



# Grant Thornton

An instinct for growth™

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21 April 2015

Dear Sir,

## **Financial statements for the year ended 31 December 2014**

During the course of our audit for the year ended 31 December 2014 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### **1 Previous management letter**

#### **1.1 Income**

We are pleased to note that the council accrued for all income from LES administration fees.

We again identified a difference between the council's income from LES administration fees and report 483 of the Loqus system (refer to note 2.7).

We did not encounter any instances where the council generated income which was not covered by a bye-law.

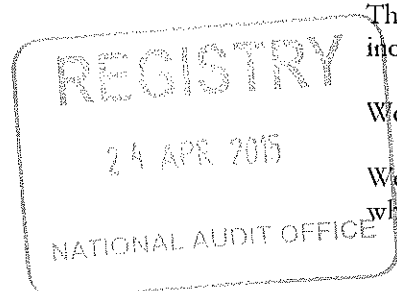
The council did not classify income properly in the financial statements (refer to note 2.9).

Rental income cut off was taken into consideration, however it was erroneously recorded as accrued income instead of deferred income (refer to note 2.11).

The council properly recorded non-refundable contractors' deposits received as income.

We did not come across any instances where the council did not issue a receipt.

We did not identify any donations received by the council on behalf of third parties which the council recorded as income.





The New Year's Eve event was not held this year and therefore we did not identify any exceptions similar to those reported in the previous management letter.

## **1.2 Personal emoluments**

Our wages reconciliation revealed a difference (refer to note 3.1).

Similar to last year, the council's personal emoluments were not properly disclosed in the financial statements (refer to note 3.3).

The council implemented the recommendation in the previous management letter and obtained excuse letters from councilors who were unable to attend meetings.

## **1.3 Expenditure**

We are pleased to note that the council followed the tendering procedures.

We identified one expenditure which could be regarded as a form of donation to third parties (refer to note 4.8).

The council did not obtain adequate tax invoices or receipts for some of its expenses (refer to note 4.10).

Certain purchases were not supported by a purchase order (refer to note 4.4).

The council did not make a call for quotations for all of the expenses exceeding € 1,165 (refer to note 4.5).

The council did not issue a call of tenders for street lighting repairs. Instead, it continued using the expired contract with Nexos street lighting (refer to note 4.12).

## **1.4 Property, plant and equipment**

The council followed the auditor's recommendation in the previous management letter and is now using the FAR module integrated in the accounting software.

There were no differences identified between the asset classes in the fixed asset register (FAR) and the financial statements.

The council wrote off the differences between the resulting FAR and the accounts to the income statement however (refer to note 5.1).

We noted that the register lacks certain descriptive details (refer to notes 5.7 and 5.9).

The council's assets are still underinsured (refer to note 4.15).

Computer software has been correctly disclosed as an intangible asset.

We identified a difference of € 3,714 in the council's depreciation charge for the year (refer to note 5.5).

## **1.5 Receivables**

We again identified a difference between the council's LES debtors at year-end and the tribunal pending payments as extracted from report 622 of the Loqus system (refer to note 6.1).



The council reversed opening accrued income incorrectly (refer to note 2.9).

No differences were identified in the council's prepayments at the end of the year.

We again identified discrepancies between customers' balances in the accounts and the amounts confirmed by the circularisation letters (refer to note 6.16).

#### 1.6 **Cash and cash equivalents**

No exceptions were identified in the council's year-end bank reconciliations.

The council has implemented the recommendation of the previous auditor regarding cheque stubs.

We duly noted that the council is including the details of cheque payments in the schedules of payment approved in meetings.

We did not identify any set-offs between customer and supplier balances in the council's books of account.

#### 1.7 **Payables**

The council cleared all debit balance in the creditors' list.

The council is still not performing reconciliations to statements as required by memo 8/2002 (refer to note 9.1).

We have again identified a difference between the accruals' list provided by the council and the trial balance (refer to note 9.6)

We did not identify any significant differences in our testing on accruals.

Similar to last year, the council did not account for deferred income in accordance with IAS 20 (refer to note 10).

The creditors' list of the council did not include non-refundable contractors' guarantees and these have all been recorded as income.

We again found that the council's advance payment for rent income was not accounted for properly (refer to note 2.11).

#### 1.8 **Other disclosures in the financial statements**

The council did not present the budgeted figures for 2014 with the financial statements (refer to note 12.5).

The financial statements of the council were not prepared in full conformity with International Financial Reporting Standards (refer to note 12.1).

As also noted by the previous auditor, the comparative figures presented in the financial statements do not agree entirely with the audited financial statements of last year (refer to notes 11 and 12.3).

#### 1.9 **General**

Income from bye laws was disclosed separately as required by the Financial Procedures.



The financial statements do not include the correct depreciation policy for certain items of property, plant and equipment (refer to note 12.3).

General and investment income have been disclosed separately in the income statement.

The financial statements do not contain a list of new standards applicable to the local council (refer to note 12.1).

We did not identify any casting errors in the financial statements.

The council did not pass any prior year adjustments in the unaudited financial statements.

#### 1.10 Inventories

The council did not follow the auditor's recommendation to disclose inventory at the lower of cost and its net realisable value as required by IAS 2 (refer to note 7).

## 2 Income

### Classification of other supplementary Government income

2.1 In 2014, the Department settled the amount of € 1,715 on behalf of the council in respect of prior year excess tipping fees. The council disclosed this amount with other Government income instead of other supplementary Government income in the unaudited accounts.

2.2 However, memo 1/2015 instructed councils to record this income with other supplementary Government income. Therefore, we proposed an audit reclassification, which the council approved, to present this income as such. This was correctly reclassified in the audited financial statements.

### General income

2.3 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples are:

Details	Receipt date	Deposit date	€
Vodafone	01.12.2014	10.12.2014	500.00
Lewis Kale - Isle of MTV	12.06.2014	20.06.2014	23.29
Luke Gatt food and drink	20.04.2014	02.05.2014	2,100.00

2.4 Apart from the security implications of leaving cash and cheques unnecessarily on the premises, this contravenes the Financial Procedure P.14.c.09. We recommend that the council adheres to the Financial Procedures and ensures that all receipts are deposited at least twice weekly.

### Custodial receipts

2.5 We also noted that the council failed to deposit cash collected on behalf of the regional committees and the Lands Department on a timely basis. Examples are:

Details	Receipt date	Deposit date	€
Lands Department	13.10.2014	17.11.2014	40.76
Lands Department	14.05.2014	06.06.2014	46.25
Lands Department	14.01.2014	21.01.2014	95.50
Regional Committee	05.05.2014	12.05.2014	147.00



- 2.6 We recommend the council adheres to the Procedures and deposits all cash collected from custodial receipts at least twice weekly.

**Income from regional committees**

- 2.7 We tested income from LES administration fees by reference to report 483 of the Logus system and determined that the income for the year is understated by € 163. No adjustment was proposed to correct this misstatement, due to the immateriality of the amount.
- 2.8 We recommend that the council investigates the difference and determine if the discrepancy relates to a mistake in the invoices issued to the regional committee or a misposting error.

**Reversal of opening deferred rent income**

- 2.9 We determined that the opening prepayment of bye-law income from rented advertising space of € 4,000 was reversed against a general income account. As a result, income from bye-laws was understated by € 4,000 in the unaudited financial statements.
- 2.10 We have proposed an audit adjustment to reclassify this income from bye-laws to the proper account. This reclassification was correctly reflected in the audited financial statements. We would like to suggest that income should always be disclosed properly in the financial statements according to its nature in line with the specimen financial statements of the Local Councils (Financial) Procedures, 1996.

**Rent income**

- 2.11 During the year under review the council issued an invoice for rent covering the period from May 2014 to May 2015. Rent received in advance was erroneously accounted for as accrued income instead of deferred income, overstating rent income by €3,409.59. We proposed an audit adjustment to reverse the error which was correctly reflected in the audited financial statements.
- 2.12 It is important that the council records receipts properly to ensure that, in this case, income is not overstated and deferred income is not overstated.

**3 Payroll**

**Wages reconciliation**

- 3.1 Our reconciliation of wages and salaries to FS5's revealed a difference of €2,981.45 resulting from an under accrual in the prior year.
- 3.2 We recommend that the council ensures that payroll expenditure reconciles to statutory documents as submitted to the Commissioner of Inland Revenue. Any discrepancies should be immediately investigated and rectified.

**Councillors' allowance**

- 3.3 It came to our attention that amounts disclosed for mayor's honorarium and councillors' allowances in note 10 to the audited financial statements do not reflect the amounts actually paid during the year. These amounted to € 6,868 and € 6,400, respectively.
- 3.4 We recommend that the council keeps separate accounts for the mayor's honorarium and allowance for ease of extraction. These amounts should then be reflected in the financial statements.

**4 Expenditure****Petty cash expenditure**

- 4.1 When testing petty cash payments we noted that most of these are supported by cash register chits. Examples include:

Details	Supplier	Date	Amount €
Tyre tube	Express Garage	12.03.2014	8.00
Permit fees for firework festival	Ghaqda Piroteknika	20.03.2014	20.00
Plants	Zammit Garden Centre	29.07.2014	19.00
Balloons for Fun Run	St Anne's Emporium	21.11.2014	10.70
Sugar and coffee	Firm Lorenzo Ellul	10.12.2014	20.02

- 4.2 We understand that, in some instances, only a cash register chit can be obtained for petty purchases. Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 because they do not have the name of the addressee and therefore there is no assurance that the purchase is in the normal course of the council's operations. To this end, we recommend that where possible the council obtains a valid tax invoice or a VAT receipt addressed to the council even for petty cash purchases.

- 4.3 We have also determined that the council does not reconcile the petty cash on a monthly basis. We recommend that the council reconciles its petty cash at least every month to ensure that the balance is always in agreement with the petty cash book and the accounts. Any differences should be investigated and reconciled immediately.

**Procurement procedures**

- 4.4 Our testing on cheque payments revealed that some purchases were not supported by a purchase order in accordance with the Local Councils Procedures. We were not provided with any evidence of the relevant purchase orders during our fieldwork. Examples include:

Supplier	Details	€
Horace Enterprises	Mementos and plaques	569.94
Horace Enterprises	Mementos and plaques	300.00
Mac Med	Macpherson paint	444.01
Vilhena Bank Club	March Floriana Day	932.00

- 4.5 Furthermore, the council did not obtain at least three signed quotations for the following purchases:

Supplier	Details	€
Yorick Mallia	Electricity consumption	1,189.02

- 4.6 We refer to the Local Councils Procedures which state that council purchases in excess of € 23.29 must be initiated through properly authorised written purchase orders. In addition, unless covered by a contract or purchase agreement, the council must obtain a minimum of one quotation for purchases not exceeding € 1,165 and at least three quotations for those between € 1,165 and € 4,658.



- 4.7 In its procurement process, the council is also bound by the requirements of memo 1/2010 and publish all calls for quotations on the Government Gazette and a local newspaper as instructed by the Department for Local Government.

#### **Donation**

- 4.8 When reviewing the cheque payments, we determined that the council purchased mementos and plaques from Horace Enterprises costing € 869.94.
- 4.9 The council should assess whether this is a form of donation. If there is any doubt, we recommend that the council seeks advice from the Department. Donations are contrary to section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation, whether in cash or in kind.

#### **Tax invoices or fiscal receipts**

- 4.10 It came to our attention that the council is still accepting computer-generated invoices which do not satisfy fiscal requirements. Some examples include:

Supplier	Details	€
Hamilton Travel	Airline tickets-Sicily	456.00
Kumpless Tan-Nar San Andrija	Supply of catherine wheels	900.00
Vilhena Band Club	Band March Floriana Day	932.00
Yorick Mallia	Electricity consumption	1,189.02

- 4.11 We understand that certain suppliers are not registered for VAT purposes in accordance with the new VAT regulations. However, the provision of a computer-generated invoice or receipt does not satisfy the requirements of the Financial Procedures which state that councils must obtain a valid tax invoice for all its purchases. Therefore, in instances where the council requests the services from a supplier who is not registered for VAT, we recommend that the council obtains a signed declaration from the supplier stating that he/she is not registered for VAT and/or that his/her annual income does not exceed the threshold of € 14,000. A copy of this declaration should be kept with the schedules of payments as sufficient evidence of the expenditure. However, it is evident from the selections above that some of these suppliers must be registered for VAT and therefore should provide a valid tax invoice.

#### **Expired contracts**

- 4.12 During 2014, the council made use of the expired contract between Nexos Street Lighting and Valletta Joint Committee for the services of street lighting repairs and maintenance under the same terms and conditions. This contravened memo 34/2013 which required the council to issue a call for tenders for the services of street lighting repairs until this is delegated to the respective regional committee. This is also against memo 10/2013, prohibiting councils from using expired contracts even if these are renewed in writing after the expiration date.
- 4.13 The council should note that the tender for street lighting repairs was adjudicated by Xlokk regional committee in 2015 and, as such, the requirements under memo 34/2013 have been superseded.
- 4.14 Nonetheless, we would like to refer you to memo 10/2013 which states that the council should not make use of expired contracts and should allow enough time to issue a fresh call for tenders and adjudicating it before the preceding contract expires.



### **Asset insurance**

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

<b>Asset</b>	<b>Sum insured €</b>	<b>Cost as per accounts €</b>
Plant and machinery, all contents, furniture and fittings	98,000	108,570
Glass	1,000	-
Electronic equipment	8,275	8,849
	<b>107,275</b>	<b>117,419</b>

- 4.16 The above illustrates that the council's plant and machinery, contents and furniture and fittings are not insured in line with their value. In this regard, the council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind you that the executive secretary is bound by section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage.

### **Group personal accident**

- 4.17 We also noted that the council's group personal accident policy covering the councillors, executive secretary and clerical staff is on a worldwide basis.
- 4.18 We recommend that the council updates the insurance policy accordingly to limit coverage to Malta only.

### **Travelling expenses**

- 4.19 During the year under review, the mayor travelled to Brussels for the official invite from the European Union and to the Ireland's Embassy. We were not able to determine total travelling costs since the council did not prepare a travel report
- 4.20 From our review of the council's expenditure, we determined that the council paid € 169.40 in subsistence allowance to the mayor in connection with this travel.
- 4.21 We remind the council that MF/5/2012 states that in the event that the council pays a subsistence allowance, it must prepare a report on each visit and submit it to the director responsible for corporate services by not later than one month after the visit. The report shall include a short explanation about the purpose of the visit, including the aims/goals of the visit, the delegate's personal remarks, the benefits achieved from such a visit, the officials to be alerted about the outcome of the visit and the issues to be followed up in Malta.
- 4.22 Since we were not provided with the information above, we were unable to satisfy ourselves that the amount recorded as travelling expenses is correct and in accordance with the travel guidelines issued by the Government.

## **5 Property, plant and equipment**

### **Reconciliation of fixed asset register to accounts**

- 5.1 We are pleased with the council's effort in compiling a fixed asset register as required by memo 1/2015. However, the resulting difference of € 5,372 between





the fixed asset register and the books of account was corrected by means of a current year adjustment of € 5,372 made up as follows:

	<b>Amounts written off €</b>
Cost	20,609
Accumulated depreciation	25,981
Net book value	<u>5,372</u>

- 5.2 We would still like to recommend that, in the future, the council carries out a proper stock take to confirm existence and condition, before writing any assets off the books of account. The council should also compile a list of assets being written off together with supporting details for future reference.
- 5.3 In addition to the above, we did not identify the council's approval to write off these fixed assets from the books of account.
- 5.4 We understand that the council may dispose of assets from time to time, either because the asset becomes obsolete, redundant, damaged, stolen or has been replaced. In all these instances, the council should approve the disposal of the asset in meetings and document the decision reached in the minutes.

#### **Depreciation**

- 5.5 Whilst testing the council's depreciation charge for the year, we found that it is overstated by approximately € 3,714 compared to our workings. We did not propose an audit adjustment to correct this difference since depreciation charge is an accounting estimate.
- 5.6 We would like to emphasise that the register should be constantly monitored and reconciled to the accounts since failure to do so may result in an incorrect depreciation charge being posted when the month-end procedure is run. We suggest that differences are investigated and variances in the asset categories in the fixed asset register and/or accounting records are adjusted accordingly.

#### **Upkeep of the fixed asset register**

- 5.7 We noted that the fixed asset register includes some assets which are not obsolete or unusable, such as a damaged laptop which was bought back in 2007.
- 5.8 The register should provide a checklist of assets held. Periodically the council should carry out a physical inspection of assets listed in the register to obtain assurance of existence and working condition.

#### **Details of fixed asset register**

- 5.9 We would also like to highlight the fact that items in the fixed asset register do not include the necessary details.
- 5.10 We recommend that every possible effort should be made so that the fixed asset register includes at least the following details:
- Description of asset
  - Date of purchase
  - Supplier details
  - Invoice number



- Asset tag code
- Cost
- Depreciation method and rate
- Location of the asset

5.11 Assets should also be tagged and referenced to the fixed asset register in accordance with the Local Councils (Financial) Procedures, 1996. This would enable the council to identify the assets and verify their physical existence and condition.

#### **Street signs**

5.12 The council accounted for street signs costing €459.70 as a capital purchase and depreciated them at a rate of 100%. This is not in compliance with the accounting policies adopted by the council.

5.13 The council approved to pass our proposed audit adjustment to expense the above expenditure. In accordance with the council's accounting policy and memo 1/2015, street signs are expensed under the replacement basis, because of their individually insignificant value and their frequency of replacement. This is not the same as 100% depreciation charge.

## **6 Debtors**

### **Pre-regional LES debtors**

6.1 During our audit tests, we identified that the council's LES debtors amounted to € 213,220 at year-end, while tribunal pending payments according to report 622 from the Loqus system was € 200,162. This represents a difference of € 13,057 for which the council did not provide us with any explanations. Hence we could not propose any audit adjustments.

6.2 Furthermore, the movement in tribunal pending payments as per report 622 since 1 January 2014 was of € 1,190 which contrasts the amount of € 1,130 as per report 483 for pre-regional contraventions settled during the year. This casts doubts on the integrity of the data being generated from the Loqus IT system. Due to this our audit report has been qualified.

6.3 We would like to remind you that it is the council's responsibility to investigate these differences and refer them to Loqus.

### **Provision on pre-regional LES debtors**

6.4 We identified that the council was carrying pre-regional LES debtors at € 61,515.80 in the unaudited financial statements. Therefore, we proposed an audit adjustment to increase the provision for doubtful LES receivables by this amount and write down the carrying amount to nil. This adjustment has been approved by the council and is incorporated in the final set of financial statements.

6.5 Following DLG's instructions, tribunal pending payments which have been outstanding for more than two years are to be provided for in full as doubtful.

### **Accrued income**

6.6 The accrued income list provided by the council does not agree to the trial balance by € 99. Although not significant, the council did not reconcile the difference.



- 6.7 We recommend that the council accounts for all accrued income and ensures that the list reconciles to the control account.
- 6.8 In 2014, the DLG approved a grant of € 3,000 to the council under the online streaming scheme as per memo 5/2014, payable over three years with the first instalment of € 1,000 made in 2014. We have proposed that the council reclassifies accrued income of € 1,000 to be received in 2016 as non current accrued income, however, this reclassification was not affected in the audited financial statements, but has been instead presented with trade and other receivables.
- 6.9 We recommend that the council makes the proper classification of receivables into their current and non-current portions in line with IAS 1, *Presentation of Financial Statements*, in order not to distort the liquidity position of the council.

#### **Receivable balance in dispute (DJS Trading)**

- 6.10 The council's debtors' list at year-end includes an amount of € 9,440 receivable from D J S Trading Limited, relating to a new year's activity held back in 2011/2012. The council is alleging that D J S Trading Limited, which was the organiser of the event, did not pay one of the main artists for his performance and therefore is claiming back the amount paid to the organiser so that it can pay off the artist. We were informed that the council has made numerous attempts to contact the organiser, but to no avail. We are not aware of the reason why the contractor did not pay the performer.
- 6.11 We would like to recommend that the council should not act as an advocate or arbitrator on behalf of third parties. Since the council's contract was with D J S Trading Limited and not with the performer, the council has no legal right to enforce payment by the contractor to the performer. Any claims or proceedings against the contractor can only be initiated by the performer with whom he has the agreement.
- 6.12 It is also advisable that the council discusses this matter in meeting as well as assesses the recoverability of this balance and write it off as appropriate.

#### **Long outstanding receivables**

- 6.13 In addition to the balance of € 9,440 from D J S Trading Limited, the council also has other long outstanding debtors, such as € 2,000 receivable from Green MT and € 1,174.96 from the Commissioner of Inland Revenue.
- 6.14 The executive secretary informed us that the balance of € 1,174.96 due from the CIR represents an overpayment more than five years ago which has not yet been refunded. The council should inform the Commissioner of this credit and requests a set-off over the coming financial year.
- 6.15 We recommend that the council follows up these and other overdue balances for collections. The Financial Procedures state that the executive secretary must ensure that income due or owed to the council is received on time and that he/she must maintain, review and monitor information on the current state of the debtors. If they remain doubtful, these should be considered for write off. Any decisions taken should be minuted in a council meeting.

#### **Debtors' testing**

- 6.16 As part of our audit procedures, we circularised confirmation letters to the council's trade debtors to verify the year-end balance. Two of these debtors, Water Services Corporation (WSC) and Xlokk Regional Committee did not agree with the amount as per council's books but confirmed € 3,300 and € 230.40 less, respectively.



- 6.17 The difference in the amount claimed from WSC and the confirmation is most probably due to invoices for trenching works carried out up till 2010 and which should have been settled a few years ago according to an agreement between local councils and the LCA. To this end, the council should communicate directly with WSC for explanations.
- 6.18 If these debtors are unlikely to settle, the executive secretary should notify the council in meeting about whether their balances should be impaired or written off in full. The books of account should be updated accordingly to reflect the council's decision.

## **7 Inventory**

### **Net realisable value of inventory**

- 7.1 The council's inventory at year-end comprises books and CD's for the purpose of resale and are carried in the financial statements at cost of € 15,203. However, upon analysing the movements for the year, it came to our attention that the council distributed 56 books and CD's as complementary compared to the sale of 64 items. This implies that the stocks of the council are recognised in the financial statements at an amount higher than their realisable value.
- 7.2 This is not in accordance with IAS 2, *Inventories* and generally accepted accounting principles that stocks should always be carried at the lower of their cost and their net realisable value. In view of this, the council should consider whether to record a provision against these inventories since they have no sales value.
- 7.3 We would also like to refer you to memo 7/2004 which requires councils to expense stocks if they are not held for resale.

## **8 Bank and cash**

- 8.1 The council did not provide us with a bank statement up to 31 December 2014 for an HSBC Savings account (but only up to 2 October 2014) and for a BOV Savings account (but only up to 24 December 2014).
- 8.2 We recommend that the council obtains bank statements as at year-end to ensure no movements have taken place and that the correct balance is included in the books of account at year end.

## **9 Trade and other payables**

### **Trade creditor reconciliations**

- 9.1 The council did not obtain statements from all suppliers to confirm the year-end balances. Memos issued from time to time by the DLG specifically state that the council should obtain monthly statements.
- 9.2 We remind the council that these statements are important for a sound accounting system to ensure that creditors are correctly recorded in the accounts. Reconciliations to supplier statements are beneficial because they highlight any differences from recorded amounts such that these can be promptly investigated.
- 9.3 In our reconciliation of the creditor balance of WasteServ Malta Limited to the confirmation reply we found that the supplier is claiming €3,351 more than what is being reported by the council. This difference was not reconciled by the council.



- 9.4 A further difference was also identified in the creditor balance of Smart Office Supplies. The supplier confirmed that an amount of €280.22 was due by the council at year-end, as opposed to €62.52 according to the council's accounts. The council provided us with a reconciliation for the difference identified.
- 9.5 We recommend that the council investigates these differences and determines whether all purchase invoices have been posted in the books of account. The council should also implement proper controls over payables by performing reconciliations to supplier statements on a regular basis to ensure completeness of creditors.

#### **Accrued expenditure**

- 9.6 The accruals' list provided by the council does not agree with the trial balance by €82. We did not perform any procedures on this differences because of its insignificance.
- 9.7 We recommend that the council determines the source of this difference so it can be correctly allocated.

### **10 Grant accounting**

#### **Release of grants to income**

- 10.1 During the year under review, the council received grants of €1,000 under memo 56/2012 (book box), €2,300 under memo 5/2014 (live streaming equipment) and €6,159 for Project Silo 2012. The council erroneously recorded these receipts as current year income.
- 10.2 The council approved our audit adjustment to record these grants of €9,459 as deferred income and release them to the income statement based on the income approach to match the costs to which they are intended to compensate. The audited financial statements of the council reflect this adjustment.
- 10.3 Further to the audit adjustment above, the council also agreed to increase the current year's income from grants by €15,042 by means of another audit adjustment to correct the release for the current year and these prior year errors:
- The grant on the GARDMED project undertaken back in 2010 was partly towards revenue expenditure and partly towards capital expenditure. The council recorded all of this grant in deferred income instead of releasing the part of the grant relating to revenue expenditure when that expenditure was incurred. IAS 20, says that "a grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognised as income in the period in which it is receivable". In view of this, our audit adjustment records as income that part of the grant that was received to cover expenses not of a capital nature.
  - Professional costs on the Silo Project amounting to € 1,352.34 were expensed in 2012 while the related grant was recorded in deferred income. This audit adjustment releases this grant to income in full this year in order to match the expense to which it was intended to compensate.
- 10.4 This adjustment was approved by the council in meeting and is incorporated in the final set of financial statements.
- 10.5 We refer the council to memo 1/2015 and the accounting policies set out in its financial statements which state that grants from the Government are to be treated under the income approach as laid down in IAS 20, *Accounting for Government Grants*



*and Disclosure of Government Assistance.* Under this approach, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge. The council should also compile a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate of assets.

#### **Reclassification of current and non-current portion of deferred income**

- 10.6 We proposed an adjustment to reclassify the non-current portion of deferred grants of € 54,105.90 to be released to profit or loss after more than one year. The council approved this reclassification which is included in the latest set of financial statements.
- 10.7 We would like to remind the council that the apportionment should be based on the period within which the income from the grant is expected to be released to the income statement.

### **11 Opening balances**

- 11.1 During our audit tests on opening balances, it came to our attention that the comparative figures for trade and other receivables and retained earnings differ from last year's audited accounts by € 457.
- 11.2 The council followed our recommendation to adjust the comparative figures as outlined above and these were correctly reflected in the audited financial statements.
- 11.3 Furthermore, the trial balance, relating to the period ending 31 December 2013, provided to us did not agree to the comparative disclosed in the audited financial statements by € 158. We were not provided with explanation of such difference.
- 11.4 Therefore we recommend that when preparing the financial statements, the council ensures that the amounts for the preceding year have been properly rolled forward.

### **12 Financial statements**

#### **Presentation of financial statements**

- 12.1 In accordance with the Department's communications and instructions, local councils have to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS). However, the financial statements are not IFRS compliant in the following instances:
- i. The council's financial statements do not give all the quantitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*. These include information on receivables past due but not impaired, the council's maximum exposure to credit risk, the contractual maturities of financial liabilities and categories of financial assets and liabilities.
  - ii. The council did not disclose the list of all relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements. The council has disclosed the above mentioned list after our notifications. However the list is not updated.
  - iii. Disclosure of a reconciliation of the provision for doubtful LES receivables in line with IFRS 7.



- 12.2 Our audit opinion has been qualified in respect of the short comings mentioned in points i and iii.
- 12.3 We have also identified the following exceptions in the audited set of financial statements:
- i. A maturity analysis of deferred income was not disclosed in accordance with NAO's instructions.
  - ii. The accounting policy for property, plant and equipment does not specify that street signs and litter bins are on a replacement basis.
  - iii. The comparative figures for trade and other receivables and retained earnings differ those reported in the prior year signed financial statements by € 457. These were amended after our notifications.
  - iv. The council did not disclose the accounting policies for inventories and leases in the financial statements. These policies were included in the audited financial statements after our notifications.
- 12.4 We recommend that the council addresses these issues when preparing financial statements and makes the necessary adjustments.

#### **Budgeted figures for 2014**

- 12.5 Budgeted figures for the year were not disclosed in the financial statements as required by the Local Council (Financial) Procedures. Consequently our audited opinion has been qualified.
- 12.6 We recommend that the council complies with the relevant Procedures and in addition to the actual figures for the current and preceding financial years, the income statements disclose the estimates made by the council for the year being reported upon.

#### **Capital commitments**

- 12.7 Whilst reviewing the council's budget for 2014, we noted that the council is anticipating capital expenditure of €136,471. On the other hand, capital commitments disclosed in the financial statements amount to €105,221, that is a difference of € 31,250.
- 12.8 We recommend that capital commitments as disclosed in the financial statements agree to the budget so that the financial statements accurately reflect the council's future capital commitments. We also recommend that the council states how this expenditure is to be funded, such as by means of a grant or by internally generated funds. This gives a more complete of the council's future capital expenditure plans in accordance with the Procedures and IFRSs.

### **13 Annual budget**

- 13.1 The council provided us with an unsigned copy of the budget which was approved at the meeting held on 17 February 2015.
- 13.2 This contravenes the provisions of section 56 of the Local Councils Act, 1996 stating that the budget must be prepared and approved by the council not later than 15 February of each year. 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.



## **14 Quarterly reports**

- 14.1 It was also noted that the quarterly financial reports are not being compiled and presented to the council on time in accordance with the Local Councils (Financial) Procedures B1.01 d.06. For instance, the quarterly financial report for the fourth quarter of 2013 was presented to the council on 17 March 2014, while that for the second quarter of 2014 on 2 October 2014.
- 14.2 We recommend that the executive secretary presents the quarterly financial reports to the council for its consideration within two weeks after the end of each fiscal quarter and compare the quarter's results against the budget.

## **15 Administration**

### **Binding of minutes**

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

### **Duration of meetings**

- 15.3 As we reviewed the minutes of the council, we identified that meetings 30, 35, 38, 39 lasted for more than three hours.
- 15.4 Unless otherwise determined by the unanimous decision of the councillors, memo 68/2009 and section 43(3) of the Local Councils Act state that council meetings shall not exceed three hours.

## **16 Electronic site**

- 16.1 We noted that the council did not upload signed copies of the following documents on the website of local councils:
- Meeting minutes 33 and 35
  - Schedule of payment 40
  - Financial statements for 2013
- 16.2 Although not mentioned in memos 36/2011 and 2/2014, we would still suggest that the council uploads the signed documents to indicate that these are the final documents as approved by the council and have not been changed or updated subsequently.

## **Conclusion**

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.





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

Yours faithfully,