that the council's assets are not adequately insured. In this regard, the council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind you that the council is bound by section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the council's insurance coverage.

Group personal accident insurance

7.37 Whilst reviewing the council's group personal accident insurance we noted that this is on a worldwide basis with a consequential higher premium; notwithstanding this, the council is also paying travel insurance each time the council members travel abroad on council duties.

7.38 We recommend that the council amends the policy to limit geographical coverage to Malta only. In the event that a member of the council has to travel abroad on council duties, then the council should take out overseas coverage for the period of travel only.

Travelling expenses

- 7.39 During the year under review, the council incurred travelling expenses to Italy, Montenegro, Turkey, and France relating to various projects and events. The total cost incurred on travelling amounted to € 14,575 including subsistence allowances, flights and accommodation. We noted that the council did not prepare travel reports for submission to the Department of Local Government.
- 7.40 We recommend the council complies with MF/5/2012 which states that a report on each visit is to be submitted by the delegate to the director responsible for corporate services by not later than one month after the visit. The report shall include a short explanation about the purpose of the visit, including the aims/goals of the visit, the delegate's personal remarks, the benefits achieved from such a visit, the officials to be alerted about the outcome of the visit and the issues to be followed up in Malta.
- 7.41 Since we were not provided with the information above we did not obtain reasonable assurance that the amount recorded as travelling expenses incurred is correct and in accordance with the travel guidelines issued by the Government.
- 7.42 Furthermore, we were not provided with any documentary evidence to substantiate the reimbursement of the subsistence allowances for the following:

Description	€
Subsistence allowance relating to Rome	1,380
Subsistence allowance relating to Montenegro	515
Subsistence allowance relating to LADDER project in Brussels	581
Subsistence allowance relating to AVEC meeting	1,470
Subsistence allowance relating to EU walled town	690

- 7.43 The council must observe the rules relating to travelling and prepare reports for all future travelling. A copy of this report must be submitted to the Department of Local Government for consideration.
- 7.44 We suggest that the documentation of the council is properly stored, filed, and kept in a safe place. This is important for the council's own record as well as to allow the proper performance of an audit.
- 7.45 Moreover, reimbursements made by the council to its staff should be supported by a claim form in accordance with the Local Councils (Financial) Procedures, 1996.

Overstated expenses

- 7.46 Our analytical audit procedures revealed that water and electricity expense increased by € 1,658 when compared to the prior year. Upon analysing the accounting entries we noted that the current year's expense includes water and electricity expenses of € 608.38 relating to 2014. The council did not accrue for this bill in the prior year, thus overstating expenses in 2015 by this amount.
- 7.47 In addition to the above, we also noted that road and street cleaning expenses incurred in October, November and December 2014 of € 18,900 were accounted for in the year under review. We are unable to determine whether these invoices were accounted for twice or accounted for in the wrong period.
- 7.48 We recommend the council investigates the differences above and adjusts the books of accounts as appropriate.

Locality day

- 7.49 The council incurred € 7,540 for the locality day, thus exceeding the threshold of € 3,500 by € 4,040.
- 7.50 This contravenes memo 8/2011 which limits expenditure on the locality day and staff lunches to € 3,500 or 0.5% of annual Government allocation (equivalent to € 1,338), whichever is the higher.

Offsetting of income and expenses

- 7.51 The council received an amount of € 4,000 with respect to KMS coaches. The council netted off such income against social event expenses instead of recording it separately in other income account as appropriate.
- 7.52 This accounting treatment contravenes IAS 1, *Financial Statements: Presentation* which sets out that offsetting of income and expenses is only allowed unless it is permitted by an IFRS. In this case both income and expenses should have been recorded at the gross amount.

8 Capital assets

Reconciliation of financial statements to accounting records

- 8.1 We identified a number of differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

Asset category	NBV as per financial statements €	NBV as per nominal ledger €	Difference €
Construction	1,046	(2,368)	3,414
Urban improvements	124,005	121,348	2,657
Office and computer equipment	13,205	13,230	(25)
Office furniture and fittings	67,912	72,678	(4,766)
	206,168	204,888	1,280

- 8.2 The council should investigate and reclassify accordingly the variances identified between asset categories in the financial statements and the nominal ledger.

Fixed asset register

- 8.3 Memo 3/2016 states that the council is obliged to prepare the fixed asset register which reconciles with the nominal ledger. This, however, was not provided to us.
- 8.4 We recommend that every possible effort should be made to prepare the fixed asset register and include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code



- Cost
- Depreciation method and rate
- Location of the asset

8.5 The council should endeavour to prepare a plant register as soon as possible. This will enable it to exercise adequate control over its assets.

Depreciation

- 8.6 In the absence of the fixed asset register, the council is computing depreciation manually. Furthermore, the council is calculating depreciation for the year annually instead of monthly. This resulted in an overstatement of approximately € 17,925 when compared to our workings. The depreciation was overstated during the last audit and to date the council has not rectified the issue.
- 8.7 The Local Councils (Procedures) Regulations, 1996 state that assets are depreciable on a monthly basis using the reducing balance method. Further to this, depreciation should be computed automatically by the Sage accounting package rather than manually.

Assets under construction

- 8.8 Whilst reviewing the fixed asset schedule we noted that this includes a balance of € 87,097 for assets under construction. The executive secretary informed us that there are no assets which are not completed. This figure was present during the previous audit. The council did not present a list of assets included in this account together with any other supporting documentation. Audit procedures could not be carried out due to the lack of information.
- 8.9 In view of this limitation, we necessarily had to modify our audit opinion.
- 8.10 We reiterate our recommendation from the last year's management letter that the council should investigate the balance for assets under construction and transfer the assets to the respective asset account if completed.

Fixed asset additions

- 8.11 Whilst testing the additions to fixed assets, we noted that the council has purchased 6 Samsung Galaxy tablets for the councillors. We were not able to verify the existence of the tablets since these were not kept on the council premises, except for the one held by the executive secretary.
- 8.12 This contravenes the Local Council (Financial) Procedures, which state that the council must keep all the assets on the council premises. Furthermore, the procedures state that the removal of council assets outside of the council's buildings must be authorised in writing by the executive secretary.

Tagging of fixed assets

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

**Classification of capital expenditure**

- 8.15 The council is not recognising capital expenditure in accordance with IAS 16, *Property, Plant and Equipment*. The following are some examples of capital expenditure which were incorrectly treated as revenue expenditure:

Details	Classification	€
Gates	Repairs and upkeep	1,366
Bathroom tiles	Repairs and upkeep	1,760
Kitchen tiles	Repairs and upkeep	1,190
Steel railing	Road upkeep and maintenance	2,722

- 8.16 We recommend that the council recognises capital expenditure in accordance with IAS 16, *Property, Plant and Equipment* which states that items of property, plant and equipment should be recognised as assets when it is probable that economic benefits associated with the asset will flow to the entity and the cost can be measured reliably.

9 Cash and cash equivalents**Bank reconciliation**

- 9.1 The council did not provide the bank reconciliation of the APS savings account. Furthermore, the council did not obtain a bank statement as at 31 December 2015 for the above mentioned account. To this end we were not able to confirm the recorded balance of € 70 in the council's books of accounts.
- 9.2 The council should ensure that it obtains bank statements on a regular basis. Furthermore, if the account is not being used the council should formally approve the closure of the account.

Bank account representative

- 9.3 Whilst reviewing the BOV bank letter it was noted that one of the representatives for BOV account 16505406041 is Mr Emmanuel Farrugia. No explanation was provided by the council.
- 9.4 We recommend that the council instructs the bank to update the account representative.

FWT on bank interest

- 9.5 We noted that the HSBC savings account is subject to final withholding tax.
- 9.6 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

List of unrepresented cheques

- 9.7 Whilst reviewing the list of unrepresented cheques we noted that this included a cheque of € 219.80 payable to the Director of Civil Protection. Further analysis revealed that the cheque was deposited by the recipient in 2015 and that the reconciling amount showing in the unrepresented cheque list is the result of a double posting.
- 9.8 We recommend that the council investigates the balance in the books of accounts and reverses it against the correct account.

**Petty cash**

- 9.9 During the audit, after performing a petty cash count, we noted that the petty cash account is overstated by € 34.33. The cash count only revealed € 28.54 in cash.
- 9.10 Whilst reviewing the petty cash account, we noted that the council did not post any payments in the account. The balance as at year end remained the same as the balance as at 31 December 2014 (refer also to 7.6 above).
- 9.11 The council must ensure that petty cash reconciliations are prepared every month to ensure that cash counted agrees to the cash account and to assist the council in finding any discrepancies immediately.

Cash in hand

- 9.12 Whilst performing our cash in hand reconciliation, we noted that the council had a negative difference of € 72.75. We were not provided with any explanation for the difference.
- 9.13 The council should investigate credit cash book balances and pass the necessary adjustments in the books of accounts following the outcome of its investigation.

10 Trade and other receivables**Overdue trade receivables**

- 10.1 The council's receivables include the following amounts which have been long overdue:

Debtor	€
Green MT	1,060.49
Medeea	966.50
Mira Motors Ltd	1,000.00
	<u>3,026.99</u>

- 10.2 The council has a provision for the outstanding balance of Green MT. However, no provision was made for the outstanding balances of Medeea and Mira Motors Ltd.
- 10.3 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for these amounts after obtaining the approval of the council in meetings.

Regional committees

- 10.4 Following our recommendation, the council started to record receivable LES administration fees separately, in the respective regional committee account. However, the council did not investigate and separate the brought forward balance of € 1098.93 which includes transactions with different regional committees.
- 10.5 The above situation makes it difficult for the council to keep an audit trail for each region, to identify mistakes, allocate receipts, reconcile differences and determine the balance due by each committee. In light of all this, we strongly recommend that over the coming year the council investigates this balance, and transfers the receivable balances to the respective accounts.

**Other receivables**

- 10.6 The council's other receivables include two receivable balances which were brought forward from prior years. The council did not provide any information on these accounts. Thus we could not verify the existence and whether the amounts are recoverable. Details of the accounts are as follows:

Nominal code	Account name	€
0209	Line50 Other Debtors	3,188
0272	Recoverable Exp- Other EU projects	14,994
		<u>18,182</u>

- 10.7 Upon analysis we noted that the balance in account 0209 decreased by € 436 when compared to the prior year. The € 436 was transferred to the mispostings account.
- 10.8 We reiterate our recommendation to the council to determine how these amounts originated and if they are not valid or no longer recoverable, the council should obtain approval in meeting to write them off. Meanwhile, in view of the fact that we were unable to verify these balances, we modified our audit opinion.

Accrued income

- 10.9 The council did not provide us with a list of accrued income. Furthermore, accrued income of € 37,792, brought forward from 2014, remained unchanged. We could not perform any audit tests due to the lack of information. In view of the limitations encountered, we necessarily had to modify our audit report.
- 10.10 We reiterate our recommendation to the council to investigate this balance and determine whether income was received or whether it is no longer receivable. It is also imperative that in the future, the council always keeps a detailed listing of accrued income that agrees to the financial statements.

Prepayments

- 10.11 During the year under review, the council did not account for any prepayments. Whilst reviewing the rent and insurance accounts we noted that the council should have accounted for rental and insurance prepayment.
- 10.12 We recommend that the council accounts for expenses based on the accrual basis and ensures that all expenses are being reported in the correct period.

11 Local Enforcement System**Pre-regional LES debtors**

- 11.1 According to report 622 generated from the Loqus system, tribunal pending payments as at 31 December 2015 were € 98,322.59, down from € 99,173 since last year. We were not given any plausible explanations or evidence by the council or Loqus supporting the movement in tribunal pending payments. The council has not reflected this movement in its books of account and we have not proposed an audit adjustment.
- 11.2 We would like to remind you that it is the council's responsibility to investigate such movements with Loqus.

12 Trade and other payables

Trade payables' reconciliation

- 12.1 According to the council's creditors' list as at 31 December 2015, trade payables amount to € 204,173. The balance disclosed in the financial statements as trade payables amount to € 158,503, that is a difference of € 45,670. Further analysis revealed that the council set-off trade payables account and the balance of €45,670 recorded in the other creditors account.
- 12.2 Upon enquiry, we were informed that the € 45,670 balance in other creditors' account relates to a journal entry passed by the council with respect to:
- Differences identified when comparing the creditors' balances recorded in the council's books of account and those stated in available suppliers' statements; and
 - Debit balances included in the creditors' list.
- 12.3 We were not provided with the supporting reconciliations on which the above journal entry was based. Our audit opinion has been modified in this respect.

Trade creditors

- 12.4 We noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 12.5 In some instances, the council received suppliers' statements. However the reconciliation was not performed and differences eliminated as stated in 12.2 above.
- 12.6 This is contrary to the relevant Procedures, which require the council to request monthly statements from all suppliers. Memos issued by the DLG specifically state that the council should reconcile the books of account to supplier statements on a monthly basis.
- 12.7 A number of exceptions were identified in our reconciliation of creditors' balances to available supplier statements. These are listed below:

Supplier	As per council's books of accounts €	As per creditors' statements €	Difference €
Amabile Galea	8,649.75	2,091.10	6,558.65
Environmental Landscape Consortium	5528.62	3,588.26	1,940.36
Smart Office Supplies	3,874.73	4,091.38	(216.65)
Wasteserv Malta Limited	31,374.79	15,155.64	16,219.15
Nexia BT	4,928.51	1,576.04	3,352.47

- 12.8 We were not provided with any explanations for reconciliations with respect to these differences. Our audit opinion has been modified with respect to the material difference in the account with WasteServ Malta Limited.
- 12.9 Whilst reviewing the outstanding invoices by Mr Mifsud, it came to our attention that the council did not record the invoices relating to August and November 2015 amounting to € 6,300.08 for each month.



- 12.10 In our prior management letter it was also noted that an invoice of € 408 from UV Print was posted and paid twice in error. This amount was refunded back in 2015. However this is still showing as a debit balance in the creditors' list. No explanation was provided on this matter.
- 12.11 As also mentioned in the prior year's management letter, the creditors' list also includes a balance of € 18,175 due to Med Design. The mayor had informed us that no such balance is due to this supplier as confirmed verbally by the supplier. On the other hand, the accountant had stated that the invoice amounting to € 18,175 was produced by the executive secretary and ruled out the possibility of a mistake. We again strongly recommend that if, as the mayor stated, the balance is nil, this should be confirmed in writing. Once the issue is settled, the council can adjust its books as appropriate. With lack of audit evidence on this amount, we modified our audit opinion on the financial statements.
- 12.12 In view of the mistakes identified in the creditors' balances during the course of our audit, the council should appreciate the importance of creditor reconciliations to statements. We also remind you that the Procedures and memos specifically state the council should obtain monthly statements from suppliers and agree amounts to the balances in the accounts.

Other payables

- 12.13 Whilst testing other payables we noted that the opening balance in the books of account amounts to € 11,217 while in the prior year's signed financial statements the balance amounts € 4,217 thus giving a difference of € 7,000 (refer to note 14).
- 12.14 Following our recommendation in the prior year's management letter, the council reversed the opening balance of € 4,217. However this was done without the required analysis and consideration. This amount, together with the balance of € 7,000, was reversed against income without documenting valid reason.
- 12.15 Furthermore, the accountant incorrectly posted a debit entry of € 45,670 as a 'provision' for creditors' balance against income (refer to note 12.2).
- 12.16 We reiterate our recommendation to the council to investigate these transactions appropriately. The council should only reverse the amounts in the books of accounts after obtaining evidence as to how these balance arose. Any decisions should be taken in council meeting and duly documented in the minutes.

Unrecorded liabilities

- 12.17 Whilst testing post year end payments we noted that the council made a payment of € 53 to Panta Marketing Services for works carried out during August 2015. This could not be traced to the books of accounts and therefore we could only assume that the invoice was not posted.
- 12.18 We recommend that the council records expenditure when it is incurred such that liabilities are recorded in the correct financial year.

Accrued expenditure

- 12.19 Our testing on accruals revealed that the council's provision for road and street cleaning costs is understated by € 12,600.
- 12.20 We noted that the accountant's statement includes two invoices relating to accountancy services incurred in 2015 of € 4,597.63 and € 2,230.20 dated 31 January

2016 and 29 February 2016, respectively. The council did not accrue for these amounts.

- 12.21 Our testing on accruals also revealed that the council's provision for FSS and NI is understated by € 47.80.
- 12.22 Apart from the differences noted above, € 180.78 of the accrued expenses for waste collection could not be verified. No explanation was provided for this.
- 12.23 The council should make adequate provisions for accruals supported by documentary evidence so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

Classification of payables

- 12.24 We also noted that the council disclosed payroll tax liabilities for 2015 of € 3,050.16 with trade and other payables in the unaudited financial statements.
- 12.25 Payroll taxes and all statutory liabilities should not be classified with accruals or trade creditors since they are preferential creditors and therefore require disclosure as other creditor. In addition they are not financial liabilities and should not be disclosed as such.

Long-outstanding creditors

- 12.26 The council's creditors' list includes € 191,023 creditor balances which are older than 120 days.
- 12.27 We advise the council to individually review all the long outstanding creditor balances, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Debit balances in creditors' list

- 12.28 The council's creditors' list includes the following debit balances:

Supplier	€
Arms	259.20
DDE Attard	500.27
Perit Duncan Mifsud	650.00
Gino Chairs	41.30
Go plc	1,076.11
Miller Distributors	200.00
Government Property Department	1,567.06
Environmental Landscape Consortium	1,941.16
Go Mobile	1,683.19
Grech Ellul	65.32
Horace Enterprises	928.95
Melfar Limited	7,000
MITA	893.03
NIBE beverages	177.53
Tip Top Electronics	799.00
UV Print	457.79
	18,239.91



- 12.29 We recommend that the council presents debit balances separately from creditors as other debtors in the financial statements
- 12.30 Further to the above, the council should investigate all debit balances in creditors' list as these could indicate payments allocated to the wrong creditor account, invoices not recorded or overpayments.

Insurance claim in dispute

- 12.31 Whilst performing expenditure testing we noted that the council incurred professional fees with respect to an insurance claim where the council is being held liable for car damages. Upon further enquiry, it transpired that the council was adjudged guilty in January 2016 and is liable to pay € 973.16. The executive secretary informed us that the council appealed this judgement.
- 12.32 We recommend that the council investigates this issue and given that there is a probable liability, consider the provision of a liability.

13 Grant accounting

Deferred income brought forward

- 13.1 Memo 3/2016 makes it obligatory for the council to compile a list of deferred income and related workings and provide them to the auditor.
- 13.2 During the performance of our audit we were not provided with any information or supporting documentation about deferred grants that would have enabled us to carry out the necessary audit procedures.
- 13.3 Furthermore, the balance of deferred income remained in line with previous year, amounting to € 227,803; thus no income was released to income statement during the year (refer to note 13.5)
- 13.4 We urge the council to analyse all past grant agreements to ensure that grants are treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this approach, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge. In addition the council should compile a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate of that asset.

Reconciliation of nominal accounts to financial statements

- 13.5 We identified differences between deferred income balances in the nominal accounts and the unaudited financial statements. These are summarised below:

	Balance in unaudited financial statements 2015 €	Balance in nominal accounts 2015 €	Difference €
At 1 January 2015	226,748	227,803	(1,055)
Released to income	(17,139)	-	(17,139)

Transfer to short-term	(16,085)	-	(16,085)
At 31 December 2015	<u>193,524</u>	<u>227,803</u>	<u>(34,279)</u>

- 13.6 We further identified that a part of the difference is resulting from the net book value of the trees grants amounting to € 3,745 which has been omitted from the council's schedule. No explanation was provided for the remaining difference of € 726.
- 13.7 We were unable to determine where the accountant obtained the opening balance of deferred income and we were not given any adequate explanations.
- 13.8 In light of the limitations mentioned in the points above, we have modified our audit opinion.

Grant on Auberge of England

- 13.9 During the year 2015 the council obtained the approval with respect to a receivable grant amounting to € 65,000 for the restoration of Auberge of England project. However, this grant addition was accounted for under capital approach rather than income approach as required by the Financial Procedures.
- 13.10 In accordance with memo 3/2016 and IAS 20, grants received should be recognised as income to match the costs which they are intended to compensate. Grants in respect of revenue expenditure should be recognised as income when it has been incurred. Meanwhile, grants to acquire items of property, plant and equipment should be treated as deferred income and income recognised on a systematic and rational basis in accordance with the useful life of the asset (i.e. depreciation charge).

Reclassification of current and non-current portion of deferred income

- 13.11 Due to the lack of information as explained above, we were unable to verify whether the current and non-current portions of deferred income are fairly presented in the financial statements.
- 13.12 We would like to remind the council that the apportionment should be based on the period within which the income from the grant is expected to be released to the income statement.

14 Opening balances

- 14.1 Whilst testing opening balances we noted that the council has incorrectly passed a prior year adjustment of € 7,000 in other creditors' account instead of creditors' control account.
- 14.2 The council should ensure that the accountant properly updates the books of account, particularly ensuring that all audit adjustments accepted by the council are included before closing off the year end and accounted in the correct account.
- 14.3 In our previous audit we identified various errors and significant limitations which have not been corrected in the year under review. Our audit report for financial statements 2014 was modified due to limited information provided to us during the audit fieldwork. To this end we did not obtain reasonable assurance as to whether opening balances brought forward from prior years are true and fair.



15 Financial statements

Presentation of financial statements

- 15.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards and Financial Procedures. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS). Below are some of the non-compliance issues identified.
- i. IAS 1, *Presentation of Financial Statements* requires the council to disclose in the summary of significant accounting policies, the judgements that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
 - ii. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: disclosures of relevant new and amended IFRSs that have been adopted by the council were not complete in the audited financial statements.
 - iii. IFRS 7 *Financial Instruments: Disclosures*: the council has not disclosed an analysis of the provision for bad debts and the contractual maturity of the financial liabilities.
 - iv. Disclosure of the list of all relevant new and amended IFRS's that have been adopted by the council in the preparation of the financial statements.
 - v. Disclosure of related party transactions as required by IAS 24.
- 15.2 We necessarily had to qualify our audit opinion in light of the above departures from IFRS's.
- 15.3 In addition to the above, we found the following deficiencies in the financial statements:
- i. There is no note disclosing capital commitments.
 - ii. Groupings in note 10 in the financial statements are not in line with those used for the comparative figures.
 - iii. Provisions for bad debts in note 11 should be removed.
 - iv. Note 12, property, plant and equipment, includes € 65,000 as additions to grant. This should have been accounted for using the income approach.

16 Meetings

Minutes of meetings

- 16.1 The following minutes of meetings were not signed by the executive secretary and the mayor.

Meeting	Held on
08/2015	28.09.2015
09/2015	27.10.2015
10/2015	10.11.2015
11/2015	15.12.2015

- 16.2 The schedules of payments dated 3 June 2015 to 8 July 2015 was not signed by the mayor.



- 16.3 We recommend that the executive secretary and the mayor sign the minutes so as to indicate that these have been approved by the council. This is also in accordance with Local Council (Minutes) Procedures, 1996.

Meeting regulations

- 16.6 We have observed that the date of the next meeting is not being set at the end of every meeting.
- 16.7 According to the Local Councils (Meeting) Procedures, 1996 at the end of every meeting the council must set the next council meeting which shall be fixed. If no unanimous agreement is reached, the councillors are to vote and decide according to the majority. This shall not be changed for any reason. Therefore we recommend that these requirements are followed.
- 16.8 In addition to the above, meetings 44, 4 and 10 lasted more than three hours.
- 16.9 We would like to remind you that memo 68/2009 states that the duration of council meetings shall not exceed three hours, unless the consensus of all those present to extend the meeting is obtained.

Numbering of minutes

- 16.10 We noted that the minutes of the council do not always follow sequential numbering.
- 16.11 This contravenes the requirements of memo 84/2011, which states the executive secretary of the council should assign every meeting a unique and distinct reference number in sequence even in cases where a quorum is not reached or the meeting is continued on another day.

Binding of minutes

- 16.12 We observed that the minutes of the council are not bound at the end of each financial period.
- 16.13 We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

17 Financial budget

- 17.1 The executive secretary did not prepare a financial budget for 2016.
- 17.2 According to article 56 of the Local Councils Act, the executive secretary must prepare a budget for approval by the council not later than 15 February of each year. It is important that the council approves the budget early at the start of the year for proper financial planning and to prioritise expenditures.
- 17.3 The council did not disclose contracted capital commitments in the financial statements. In the absence of the financial budget for 2016, we were also unable to determine if there are other capital commitments that need to be disclosed in the financial statements.



18 Other reports

Quarterly financial reports

- 18.1 It came to our attention that the quarterly financial reports for July to December 2015 were not completed by the date of our fieldwork.
- 18.2 We recommend that the executive secretary complies with the Local Councils (Financial) Procedures B1.01 d.06 and presents the quarterly financial reports to the council for its consideration within two weeks after the end of each fiscal quarter and comparison of the quarter's results with the budget.

Business plan

- 18.3 The council did not provide us with the three-year business plan for 2016-2018.
- 18.4 The Local Councils (Financial) Procedures state that the business plan must be reviewed as often as necessary, but at least once every year prior to the budgeting process to evaluate the council's performance and adjust the business plan as appropriate. The executive secretary must forward a copy of the business plan to the Minister by the fifteenth day of November of each year and make the final draft by the end of December.

19 Electronic site

- 19.1 During our audit work we found that the council is not uploading schedules of payments, minutes, quarterly financial reports, business plan, audited financial statements and annual administration reports in accordance with memos 36/2011 and 01/2014. The following are some instances encountered:
- i. Audited financial statements for 2014 were not uploaded on the website.
 - ii. Schedules of payments were not uploaded on the website
 - iii. Minutes for meeting 7 held on 4 August 2015 were not uploaded correctly, and consequentially cannot be viewed.
 - iv. Minutes were not uploaded within the required time frame.
- 19.2 We recommend that the council abides by the directive given in memo 02/2014 where it is stated that all meeting minutes and schedules of payments must be uploaded on the council's site within two days of approval. The signature on the documents are the confirmation that the uploaded documents are the approved and correct ones.

20 Change in executive secretary

- 20.1 In February 2015, Ms Antonia Belfiore was appointed executive secretary of the council replacing Ms Fiona Said. The incoming executive secretary did not request a mid-term audit to be carried out, which is contrary to the Local Councils (Procedures) Regulations.
- 20.2 We draw attention to section P2.02 of the Local Councils (Procedures) Regulations P2.04 under which a mid-term audit has to be carried out whenever there is a change in the executive secretary of the council. Section P2.04 of the Local Councils (Audit) Procedures further states that the mid-term audit must be conducted from the beginning of the financial year to the last day of employment of



the outgoing executive secretary. This will serve as an independent administrative handover from one executive secretary to another.

- 20.3 Based on the foregoing, the council should adhere to these regulations for similar situations arising in the future, subject to the exemption in memo 14/2014, which relieves the council from the requirement of a mid-term audit whenever the change occurs not more than two months before or after the close of the financial year.

21 Reply to management letter

- 21.1 The council did not send its reply to the previous management letter. This contravenes section 2 of the Local Councils' (Audit) Regulations and instructions issued by the Department.
- 21.2 The above is in breach of the Local Councils (Audit) Regulations which oblige the president and the executive secretary to submit the council's reply to our management letter, after discussion in meeting. In its reply, the mayor and executive secretary must specifically indicate how the council will remedy all the weaknesses and shortcomings identified by the auditor during the fieldwork. We would also like to remind the council that in accordance with memo 3/2016, the reply must be received by 10 June 2016 or six weeks after receipt of the letter from the Auditor General.

22 Liquidity position

Financial Situations Indicator

- 22.3 The council's Financial Situations Indicator (FSI) at the end of the financial period under review is negative, which is less than the minimum positive balance of ten per cent of the annual Government allocation.
- 22.4 The executive secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the executive secretary must immediately notify the Director when the FSI falls below ten per cent, and explain the actions that are to be taken by the council to remedy the situation.

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 the executive secretary Ms. Antonia Belfiore and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,