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Our Ref: NAO/107/2015/16  
Your Ref:

3<sup>rd</sup> May 2015

The Mayor and Executive Secretary  
Dingli Local Council  
Dingli

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS  
YEAR ENDING 31 DECEMBER 2014**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2014.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,

Tanya Mercieca  
Asst. Auditor General

Encls.

MAIL ROOM

**LOCAL COUNCIL HAD-DINGLI**

**REPORT TO MANAGEMENT**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**



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The Mayor  
Dingli Local Council  
Centru tal-Komunita',  
Dahla tas-Sienja,  
Dingli

16<sup>th</sup> April 2015,**Re: Financial statements for the year ended 31 December 2014**

As you are aware, our firm has been appointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. During the course of our audit for the year ended 31 December 2014 we have reviewed on a test basis 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. You appreciate that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcoming which exists. This report is intended as a guideline for the Council to fine tune its systems for better compliance, internal control and governance.

This report has been distributed to your Council, the National Audit Office and Department of Local Councils. The contents of this report may not be quoted in part or in full or used in anyway other than the above-mentioned scope, without our written consent.



## **1. Follow up: Management report for the year ending 31st December 2013.**

### **1.1 Local Enforcement System**

Since the Council does not have direct control on this matter and is dependent on third party reports, the Council could not address the problem in full and therefore we draw your attention to paragraph 2.1 of our management letter.

### **1.2 System of Council Income Receipting**

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 2.2 of our management letter.

### **1.3 LES Post Regional 10% Commission**

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 2.3 of our management letter.

### **1.4 Other Supplementary Government Income**

The Council has addressed the matter during the year under review.

### **1.5 Government Allocation**

The Council has addressed the matter during the year under review.

### **1.6 Income Recognition**

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 2.4 of our management letter.

### **1.7 FSS statutory documentation and recognition with the Nonthal ledger**

The Council has addressed the matter during the year under review however we still found differences between when reconciling the FSSs and the Pn7 and we therefore draw your attention to paragraph 3.1 of our management letter.

### ***1.8 Other Payroll Shortcomings***

The Council has not addressed the matter during the year under review and we draw your attention to paragraph 3.3 of our management letter.

### ***1.9 Councillors' Allowance***

The Council has not addressed the matter during the year under review and we draw your attention to paragraph 3.5 of our management letter.

### ***1.10 Performance Bonus***

The Council has addressed the matter during the year under review.

### ***1.11 Purchase request and order forms***

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 4.1 of our management letter.

### ***1.12 Inappropriate Expenditure Documentation***

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 4.2 of our management letter

### ***1.13 Payment Vouchers and Schedule of Payments***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.3 of our management letter.

### ***1.14 Tendering Procedures***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.4 of our management letter.

### ***1.15 Donations in kind and in cash***

The Council has addressed the matter during the year under review.

### ***1.16 Christmas Staff Party***

The Council has addressed the matter during the year under review.

### ***1.17 Quotation Procedures***

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 4.6 of our management letter.

### ***1.18 Expenditure for Jum Had-Dingli***

The Council has not address the matter during the year under review and we therefore draw your attention to paragraph 4.7 of our management letter.

### ***1.19 The upkeep of the Fixed Asset Register (FAR)***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.1 of our management letter.

### ***1.20 Depreciation***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.2 of our management letter.

### ***1.21 Assets not yet capitalised***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.3 of our management letter.

### ***1.22 Insurance Policy***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.4 of our management letter.

### ***1.23 Capital Commitments***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.5 of our management letter.

### ***1.24 Architect's certificate on works completed***

The Council has addressed the matter during the year under review.

### ***1.25 Stock of Books and Maps***

The Council has addressed the matter during the year under review.

### ***1.26 Prepayments***

The Council has addressed the matter during the year under review.

### ***1.27 Accrued Income***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.2 of our management letter.

### ***1.28 Cash Deposits***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.1 of our management letter.

### ***1.29 Petty Cash***

The Council has addressed the matter during the year under review.

### ***1.30 Cash in Hand***

The Council has addressed the matter during the year under review.

### ***1.31 Supplier Statements***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.1 of our management letter.

### ***1.32 Creditors' balances and cut-offs***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.2 of our management letter.

### ***1.33 Accrued Expenditure***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.3 of our management letter.

### ***1.34 Long term payables to supplier of road resurfacing works***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.4 of our management letter.

### ***1.35 Grants***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.5 of our management letter.

### ***1.36 Disclosures required in respect of Financial Procedures***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 9.1 of our management letter.

### ***1.37 Disclosures required in respect of certain IFRS***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 9.2 of our management letter.

### ***1.38 Financial Statements Presentation***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 9.3 of our management letter.

### ***1.39 Council Minutes Approval***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 10.5 of our management letter.

### ***1.40 Council Minutes and Schedule of Payments***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 10.6 of our management letter.

### ***1.41 Council reports***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 10.3 of our management letter.

### ***1.42 Quarterly Reports***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 10.4 of our management letter.

#### ***1.43 Trial Balance not in agreement and No Accounting Software kept by the Council***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 10.5 of our management letter.

#### ***1.44 Opening Balances***

The Council has addressed the matter during the year under review.

#### ***1.45 Twinning Project***

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 10.6 of our management letter.

#### ***1.46 Council's accountant***

The Council has addressed the matter during the year under review.

#### ***1.47 Liquidity of the Council***

The Council has not fully addressed the matter during the year under review and we therefore draw your attention to paragraph 11.1 of our management letter.

## **2. INCOME**

### **2.1 Local Enforcement System**

#### ***Observations***

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31st December 2014. It is important to highlight that the Joint Committee function ended in August 2011 since from September 2011 the Local Enforcement System was delegated to Regional Committees.

During the year under review, the Council did not receive any income in relation to income arising from pre-Region LES contraventions.

#### ***Issue arising***

We understand that the LC has no control over the administration of the Joint Committee. However, in view of the absence of an audited annual report from the North Joint Committee for the period ended 31st December 2014, the audit team could not rely on third party financial information normally provided by the Joint Committee to obtain reasonable assurance on the completeness of amounts being recorded in the financial statements as income and expenditure recorded by the Local Council Enforcement System in relation to contraventions issued pre-Regional Committees.

#### ***Recommendations***

The Council is advised to pressure the North Joint Committee so that the latter would produce the outstanding reports, and the Council could then be in a position to factor any accounting provisions as the case may be in its financial statements. We have qualified our audit report in this regard.

### **2.2 System of Council Income Receipting and Invoicing**

#### ***Observations***

The Council uses a system of official receipts for incoming revenue to its account. Such system is manual based. We noted the following shortcomings in respect to the Council system of income receipting and invoicing:

- The current system for income recording does not produce a proper audit trail system.

- The Council does not always issue an invoice when the income becomes receivable;
- Although for the majority of the income received, proper official receipts were issued, there were some cases where the Council has not issued receipts, particularly when the source is from a Government entity or department.

### ***Issues Arising***

The current model adopted by the Council can function properly, but it needs a substantial amount of human manual intervention. While it could result in errors, such system may be time consuming.

From an invoicing point of view, best practice suggests that the Council is expected to issue proper serial numbered invoices to third parties to collect its various sources of income. These invoices would also be recorded in the debtors' ledger and the nominal ledger in Sage Pastel accounting software and thus a debtors' system would be maintained. This system ensures that all income is properly accounted for when it arises as well as it produces a standard system of debtor accounting.

### ***Recommendations***

We take the opportunity to advise the Council to consider implementing a centralized electronic receipting system. Such system would facilitate cash reconciliations, filtering of data and recording of income in the general ledger with much reduced human intervention. At the same time, it ensures that all receipts are in numerical sequence, thus generating a proper audit trail system.

## ***2.3 LES Post Regional 10% Commission***

### ***Observations***

The Council recorded €1,618.66 as income from the LES Regional Committees representing 10% commission on post regional LES fines paid at Dingli Local Council. This does not agree with the LES report 433 issued from the LES system showing an amount of €1,965.30, thus there is a variance of €347.14.

### ***Issues Arising***

Such variance shows that the Council is not adopting appropriate procedures to reconcile the LES income with the LES system.



## *Recommendations*

The Council is advised to prepare a reconciliation of the 10% LES Commission. The amount recognised in the Financial Statements should agree with the total of the invoices issued and also with the appropriate report issued from the LES system.

## **2.4 Income Recognition**

### *Observations*

During our audit testing we noted that 'Account 0023 –Cultural Activities' includes income which would have been more appropriately classified under 'Account 0025 – Community Activities'. These include the following:

- Income received from organising an outing to the Pantomina event of €426.00 (event held in 2013) and €492.00 (event held in 2014);
- Income from organising a Cinema Activity of €95;
- Income from attending and participating in the President's Fun Run of €670.00;

In addition, some shortcomings have been noted in respect to revenue recognition during the year under review:

- Other supplementary income in terms of Memo 49/2012 - Skema dwar Inijattivi sportivi of € 2,350 has not been recorded in the statement of comprehensive income;
- Other supplementary income in terms of Memo 25/2013 - Wirja Agrarja of € 201.71 has not been recorded in the statement of comprehensive income
- Other supplementary income in terms of Memo 5/2014 - Streaming tal-Iaqqhat Online of € 2,287.25 has not been recorded in the statement of comprehensive income; and
- Other supplementary income in terms of Memo 4/2014 - Financing of Libraries Schemes of €218 has not been recorded in the statement of comprehensive income.

### *Issues Arising*

In pursuant to IAS 18 - Revenue Recognition, income should be recognised when it is probable that any future economic benefit associated with the item of income will flow to the entity and the amount of income can be measured with reliability. Hence, income should be

recognised when it is generated and accrues to the Council rather than when it is received. This is also in line with the fundamental concepts of accruals and matching of accounting.

### ***Recommendations***

The Council is advised to follow the provisions of IAS 18 – Revenue Recognition and ensure that all income is properly recorded in the year in which it is generated as well as that all income is properly accounted in the nominal ledger and thus in the financial statements.

In addition, it is recommended that the Council set up a standard procedure in respect to the issue of invoices to ensure that it collects the amounts due to it in time.

## ***2.5 Income from Bye-Laws***

### ***Observations***

The Council collects fees from rent of premises of €93 per annum, fees from vending machine of €75, rental fees from telecommunication aerals amounting to €3,246.53 and fees from fitness courses amounting to €800.

### ***Issues Arising***

Art 61 of the Local Councils Act (Cap 363) states that such additional income raised should be covered by a bye-law. The Council does not have a bye-law in place to regulate income derived from hire facilities.

### ***Recommendation***

The Council is advised to set-up Bye-laws entitled “Rental of Council Premises” and “Organisation of Courses” in line with the requirement of having bye-laws set-up to cover any income arising from non-governmental sources. It should also ensure that all income arising from bye-laws should be properly disclosed in the proper note within the financial statements.

## ***3. PAYROLL***

### ***3.1 FSS statutory documentation***

#### ***Observations***

When we analysed the FSS documentation submitted with the Inland Revenue Department, the values as submitted in the FSS's varied from those submitted in the F37 of 2014. The FSS documentation submitted with the Inland Revenue Department shows that the Gross

Emoluments (FSS Main) as per FSSs are not in agreement to the amounts as per FS2. A variance of €122 resulted.

#### ***Issues Arising***

According to the Final Settlement System Rules, the FS7 form should always be in agreement with the totals of the monthly FS5 forms.

#### ***Recommendations***

The Council is advised to set up proper reconciliation of the FSS forms and any errors identified during this reconciliation process should be immediately rectified through an adjustment of the respective statutory FSS forms.

### **3.2 Final Settlement System (FSS) payments**

#### ***Observations***

In the process of verification of the statutory requirements by virtue of Legal Notice 88 of 1998, which provide for the Final Settlement System (FSS) Regulations, it was noted that the required payments of FSS (income tax) and SSC (social security contributions) deductions are not always being remitted to the Inland Revenue Department by the due date.

The audit team found out that as at year end the FSS payments of September, October and November were still pending. These were paid as follows.

FSS Social Security & Taxation September 2014	€ 1,027.15	Paid on 27 January 2015
FSS Social Security & Taxation October 2014	€ 772.01	Paid on 27 January 2015
FSS Social Security & Taxation November 2014	€ 637.03	Paid on 3 February 2015
FSS Social Security & Taxation December 2014	€ 1,438.81	Paid on 3 February 2015

#### ***Issues arising***

The remittances payable of FSS and SSC deductions through the FS5 form, fall due by the end of one month following the month being paid. It should be highlighted that by virtue of Legal Notice 22 of 1998, The Inland revenue Department may from time to time enforce penalties for late filing at 0.75% interest per month on the amounts due.

### ***Recommendations***

The council is advised to ensure that all amounts due in relation to FSS/SSC are paid accordingly and within the timeframes as stipulated by law.

### **3.3 Other Payroll Shortcomings**

#### ***Observations***

During our audit fieldwork it was noted that the Council did not prepare and sign a contract of employment with Ms. Katia Fenech who was employed on a full time basis as a clerk with the Council on 14th August 2013.

#### ***Issues Arising***

The Council should prepare and sign a contract of employment with all employees employed with the Council.

#### ***Recommendations***

We advise the council to regularise its position with respect to the above findings.

### **3.4 Personal Tax Deductions**

#### ***Observations***

Throughout the audit fieldwork on the payroll, the audit team noted that tax on the allowance of the Mayor and of the other councillors was deducted at a rate of 20%.

#### ***Issues Arising***

In accordance with Memo 26/2010, the allowances paid to the Mayor and to the councillors are taxable at the normal rates. If these allowances are not deducted at the normal rates these will result in an under or over payment as at year end, which balance will need to be payable to the Inland Revenue Department. The scope of the FSS system is that income tax is deducted correctly by end of the calendar year.

#### ***Recommendations***

The Council is advised that according to Memo 26/2010, the Mayor's Honoraria and allowances paid to the councillors are taxable at the normal rates.

### **3.5 Councillors' Allowance**

#### **Observations**

During our audit fieldwork, we noted that when a Councillor was marked as excused from a council meeting, a written excuse letter was not received prior to the Council meeting. Furthermore, no written correspondence was provided by the Council, showing that requests to be excused were received prior to Council meetings. Moreover, no pro rata deductions were effected on the Councillors' salaries in this regard.

#### **Issues Arising**

Please note Memo 89/2009 in which it is stated that the allowance will not be deducted only if the Councillor gives a valid reason for his/her absence and the reason needs to be given in writing by the Councillor to the Executive Secretary.

#### **Recommendations**

The Council is advised that when a councillor requests to be excused from a Council meeting, a valid reason should be obtained in writing. Furthermore, if for any reason, a Councillor fails to send a written request, he or she shall be considered absent, and a pro rata of the allowance should be deducted.

## **4. EXPENDITURE**

### **4.1 Purchase request and order forms**

#### **Observations**

The audit team noticed that there were instances whereby purchase request and purchase order forms were not prepared by the council, such as the following:

Details	Date of invoice	Amount in £	Supplier	Cheque number
Christmas Decorations	19/11/2013	150	Muscat Flora /Pet and Garden Centre	901
Folk dancing for Wirja Agnija	26/05/2014	200	Martina Munn	894
Packed lunches for day centre anniversary celebration	27/05/2014	315	Pinto Caterers	885

Cleaning area in front of Dingli FC Ground	01/02/2014	400.81	Dingli Swallows Football Club	567
Supply and installation of festa covers, road signs	17/05/2014	482.62	B Grima & Sons Ltd	992
Festa Manhole	29/03/2014	358.72	B Grima & Sons Ltd	763

Furthermore, the audit team noted that the following purchase orders prepared by the Council did not include the amount:

Details	Date of invoice	Amount in €	Supplier	Cheque number
Supply and delivery of bins	17/06/2014	532.08	Andrew Vassallo General Trading Limited	886
Supply of signs and bins	14/01/2014	502.48	Mario Mallia	592
Service cleaning of l-Ghajj tal-Hasselin and aintaining of Sta. Domenica Chapel	3/10/2014	450	Dingli Scouts Group	1,053
Bargain Shops	23/12/2014	332	Paul Abela	1,052

Finally, during the course of our audit, we noted that in certain instances when purchase orders were issued by the Council, they either lacked the date or they were dated after the invoice.

#### *Issues Arising*

With reference to the Financial Procedures (1996- Finance), NLP1/96,P1.09% we bring to the attention of the Council that for supplies of goods and services not exceeding € 1,165, it is expected that a purchase request and a purchase order are duly prepared throughout the procurement process.

### *Recommendations*

The Council is advised to follow diligently all procurement procedures in line with the respective local Councils Procedures (1996) and Memor as the case may be. The Council is also advised to consider the electronic implementation of an appropriate system of purchase request and purchase order forms.

## **4.2 Inappropriate Expenditure Documentation**

### *Observations*

Throughout the audit fieldwork on the expenditure, the audit team identified instance whereby the expenditure was not supported by a VAT fiscal receipt in terms of the VAT Act 1998 as per below:

Details	Amount in €	Supplier	Cheque number
Pantomina	426	Bronk Productions Ltd	932
Vehicles Repairs	153.69	Charles Caruana	931
Accountancy services	1,550	Francesca Mizzi	576 & 577
Packed lunch for day centre anniversary celebration	315	Pinto Caterers	885
Streets lights	736	Mica Med Ltd	552
Waste Collection	6,955.53	Xuereb Brothers Ltd	541 & 528
Festa Manhole	358.72	B Grima & Sons Ltd	763
Copier Maintenance	496.72	Alfa Co. Ltd	536
Supply of wood for public benches	280	George Micallef Woodworks	510
Supply and installation of bus covers, road signs and road bars	482.62	B Grima & Sons Ltd	992
Street sweeping and maintenance of soft areas	18,376.10	Charles & Joseph Grima	559 & 949
Gogo outing	1,571	All Seasons Holdings Ltd	869

Moreover, the following expenditure items were not supported by a tax invoice:

Details	Amount in €	Supplier	Cheque number
Pantomina	426	Bronk Productions Ltd	932
Handyman services	958	Dominic Camenzuli	578
Gozo outing	1,371	All Seasons Holdings Ltd	809
Street sweeping and maintenance of soft areas	3,000.42	Charlie & Joseph Gauci	949

Furthermore, the following supplier provided the Council with an inappropriate tax invoice:

Details	Date	Amount in €	Supplier	Cheque number
Function	1/09/2014	1,788.20	Neriku Confectionery	971

### ***Issues Arising***

It should be a rule that all expenditure and payments by the Council should only be affected against an appropriate invoice or request for payment.

The provision of a computer-generated invoice or receipt does not satisfy the requirement of the Financial Procedures that Councils must obtain a valid tax invoice for all its purchases. In instances where the Council requested the services from a supplier who is not registered for VAT in 2014, the council should obtain a signed VAT declaration from the supplier stating that his/her annual income does not exceed the threshold of € 7,000. A copy of this declaration should be kept with the schedules of payment as sufficient evidence of the expenditure. However, it is evident from the selections above that most of these suppliers must be registered for VAT and therefore should provide a valid tax invoice.

### ***Recommendations***

The Council is advised to ensure that a valid tax invoice, as required by the respective procedures, is obtained for all the expenditure incurred by the Council in the future. Payments unsupported by an appropriate invoice should be avoided.



### **4.3 Payment Vouchers**

#### **Observations**

We did not find any instances where the Council has not prepared a payment voucher, however, we found a number of instances where the payment vouchers filed were not signed by both the Executive Secretary and the Mayor. Furthermore, the payment vouchers do not have a numerical sequence.

#### **Issues Arising**

The payment voucher document should have a numerical sequence, it should contain all necessarily details, and it has to be signed by both the Executive Secretary and the Mayor.

#### **Recommendations**

The Council is advised to ensure that its payment vouchers are in accordance with the requirements of Local Council Procedures (1996 -- Finance) K.L.P. 1/96, P1.11, c and d.

### **4.4 Tendering Procedures**

#### **Observations**

Overall, the council abides with the tendering procedures. However, we noted the following shortcomings:

- Not all contractual agreements included the date when the contract was signed.
- Tender 03/08 Provision of Street Lighting Installation & Maintenance Services, expired on 07/11/2011 and was never renewed.
- The contract for the expired Tender regarding the Collection of Household Waste signed between the Council and Xuereb Brothers was missing.
- The agreement with WM Environmental regarding Tender 03/2014 Collection of Household waste was not signed.
- The Bank Guarantee for 2014 for the Tender regarding Street Cleaning was missing.

#### **Issues Arising**

All tender procedures need to be adhered to both in relation to submission of a tender document and also when a tender offer has been awarded. Please note that it is of utmost

importance that for all tenders, the performance guarantee should be produced prior to the issuance of the letter of acceptance and signing of the contract.

#### ***Recommendations***

The council is advised to comply with the tendering procedures in all instances and ensures that all procedures are in compliance with the Local Councils Procedures (1996 – Tenders).

### ***4.5 Renewal of contracts and expired contracts***

#### ***Observations***

We have identified a situation whereby a contract has expired but the service was still being provided without the issue of a new tender offer. This relates to expenditure incurred by the Council in relation to street lighting.

#### ***Issues Arising***

We understand that in accordance with 19(1)(a) Subsidiary Legislation 363.160, one of the functions of the Regional Committee is to provide for the proper upkeep and maintenance of street lighting in accordance with national and international standards. However, Memo 34/2013 issued in December 2013 requires Local Councils to issue a new tender for a full year in relation to Street Lighting services which contract may be extended to a maximum of three years.

#### ***Recommendations***

The Council is advised to undertake a periodic review of all contracts and services in operation by the Council and in cases where either the contracts are expired or the expenditure involved warrants a tender offer, the Council must ensure that tendering procedures are followed.

### ***4.6 Quotations Procedures***

#### ***Observations***

During our audit testing we encountered instances where the council paid for expenditure amounting to more than £1,163 and no request for quotations has been issued. Such instances include:

Details	Amount in €	Supplier
Social & Cultural event	1,371	Allseasons Ltd

### ***Issues Arising***

Financial Regulations Part VIII – Expenditure requires that orders, contracts, agreements, or items not exceeding €1,165 shall be authorised by the Council according to Order 32(1) of the Standing Orders contained in the Sixth Schedule to the Act, provided that items of the same nature are not purchased within a consecutive four-month period. Anything beyond the threshold has to be covered by a call for quotations or a call for tenders, according to the amount of the expenditure being undertaken.

### ***Recommendations***

The Council is advised to issue a call for quotation or a tender offer for the provision of any service of supply exceeding €1,165 and therefore abides with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering).

## **4.7 Expenditure for Jum Had-Dingli**

### ***Observations***

In 2014, the Council spent a total amount of € 5,333.89 in relation to the organisation of Jum Had-Dingli.

### ***Issues Arising***

In terms of Memo 122/10, the expenditure for such event should not exceed either €3,500 or 0.5% of the annual government allocation, whichever is the highest. In this case, the amount of €3,500 applies. As a result, the expenditure incurred exceeded the maximum amount permitted by such memo by €1,833.89.

### ***Recommendation***

The Council is advised to keep this threshold in mind when organising such event, in order not to exceed the amount stipulated in Memo 122/10.

## 5. PROPERTY, PLANT AND EQUIPMENT

### 5.1 The upkeep of the Fixed Asset Registrar

#### *Observations*

Fixed assets constitute a major portion of the total assets of the Council. As per memo 1/2014, the Council is obliged to prepare the Fixed Asset Registrar (FAR) which reconciles with the nominal ledger. It was noted that the Council is not maintaining a FAR. We have qualified our audit opinion in this respect. The FAR should have as a minimum the following information:

- Asset Reference number (e.g. OFF101)
- Description of the asset
- Cost Price
- Depreciation rate
- Depreciation to date
- Net Book Value
- Date of Purchase
- Supplier Details
- Invoice Number
- Specific reference to the location

#### *Issues Arising*

The upkeep of proper Fixed Asset Registrar is of utmost importance to the Council. The FAR allows the Council to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for insurance purposes. Physical verification of fixed assets becomes a futile exercise unless the FAR is properly maintained.

#### *Recommendation*

FAR is deemed one of the principal accounting ledgers which must be used to keep track of the fixed assets of the Council.

The Council is therefore advised to take the following factors into consideration:

- Maintain a FAR

- The assets should be correctly categorised under specific asset category relating to their nature and the application of the depreciation rate should be in conformity with the accounting policy. It is important that the classification of the assets is consistent from one year to the next.
- There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes reconciliations between the two ledgers easier in case of variances and discrepancies.

## **5.2 Depreciation**

### ***Observations***

Depreciation charge for the year amounts to €51,109. The depreciation is not being calculated and posted through the Fixed Asset Register in SAGE Pastel Evolution as required by the Financial Procedures (1996-Finance). However, the depreciation is being calculated through the use of a spread sheet and a journal entry is posted once a year.

Furthermore, the computer software is being amortised at 25% per annum, when it should be amortised at 20%.

The audit team noted that computer equipment has been capitalised under office equipment, and depreciated at the rate of 25%. These should be separated because according to accounting policy on page 11, computer equipment is depreciated at the rate of 25% while office equipment is depreciated at the rate of 20%.

### ***Issues Arising***

The Council is not following the requirements of the Financial Procedures (1996-Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002) with respect to the calculation and accounting of depreciation.

### ***Recommendations***

The Council is encouraged to rectify its position with respect to recognition of depreciation by accounting for depreciation through the Fixed Asset Register incorporated with the Sage Pastel Evolution accounting software.

### **5.3 Assets not yet capitalised**

#### **Observations**

Asset not yet capitalised amounts to €562,783, made up of €477,192 opening balance and €85,591 additions for 2014. The Council failed to provide us with adequate details and information of the assets not yet capitalised amounting to €477,192. The only information provided by the Council consists of two schedules of expenses incurred in relation to two projects which total costs till 31<sup>st</sup> December 2013 is equivalent to;

- €380,106.52 with respect to Measure 313/2010
- €61,175.89 with respect to Measure 323/2010

Resulting in a difference of €35,909.59. The Council failed to provide us details of such variance.

In addition, the Council informed us that the project under Measure 323/2010 has been completed in 2013 and hence should have been transferred out from assets not yet capitalised and depreciation charged accordingly. Audit adjustments have been proposed in this respect.

Moreover, the Council informed us that Resurfacing of rural road of tal-Qasam amounting to €16,068.06 is ready before the year-end, and should have been capitalised and depreciation charged accordingly. Audit adjustments have been proposed in this respect.

#### **Issues Arising**

The Council should maintain a list of all projects in progress, so that when they are finalised, the project is included in the Fixed Asset Registrar and depreciation charged accordingly in line with the relevant International Financial Reporting Standards. This list should always agree to the amount of assets not yet capitalised in the nominal ledger.

#### **Recommendations**

The Council is advised to keep an updated list of assets not yet capitalised and ensure that the amounts in this list are equal to the amounts of assets not yet capitalised in the nominal ledger. A regular reconciliation between the two should be performed. Furthermore, upon finalising a project/asset, the Council should immediately recognise the asset and transfer its cost from the nominal ledger – asset not yet capitalised to the respective Fixed Asset category and charges depreciation accordingly.

## 5.4 Insurance Policy

### Observations

We reviewed the Council's insurance policy in different categories of Property, Plant and equipment held by the Council. In fact, the Council has an insurance policy covering the following:

- On the Buildings including fixtures and fittings for the amount of €70,000;
- On office furniture, fixtures and fittings, air-conditioning equipment, electronic and computer equipment for the amount of €142,602;
- Urban improvements for the amount of €116,468;
- Stationery for the amount of €1.000
- Plant & Machinery for the amount of €450;

The Council's total cost of fixed assets, excluding amounts not yet capitalised, as disclosed in its financial statements amounts to €1,998.436 as follows:

Asset	Cost as per accounts
Council Premises	€161,169
Trees	€2.997
Urban Improvements	€132,539
Plant & Machinery	€10.223
Office Furniture & Fittings	€67,209
Computer Equipment	€51,408
Motor Vehicles	€12,113
Street Signs	€36,230
Construction	€1,524,548
Total	€1,998,436

### ***Issues Arising***

The Council's insurance policy in respect of assets insured needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment.

### ***Recommendation***

The council is advised to comply with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance cover.

## **5.5 Capital Commitments**

### ***Observations***

The total amount of capital commitments which are approved but not yet contracted for disclosed in note 19 to the financial statements amounts to €32,000 (split into Construction:€10,000; Improvements:€12,000 and Special Programs:€10,000). However, the projected capital expenditure in the Council's budget for 2015 amounts to a total committed capital expenditure of €37,500 (split into Construction: €5,000; Improvements: Nil; Equipment:€2,500 and Special Programs:€30,000).

### ***Issues Arising***

The capital commitments disclosed in the financial statements are materially understated. In accordance with IAS 16 contractual commitments to acquire property, plant and equipment must be disclosed.

### ***Recommendation***

The Council is advised that the financial statements should disclose adequately the council's future capital expenditure plans, if any, as agreed to the budget, in accordance with International Financial Reporting Standards.

## **5.6 Physical tagging of Fixed Assets**

### ***Observations***

We noticed that the fixed assets are not tagged with the respective fixed asset code. Consequently certain assets were not readily identifiable in physical assets.



### *Issues Arising*

The marking and labelling of Fixed Assets is stipulated by the Local Council Procedures (1996) – Finance KLP 1/96, F1.16b. besides that the importance of maintaining a proper FAR is attributable to matter of insurance.

A tag verifies the existence of assets and their location, aids in maintenance, provides a common ground for communication between the Accounts Department and the other users and recording the net book value of asset in case an asset of the Council becomes no longer usable.

### *Recommendations*

The Council is advised to carry out an exercise of labelling all the fixed assets shown in the FAR so that apart from being in compliance with financial procedures, whenever an asset is disposed, it would be easier to trace to the FAR.

## **5.7 Assets no longer used by the Council**

### *Observations*

In view of the fact that the Council does not keep a FAR, we could not identify whether any assets have been scrapped or disposed of, and as a result, we could not identify whether they are still showing in the Council's assets.

### *Issues Arising*

IAS 16 and IAS 36 requires impairment testing. An item of Property, Plant and Equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset should be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the statement of comprehensive income.

### *Recommendations*

The Council is advised to undertake an exercise whereby all assets are reviewed to confirm whether any provision for impairment should be made and to dispose of any assets which are no longer in use.

## **6. RECEIVABLES**

### **6.1 Collection of Local Enforcement fines outstanding**

#### ***Observations***

The Council's financial statements show that as at year-end, LES Debtors amounts to €1,467.29 against which it has provided a full provision for bad debts. Nevertheless, the LES report 622 titled "Pending Payments Report" with a sitting date 1st January 2000 till 31st December 2014, and date issued from 1st January 2000 till 31st August 2011, the total LES pending amounts to €15,221.94. We understand that this amount has been long impaired and that it would be appropriate to also provide a full provision for bad debts in this respect.

#### ***Issues Arising***

Although the net effect is nil, since a full provision for doubtful debts is still required to be provided for, it is important that an amount is recognised and provided for in agreement to the actual LES contraventions payable to the Council, which are based on reports emanating from the LES System.

#### ***Recommendations***

The Council is advised to ensure that the amount recognised and fully provided for should be equal to the tribunal pending payments.

### **6.2 Accrued Income**

#### ***Observations***

During our fieldwork testing, the Council recognised accrued income of €12,750 as at 31st December 2014, split as follows:

- Accrued income of €6,025 from Green MT (pre 2012 till 2013);
- Accrued income of €575.00 representing LES income of 2012 and 2013;
- Accrued income of €6,150 amount receivable from WSP (jobs from 2012 to 2013) for road re-instatement in respect of works carried out for water house connections;

No supporting documents were provided with respect to these amounts. In this respect we qualify our audit opinion.

A number of other shortcomings were as explained below:

- The Council has failed to recognise €1,350 as accrued income representing a grant Skema d'war Inizjattivi Sportivi.
- The Council has failed to recognise accrued income of € 201.71 representing a grant in respect of the Wirja Agrarja.
- The Council has failed to recognise accrued income of € 2,287.25 representing a grant in respect of Streaming tal-Laqghat Online.
- The Council has failed to recognise accrued income of € 218 representing a grant in respect of Financing of Libraries Schemes.
- The Council has failed to recognise accrued income of €13,357.76 (made up of €25,613.16 total grant amount less €12,255.30 funds received in 2014) representing a grant in respect of resurfacing of Triq L-Irdum and Triq Hal Tartarni.

Following our audit adjustments, the financial statements were correctly amended.

### ***Issues Arising***

An important distinction must be made between debtors and accrued revenue. Accrued income is money the Council has earned but hasn't yet billed for, while debtors are amounts due to the Council where an invoice has been issued but not yet paid at a particular date.

The audit team questioned whether invoices for the above income were issued, however the Council did not provide us with any supporting documents other than a list of accrued income as at 31st December 2014. The Council explained that the amount from WSC and Green MT has been long outstanding and no payments were received until the audited financial statements were presented and approved.

In addition, in accordance with memo 91/2011, the Council shall issue an invoice within one week from the end of the month in which the collections were made and remitted to the committees, hence income from the LFS system of 2012 and 2013 should be invoiced and accounted for as debtors.

### ***Recommendations***

The Council is advised to make a proper assessment of its income accrued but not yet receive. In addition, we recommend that the Council complies with memo 91/2011 and issues an invoice within one week from the end of the month in which the collections were made and remitted to the committees at the end of every financial reporting period.

## **7. CASH AND CASH EQUIVALENTS**

### **7.1 Cash Deposits**

#### ***Observations***

The Council is taking long in making cash deposits of its daily takings, and this regard, the Executive Secretary confirmed that deposits are not done at least once a week.

#### ***Issues Arising***

Although, we noted that the Council has never kept any large amounts in cash or cheques at the Council, the Council is still in breach of the Local Council Procedures which require deposits to be undertaken twice a week when it retains cash/cheques in office.

#### ***Recommendations***

The Council is advised to affect deposits at least twice a week, as stipulated in Local Council Procedures (1996) – Finance KLP 1/96 P1.14 (C.09).

### **7.2 Bank reconciliation**

#### ***Observations***

During the review of the bank balances, we noted that the bank reconciliation of bank account number 20001208932 there were a number of unrepresented cheques as at 31 December 2014. Nevertheless, some of these cheques were in fact presented before the year end. As a result, some transactions were posted twice in the financial statements.

#### ***Issues arising***

The cash and cash equivalents at year-end are understated, while the following expenses are overstated:

Nominal Account	Description	Amount in €
0023	Cultural activities	50
3060	Other Contractual Services	958
3360	Social & Cultural Events	1,194
3060	Other Contractual Services	73
3380	Community services	72

### ***Recommendations***

The council is advised to reconcile the bank balances every month with the bank statements, and any outstanding unpresented cheques are checked regularly so that any amounts which are double posted are identified immediately.

## ***7.3 Details of the bank statements***

### ***Observations***

While reviewing the bank statements of both the BOV and the APS bank we noticed that the bank statements still have the name of a previous Executive secretary Mr Matthew Borg.

### ***Issues arising***

All statements should contain the name of the present Secretary and when there is a change in the secretary the council should contact the bank immediately and ensure that the details are changed.

### ***Recommendations***

The council is advised to instruct the bank to immediately effect the necessary changes.

## **8. PAYABLES**

### **8.1 Suppliers Statements**

#### **Observations**

We noted that the Council did not request monthly statements from all suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.

#### **Issues Arising**

Monthly statements from suppliers should be requested and obtained, as required by Memo 08/2002.

#### **Recommendations**

The Council is advised to obtain suppliers statements on a regular basis in order to reconcile the amount due to its suppliers.

### **8.2 Creditors' Balances and Cut-offs**

#### **Observations**

From an analysis of the trade creditors as at 31st December 2014, we noted that the following invoice was not posted in the suppliers' ledger:

<b>Suppliers</b>	<b>Details</b>	<b>Amount in €</b>	<b>Date of invoice</b>
Sign Services (Malta)	Engraving of aluminium material	€3,982.50	30th October 2014

#### **Issues Arising**

These variances may distort the amount due by the Council at any point in time to its creditors. It is also a sign that creditor's balances are not being reviewed and reconciled on a periodic basis with any variances or errors adjusted for accordingly. Following our audit adjustment, the financial statements were correctly amended.

### *Recommendations*

The Council is advised to ensure that, all supplier invoices are duly accounted for in full when received. In addition, we recommend that the council reconciles creditor accounts with supplier statements as this process is beneficial in identifying any differences or disputes which can then be tackled promptly.

## **8.3 Accrued Expenses**

### *Observations*

The accruals accounted for by the Council as at year end were complete, however we found one instance where an invoice was recorded as creditors, when it should have been recorded as accruals as the invoice is dated in after the year end:

- An invoice from Skip Line Service dated 1st January 2015 of €316.20;

### *Issues arising*

By failing to distinguish between creditors and accruals, there is the possibility of double counting if the invoice is entered again according to its date in the subsequent year. In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. Following our audit adjustment, the financial statements were correctly amended.

### *Recommendations*

The Council is advised to prepare accounts in compliance with the “accruals concept” of accounting in line with the generally accepted accounting principles and IFRS.

## **8.4 Long term payable to supplier of road resurfacing works**

### *Observations*

In 2010 the Council has availed itself of the Public Private Partnership scheme launched through Memo 45/2010. By virtue of this scheme, the Council has entered into a contract whereby the contractor has undertaken road resurfacing works.

During the contract, the Council had to request work from another supplier, since the original supplier was defaulting. The terms agreed with the second supplier were different however the balance was still to be repaid over a number of years.

The commitment due to both suppliers is being recognised as accruals. The amount accrued for the first supplier amounts to €9,494, while the amount accrued for the second supplier amounts to €90,394 as at 31st December 2014. In the financial statements, this commitment should have been classified as long-term liability and partly as short-term payables.

### ***Issues Arising***

The Council is obliged to present fairly in its financial reports the commitments payable within one year and the commitments payable for longer periods.

In addition, there is also the issue with recognition and measurement of such commitment in terms of IAS 39. In fact, IAS 39 requires recognition of a financial liability when the entity becomes a party to the contractual provisions of the instrument. Financial liabilities should be subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital.

### ***Recommendations***

The Council is advised to apply correctly the distinction between short-term and long term obligations. The Council should also apply IAS 39 to ensure that the financial statements are in compliance with IFRS. We have qualified our audit report in this regards.

## **8.5 Deferred Income**

### ***Observations***

The Council received a number of Government grants in respect of the capital projects over the last years. The Council recognised a non-current deferred income of €715,378 and a current deferred income of €7,973, totalling €723,351 (before proposed audit adjustments).

A number of shortcomings were however noticed as explained below:

#### ***1. Measure 313/2010 – Project Heritage Trail***

The Council recognised €474,357.09 as deferred income representing grants for the heritage trail. The Council informed us that this amount which is made up of the following:

- contract no 376/3623-I/2010 - €390,692.70



- Vat amount of 70,324.69

There is a variance of €13,339.70. The Council has not provided us with an explanation of such variance. We requested the Council for a copy of the grant agreement, and we were informed that such agreement is not available and instead we were provided with the addendum to the contract dated 15<sup>th</sup> February 2011. In addition, the Council provided us with a schedule of costs provided by the Council amounts to €421,547.88 (expenses including of vat), resulting in a difference of €52,809.21, which is not included as accrued income.

## ***2. Measure 125 - Infrastructure related to the development and adaption of agriculture***

The Council recognised €12,255.30 as deferred income representing funds received for resurfacing of Tal-Qasam. In accordance with the grant agreement (contract number 15169/113071/2014 the total grant amounts to €25,613.16. Hence, deferred income is understated by €13,357.86 representing remaining grant for resurfacing of Triq l-Irdum and Triq Hal Tartanni. In addition, resurfacing works in Tal-Qasam has been completed by the year end, and hence grant should have released in 2014. Audit adjustments have been proposed in this respect.

## ***3. Measure 313/2014 – Upgrading and Embellishment of the Dingli Village Centre***

The Council recognised €92,245.20 as deferred income representing funds received for upgrading and embellishment of Dingli Square as at 31st December 2014. In accordance with the grant agreement (contract number 15262/129329/2014), the total grant amounts to €209,850.40. Hence, deferred income is understated by €117,605.20. An audit adjustment has been proposed in this respect.

## ***4. Measure 323/2010***

The Council recognised € 67,413.79 (opening balance) as deferred income representing funds received. However, a schedule of costs provided by the Council amounts to €61,175.89 (expenses including of vat), resulting in a difference of €6,237.90. The Council did not provide us with any information when the grant was received by the Council; hence no adjustment was proposed in this respect. The Council informed us that the project has been finalised by the end of 2013, nevertheless, no release was taken from January 2014 onwards. An audit adjustment has been proposed in this respect.

### ***5. Photovoltaic Panels for “Gnien il-Familja” and “Council’s Premises”***

The Council recognised € 6,984.73 (opening balance) as deferred income representing funds received for Photovoltaic Panels for “Gnien il-Familja” and “Council’s premises”. The Council did not provide us with any information when the grant was received by the Council; however the Council informed us that the project was being used in 2014.

#### ***Issues Arising***

As noted above, the Council is not properly recognising government grants in line with the income approach as per the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance as well as properly recognise deferred income and release thereof based on grants received and receivable by the Council in respect to capital expenditure incurred. Moreover, we advise the Council to investigate the difference of €6,237.90 and €52,809.21 respectively. We have qualified our audit report in this regards.

#### ***Recommendations***

The Council is advised to properly recognise government grants in line with the income approach as per the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance as well as properly recognise deferred income and release thereof based on grants received and receivable by the Council in respect to capital expenditure incurred. It would be ideal if a spreadsheet is maintained showing the assets and projects which benefited from the grants in question and such spreadsheet represents the reconciliation between the depreciation being charged on that asset and the respect grants released to the Statement of Comprehensive Income and projected in the Statement of Financial Position.

## **9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS**

### ***9.1 Disclosures required in respect of Financial Procedures***

#### ***Observations***

The financial statements prepared and approved by the Council do not contain the corresponding budget figures for the year under review.

#### ***Issues Arising***

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act, 1993, the financial statements should include the budget for the period. However, in line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements. In this respect, have qualified our audit report.

## ***9.2 Disclosures required in respect of certain IFRSs***

### ***Observations***

By virtue of memo 1/2014 councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the council's financial statements were not fully compliant in all respect with the requirements of these standards.

Among other things, omissions were noticed in relation to the following disclosures:

- The council did not disclose the list of all the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements.
- The council is not disclosing all the requirements of IAS 24 Related Party Disclosures in the notes to the financial statements. If there have been transactions between related parties, IAS 24 requires disclosures of the nature of the related party transactions as well as the outstanding balances necessary for understanding of the potential effect of the relationship on the financial statements. These disclosures should be made separately for each category of related parties and would include:
  - The amount of transactions;
  - The amount of outstanding balances, including terms, conditions and guarantees;
  - Provision of doubtful debts relating to the outstanding amounts;
  - Expense recognised during the period in respect of bad and doubtful debts from related parties.
- IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance;
- IAS 39 – Financial Instruments: Recognition and Measurement;

### ***Issues arising***

All disclosures need to be undertaken in line with the requirements of International Financial Reporting Standards. These disclosures include both quantitative and descriptive requires. Following our recommendation, the Council amended all the disclosures, except those required by IAS 39. A note to this effect was made in the audit report.

### ***Recommendations***

The Council is advised to prepare financial statements in accordance with International Financial Reporting Standards and all necessary prescribed formats and disclosures are to be made accordingly.

## **9.3 Financial Statements Presentation**

### ***Observations***

The Local Council (Financial) Procedures, 1996, requires that the financial statements should be prepared in accordance with International Financial Reporting Standards. We have noted the following:

- Property, plant and equipment accounting policy on page 11 should read ‘Office Furniture, Fixtures and Fittings’ and not ‘Office Furniture and Fittings’;
- On page 4 reference should not be made to ‘Operations and maintenance’ instead it should read ‘Operations and maintenance expenses’
- Note 19 – Capital Commitments – the line item “Contracted for but not provided in the Financial Statements” should be removed since the council has no such balances.
- Note 18 – Deferred Income – the 2013 amount for “Deferred in 5 years or more” and “Government Grants” should read €591,125 instead of €582,160. Consequently the Total for “Deferred Government Grants” should amount to €621,494 instead of €612,529.
- In the statement of Financial Position on page 5, we noted the following inaccuracies:
  - Intangible Assets should read Intangible Fixed Assets
  - Retained Funds should read Retained Earnings.
- In the Statement of Cash Flows, the audit team noted the following shortcomings:
  - Decrease/ (Increase) in Receivables should read Decrease/(increase) in Trade and Other Receivables

- Increase/ (Decrease) in Payables should read Increase/ (Decrease) in Trade Payables.
- Net (Decrease)/Increase in Cash and Cash Equivalents should read Net Increase/ (Decrease) in Cash and Cash Equivalents.
- Note 5 to the Financial Statements on page 15 should read Administrative charges to Regional Committees instead of Contraventions and other fines.
- Note 15 to the Financial Statements on page 21 should read as follows:
  - “Impaired and Provided For” should show an amount of €15,222 instead of €1,467
  - “Provision for Doubtful Debts” should show an amount €15,222 instead of €1,467
  - Furthermore, the note regarding “Local Enforcement System (LES) Debtors” should show an amount of €15,222 instead of €1,467
- We noted that Note 17 to the Financial Statements on page 22 is missing the assessment of Creditors in relation to credit periods. The note should be as follows:
  - €92,569 should be disclosed as being within the Credit Period
  - €22,850 should be disclosed as exceeding the Credit Period.
- Public Private Partnership commitment should have been separately disclosed in the statement of financial position and should have been classified as long-term liability and partly as short-term payables.
- Note 22 to the Financial Statements – Related Party Transactions should include the following Related Parties, as well as disclosure of related party transaction with related parties deemed to have influence over the council:
  - Malta Information Technology Agency

### ***Issues Arising***

These financial statements are not fully compliant in all respects with the requirements of these standards, mainly disclosures in respect of IAS 1 – Presentation of Financial Statements.

### ***Recommendations***

The Council is advised to take note of the above matters in order to prepare and present a set of financial statements which are in full compliance with IFRS.

## **10. GENERAL**

### ***10.1 Council Meetings and Minutes***

#### ***Observations***

As we reviewed the minutes of the council, we identified the following shortcomings:

- Meeting 41 started at 8.30 am; Meeting 43 started at 2.00 pm; Meeting 44 started at 2.30 pm.
- Meeting 38 did not state next time meeting will be held

#### ***Issues arising***

Memo 68/2009 and section 43(3) of the Local Council Act (Cap.363) requires that the local councils meetings should not start before 5.30pm and later than 7.30pm and shall not last more than 3 hours unless determined by the unanimous decision of the Councillors.

#### ***Recommendations***

The Council is advised to ensure that the Councillors adhere to these regulations and it should be stated in the minutes when a unanimous decision is taken.

### ***10.2 Council Minutes and Schedule of Payments***

#### ***Observations***

The Council's Minutes and Schedule of Payments are not being uploaded on the website [www.lc.gov.mt](http://www.lc.gov.mt) within the prescribed timeframe. Apart from the timing issue, a number of schedule of payments have not been uploaded on the website.

In addition, it was noticed that the schedule of payments template used does not correspond to the template provided by the Department of Local Councils. The Schedule of Payments should include the order method. In addition, both purchase order and invoice numbers in some instances were left blank. Furthermore, the name of the employees are being including in the schedule of payments.

Moreover, the Schedule of Payments prepared by the Council are not signed.

### *Issues Arising*

Please note that Memo 89/2010 and 102/2010 respectively requires the Executive Secretary to publish the minutes and schedule of payments within 2 days of approval. Memo 29/2014 requires that the employee title instead of the employee name is included in the schedule of payments.

### *Recommendations*

The Council is advised to observe the requirements of these memos. Refer to Memo 29/2014 for a template of Schedule of payments.

## **10.3 Council Reports**

### *Observations*

We observed the following shortcomings:

- Annual Budget 2014 is not in accordance with the official template laid out by the Local Councils Procedures (1996-Finance);
- Annual Budget 2014 and 2015 have not been uploaded on the website [www.lc.gov.mt](http://www.lc.gov.mt);
- The Council prepared the three year business plan 2015-2017, however this has not been uploaded on the website.

### *Issues Arising*

We bring to the attention of the Council that the above mentioned report is required to be prepared within the established timeframes and in accordance with the official format in line with local Councils Procedures.

This contravenes the provisions of section 56 of the Local Councils Act, 1996 which state that the budget should be prepared and approved by the council not later than 15 February of each year.

### *Recommendations*

To this end, we recommend that the council approves the budget early at the start of the year for proper financial planning and to prioritise expenditures. It should also be prepared in accordance with the specimen provided in the Local Councils (Financial) Procedures, 1996.

## ***10.4 Quarterly Reports***

### ***Observation***

During our audit fieldwork, the Council provided us with unsigned copies of the quarterly reports. Moreover, it was noted that the report for the last quarter of 2014 was not uploaded on the Local Council website.

### ***Issues Arising***

Attention should be brought to the Local Council procedures (1996 – Finance) KLP 1/96, P1.05 (d.06), that such reports should be finalised and approved within a month following each quarter period end. Approval of these reports needs to be included within the Council minutes. Moreover, Memo 36/11 states that Quarterly Financial Reports should be uploaded on the Local Council Website.

### ***Recommendations***

The Council is advised that the minutes of the council have to reflect the approval of the quarterly reports and that these are all prepared and submitted to the DLG within a month from the end of the period.

## ***10.5 Council's Accounting Data***

### ***Observations***

We noted that the Council did not maintain in its offices its accounting data which is held on Pastel SAGE accounting software. Moreover, the Council do not have any back-ups of previous years accounting software following the change in the Council's accountant in 2014. In fact, it transpired that this was maintained solely by the Council's accountant.

### ***Issues Arising***

It is important for the Council to understand that it is imperative that the Council always maintain its accounting data on its premises and that this is maintained updated on an ongoing basis. The Council should also ensure proper back-up of this data. This will mitigate the current risks that accounting data could be lost or tampered with.



### ***Recommendations***

The Council is advised to ensure that the Pastel Sage Accounting software is installed on its computers and that the accounting data is kept therein duly updated on an ongoing basis and that proper back-ups are taken on a periodic basis.

## **10.6 Twinning Project**

### ***Observations***

During the year, the Council did not incur any twinning expenses. Even though no expenses were incurred, no report was sent to the DLG stating that no such expense was incurred.

### ***Issues arising***

Legal Notice 144 of 2009 paragraph 10(1) requires that each year a report should be compiled showing the results of each twinning programme, the benefits derived by virtue of such twinning relationship and a statement of all expenditure and this should be submitted to the department within the specified timeframe. In case where no twinning expenditure is incurred in a particular year, the Council still needs to inform the Department accordingly.

### ***Recommendations***

The Council is advised to abide by Legal Notice 144 of 2009 and the regulations and make sure to submit the requested report to the Department on time.

## **11. Financial Position**

### **11.1 Liquidity of the Council**

#### ***Observations***

At year-end, the Council had a positive current asset of €22,742. This indicates that the Council can meet the current obligations as they fall due. However, the Council's Financial Situations Indicator at the end of the financial year under review is below the 10% threshold of the annual Government allocation. We have qualified our audit report in this respect.

#### ***Issues Arising***

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value of not less than 10% of the annual financial allocation. The

consequences of not abiding by these regulations are various. With the current present liquidity position, as in this case, the Council is already obliged to:

- Present a financial report to the Department of Local Councils on how it will cut down on expenditure to strengthen the indicator;
- Convene its finance committee to seek guidance on whether the Council could commit for certain expenditure before sanctioning;
- If the targets to increase the indicator back to 10% fail, the Minister may withhold an equivalent sum topping up to 10% from the annual allocation and paid back only when the Council has recovered.

The Council is also regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (which is usually based on the liquidity position and funds available).

### ***Recommendations***

The Council is advised to convene with urgency its finance committee and draw up a cash flow management plan to address the adverse liquidity situation. Until then, the Council should postpone any projected capital expenditure and recurrent expenditure which is not entirely financed by additional funding schemes. Projects or programmes which are not funded by special schemes should not even be considered by the Council.

That said, considering the difficulty in, and to a certain extent, limited control over the collection process of its receivables, the Council should take these factors into consideration when preparing its annual budget and financial control procedures and should propose a plan to improve its finances by curtailing its expenditure.

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For the patience and understanding that you showed us we are truly grateful and in this regard we would like to take this opportunity to thank the staff at the local council and the council members for their cooperation and assistance during the course of the audit.

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