

The Mayor,  
Birkikara Local Council,  
Centru Civiku  
Triq Tumas Fenech,  
Birkikara

25 April 2016



## **Financial Statement for the period ended 31 July 2015**

During the course of our audit for the period ended 31 July 2015, we have reviewed the accounting system and procedures operated by the council. We have also reviewed the operations of the council and how they conform to the Local Council 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**

Throughout 2015, the Council received a renewal letter for rental of premises by the Ministry for Social Policy. This covers the period 25/2/15 to 24/2/18. The agreements with the Libraries and Archives Department and with the Welfare of the Elderly Department have not yet been renewed (refer to note 2.1).

#### **1.2 Payroll**

Throughout 2015, we did not come across any similar instances.

#### **1.3 Expenditure**

We again noted that the Council is supporting the majority of its petty cash payments by a cash register receipt (Refer to note 3.1).

We also noted that petty cash expenses that exceeded the limit of EUR23.29 (refer to note 3.5) but we did not come across any computer generated invoices.

The Mixed Collection Household waste tender was still being used and a new tender was expected to be issued after period end (refer to note 3.7). The Contracts Manager is not included in tender list, however, an invoice covering the period October to December 2014 for EUR741.68 was booked in the period under review (refer to note 3.11). The balance due to General Cleaners is still pending at period end (refer to note 3.13).

The Council is still covered by the insurance policy issued in 2014 (refer to note 3.15).

All requested tender files were made available. The Service of a handyman tender is now being serviced through resources offered by ETC and prisoners community work.

The Council is still utilising the extra skip services for an additional EUR130 per day (refer to note 3.18).

Credit notes for extra charges on public convenience were received, however, we still identified differences between expected credit notes and new invoiced amounts (refer to note 3.20).

#### **1.4 Local Enforcement System**

The situation with the Birkikara Joint Committee has still not been resolved (refer to note 4.1).

The difference between LES Administration income and the Loqus report was just EUR14.

#### **1.5 Property, plant and equipment**

The fixed assets register still lacks certain details (refer to note 5.1)

The differences on the St Helen Gardens cost basis have been cleared.

#### **1.6 Inventories**

The council has not made any assessment on the net realisable value of books held in inventory (refer to note 6.1).

#### **1.7 Receivables**

We did not identify a reconciling difference between the debtors and creditors list to the control accounts.

The Council still has debtors aged over one year although it increased its provision for bad debts (refer to note 7.1).

The balances on Ta' Monita Estates Limited grant and DLG co-financing projects has still not been recovered (refer to notes 7.4 & 7.6). The issue with Greent MT is still unresolved (refer to note 7.8) whereas an adequate provision was made for amounts recoverable under the expired agreement.

#### **1.8 Creditors**

The Council still has a substantial amount in overdue creditors (refer to note 8.1) and has debit balances in creditors (refer to note 8.3).

The Council has once again accounted for Tipping fees that has not yet been allocated to the Council by the Department for Local Government (refer to note 8.5).

## **1.9 Financial statements**

We again identified some minor departures from IFRS requirements (refer to note 10).

## **1.10 Estimates and business plan**

The Council has yet to prepare a 3 year rolling budget (refer to note 11.1).

## **1.11 Council meetings**

Council meetings were always held within the 5 week period.

We again noted that some councillors were absent from meeting and these were not reported to the DLG (refer to note 12).

## **1.12 Liquidity position**

The council is still in negative liquidity and FSI position (refer to note 13).

## **Current period issues**

## **2 Income**

### **Rental income**

2.1 Whereas the Council has received a renewal notice from the Ministry of Social Policy to cover the period 25/2/15 – 24/2/18, we noted that the agreement with the Libraries and Archives Departments and the Welfare of the Elderly Department for the lease of parts of the Civic Centre is still expired. The council does not have a renewal notice or letter for this lease, although discussions for a new contract had commenced. Revenue generated from rental of premises to these two entities for the period under review amounted to EUR6,407.

2.2 We recommend that the council prepares and signs a new agreement with both lessees under the same terms and conditions of the original contract.

## **3 Expenditure**

### **Petty cash payments**

3.1 The council continues to support more petty cash payments by cash register chits. Below are a few instances which were encountered during the audit:



Supplier	Date	Amount (EUR)
Ta Mallia	03/03/2015	23.00
Ta Mallia	03/03/2015	4.00
Paloma	07/04/2015	13.00
Paloma	07/04/2015	22.00
Eduline	03/05/2015	20.00
Joam Pitstop Ltd	18/05/2015	20 00
Frank's Pet Store	27/05/2015	22.80
JB Stores	06/06/2015	23.00
Don Juan Ironmongery	14/07/2015	20.30
Don Juan Ironmongery	17/07/2015	17.30
Don Juan Ironmongery	17/07/2015	8.00

- 3.2 We also noted that a purchase from Mrs Marthese Gauci on 15/6/15 for EUR20.00 was supported by a complimentary slip.
- 3.3 The Local Councils (Financial) Procedures, 1996 specifically require that supplies are only made on the provision of a proper tax invoice which is addressed to the council. Therefore, cash register chits do not satisfy this requirement.
- 3.4 We therefore recommend that the council obtain tax invoices which are addressed to the council, whenever possible, to support petty cash payments.

#### **Petty cash payments limit**

- 3.5 In the procedures carried out to conform the petty cash balance at period end, we noted that the below chits were issued on the same day from the same suppliers. The combined total amount of these chits exceeds the €23.29 threshold.

Supplier	Date	Time	Amount (EUR)
Ta Mallia	03/03/2015	08:20	23.00
Ta Mallia	03/03/2015	08:20	4.00
Paloma	07/04/2015	14.17	13.00
Paloma	07/04/2015	14.39	22.00
Don Juan Ironmongery	17/07/2015	08:20	17.30
Don Juan Ironmongery	17/07/2015	12:06	8.00

- 3.6 We remind the council that purchases in excess of EUR 23.29 are to be supported by a quotation and a purchase order and settled by cheque rather than cash.

#### Expired contracts

- 3.7 The contract agreement for the Mixed Collection Household waste which was awarded to Northern Cleaning Limited expired on 30 June 2014. It was noted that no contract extension was issued. The minutes of the Council Meetings indicated that a new tender would be issued in October 2015, however this target was not met. The amount invoiced by the contractor for the period under review amounted to EUR131,503.
- 3.8 We would like to remind the council that the extension of expired contracts is strictly prohibited. Memo 10/2013 issued by the department of the government department states that the council should start preparing for a new call for tenders ahead of the expiry date of existing contract.
- 3.9 We also noted that the above supplier had quoted different rates for each period of contracted term. However, we noted that over the said period, the supplier invoiced the council at the rate quoted for the first period. The amounts invoiced did not increase in line with the tender.
- 3.10 We recommend that the Council monitors the amounts invoiced by contracted suppliers to ensure that these are in line with contracted rates. We recommend that this contract is reviewed to determine whether the council should provide for an additional liability.

#### Tender for Contracts' Manager BLC 009/2012

- 3.11 The previous period management letter noted that the above tender was offered to the cheapest bidder however, the fees charged were in excess of the rate quoted by the supplier. The council adjudicated the above tender to Synthesis Management Services Limited. The previous period management letter also indicated that the

contract with this supplier was not signed. We noted that this tender does not feature in the list of tenders anymore.

- 3.12 Notwithstanding the above, the Council received an invoice for EUR741.68 covering services provided between October and December 2014 from this supplier. Although the Council had an opening liability of EUR20, the Supplier was paid EUR1,304, EUR542 in excess off the balance.

#### **General Cleaners Company limited**

- 3.13 In January 2013 the council received an invoice amounting to EUR2,809 from General Cleaners Company Limited for leasing of bins. As at 31 July 2015 the invoice was not yet settled. The agreement entered into in prior periods was only signed by the mayor on behalf of the council. The council believes that such an agreement is thus null and void. The new legislature decided that this payment should be withheld and in 2014 the council was also notified that the company is seeking legal action to collect the amount due from the council.
- 3.14 We recommend that all of the council's contracts are jointly signed by the mayor and the executive secretary, (after approval in council meeting) as representatives of the council and that all original copies are kept in the office at all times.

#### **Asset Insurance**

- 3.15 The Council is still covered by the insurance policy issued in 2014 and the insured covers the following amounts:

Description	Cost as per records EUR	Sum insured EUR
Building of standard construction including fire fighting equipment, air conditioners - whole building	Leased	2,329,373
Plant and machinery	232,138	-
Child care centre	178,054	-
Furniture, Fixtures and fittings	69,945	40,000
Electronic equipment	49,168	40,000

- 3.16 The above illustrates that the council's assets are still not appropriately insured. In this regard, the council should update its insurance policy to ensure that assets held are not under/over insured, and also include new assets bought by council during the period. The lease agreement for the Civic Centre specifies that the property and furniture and fittings in common areas should be insured for EUR2,373,000. Other assets not listed above are not covered by the Insurance policy.
- 3.17 The council must comply with section LCP 1.15b.04 of the Local Councils (Financials) Procedures, 1996 by carrying out a periodic review to assess the



adequacy of the councils' insurance coverage and ensure that its insurance cover is in line with the lease agreement.

#### **Additional skip services**

- 3.18 As noted in the 2014 management letter, the council instructed the contractor (Northern Cleaning Limited) to perform extra daily services instead of once a week as per tender agreement for an additional charge of EUR130 daily. Such services were still provided in 2015.
- 3.19 In order to comply with the Local Councils Regulations, the above scenario should have resulted in the council making a call for tenders for this additional service to ensure that the council receives the service at the most advantageous rate.

#### **Cleaning and maintenance public convenience**

- 3.20 In the previous year management letter, we noted that the tender for cleaning and maintenance of public convenience was re-issued in 2014 and awarded to the same contractor that managed the facility under the old agreement. We also noted that the new tender was quoted at lower rates than the previous one however, the service provider continued invoicing under the old rates.
- 3.21 During 2015, the Supplier stopped invoicing at the old rates after January and issued credit notes for the amount overstated in previous months (since commencement of the new tender). Notwithstanding this, we noted that the credit notes issued did not tie in to the expected amounts. The supplier had invoiced EUR9,104 ( $\text{EUR1,820.82} \times 5$  months) rather than EUR5,938 ( $\text{EUR1,187.5} \times 5$ ). The total credit notes issued amounted to EUR2,420 rather than EUR3,166.
- 3.22 We also noted that the supplier started invoicing as quoted in his tender (global fee of EUR1,250 in 3 separate invoices), however, the amount tendered was inclusive of the 5% contract management fee and this was not deducted from his invoices. The global fee should amount to EUR1,187.50. Over the period January to July, the supplier invoiced EUR438 in excess of the tendered amount.
- 3.23 We recommend that the Council monitors the amounts invoiced by contracted suppliers to ensure that these are in line with contracted rates. We also recommend that this contract is reviewed to determine whether the council should claim the excess fees charged by the supplier.

#### **Audit fees**

- 3.24 The Council did not accrue for interim audit fees of EUR3,540. These were proposed as an audit adjustment which was approved by the Council and reflected in the signed financial statements.

### **4 Local Enforcement system**

#### **Pooling period**

- 4.1 The audited financial statements of the Birkirkara Joint committee, of which the council formed part of up till 31 August 2011, were not made available to the auditors. Audited financial statements have also not been provided in prior period audits. The

audit team was thus unable to confirm the council's share of profits and the balance due to the committee as at period end. During the period under review the council received no income from the pooling period.

- 4.2 While acknowledging the councils effort to obtain these financial statements, we must again recommend that the council seeks advice and guidance from the responsible authorities. Owing to the limitation of scope, we necessarily had to qualify our audit opinion.
- 4.3 The LES report indicated that the balance due to the local council amounted to EUR71,003 whereas the books indicated a balance of EUR72,309. The movement of EUR1,306 was proposed as an audit adjustment and the relative movement in provision for bad debts was also proposed as an adjustment. These adjustments did not have an impact on the results of the Council. The Council approved our proposed adjustment and reflected it in the financial statements.

## 5 Property, plant and equipment

### Details of the fixed asset register

- 5.1 We again note that a number of assets in the fixed asset register do not include the location. In this absence of this information, the council would be unable to individually identify assets and correctly account for their existence, impairment or disposal.
- 5.2 We recommend that the council updates the fixed asset register with the location of assets.

### Approval of Additions

- 5.3 Our testing on capital expenditure indicated that the following additions were paid prior to approval by the council during the minutes.

Supplier	Description	Amount of purchase order
		€
Frank Fenech	Gypsum Partitions	1,150
Frank Fenech	Gypsum Partitions	1,150
Eleno Calleja	War Monument (supply of Stone)	545
Paul Vassallo	War Monument (Work Done)	755
D Innovations	Coated Chain Link Fence	1,027

- 5.4 We remind the Council that Financial Procedures require that payments are only issued after the council approved the schedule at the Council meeting.



## 6 Inventories

### Net realisable value of inventories

- 6.1 The council's inventories comprise of books intended for resale. It was noted that the stock is slow moving, with a total movement of 19 books in the period under review. The cost of these books was EUR165, 2 of which were sold and the rest given out as follows:

	Amount
Santa Tereza College prize day	2
Santa Monica School prize day	2
Volleyball prizes	7
Norway grants	5
Marie Claire Zammit	1

- 6.2 We reiterate our recommendation that the council should assess whether the books are being carried out at the lower of costs and net realisable value in the financial statements in accordance with the generally accepted accounting principles. Write offs or provision of inventories might be necessary if the books remain slow-moving or have no realisable value in accordance with IAS 2, *Inventories*. In addition, these books should be expenses if these are not held for resale.

## 7 Receivables

### Overdue receivables

- 7.1 The council's debtors list includes receivables of EUR51,613 which have been brought forward from previous periods. These are:

<b>Customer Name</b>	<b>Amount B/F from PY EUR</b>
Advanced Telecommunications	932
Agius Neville	150
Alberia Fire Fighting & Security	500
Bkara Joint Committee	1,514
CAK	75
Comlux Malta Ltd	650
Crosscraft	200
Dept of Local Councils	44
Environmental LC LTD.	389
Foundation for Educational Services	430
Gozo Region	401
Green Mt LTD.	9,196
Gregory & Murray CO. LTD.	75
Health Department	6,977
I Love Books	150
John G. Cassar	100
Malta Communications Authority	4,310
Ministry For Resources & Rural Affairs	745
Muscat's Universal LTD.	500
Melita Cable	800
Polidano Brothers LTD.	633
Public Libraries Department	9,060
Regjun Centru	2,503
Regjun Nofsinhar	603
Regjun Tramuntana	1,818
Storage Systems	150
TCTC	349
The Perfect Pet Shop	600
Urban Jungle	350
Water Services Corporation	7,409
	<hr/>
	51,613.00
	<hr/>

- 7.2 At the financial position date, the Council increased its provision for doubtful debts from EUR5,958 at 31 December 2014 to EUR26,040. The provision covers the following receivables::

Customer Name	Provision EUR
Advanced Telecommunications	932
Agius Neville	150
Alberta Fire Fighting & Security	500
Comlux Malta Ltd	650
Crosscraft	200
Environmental LC LTD.	390
Foundation for Educational Services	430
Gozo Region	161
Green Mt LTD.	9,196
Gregory & Murray CO. LTD.	75
I Love Books	150
John G. Cassar	100
Malta Communications Authority	1,677
Ministry For Resources & Rural Affairs	746
Muscat's Universal LTD.	500
Polidano Brothers LTD.	633
Public Libraries Department	1,198
Regjun Centru	303
TCTC	349
The Perfect Pet Shop	600
Urban Jungie	350
Water Services Corporation	6,750
	<hr/>
	26,040

- 7.3 Whereas the Council has improved its assessment on recoverability, it still indicates a weakness in collecting amounts due. We strongly recommend that the council establishes a proper credit control system to limit its exposure to default risk. In addition, the council should chase these debtors for payment and if it recoverability remains unlikely, a write off should be considered. In doing so, the council should obtain prior approval in council meetings and document the decision taken in its minutes.

#### **Grant receivable on Railway Track Garden**

- 7.4 In 2013, the council received EUR45,161 out of the EUR130,445 grant receivable under a contract with Ta' Monita Estates Limited. This results in a balance of EUR85,284 outstanding at period end which is presented with accrued income in the financial statement.
- 7.5 The executive secretary informed us that the council is confident that the remaining grant is still recoverable but cannot determine an actual receipt date as yet. We recommend that the council continues its discussion and negotiations with the parties concerned to obtain the remaining part of the grant. Since we were not able to confirm the completeness and recoverability of this amount, we have again qualified our audit opinion.



### Co-financing agreement

- 7.6 The council's accrued income includes the following grant receivable from the DLG under two separate co-financing agreements.

Co-financing agreement	Outstanding agent
	EUR
Heritage	11,221
Energy Conservation	10,953
	<hr/> 22,174 <hr/>

- 7.7 Since these projects were completed and certified in 2012, we recommend that the council seeks explanations from the Department as to why these grants have not been advanced as yet. Should such queries result in the knowledge that these grants are no longer receivable, the council should adjust its accounts accordingly.

### Green MT Limited

- 7.8 As highlighted in previous management letters, on 25 November 2009, Green MT Limited agreed in writing to forward the sum of EUR30,821 to the Works Division (within the Ministry for Resources and Rural Affairs) on behalf of the council in respect of restoration works carried out on the aqueducts. The agreement stated that the amount was to be settled through monthly payment of EUR1,000 each starting from 31 December 2009.
- 7.9 The Works Division had informed the council that no payments had been received from Green MT Limited to date and thus the balance is still outstanding. The Works Division is seeking to recover the amount from the council in court.
- 7.10 In light of the above, the council resolved to record the amount of EUR30,748 claimed by the Works Department in its legal letter. On the other hand, the executive secretary indicated that Green MT Limited is claiming that the promised amount had been forwarded directly to the council in previous periods.
- 7.11 In 2014 the Birkirkara local council received a garnishee order for the amount of EUR30,821 due to the Ministry for Resources and Rural Affairs. This was revoked in 2015.
- 7.12 We suggest that the council monitors the case closely and determines the legal position of the council on this issue. We are also of the opinion that the council should seek guidance from its legal advisors and the DLG in regards of protecting its best interests.

## 8 Creditors

### Overdue creditors

- 8.1 The council creditors list includes balances amounting to EUR348,805 which have been brought forward from previous periods. These exclude amounts due to PPP project contractor. These are analysed below:

Description	Brought forward
3a Malta Ltd	6,320
Arthur & Johns Garage	2,255
Bugeja Joe	27,461
Billboard Advertising	435
Briffa John	28
Communique Creative	714
Dun Anton	167
Enemalta	327
ELC Ltd	14,691
Gauci Charlie	23,696
General Cleaners	2,809
Lands department	6,592
Lino Micallef	65
Kooperativa Tabelli u Sinjali	6,519
Mario Mallia	2,103
Northern Cleaning Limited	169,279
Nature Trust	15
Pirotta Manuel	200
Print Right	451
TDP Co-op	1,898
TCTC	1,333
Water Service Cor - J Borg	13,321
Water Service Corp - Civic Centre	37,379
Works Division	30,747
	<hr/>
	348,805
	<hr/>

- 8.2 We recommend that the local council reviews each individual balance, and, unless the council has a legal basis for not settling these amounts, it should focus on settling these balances.

### Debit balance – Creditor list

- 8.3 During our audit we noted that the debit balances in the creditors list amounted to EUR16,660 rather than EUR16,513 as reclassified in the financial statements. The difference of EUR147 was not adjusted since it was considered to be insignificant. These include:

Supplier	Amount €
ARMS Ltd	260
Borg Hardware Store	202
Department of Local Government	50
Daniel Aquilina	70
D Corner Stationary	39
Eco Pure Premium water	53
Emmaus - CAK	176
Joem Pit Stop Ltd	145
Klikk Computer	658
Malta Post Plc	140
MC Deguara	7,511
Scan Malta Pc Options	125
Polidano Brothers	5,471
Paloma Ironmongery	23
Synthesis Management Services	543
Tool Centre	92
Water Services	1,102
	<u>16,660</u>

- 8.4 We recommend that the council monitors these debit balances to ensure that these are eventually recovered or matched against invoices.

### Tipping fees

- 8.5 In 2014, the council accrued for additional income amounting to EUR67,352 in relation to tipping fees that were not covered by the council's allocation on the assumption that this will be settled by the Department for Local Government might eventually pay on behalf of the council. In 2015, the DLG paid EUR57,024 on behalf of the Council. In 2015, the Council accrued for an additional amount of EUR58,551 and hence carried forward accrued income of EUR68,879. Such funds have not yet been remitted to WasteServ on behalf of the council and hence, we recommended that this income is recognised in the books on receipt. The Council did not accept our adjustment since the department was allocated with a budget to settle these balances. The brought forward difference between amount accrued and amount received of EUR10,328 in amount received poses a risk of over accrual of funds.
- 8.6 Although the DLG has settled such differences in the past, there is no indication or assurance that such settlement will be repeated in 2015. We recommend that the council continues to record tipping fees in full and reflect any further receipts from DLG when these are confirmed and remitted.

## 9 Cash balance

- 9.1 We noted that the petty cash balance in the financial statements ties in to the Petty Cash Reconciliation as at 27 July 2015. We also noted that up till 31 July 2015, further expenses amounting to EUR84.53 were incurred up till the period end, which is not reflected in the financial statements. We did not propose an adjustment since amount is not significant.



9.2 We recommend that the council closes off accounts at each period end to reflect the expenses in the period in which they are incurred.

9.3 We also noted that at the financial position date, the council had EUR675 in cash control account that was actually a subsistence payments on travelling by Council members. The amount was reclassified to expenses in the audited financial statements.

## 10 Financial statements

### Presentation of financial statements

10.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).

10.2 The council's financial statements are not compliant with IFRSs in the following instances:

- IAS 7 *statement of cash flow* relating to disclosures on capital creditors and grants reflect the accrual basis movement rather than actual cash received and paid for the period. We proposed amendments to amounts disclosed for grants received in the period and refunded in the period. We also proposed adjustments to movements in working capital changes. These were reflected in the audited financial statements.
- The council reported a rental cost of EUR4,790 and rental income of EUR53,024. The Council also reported the acquisition of assets amounting to EUR2,518 under a finance lease arrangements. However, with the exception of the maturity of asset finance lease obligations, the financial statements do not include the necessary disclosures required by IAS 17 *Leases*.
- The council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the council.

10.3 Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

## 11 Estimates and business plan

11.1 We also noted that the council has still not prepared a 3 period rolling business plan and the last plan available on the council web-site covers the period 2012 to 2014.

- 11.2 We recommend that the council prepares its annual estimates and 3 period business plan within the relevant time frames as required by the Local Council (Financial) Regulations.

## **12 Council meetings**

### **Attendance at meetings**

- 12.1 We noted that one of the councillors was excused for 2 meetings and declared absent from another 7 meetings out of 11 held in 2015. A second councillor was excused from 3 meetings and absent in 2 others. A third councillor was excused in 1 meetings, and absent for 5 meetings. The Local Council Act states that the Executive Secretary is to inform the Minister if a councillor fails to attend four meetings or, in aggregate, more than one third of the meetings called in a six month period. Prior to informing the minister, the Executive Secretary is to inform the Mayor and the council is to discuss whether such absence is justified or not and communicate the decision to the minister.
- 12.2 From our review of the minutes we did not identify such items on the agenda. We remind the council that such absences are to be reported to the minister and hence, the seat is declared vacant if the council does not deem that the absence is justified. On the other hand, we noted that proportionate deductions were made from their allowances.

### **Publication of minutes**

- 12.3 At the time of review, we noted that minutes of meeting 34 and 39 were not uploaded in the Council website.
- 12.4 We remind the council that approved minutes of Council meetings are to be published within 2 days of approval.

## **13 Going concern**

### **Liquidity position**

- 13.1 At period-end, the council has a negative cash liquidity position of EUR408,976 (not including inventories, prepayments, accrued income and deferred income). This indicates that the council may encounter difficulties in meeting its obligations as they fall due.
- 13.2 The council's liquidity problems continue to create significant doubts about its ability to continue as going concern. To this end, the council should take immediate corrective measures to improve the financial position including postponing capital projects and reducing discretionary expenditure.

- 13.3 As disclosed in note 21 to the financial statements, the council has significant contingent liabilities which will lead to further deterioration of the council's financial position should they fall due.
- 13.4 As a result of the above uncertainties, we included an emphasis of matter paragraph in our auditor's report on the financial statements.

#### **Financial situation Indicator**

- 13.5 The council's financial situation Indicator (FSI) at the end of the financial period under review is negative which is lower than the minimum positive balance of ten per cent of the annual Government allocation.
- 13.6 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 fall lower 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. Our audit report is also qualified on this matter.

#### **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 possible relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr. Neil Spiteri, his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta