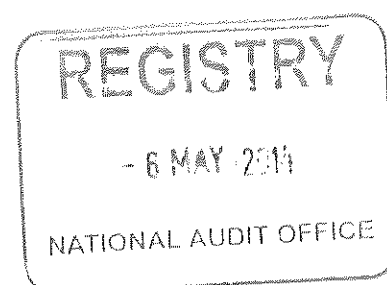


LOCAL COUNCIL FLORIANA

Report to Management
for the financial year ended 31 December 2013





Date: 28th April 2014

The Mayor
LOCAL COUNCIL FLORIANA
15
E. S. Tonna Square
FLORIANA

Dear Sir,

REPORT TO MANAGEMENT

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. The controls will also be used by the National Audit Office to compile its own report on Local Councils.

For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2013, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank Mr. Svetlick J. Flores and his Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

Clive Farrugia
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2012

1.1. Local Enforcement System

This matter has not been addressed by the Council. In this respect, refer to paragraph 2.1 of this report.

1.2. Income invoicing system

This matter was addressed by the Council.

1.3. Income from bye laws

This matter has not been addressed by the Council. In this respect, refer to paragraph 2.2 of this report.

1.4. FSS statutory documentation and reconciliation with the nominal

This matter has not been addressed by the Council. In this respect, refer to paragraph 3.1 of this report.

1.5. Mayor's and Councillors' Allowance

This matter was addressed by the Council.

1.6. Mayor's Honoraria and disclosures

This matter has not been addressed by the Council. In this respect, refer to paragraph 3.3 of this report.

1.7. Overtime

This matter was addressed by the Council.

1.8. Performance Bonus

This matter was addressed by the Council.

1.9. Classification of Councillor's Allowances in the FSS forms

This matter was addressed by the Council.

1.10. Employee promotion to higher salary scales

This matter was addressed by the Council.

1.11. Donations in Kind & Social/Cultural Events

This matter has not been addressed by the Council. In this respect, refer to paragraph 4.2 of this report.

1.12. Tendering Procedures

This matter has not been addressed by the Council. In this respect, refer to paragraph 4.1 of this report.

1.13. Christmas Dinner

This matter was addressed by the Council.

1.14. Inappropriate Expenditure Documentation

This matter has not been addressed by the Council. In this respect, refer to paragraph 4.3 of this report.

1.15. Twinning Project

This matter was addressed by the Council.

1.16. The upkeep of the Fixed Asset Register (FAR)

This matter was not addressed by the Council. In this respect, refer to paragraph 5.1 of this report.

1.17. Capital Commitments

This matter was addressed by the Council.

1.18. Insurance Coverage

This matter was not addressed by the Council. In this respect, refer to paragraph 5.2 of this report.

1.19. Computer Software

This matter was not addressed by the Council. In this respect, refer to paragraph 5.3 of this report.

1.20. Capital Expenditure against Revenue Expenditure

This matter was addressed by the Council.

1.21. Stock of Books and DVDs

This matter was addressed by the Council.

1.22. LES amounts receivable

This matter was not addressed by the Council. In this respect, refer to paragraph 6.1 of this report.

1.23. Other Receivables

This matter was addressed by the Council.

1.24. Accrued income

This matter was not addressed by the Council. In this respect, refer to paragraph 6.2 of this report.

1.25. Un-presented cheques

This matter was not addressed by the Council. In this respect, refer to paragraph 7.1 of this report.

1.26. Petty Cash

This matter was addressed by the Council.

1.27. Accounting for creditors

This matter was not addressed by the Council. In this respect, refer to paragraph 8.1 of this report.

1.28. Accrued Expenditure

This matter was not addressed by the Council. In this respect, refer to paragraph 8.2 of this report.

1.29. Contingent Liabilities Disclosure

This matter was addressed by the Council.

1.30. Government Grant – Deferred Income

This matter was not addressed by the Council. In this respect, refer to paragraph 8.3 of this report.

1.31. Contractors guarantees

This matter was not addressed by the Council. In this respect, refer to paragraph 8.4 of this report.

1.32. Unsupported documentation for other recognised liabilities

This matter was addressed by the Council.

1.33. Disclosures required in respect of Financial Procedures

This matter was not addressed by the Council. In this respect, refer to paragraph 9.1 of this report.

1.34. Disclosures required in respect of Certain IFRS

This matter was not addressed by the Council. In this respect, refer to paragraph 9.2 of this report.

1.35. Disclosures concerning Contingent Assets and Liabilities

This matter was addressed by the Council.

1.36. Financial Statements presentation and accounts

This matter was not addressed by the Council. In this respect, refer to paragraph 10.1 of this report.

1.37. Prior year adjustment

This matter was not fully addressed by the Council. In this respect, refer to paragraph 10.2 of this report.

1.38. Stock of books and CDs held

This matter was not fully addressed by the Council. In this respect, refer to paragraph 11.1 of this report.

2. INCOME

2.1. Local Enforcement System

Observations

During the year the Council issued invoices to the Regional Committees with respect to administrative fees equivalent to 10% of the value of fines collected. The total amount invoiced amounted to €3,879.63 which matched to the independent reports generated by the system as entrusted by the Ministry. However, note 7 to the financial statements disclose a value of €3,528. Therefore the amount recognised in the Council's records as compared to the results produced by the independent report, varies by €351.54.

The variance consisted of invoices issued this current year amounting to €120.99 which related to fees for December 2012 which were not included as accrued income in the previous year.

Furthermore, the Council included debit entries amounting to €472.53 directly against LES income account by issuing credit notes against the individual customers' accounts. As a result the LES income account is understated by this amount. We were not provided with sufficient explanations or supporting documentation with respect to these transactions.

Issues Arising

The Council is obliged to raise invoices for this source of income to the Regional Committees on a monthly basis, after carrying out the necessary reconciliations. It should also make sure that the general ledger reflects the income produced by the financial reports of the LES system.

Recommendations

The Council should carry out the necessary reconciliations in order to determine that the amounts reported in the financial statements tally with the reports issued. In relation to the credit notes issued, the Council should check these entries and correct the ledgers appropriately. Following our proposed audit adjustments, the financial statements have been amended accordingly.

2.2. Income from Bye Laws

Observations

The Council has six bye-laws currently in force as per the below mentioned:-

- (a) Use of facilities as per S.L. 363.165
- (b) Publications and Souvenirs as per K.L.B.L. 18/06/2011
- (c) Advertisements on Street Furniture as per S.L. 363.97
- (d) Advertisements on the Internet as per S.L. 363.94
- (e) Control of pigeons as per S.L. 363.94
- (f) Organisation of Courses as per S.L. 363.98

The income recorded earned through these bye-laws during the year under review consisted of:

- Rental income from barriers - €2,679
- Rental income from multi set seats - €233
- Income from the use of hall - €330
- Income from the football pitch rental - €125
- Rental income from use of a room to KDF Ltd - €12,000
- Income from Publications - €196
- Income from parking dials - €54
- Income from lapel badges - €28
- Income from media charges - €16

➤ Income from Advertising on Street Furniture - €519

As per note 9 to the financial statements, the Council is recognising a total income of €16,186 for the financial year under review.

We have noted that the rental of barriers and the multi set seats are not covered by a bye law.

Moreover, as per note 9 to the financial statements, the income from bye laws was erroneously classified under "General Income" rather than under a separate heading "Income from Bye-laws" in line with the Local Councils Procedures (Audit) 2006. This separate heading then should analyse the income according to the respective bye-law generating that same income in line with the Council's bye-laws as indicated in the opening paragraph above.

Issues Arising

As provided by the Local Councils Act (Cap. 363), article 60 states that 'A Council shall have the power to raise funds by means of any scheme designed to provide additional funds to those allocated to it under article 55: Provided that such schemes shall be instituted by bye-laws.' This clearly means that the Council cannot raise additional income without a proper bye law.

Recommendations

The Council should classify its income in the correct manner in line with the respect procedures (Audit) as applicable for local councils. This appropriate analysis is important for the users of the Council's financial reports. Following our proposed audit adjustments, the financial statements have been amended accordingly.

We also recommend that the Council amends the bye law in place of 'Use of facilities as per S.L. 363.165' to include the use of the Councils equipment.

2.3. Rental Income received from KDF Ltd

Observations

Besides our comments in paragraph 2.2 above, we noted that the Council recognised income from the rental of a room to KDF Ltd amounting to €12,000. The rent paid was for the period commencing 26th May 2013 to 25th May 2014. The Council did not account for the deferred income amount of €5,918 being the pre-paid portion for 2014. Refer to paragraph 8.5 of this management letter.

Issues Arising

In view of this cut off error, the income in the Financial Statements is overstated by €5,918.

Recommendations

Please note that income should be correctly recorded in the year to which it relates and proper classification should be made according to the requirements of IAS 1-Presentation of Financial Statements. Following our proposed audit adjustments, the financial statements have been amended accordingly.

2.4. Income from Penalties

Observations

Included with liabilities, is an account called 'Contractor Deposits/Guarantees' which amounts to €770. This amount related to a penalty charged by the Council to NNG Promotions for the dismantling and setting up of bins and benches. This amount should be accounted for as income and not as a liability since it consists of a penalty charge.

Issues Arising

The Council failed to appropriately account for the income and hence the income shown in the financial statements is understated.

Recommendations

The Council should check this transaction and recognize the amount as income instead of a liability. Income should be correctly recorded in the year to which it relates and proper classification should be made according to the requirements of IAS 1 - Presentation of Financial Statements. Following our proposed audit adjustments, the financial statements have been amended accordingly.

2.5. System of Council Income Receipting

Observations

From testing carried out, it transpired that the council does not always issue an official receipt. Such cases emanated from sources of income derived from a Government entity or department. The identified shortcomings are the following:

- Ministry of Home Affairs – Income received for the hosting of the new years activity 2012/2013 amounting to €10,000 on 29/04/2013
- Ministry of Home Affairs – Income received for the hosting of the Mechanised Ground Festival Fireworks Festival amounting to €5,000 on 12/09/2013
- Housing Authority – Income received for the supply and installation of electrical services in 'Gnien Vilhena' amounting to €2,307 on 31/01/13
- Mepa – Sponsorship Income received for the 'car free day' amounting to €2,000 on 04/09/2013

Issues Arising

The amendments to the *Local Councils Procedures (Audit)* 2006 clearly lay out the manner in which the Council should present its annual income received.

The fragmented use of receipts is distorting the receipt audit trail where certain income would be backed by proper receipting whilst other income would not have any. Furthermore, improper maintenance of the income audit trail could lead to cut-off errors and omissions.

Recommendations

An official Council receipt should be issued for all sources of income at all times. The Council should also consider the implementation of a centralised electronic receipting system. Such a system would facilitate cash reconciliations, filtering of data and recording of income in the general ledger with much reduced human intervention.

2.6. Donations received on behalf of Puttinu Cares

Observations

The Council received donations from Vodafone, Middlesea and Corinthia amounting to €50 each on behalf of Puttinu Cares. The Council recognized this amount as income. Furthermore, the Council then issued cheque 11765 dated 12/02/2014 to Puttinu Cares amounting to €150.

Issues Arising

The Council is obliged to recognize all revenue in line with IAS 18-Revenue Recognition. However, in this case, the Council neither did it receive any income nor incurred any expenditure itself and

therefore this transaction should have been netted off given that this was simply the collection of money for charity and forwarding it to the charity itself.

Recommendations

In such instances the Council should request the donors to pass on the money directly to the Charity Organisation instead of being passed on to the Council. The Council should not record such amounts as income and expenditure.

2.7. Income received in respect of New Years Eve

Observations

We noted that that Council received the amount of €10,000 in 2013 in respect of the New Years Eve event 2012/2013. This was not included in accrued income in the financial year ending 2012 and was instead included as income received in the financial year ending 2013. In 2013 the Council included the expenses with respect to New Years Eve 2013/2014 but did not include the income related to the same event which was received in 2014. The Council is not matching the income against the relative expenses leading to cut-off errors and misstated profits.

Issues Arising

In line with IAS 18: Revenue Recognition, income should be recognised when it is earned and not when the cash is actually received. Since the costs relating to the 2013 event have been included in the 2013 financial statements, the income relating to the same event has to be included in the same year in accordance with the matching concept. We have proposed an audit adjustment to include this accrued income.

Recommendations

We recommend that the Council should review after year end receipts as well as any agreement and transactions undertaken and assess if any accrued income should be reflected in the financial statements. Receipts in 2014 which pertain to 2013 events and transactions should be recorded in 2013 financial statements. Following our proposed audit adjustments, the financial statements have been amended accordingly.

3. PERSONAL EMOLUMENTS

3.1. Payroll statutory documentation and reconciliation with the nominal ledger

Observations

From the reconciliation which we carried out between the statutory documentation and the Council's accounting records, a variance amounting to €6,069 was identified as per below table:

As per FS7	106,306.64
As per accounts	100,192.77
add Performance Bonus for 2012 included in 2013 FS3	5,403.95
less accruals – Performance Bonus 2013	- 5,358.95
Variance	6,068.87

Furthermore when testing the FS3s computed by the council we derived the below variances between the salary workings provided by the Council and the amounts declared in the FS3s:

	Basic	Over	Cash	PB	Gov	Gross	As per	FS3
	Salary	time	Allow	2012	Bonus	Salary	FS3	Diff
Employee	€	€	€	€	€	€	€	€
Godwin	12,985.09	2,276.21	465.84	680.40	512.46	16,920.00	17,108.00	- 188.00
Azzopardi								
Alfio								
Sciberras	5,737.51	329.14	39.25	721.80	247.78	7,075.48	6,279.00	796.48

Issues Arising

It is highly important that what is being paid to the Council's registered payees as defined in the FSS Rules (1998) is then appropriately disclosed in the respective FS3 returns – *Statement of Earnings by Payee*.

Recommendation

The FSS returns and entries in the nominal ledger should reconcile at all times. The Council should make more diligent use of the payroll software which it has acquired. The accounting entries should be reconciled regularly with the amounts in payslips and FSS submissions. The final gross salaries declared in the financial statements should finally be in agreement to the amounts declared in the FS7.

3.2. Payroll Disclosures

Observations

During our testing we noted the below discrepancies in the financial statements:-

Mayors Honoraria	€
As per note 10 of the Financial Statements	6,340.00
Amount as per memo 148/2010 -1/3 of EUR 20,110.50	6,703.50
Difference	363.5
Executive Secretary	€
As per note 10 of the Financial Statements	28,170.00
As per workings:-	
As per FS3	26,073.00
Less Performance Bonus for 2012	-2,187.32
Add Performance Bonus for 2013	2,342.20
Difference	1,942.12
Councillors Allowance	€
As per note 10 of the Financial Statements	7,247.00
Should read	6,292.00
Difference	955.29

Issues Arising

The amounts disclosed in the financial statements do not tally with the requirements of the relative Memos and the Local Councils Act (Cap. 363).

Recommendation

It is important that the Council prepares the necessary reconciliations in order to ascertain that the amounts shown in the financial statements are in agreement with the Memo and Local Councils Act (Cap. 363) at all times.

3.3. Councillors Attendance and Allowances

Observations

From the Council minutes attendance listing we noted that two Councillors were absent/excused for the below mentioned Council meetings.

Councillor	COUNCIL MEETING DATE				
	04.01.13	04.02.13	25.02.13	18.03.13	10.06.13
Tony Brincat	Absent	Excused	Excused	Excused	
Nigel Holland					Excused

No written correspondence was however provided to us by the Council, showing that they had requested to be excused prior to the respective Council's meetings.

On the other hand it was noted that Mr Tony Brincat was absent from one Council sitting.

Issues Arising

Memo 89/2009 states that the allowance receivable by each Councillor should be deducted if the Councillor does not provide a valid reason for his/her absence and the reason shall be made in writing by the Councillor to the Executive Secretary prior to the said Council meeting.

Memo 108/2010 is very clear about the fact that it is not sufficient for a Councillor to verbally inform the Executive Secretary of his/her absence. This has to be made in writing and a copy of that e-mail or letter has to be attached to the minutes. Up to the date of our audit, these letters were not attached to the minutes as uploaded on-line on the site www.lc.gov.mt. Therefore the allowance should have been deducted pro-rata to the meetings attended.

After sending our draft management report, the Council has provided us with the copy of the letter sent by Mr Nigel Holland requesting to be excused.

Recommendations

If a Councillor requests to be excused from a Council meeting, a valid reason should be always be provided in writing. Furthermore, if for any reason, a Councillor fails to send a written request attesting the reason for his absence, he/she shall be considered absent, and a pro rata of the allowance should be deducted accordingly.

4. EXPENDITURE

4.1. Supply of goods not covered by a tender

The Council hired equipment for the New Years Eve function from Twilight for the total cost of €24,190. This cost was not covered by a tender.

Issues Arising

This means that the Council is in breach of the Local Councils Procedures (1996 – Tendering) KLP 3/1996).

Recommendations

We recommend that the Council continues with its efforts to comply with the tendering procedures in all instances and ensures that all procedures are adhered to in compliance with the Local Councils Procedures (1996 – Tenders).

4.2. Expenditure made on account of social and cultural events

Observations

The Council issued payments to individuals or organisations for their participation in the Fireworks Festival and New Year's Eve as follows:

Date	Reference	Details	€
10/04/2013	1359	3371000 Participation – Fireworks festival 13	900.00
10/04/2013	1360	3371000 Participation - Fireworks festival 13	900.00
10/04/2013	1361	3371000 Participation - Fireworks festival 13	33.30
10/04/2013	1362	3371000 Participation - Ground Fireworks 13	900.00
10/04/2013	1363	3371000 Participation - Ground Fireworks 13	900.00
10/04/2013	1364	3371000 Participation - Ground Fireworks 13	900.00
10/04/2013	1365	3371000 Participation - Ground Fireworks 13	900.00
10/04/2013	1366	3371000 Participation - Ground Fireworks 13	900.00
10/04/2013	1367	3371000 Participation - Ground Fireworks 13	900.00
01/07/2013	1401	3371000 Participation – Fireworks festival 13	900.00
01/07/2013	1402	3371000 Participation – Fireworks festival 13	900.00
01/07/2013	1403	3371000 Participation – Ground Fireworks 13	306.80
01/07/2013	1404	3371000 Participation – Fireworks Festival 13	900.00
01/07/2013	1406	3371000 Participation - Ground Fireworks 13	900.00
01/07/2013	1407	3371000 Participation - Ground Fireworks 13	900.00
01/07/2013	1408	3371000 Participation - Ground Fireworks 13	900.00
04/11/2013	1639	3371000 Participation - Ground Fireworks 13	900.00

Date	Reference	Details	€
01/01/2013	1223	3377000 Participation – New years eve	200.00
01/01/2013	1226	3377000 Participation – New years eve	125.00
01/01/2013	1228	3377000 Participation – New years eve	85.00
01/01/2013	1229	3377000 Participation – New years eve	85.00
01/01/2013	1230	3377000 Participation – New years eve	200.00
01/01/2013	1231	3377000 Participation – New years eve	500.00
01/01/2013	1232	3377000 Participation – New years eve	200.00

Issues arising

We sympathise with the fact that a Local Council has to fulfil its social and cultural obligations. However, as the laws and regulations stand, with special reference to article 63A of the Local Councils Act, Memo 08/2005 and the Local Councils Procedures (Tenders) 1996, the Council should be more considerate in the manner of how it distributes its resources to organisations.

Recommendations

The Council should abide with the requirements in the Act which prohibit the Council from making any donations or gifts, both in kind and in cash.

4.3. Inappropriate Expenditure Documentation

Observations

Some of the expenditure tested during our audit were not supported by adequate documentation in various ways. The items below were not supported by a vat fiscal receipt:

- Lawrence Cassar – Invoice 316 for Christmas lights - €3,620
- Dion Galea – Invoice for works done at Triq L-Argotti - €310
- Albert Magro – Invoice 976 for dressing room repairs - €250
- Bitmac – Invoice 102537 for bags of cold asphalt- €136.50
- Halmann – Invoice in January for pavement repairs - €970

The items below were not supported by a payment voucher:

- Karl De Flavia – Invoice 1680 for bulky refuse in October - €335
- Karl De Flavia – Invoice 1674 for cleaning - €1,560

The items below were not supported by a purchase order:

- Roads Resurfacing – Invoice 4 dated 09/12/2013 - €6,039.26
- Dion Galea – Invoice for works done at Triq L-Argotti - €310

Issues Arising

Please note that expenditure unsupported by appropriate documentation goes against the Local Councils Procedures (1996 – Finance) K.L.P. 1/96, P1.11b.

When a supplier does not provide a fiscal receipt, the Council would not make sure whether the money it is paying in VAT is ultimately being forwarded to the VAT Department by the same supplier. The supplier is only exempt from submitting a fiscal receipt if a written declaration is submitted that the annual turnover is not in excess of €7,000. This declaration has to be done in terms with Memo 77/2011.

Recommendations

The Council should ensure that VAT fiscal receipts, where applicable, are always obtained though we acknowledge that the Council's administration was very persistent in chasing VAT receipts. Therefore any supplier who does provide neither a proper tax invoice or a fiscal receipt should not be considered for future procurements irrespective of whether their offering is the cheapest or most advantageous for the Council.

We also recommend that the Council issues Purchase Request/Order Forms as required by the Local Councils Financial Procedures.

4.4. Goods and services purchased by direct orders

Observations

The Council had expenses exceeding €1,165 where no proper calls for quotations were obtained and furthermore the threshold of €1,165 over a four month period was exceeded. The following are the cases which we have encountered:

- Epiclectic Limited – Transactions referenced 1017 and 1132, both dated in January 2013 amounting to €2,330
- B Grima & Sons – Several invoices received within the period of August to November 2013 amounting to €1,348.10
- Chris X Weddings & Events – Referenced 1133 and 1018, both dated in January 2013 amounting to €2,330
- Ideas Alive – Referenced 1016 and 1131, both dated in January 2013 amounting to €2,330
- Joe Cutajar – Several invoices received within the period of January to April 2013 amounting to €2,050.50

Issues arising

The Council is not in line with the *Financial Regulations Part VIII Expenditure* which require 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 that threshold has to be covered by a call for quotations or a call for tenders according to the amount of the expenditure to be undertaken.

Recommendations

The Council should issue calls for quotations or a tender offer for the provision of any service of supply exceeding €1,165 or places its orders with different suppliers and therefore abides with the requirements of the procurement and tendering procedures in terms of the *Local Councils Procedures (1996 – Tendering) KLP 3/1996*. Where in the opinion of the Council the service can only be acquired from one particular supplier, the Council should seek approval from the Department of Local Government.

4.5. Street Lighting

Observations

We have noted that the expenditure for Street Lighting incurred by the Council is neither covered by a tender or by an extended contract as per Memo 106/2011.

Issues arising

Memo 34/2013 has been issued in December 2013 stating that the Councils have to issue a new Tender for a full year which can be extended every year to a maximum of three years.

Recommendations

We recommend that the Council adheres with Memo 34/2013 and initiates the process for issuing a tender to cover the street lighting expenses.

5. PROPERTY, PLANT AND EQUIPMENT

5.1. The upkeep of the Fixed Asset Register (FAR)

Observations

No proper fixed asset register is being maintained in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b. The Council has so far prepared a form of FAR on an Excel Spreadsheet up to 31st December 2010 and it has exported to Excel the nominal account for the 2011, 2012 and 2013 additions. This approach is limited since it does not provide the necessary details and the depreciation workings vary from that calculated by Sage's integrated FAR. The depreciation is also being passed in the accounting software through a yearly journal entry, rather than monthly.

Furthermore, it was noticed that the lift which was installed in 2011, and which was paid for by two different cheques, was allocated to 2 different categories. An amount of €5,569 was accounted for under construction, with a depreciation rate of 10%, while €14,334 was accounted for under office furniture at 7.5% depreciation rate. No adjustment has been made in the year under review in respect of the observation made in previous year's management reports.

Variances were also noted between the values recorded in the FAR being kept on Excel spreadsheet and the value recorded in the Financial Statements in line with the table below:

COST	COST							
From FAR	CE	CN	OE	OF	PE	SP	SS	UI
Cost b/f 2013	16,596.33	821,859.01	43,265.14	38,260.62	19,961.20	51,783.31	18,461.16	450,524.09
Additions 2013	825.41	92,920.37	1,853.55	157.00	13,130.16	-	-	16,702.87
Cost b/f 2013	17,421.74	914,779.38	45,118.69	38,417.62	33,091.36	51,783.31	18,461.16	467,226.96
As per FS	9,656.00	911,430.00	51,138.00	34,632.00	44,830.00	51,783.00	18,607.00	461,063.00
Variances	7,765.74	3,349.38	- 6,019.31	3,785.62	-11,738.64	0.31	-145.84	6,163.96

DEPRECIATION	CE	CN	OE	OF	PE	SS	UI
From FAR							
Acc Depn b/f 2013	6,780.40	378,919.59	22,195.75	11,963.63	6,399.41	18,461.16	177,016.03
Depn charge	560.25	51,260.27	3,391.81	1,695.28	1,986.28		27,540.44
Acc Depn b/f 2013	7,340.65	430,179.86	25,587.56	13,658.91	8,385.69	18,461.16	204,556.47
As per FS	6,805.00	428,115.00	25,627.00	14,178.00	29,841.00	18,460.00	204,698.00
Variances	535.65	2,064.86	- 39.44	- 519.09	- 21,455.31	1.16	- 141.53

Furthermore, the opening balances for 01st January 2013 in note 15(a) *Property, plant and equipment* do not tally with the corresponding closing balances presented in the financial statements for the year ending 31st December 2012. The below variance was derived:

COST	COST							
	CE	CN	OE	OF	PE	SP	SS	UI
Closing 2012	8,275.00	847,309.00	37,736.00	34,545.00	19,903.00	51,783.00	18,460.00	444,361.00
Opening 2013	8,275.00	847,309.00	37,736.00	34,545.00	43,732.00	51,783.00	18,460.00	444,361.00
Variances	-	-	-	-	- 23,829.00	-	-	-

DEPRECIATION	ACCUMULATED DEPN							
	CE	CN	OE	OF	PE	SP	SS	UI
Closing 2012	6,118.00	378,394.00	22,235.00	12,483.00	4,026.00	-	18,460.00	177,158.00
Opening 2013	6,118.00	378,394.00	22,235.00	12,483.00	27,854.00	-	18,460.00	177,158.00
Variances	-	-	-	-	- 23,828.00	-	-	-

¹ Legend: CE – Computer Equipment; CN – Construction; OE – Office Equipment; OF – Furniture & Fittings; PE – Plant and machinery; SS – Street Signs; UI – Urban Improvements and SP – Special Programmes.

Issues Arising

The upkeep of a proper FAR is of utmost importance to the Council. A FAR is deemed as one of the principal accounting ledgers of a Council, which enables the Council to maintain its control of capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme nature elements.

The incorporation of a proper fixed asset register within the Council's books is conducive to better safeguarding the assets and makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers.

The split allocation of the lift installation between construction and furniture and fittings is inappropriate. It would be more correct to classify a lift under plant and machinery and depreciated at 20%.

In view of the short-comings above, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of the fixed assets recorded and the depreciation calculated and recorded in the financial statements.

Recommendations

The Council should make use of the FAR module integrated in the accounting software currently being used by the same Council to reduce its administrative burdens, time and human errors accordingly. We therefore recommend that the FAR is reconstructed while taking into consideration the following:

1. The description of the asset in the FAR card should contain the highest degree of detail possible. The detail should not be of a generic nature such as "office equipment", "construction", "trees", "street signs" or "road resurfacing".

2. 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.
3. The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. This would be useful for insurance claims and asset disposal adjustments.

The Council should prepare reconciliation in order to determine whether the opening balances of the current year financial statements agree with the balances reported in the previous year audited financial statements.

5.2. Insurance Coverage

Observations

During our audit fieldwork, we noticed that the Council's Property, plant and equipment as well as stock items are under insured as presented in the following table:

			Cost of FA
Fixed Assets			€
Office Furniture & Fittings			34,632.00
Plant & Machinery			44,830.00
Office Equipment			51,138.00
Computer Equipment			9,656.00
Urban Improvements			461,063.00
Stock			13,798.94
			615,117.94
As per insurance policy			€
Plant and Machinery, Furniture & fittings and other contents			99,000.00
Goods in the open air			200,329.00
			299,329.00
Under-insured			(315,788.94)

Issues Arising

The Council's insurance policy in respect of assets insured has not been reviewed on an annual basis and thus the consequence is that different categories of property, plant and equipment, and stock are under insured.

Inappropriate insurance coverage may cause funding problem when the Council needs to make a particular claim. It could be the case where the insurers would not be able to cover the re-financing of the replacement of the asset in question.

Recommendations

The Council should immediately discuss the matter with its insurers and make sure that the asset categories highlighted in our table above do not fall short of any insurance coverage.

5.3. Intangible Assets

Observations

The payroll software purchased in 2010 has been accounted for in the Fixed Assets Register (FAR) under "Computer Equipment" category.

Issues Arising

Computer software falls under the definition of "Intangible assets" and is regulated by IAS 38 – Intangible Assets. This class of assets needs to be categorized separately in the FAR under intangible assets.

Recommendations

The Council correctly included this asset as Intangible Assets in the Financial Statements but it also needs to reclassify the asset in the Fixed Asset Register.

5.4. Depreciation charge

Observations

This financial year, the Council has categorised a number of assets amounting to €16,702.87 which related to the 'Gardmed Project' in the category of 'Urban Improvement'. The Council charged the correct depreciation rate of 10% but accounted for the incorrect depreciation charge. The Council used the incorrect month of purchase when determining the depreciation charge.

Issues Arising

The calculation and posting of depreciation is regulated in Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002).

Recommendations

The Council should revise their depreciation charged accordingly. This should be undertaken in conjunction with the creation of a proper Fixed Asset Register integrated within Sage as per point 5.1 above.

6. RECEIVABLES

6.1. (Local Enforcement System) LES amounts receivable

Observation

The Council's unaudited financial statements show that at year-end the Council had LES Debtors amounting to €213,220 against which it has provided a provision for doubtful debts of €137,100, resulting in a net amount receivable of €76,120.

When we extracted LES report 622 entitled "Tribunal Pending Payments" with a date range from 1st January 2000 till 31st December 2013, the amount of LES contraventions payable to the Council read €201,352.

Issues Arising

The amount of LES fines pending in the financial statements as adjudicated by the Tribunal in favour of the Council, seem to be overstated by €11,868. On the other hand, since it is the Council's policy to provide for all LES contraventions due for more than two years, the provision for doubtful debts in the financial statements should be equal to the LES pending fines.

In view of the material differences above, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of LES income and receivables being recorded in the financial statements as at year end.

Recommendations

The Council needs to regularly reconcile the LES income receipts with the reports extract from the system as entrusted by the Ministry.

6.2. Accrued income

Observations

During our testing of the accrued income balance included in the Financial Statements amounting to €9,264 we noted the below shortcomings:

- Included in the Council's workings is an opening balance of €1,979.99 which was not reversed even though sales invoice SI000124 relating to this income was issued in 2013.
- The Council incurred expenditure of a revenue and capital nature in relation to the projects covered by the Gardmed grant. According to the audited claims provided by the Council an amount of €10,178.81 is to be included as accrued income which represents the remainder of the monies yet to be received in respect of the revenue expenditure incurred. A further amount of €40,907.64 is to be included as accrued income which represents the remainder of the monies yet to be received in respect of the capital expenditure incurred.

Issues Arising

In line with IAS 18: Revenue Recognition, income should be recognised when it is earned and not when the cash is actually received.

Recommendations

We recommend that at year end the Council should review after year end receipts as well as any agreement and transaction undertaken and assess accordingly if any accrued income should be reflected in the financial statements. Following our proposed audit adjustments, the financial statements have been amended accordingly.

6.3. Prepayments

During our testing of the prepayments balance included in the Financial Statements amounting to €2,066 we noted the below shortcomings:

- Rent prepayment reads €1,952.60 when it should read €2,085.88 – hence an adjustment of €133.28 is required to correct the prepayment.

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for prepayments correctly and completely.

Recommendations

It is important that the Council makes a proper assessment of its prepaid expenses at the end of every financial reporting period. Following our proposed audit adjustments, the financial statements have been amended accordingly.

6.4. Customer Balances

Whilst confirming the customer balances included in the Financial Statements we noted the below mentioned discrepancies:-

- Xlokk Region customer balance reads €844.21 while they confirmed the balance should read €1,281.16 - hence balance is understated by €436.95
- Vodafone customer balance reads €500 while they confirmed the balance should read Nil - hence balance is overstated by €500

Issues Arising

These variances distort the amount due to the Council at any point in time from its debtors. It could also imply that debtors' balances are not being reviewed on a periodic basis and any variances or errors not adjusted for accordingly.

Recommendations

We recommend that all customer invoices are duly accounted for when issued and payments are allocated against them when received. On a regular basis the Council should carry out necessary reconciliations in order to ensure that the balances shown are correct.

7. CASH AND CASH EQUIVALENTS

7.1. Un-presented Cheques and bank reconciliation

Observations

During our review of the bank reconciliation procedures as at 31st December 2013, we noted that one of the reconciliations provided showed a variance of €2,196. We also noticed that several cheques were missing from the list of un-presented cheques provided in the reconciliation. The below mentioned cheques were issued during the year ending 2013 and should have been shown as unreconciled transactions as at year end:

<u>Encashment</u>	<u>Chq</u>	<u>Amount</u>	<u>Date of</u>
<u>Date</u>	<u>No.</u>	<u>€</u>	<u>Issue</u>
02/01/2014	11514	326.00	2013
09/01/2014	11724	10.62	2013
14/01/2014	11759	85.00	2013
15/01/2014	11720	1,404.96	2013
15/01/2014	11721	488.57	2013
		2,315.15	

Issues arising

Due the above mentioned cheques not being included as un-reconciled items in the bank reconciliation, a variance of €2,315.15 has resulted when we have checked the balance in the bank statement to the amount shown in the Financial Statements.

Recommendations

The Council should carry out regular bank reconciliations to ensure that the bank balance in the accounting records is in agreement to the balance in the bank statements. A bank reconciliation report should be printed and retained at least monthly and more importantly a copy of the bank reconciliation dated 31 December should be retained.

7.2. Cheque Stubs

Observations

The council issued several cheques with no details included on the cheque stub; such as the payment date, to whom the cheque was payable and the amount of the cheque issued.

Issues arising

Missing details on the cheque stub may lead to posting errors and also waste of time to obtain the cheque details from the bank.

Recommendations

We recommend that when cheques are issued, all the necessary details are included in the cheque stub. These details should include the date of issue, supplier name, invoice number and amount paid.

7.3. Approval of cheque payments

Observation

During our testing of matching the invoices with the Schedule of payments, we encountered instances where the cheque number was either not included in the schedule of payments or the payment included in the Schedule of payments did not match the invoice paid. Please find below the list of the payments for which such shortcomings were noted:

Supplier	Amount	Date of inv	Inv No	Chq No
Karl De Flavia	335.00	05/11/2013	Oct-13	Set off
Karl De Flavia	1,560.00	01/10/2013	110/13	Set off
Solar Engineering	7,023.80	24/04/2013	n/a	155

Furthermore, we have noted that the Council is not issuing a cheque to the supplier Karl De Flavia for the payment of his services. The Council is setting off the balances due to the said supplier with the balances due to the Council in relation to the rental of the room within the Council premises.

Issues Arising

The council is obliged to maintain copies of the approved Schedule of Payments and should not issue any cheque payments before these payments are duly approved by Council in line with the *Local Council Procedures (1996) – Finance*.

Netting of supplier balances with receivable balances may lead to posting errors.

Recommendations

We recommend that for accounting purposes it would be neater if the Council exchanges cheques with Mr Karl De Flavia rather than just including a set off adjustment in the ledgers. This way the cheque payment would be properly included in the Schedule of Payments and it would be easier to trace the payments made to this supplier.

Furthermore, the Council should make sure that the cheque payments issued by the Council are included in the Schedule of payments and that the payments mentioned tally with the invoices received.

8. PAYABLES

8.1. Accounting for creditors

Observations

The value of balances due to suppliers as per note 20 to the financial statements amounts to €71,946. The Council is not carrying out regular reconciliation exercises between its records in the supplier ledger and the actual supplier statements. This observation was supported by the following factors:

- At year end, the creditors' list includes negative balances which relate to posting errors:
 - DHL International Limited for the amount of €426.16
 - Gareth Schembri for the amount of €360
 - Philip Attard for the amount of €93.30
 - South Region for the amount of €100.16
 - Wasteserv for the amount of €1,125.06
- The supplier account "I~~P~~ORT" had a negative balance of €311.92 and simultaneously, the same amount of €311.92 was payable to supplier account of "I~~P~~OR". The balances of both supplier accounts should have been nil. A reallocation is needed to net off both balances.
- The balance due to Wasteserv should read €3,705 instead of debit €1,125 as per correspondence received from the said supplier. From our testing we noted that the opening balance due to this supplier as at 1 January 2013 was understated by €4,830.
- Koptasin issued invoice 18509 dated 03/09/13 which was paid by cheque 11777 in February 2014. This invoice was not posted against the supplier account in the financial year ending 2013.

Issues Arising

While we understand that the Council clears supplier payments within 30 to 60 days and certain suppliers do not have the proper accounting set-up to provide statements on a regular basis, we are still of the opinion that periodically, formal checks with suppliers should be carried out in order to make sure that no payments or claims are outstanding or disputed. The Council is also not adhering to the requirements of Memo 08/2002 with respect to reconciliations with supplier statements.

Recommendations

For those suppliers who have an appropriate accounting system and provide regular statements, actual reconciliations should be carried out. Those suppliers who do not have a proper accounting set-up or they keep manual book-keeping records, the Council should seek confirmation in writing at least on a quarterly basis that the supplier in question is agreeing with the records of the Council. This kind of exercise is mostly applicable to suppliers who furnish goods or services to the Council on a regular basis.

Following our proposed audit adjustments, the financial statements have been amended accordingly.

8.2. Accrued Expenditure

Observations

The value of accrued expenditure forming part of note 20 to the financial statements amounts to €16,440 while the list provided to us by the Council's accountant amounts to €16,867, hence a variance of €427. The Council's list also includes a negative value of €8,281. Yet upon enquiry, the Council could not explain the difference between the varying values when these two data sources were prepared by its contracted accountant.

Furthermore, while testing the accruals we derived the below mentioned shortcomings:

- Water & electricity accrual reads €2,572.90 when it should read €992.75 – hence an adjustment is needed to eliminate the over accrual of €1,580.15.
- The Council included an accrual for services rendered by Wilson Mifsud for the period August to December amounting to €450. The invoice for this period was dated 31/12/2013 and hence the invoice should have been accounted for against the supplier account and not included as an accrual.
- The Council included an accrual for services rendered by Mark Grech which was invoiced through invoice number M13/13 dated 31/12/13 amounting to €1,160 and hence should have been accounted for against the supplier account and not included as an accrual.
- The below mentioned invoices have been accounted for as accruals but have also been posted in the suppliers accounts and hence the expense has been accounted for twice:
 - Aurelia Ent Ltd – Invoice 8376 dated 31/12/13 - €380.02
 - Police Dept – Invoice 44768 dated 31/12/13 - €452.65
 - Joe Bonnici – Invoice 8178 dated 31/12/13 - €246.74

Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely.

On another note, the above mentioned variances distort the amount due by the Council at any point in time to its creditors. It could also be a sign that creditors' balances are not being reviewed on a periodic basis and any variances or errors not adjusted for accordingly.

Recommendations

We recommend the Council to prepare accounts in compliance with the "accruals concept" of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Invoices received or dated after year end should be checked carefully to determine if any amounts should be accrued for and included in the correct accounting period.

Please note that all supplier invoices are to be duly accounted for when received and payments are allocated against them when issued. On a regular basis the Council should request the necessary supplier statements and confirmations from its creditors to ensure that its balances are correct and adequately reconciled. Further to that, the Council should undertake an exercise to review all creditors and ensure that all balances at period end are correct

We proposed several audit adjustments; however the council failed to account for the proposed adjustments appropriately.

8.3. Government Grant – Deferred Income

Observations

The Council received a grant of €7,951 to improve accessibility in the administrative offices, another amount of €13,055 for resurfacing and €21,748 for lamp posts. In line with the policy communicated

by the Department for Local Councils, this grant should be accounted for in line with IAS 20 – Accounting for Government Grants and Disclosures using the income approach.

In summary, this approach entails that a grant financing a capital item should be accounted for as deferred income and released to the Statement of Comprehensive Income in annual portions equivalent to the depreciation generated on the asset being financed.

The Council seems to have recognised and disclosed the said grant in line with the provisions of the respective IAS 20 but we derived the below variances:

	Long Term	Current term	Release
	€	€	€
As per FS	32,815.00	4,081.00	3,820.03
Should read	32,038.86	3,767.35	4,909.56
Variance	776.14	313.65	(1,089.53)

On another note, note 19 of the financial statements lacks disclosure of the year's apportionments in respect to the above mentioned grants received. A disclosure note should be included as per below:

	€
1-2 years	3,333.22
2-5 years	7,899.06
5+ years	20,806.48
Total	32,038.86

Furthermore, we have noted that the Council accounted for capital expenditure amounting to €33,269 which was expenditure incurred for a project which was covered by the Gardmed grant. In relation to this, the Council failed to account for the release from the Statement of Comprehensive Income which is equivalent to the depreciation.

Issues arising

The Council's calculations of the deferred income are not in line with the required accounting treatment for grants as per IAS 20.

From further analysis it transpires that these differences could be originating from the fact that the Council had depreciated the installation of the lift at a split rate of 10% and 7.5%. This erroneous approach to depreciation has distorted also the approach to the accounting methodology of the related deferred grant.

Recommendation

The Council should follow the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Grants in this regard and once these assets are capitalized, accounts for deferred income as a long term liability, and once the project is capitalized, releases from the deferred income balance an amount equivalent to the depreciation charged on these assets to the Comprehensive Income Statement on an annual basis.

We recommend that the Council prepares a spreadsheet for the release working for the capital expenditure incurred in relation to the Gardmed project so that the Council can account for the release to the Statement of Comprehensive Income equal to the depreciation charged.

Even though we proposed several audit adjustments and sent the draft management letter; the council failed to account for the proposed adjustments appropriately and amend the financial statements accordingly.

8.4. Contractors' guarantees

Observations

Included in the value of payables at year end is the amount of €770 representing contractors' guarantees. As per point 2.4 of this management report, this amount should have been allocated to penalty income.#

Issues arising

The guarantees withdrawn by the Council in compensation for damages should have been recognised as income to sustain the corresponding repair probably recognised as repairs and upkeep in the Statement of Comprehensive Income.

The standard chart of accounts released by the Department of Local Councils with the Local Councils Procedures (1996 – Finance) specifically contain a nominal account in the income section related to this kind of guarantees withdrawn.

Nonetheless, the Council has retained the amount of €770 with liabilities and thus overstating the liabilities and understating income for the year. In view of this, we have recommended an audit adjustment to rectify this matter.

Recommendation

While it is correct that the Council should account as a liability, monies which are temporarily held as a form of guarantees or otherwise, if the event happens that this temporary withholding of monies legally becomes titular to the Council, then the Council should recognise the amount immediately as income. Following our proposed audit adjustment, the financial statements have been amended accordingly.

8.5. Advanced Payments

Observations

The value of advance payments as per note 20 to the financial statements amounts to €6,418. Included in this balance is an opening balance of €5,242.33 which relates to rental income which was not reversed by the Council.

There is also included an opening balance of €1,265 of which the Council did not provide us with any explanation.

The Council received a payment of €12,000 in 2013 in respect of the rental of the Kiosk which covers the period commencing 26th May 2013 to 25 May 2014. The Council did not account for the balance of €5,917.81 being the 2014 pre-paid portion. Refer to paragraph 2.3 of this management letter.

Issues Arising

Failing to appropriately account for the deferred income correctly and completely may lead to errors in the Financial Statements such as income and liabilities being misstated.

Recommendations

The Council should check the supporting documentation with respect to income and account for the portion of deferred income correctly by checking the dates which such income relate to. We urge the Council to address the short-comings highlighted. We proposed an audit adjustment; however the council failed to account for all the proposed adjustments appropriately.

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, we have emphasised this matter in our audit report.

Recommendations

Unless otherwise instructed from the Department of Local Councils, the Council should seek to insert the budget figures to be in line with the respective Financial Regulations.

9.2. Disclosures required in respect of certain IFRS

Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements are not compliant in all respects with the requirements of these standards and in fact we noted recognition, measurement and disclosures which are not in line with the requirements emanating from International Financial Reporting Standards.

Issues Arising

The Council's financial statements lack certain disclosure requirements arising from the following accounting standards:

- IAS 1 – Presentation of Financial Statements.
- IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 24 - Related Party Disclosures.
- IFRS 7 – Financial Instruments: Disclosures

In view of the lack of appropriate disclosures, we have qualified our audit report in this respect accordingly.

Recommendation

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary recognition, measurement and disclosures be made in line with these standards.

9.3. Comparatives

Observations

The Council has errors in comparatives in the Statement of Financial Position in respect of note 15a 'Property, Plant & Equipment'.

Furthermore, note 22 (c) the balance of Wasteserv for 2012 should read €0

Issues Arising

Please note, that should there be a requirement to adjust comparatives these should be undertaken in line with the requirements of IAS 1 – Presentation of Financial Statements and IAS 8-Accounting Policies, Changes In Accounting Estimates and Errors.

Recommendations

The Council should ensure that comparatives are only adjusted when it is required to do so in view of a material error or a change in accounting policy and should they be required to be adjusted, these are to be revised in line with the requirements of IAS 1 – Presentation of Financial Statements and IAS 8-Accounting Policies, Changes In Accounting Estimates and Errors.

This issue was not addressed, even though a draft copy of the management report was sent to the Council before the Council's second approval of the financial statements.

10. GENERAL

10.1. Financial Statements presentation and accounts

Observations

Following our review of the financial statements for compliance in line with IFRS and Local Councils Procedures (Audit) we identified areas and disclosure which need attention.

Issues Arising

During our review of the financial statements we noted the following areas which need attention:

- The 'Statement of Profit or Loss' on page 4 of the FS should read 'Statement of Comprehensive Income'.
- Income from Bye Laws should be disclosed separately under the heading 'Income' in the 'Statement of Comprehensive Income'
- Since there is a prior year adjustment the Statement of financial position should include four columns such as 2013; 2012 (as restated); 2012 (as previously stated); and 2011 (as restated)
- In page 5 in the Statement of financial position 'retained fund' should read 'retained earnings'
- In page 7 Statement of Cash Flows 'net cash (used in)/generated from operating activities' should read 'Net cash generated/(used in) operating activities'
- Property, plant and equipment should include the following:
 - Special Projects - 10%
 - Plants - 100%
 - Litter Bins - Replacement basis
 - Playground furniture - 100%

- Traffic signs - Replacement basis
 - Road signs – Replacement basis
 - Street Mirrors – Replacement basis
 - Street lights – 100%
- General Income Note 6 includes income received under Local Council Bye Law. This income should have been shown on the face of the Statement of Comprehensive Income as a separate item warranting a separate disclosure note.
 - The Statement of Financial Position should have shown the Comparative figures, 'As Original', before the prior year adjustment.
 - Statement of Comprehensive Income – Investment income is not correctly presented as a separate category underneath operating profit or loss just before profit or loss for the year.
 - No details were included referring to the IFRS updates, assessments and adoptions by the local council.
 - The accounting policies related to the below are missing:
 - Leases
 - Related parties
 - Aging of receivables and payables is missing.
 - Disclosure note 19 for long-term deferred grants does not include the year's apportionment.
 - Note 22 – Related parties is not adequate. The related parties and related party transactions were not all included.
 - Disclosure requirements in terms of IFRS 7 are missing.
 - No distinction between financial assets and financial liabilities.
 - The income received from Wasteserv amounting to €3,935 should be shown separately in note 6 under other government supplementary income.
 - Included with liabilities is account 4104 'Provision for LES Bad Debts' amounting to €43,391. This account is to be included with debtors as per chart of accounts.
 - The below casting errors were found in the financial statements:
 - Total Current Assets stand at €161,231 when should read €161,201
 - Total Assets stand at €965,101 when should read €965,071

Some of these short-comings above were addressed before the Council's second approval of the financial statements, but others remained unaddressed.

Recommendations

The council should be fully compliant with the International Financial Reporting Standards, respective Memos and Local Councils Procedures (2006 Audit) for the presentation of the Financial Statements.

10.2. Prior year adjustment

Observations

The Council carried out a prior year adjustment during the year amounting to €44,673. In line with the disclosures in note 13 to the financial statements, the amount of €3,300 represents a sale invoice issued in 2013 for an expense incurred in 2011; a balance of €35,737 which represents the reversal of creditor balances entered in previous years which should be nil; and the balance of €6,000 which

represents the reversal of rent received in previous years in respect of the kiosk which was never reversed.

Issues Arising

The prior year adjustment however was not appropriately recognised in the Financial Statements in line with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. For example, although the statement of financial position reflects the adjusted balances as at 31 December 2012, the Council should have also reflected the balances as at 31 December 2012 as previously stated.

Recommendation

The Council should follow the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Correction of Errors, in order to apply the correct treatment with respect to recognition and measurement and disclosure in respect of any prior year adjustments it undertakes.

Even though we sent the draft management report to the Council, the above mentioned issue has not been addressed.

11. INVENTORIES

11.1. Stock of Books and DVDs

Observation

The Council holds a considerable amount of books, which it published over the years. From preliminary verification of the stock control system in force to safeguard these books, it transpires that the stock is securely locked and not subject to pilferage. However, no proper stock control system and appropriate accounting is in force in accordance with the Local Councils Procedures (1996 – Finance) KLP 1/96 – P1.16(c).

The amount recognised in the financial statements stands at €13,799. However from our testing it transpired that there is some stock which is unaccounted for in the Financial Statements as well as other stock which is not appropriately valued in accordance with IAS 2 - Inventories.

The cost of the value of books sold in the Statement of Financial Position includes the amount of €2,198.19 which has been expensed in the Statement of Comprehensive Income as "publications". According to the list provided by the Council of books sold in 2013, the cost of the books sold amounts to €398 resulting in a variance of €1,800.19.

Issues Arising

Stock records should be updated at least every quarter and the amount of physical stock recorded is assigned the appropriate value in terms of IAS 2 – Inventories. This will enable the Council to ensure that the amount of stock physically in hand agrees to its records.

Furthermore, inventories should be valued at the lower of cost and net realisable value in terms of IAS 2 - Inventories. All stock has to be accounted for as a statement of financial position item and the stock movement released to the statement of comprehensive income on a periodic basis.

Recommendations

Stock records should be reconciled on a quarterly basis with a physical stock take and that the quarterly stock movement should be reflected in nominal account 5202 in the nominal ledger. The Council should establish the cost of each stock item, in order to be able to determine as to whether it is appropriate to recognise the stock at its cost or at its net realisable value. When the valuation

procedure is properly set up, the Council should ensure that the value is fully reflected in its accounting records.