



# Grant Thornton

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Our ref ABC/scl/029416

28 April 2016

Dear Madam,

## Financial statements for the year ended 31 December 2015

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

### 1 Previous management letter

#### 1.1 Income

Excess tipping fees settled by the Department was correctly classified as other supplementary Government income. However further differences were noted (refer to note 9.4)

We are pleased to note that after our recommendation the council is depositing receipts from general income or custodial receipts at least twice weekly.

We again found that LES administration fees are understated (refer to note 2.18).

The council failed to classify income properly in the financial statements (refer to notes 2.12 and 2.13).

#### 1.2 Personal emoluments

The personal emoluments' reconciliation to FS5 did not agree (refer to note 3.1).

Mayor's honorarium and councillors' allowances disclosed do not reflect amounts paid during the year (refer to note 3.3).

#### 1.3 Expenditure

Not all of the petty cash payments selected during our testing were supported by an invoice addressed to the council (refer to note 4.1).

Petty cash is still not reconciled on a monthly bases (refer to note 8.10).

Certified Public Accountants

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Payments selected were supported by a purchase order.

Call for quotations was adequately made for all tested expenses exceeding € 1,165. However we found instances where the council did not obtain quotations for expenses not exceeding €1,165 (refer to note 4.4).

We did not identify expenditure considered to be regarded a form of donation to third parties.

The council continued using the expired contract with Nexos Street Lighting until new tender was adjudicated for the Xlokk regional committee in 2015.

We are pleased to note that the council's assets have been adequately insured.

Group personal insurance policy is not limited to Malta only (refer to note 4.8).

Travelling report was prepared in accordance with MF/5/2012 circular.

Differences were noted when reconciling FAR to books of account (refer to note 5.1).

The council followed our recommendation in the previous management letter and approved disposals of assets in the council meeting.

A difference was still identified in the depreciation charge (refer to note 5.3).

Obsolete assets in the fixed asset register were identified by the council. However, the council did not account for such disposals (refer to note 5.12).

Fixed asset register includes the necessary details in accordance with the Local Councils (Financial) Procedures, 1996.

The replacement basis was not correctly applied to new street signs acquired during the year (refer to note 5.5).

## 1.4

### Receivables

We again identified a difference between the council's IES debtors at year-end and the tribunal pending payments as extracted from report 622 of the Logus system (refer to note 6.4).

Tribunal pending payments which have been outstanding for more than two years were fully provided for in accordance with DLG's instruction.

The council's accrued income list did not agree to the book of accounts (refer to note 2.7).

No follow up was made by the council on D J S Trading Limited (refer to note 6.10).

Outstanding balance from Green MT was fully written off during the year. However the accounting treatment was incorrect (refer to note 4.14).

The council informed CIR regarding FSS overpayment and the outstanding amount of € 1,174.96 was set off against the current year's FSS as recommended in our previous management letter.



We again encountered instances where trade debtors are claiming less than the amount recorded in the books of account (refer to note 6.13).

**1.5 Inventory**

Inventory is still being recorded at a value higher than its net realisable value (refer to note 7.3).

**1.6 Cash and cash equivalents**

The council did not provide bank statements up to 31 December 2015 for all bank accounts (refer to note 8.5).

**1.7 Payables**

Not all suppliers' statements are obtained (refer to note 9.3).

We still came across differences when performing alternative confirmation procedures' testing for trade creditors (refer to notes 9.4).

The accruals' list provided by the council correctly agreed to accruals in the books of account.

**1.8 Grant accounting**

We identified some irregularities with regards to Government grants income (refer to note 10).

**1.9 Opening balances**

The council followed our recommendation to adjust comparative figures in the prior year. However this was incorrectly accounted for in the books of account (refer to note 6.6).

The trial balance provided to us balanced but does not agree to the unaudited financial statements (refer to note 17.1).

**1.10 Financial statements**

The financial statements are still not IFRS compliant (refer to note 11.1).

The unaudited financial statements for 2015 include IFRS presentation errors (refer to note 4.14, 4.15 and 11.1).

The council's financial statements are not in accordance with the requirements of the Local Council's Financial Procedures (refer to note 11.4).

The council's disclosure of capital commitments in the financial statements does not agree to the budgeted capital expenditure (refer to note 11.11).

The council approved the annual budget 2016 before 15 February 2016 as recommended.

Quarterly reports were not compiled and presented to the council in time (refer to note 16.1).

We are pleased to note that the council followed our recommendation and bound all meeting minutes.



We still encountered an instance where council meeting lasted more than three hours (refer to note 13.1)

The council correctly uploaded signed meeting minutes and schedule of payments as recommended.

## 2 Income

### Accounting for income

- 2.1 During 2015, the council organised 'Genna Ta' Gonna' as part of its cultural events. The total cost spent by the council on this festival amounted to € 6,267. On 6 April 2015, the Department of Local Government (DLG) approved to partly finance the festival by funding the amount of € 3,000 as offered by memo 27/2014. Such amount was not forwarded to the council during the year. However, since the council incurred the cost in 2015, we proposed an audit adjustment of € 3,000 to record this amount as income and accrued income for the year in accordance with the accruals concept. The council has reflected the adjustment in the audited financial statements.

- 2.2 In addition to the above, the council incurred travelling and subsistence allowance costs amounting to € 3,154.42 relating to Project MT04/1 'A Partnership for Creative Governance' which will be reimbursed by DLG upon presentation of fiscal receipts. Also in this case, costs were incurred in 2015 and therefore we proposed an audit adjustment of € 3,154.42 to record the income and accrue as appropriate.

- 2.3 Moreover, we were provided with the signed contract agreement dated 2012 between Floriana Local Council and the Housing Authority with respect to 'Nisahn il-komunita. Rigenetazzjoni Fogsma tal-binjiet tal-gvern project'. This binding contract states that the Housing Authority will finance this project. The council did not accrue for the income in the prior years but instead disclosed € 48,221 as a contingent asset. During our audit procedures we also noted that the council completed the first part of the project amounting to € 17,982.08 which was partly accounted for as capital expenditure and partly as revenue expenditure. The second part of the project was completed in January 2016 and amounted to € 10,500. An audit adjustment was proposed to accrue for the above mentioned grants. The adjustment has been properly reflected in the audited financial statements.

- 2.4 In accordance with IAS 20, "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." Hence, the income has to be matched with the costs already incurred by the council. We remind the council to make appropriate provisions in accordance with International Financial Reporting Standards and generally accepted accounting principles.

- 2.5 In October 2015 the council received € 1,000 regarding a grant receivable from Transport Malta with respect to the 'Car free day' event. The council has incorrectly accounted for the grant as a debtor as well as accrued income in 2014, thus accounting for the same income twice. In order to rectify the error we proposed an audit adjustment and the council approved to reverse the incorrect accrued income of € 1,000 to the statement of comprehensive income.

- 2.6 It is important to distinguish between accrued income and debtors in order to avoid the possibility of double accounting in future.



2.7 The accrued income list provided by the council does not agree to the trial balance by € 99. This difference is carried forward from the prior year. Although not significant, the council should reconcile the difference.

2.8 We recommend that the council accounts for all accrued income and ensures that the list prepared reconciles to the account.

#### **Omitted income**

2.9 The accrued income balance includes an amount of € 3,000 with regards to memo 05/2014: 'Online streaming scheme'. On 7 October 2015 the council received a portion of the grant amounting to € 1,000; however it was not accounted for. To this end, we proposed an audit adjustment and the council approved in the audited financial statements to record the omitted receipt and reverse accrued income.

2.10 We performed a proof-in-total test of bank interest receivable and noted a difference of € 46.98. We noted that the council did not record interest received in the APS savings bank account and hence we proposed an audit adjustment and the council approved to credit interest income and debit bank account with this amount.

2.11 We recommend that the council records income received in accordance with International Financial Reporting Standards and generally accepted accounting principles.

#### **Classification of income**

2.12 The council has recorded income of € 4,658.33 generated from advertisement by-law in the wrong nominal account that is general income. We proposed an audit reclassification and the council approved to disclose income properly in the financial statements.

2.13 We also noted that general income and bye-law income are not disclosed separately on the face of the financial statements as required by the Financial Procedures.

2.14 In addition, we noted that the council classified the € 1,000 received from Regiun Xlokk with respect to the termination of the authorised officer contract as other government income. A reclassification was proposed and the council approved to reclassify IES income to a separate account and disclose separately in the financial statements.

2.15 We recommend that the council discloses income properly according to its nature and in accordance with the specimen financial statements in the Local Councils Procedures.

#### **Custodial receipts**

2.16 During our audit we noted that the council is not reconciling cash collected on behalf of the Lands Department to deposits made.

2.17 We recommend the council prepares detailed daily report of all cash received during the day, including a reconciliation between deposits and the relevant receipts as required by the Financial Procedures.

#### **Income from LES administration fees**

2.18 As part of our audit procedures we computed income generated from LES administration fees by reference to Logus report 483 and noted that income is understated by € 145. No explanation was forthcoming for this difference.



- 2.19 We recommend the council investigates the difference and determines if the discrepancy relates to a mistake in the invoices issued or a misposting error. We also recommend that the council performs monthly reconciliations to Logus report 483 so any differences are identified and investigated immediately as they arise.

### **3 Payroll**

#### **Wages' reconciliation**

- 3.1 The council did not prepare a wages' reconciliation. Meanwhile our reconciliation of FS5s to payroll expenditure revealed a difference of € 1,725.90. Further testing revealed that the difference was partly due to a double posted payment to CIR of € 1,229.63 (refer to note 6.18). No explanation was provided for the remaining difference of € 496.27, hence no adjustment could be proposed.

- 3.2 We strongly recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue. In addition, it is advisable that the council prepares a wages' reconciliation to reconcile payroll expenses to FS5s at least on an annual basis to identify any discrepancies before the finalisation of the accounts.

#### **Personal emoluments classification**

- 3.3 During our audit fieldwork we also noted the following wrong classifications in personal emoluments:
- i. mayor's allowance of € 800 was incorrectly recorded as mayor's honorarium
  - ii. mayor's honorarium amounting to € 117 was incorrectly accounted for as employees' wages

- 3.4 In addition to the above we also noted that personal emoluments were disclosed incorrectly in note 7 in the financial statements. The councillors' allowances are understated by € 400 whereas the mayor's remuneration is overstated by € 400.

- 3.5 To this effect, we recommend that the council complies with the specimen financial statements laid down in the Local Councils (Financial) Procedures and discloses the mayor's allowance separately from the honorarium.

- 3.6 We also recommend that the council keeps separate accounts for the mayor's honorarium and allowance for ease of extraction.

#### **Payment of overtime**

- 3.7 It came to our attention that in some instances, the council paid overtime to employees without obtaining approval. Overtime payments totalled € 3,682.01 in 2015.

- 3.8 We recommend that the council monitors the working of overtime and ensures that overtime is duly justified, approved and documented before issuing payment.

#### **Taxation of councillor's allowance**

- 3.9 During the financial year under review one of the councillors' allowances was taxed under the part-time rules at the rate of 15%.
- 3.10 This is against the instructions given in memo 26/2010 stating that councillors' remuneration must be taxed at the personal progressive tax rates. The council should rectify this shortcoming.



**Councillors' allowances**

3.11 When reviewing the minutes, we noted that two councillors failed to attend some meetings yet the full annual allowance was paid. We did not identify a letter of excuse or circumstances which supported these councillors' absence from these meetings.

3.12 In accordance with memo 89/2009, the allowance given to the mayor and the councillors should be paid in proportion to the number of meetings they attend out of all meetings held. However, if one of the above has a valid reason for not attending, he/she must submit a letter to the executive secretary justifying the reason for his/her absence. The reason behind the absence shall be discussed by the council and the executive secretary has to attach the letter to the minutes. Accordingly, the council has to deduct the appropriate allowance where councillors failed to attend meetings and no valid reasons for their absence were minuted (with letter attached).

3.13 Moreover, it was noted that one councillor failed to attend more than one-third of the meetings called within a period of six months. The Local Councils Act stipulates that the Minister should have been informed of the absence and if due to a justifiable cause, transmit its recommendation not to declare the seat vacant.

3.14 We remind you that councillors are obliged to attend all meetings under section 18 of the Local Councils Act. On the other hand, the council must consider the reasons for excuse in meeting for acceptance and document the approval or otherwise in the minutes of the council.

**4 Expenditure**

**Petty cash expenditure**

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

Details	Supplier	Date	€
Printing of photos	Telstar Photo Studio	11.03.2015	20.00
Radio	Stall 84	11.06.2015	13.00
Sun cream	Vilhena Pharmacy	31.06.2015	16.95

4.2 Furthermore, the council did not have proper third party documentary evidence for the following petty cash expense:

Details	Supplier	Date	€
Tips-Waiters Reception 21 Jan	Clyde Confectionery	26.01.2015	20.00

4.3 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures, 1996 which state that supplies are only made on the provision of a valid invoice which is addressed to the council. To this end, we recommend that, where possible, the council obtains a tax invoice or a VAT receipt addressed to the council for all purchases.



**Procurement procedures**

- 4.4 We could not trace the following purchases to at least one quotation:

Details	Supplier	€
Toners	Smart Office Supplies	504.27
Catering for an event	Dolceria Clyde	815.75
Mementos for Floriana day	Victor Azzopardi	200.00

- 4.5 The council should follow the quotation requirement stipulated in the Local Councils Financial Procedures for purchases between € 23.29 and € 4,658.

**Street lighting**

- 4.6 During the year, the council continued to make use of the expired contract for the services of street lighting repairs and maintenance.

- 4.7 This contravenes memo 34/2013 which requires 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 in breach of memo 10/2013, prohibiting councils from using expired contracts even if these are renewed in writing after the expiration date.

**Accident insurance**

- 4.8 Whilst reviewing the council's policy we noted that personal accident insurance is on a worldwide basis.

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

**Parking permits**

- 4.10 Whilst testing expenditure accounts we noted that the council paid € 708 parking permit fees to the Scouts Association on behalf of two employees of the council. This is considered to be a private expense borne by the council.

- 4.11 The Fringe Benefit Rules state that if a private expense is borne by the employer this is considered to be a fringe benefit, and must be declared as such in the FSS forms. To this end, we recommend that the council fully abides to these rules and declares fringe benefits as appropriate.

**Tendering procedures**

- 4.12 When reviewing the tenders awarded in the current year we found that no performance bond/guarantee was obtained for tender FLC/T/4/15, the cleaning of gardens and public conveniences services and for tender FLC/T/5/15, the resurfacing and patching of roads services.

- 4.13 We recommend that the council requests a performance bond not only to adhere to the Local Councils (Tendering) Procedures, 1996 but also to ensure that the contractor performs and completes all works in accordance with the tender agreement. The Procedures also state that the performance bond shall remain valid throughout the contract period and at least until one month after the completion date of the contract.





**Offsetting of income and expenditure**

4.14 According to the agreement between the council and Green MT, the latter pays the council for excess tonnage of recycled waste deposited at the landfill. The compensation was not paid in cash but in kind, specifically sponsoring 'Clean up event' held in Floriania. Outstanding amounts of € 4,000 were fully written off and netted off against sponsorships income in the income statement. We proposed an audit adjustment and the council approved in the audited financial statements to transfer Green MT debts written off to bad debts expense account as appropriate.

4.15 The council also received sponsorships amounting to € 1,230 from different sponsors with respect to the St Patrick's Day event held during the year. The council netted off such income against cultural event expenses instead of recording them separately in the sponsorships income account as appropriate. We proposed an audit reclassification and the council approved to transfer sponsorship income to income account.

4.16 This accounting treatment contravenes IAS 1, *Financial Statements: Presentation* which sets out that offsetting of income and expenses is only allowed unless it is permitted by an IFRS and there is a legal right to set-off.

**5 Property, plant and equipment**

**Reconciliation of fixed asset register to financial statements**

5.1 Whilst the register agrees to the nominal ledger, we identified the following variances in the classes of fixed assets:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Construction	435,417	431,366	4,051
Office, furniture and fittings	18,844	18,621	223
Street signs	-	-	-
Urban improvements	215,517	200,195	15,322
Office equipment	11,241	11,211	30
Plant and machinery	15,976	15,660	316
Computer equipment	1,913	1,809	104
Special programmes	-	-	-
Computer software	1,512	1,433	79
	<b>700,420</b>	<b>680,295</b>	<b>20,125</b>

5.2 We recommend that the council investigates these variances and updates the fixed asset register and/or accounting records accordingly.

5.3 Moreover, when testing depreciation for reasonableness, we noted that the council's depreciation charge for the year is overstated by € 16,242 according to our workings. Our calculation was based on the financial statements as presented with reclassifications, disposals and additions netted off and time will explain part of the difference.

5.4 We recommend that assets are allocated to the proper asset class according to their nature. This is important not only to give proper disclosure in the financial



statements but also to compute depreciation correctly in accordance with the depreciation policy of the council. No adjustment has been proposed since apart from the fact that this is an estimate we were unable to complete the charge accurately because of the issues mentioned above and in note 5.7.

#### **Street signs and litter bins accounting policy**

- 5.5 New street signs amounting to € 82.91 were capitalised and fully depreciated in the year under review.

- 5.6 New street signs and litter bins acquired should be accounted for on a replacement basis as per memo 03/2016. Thus all costs should be fully expensed directly in the profit and loss account. Using a 100% depreciation rate is not the recognised accounting treatment for the replacement method. We recommend that the council applies a consistent and appropriate capitalisation policy in accordance with the Local Councils (Financial) Procedures and relevant memos.

#### **Reclassification of assets**

- 5.7 During our audit procedures we found that additions disclosed in the fixed asset schedule in the council's unaudited financial statements differ from additions as per fixed asset register as follows:

Category	Additions as per fixed assets schedule		
	€	Additions as per FAR	Difference
Computer equipment	1,959	-	1,959
Office equipment	3,577	2,260	1,317
Office, furniture and fittings	585	1,710	(1,125)
Construction	28,111	28,111	-
Street signs	83	83	-
Urban improvements	3,581	3,581	-
Computer software	180	-	180
	<b>38,076</b>	<b>35,745</b>	<b>2,331</b>

- 5.8 We noted that the council made various reclassifications between asset categories amounting to € 1,455. In the unaudited financial statements such reclassifications were netted off against the fixed assets additions. No explanation was given for the remaining additions difference of € 695.

- 5.9 Furthermore we noted that the council reclassified € 180 from tangible to intangible fixed assets. However this was disclosed as intangible fixed asset addition rather than a reclassification.

- 5.10 We recommend that transfers in assets are properly presented as reclassifications to allow users of financial statements to determine which assets were acquired and which assets were reclassified during the year.

- 5.11 We also strongly recommend that the council thoroughly reviews the financial statements for any differences from the books of account and ensure that the financial statements have been prepared correctly.

#### **Disposal of fixed assets**

- 5.12 Whilst reviewing meeting minutes, namely meeting 6 held on 28 August 2015, we noted that the council approved to dispose of two photocopiers tagged OEO29 and



OE053. The council did not account for the disposals in its books of accounts but only disclosed them in the financial statements.

- 5.13 After our notification the council instructed us to pass an audit adjustment to release accumulated depreciation of € 2,084 and write off cost of assets of € 2,331 from the books of accounts. This adjustment was reflected in the audited financial statements.

- 5.14 We recommend that the council ascertains that all disposed assets are appropriately recorded in the books of accounts. In addition the council should make sure that the financial statements reconcile with the books of accounts.

## **6 Debtors**

- 6.1 In our reconciliation of the debtor balance of the European Commission to the confirmation reply, we found a difference of € 450. This amount was still shown as receivable from the European Commission while this was received during the year. This receipt was erroneously omitted from the books of accounts. We therefore proposed an audit adjustment and the council approved to account for such receipt.
- 6.2 During our audit procedure we also found that the council incorrectly accounted for rental income twice resulting in overstatement of income and receivable balance from Mr Leandro Camilleri and Mr Chris Brincat by € 700. An adjustment was proposed to rectify this error. The council has reflected the audit adjustment in the audited financial statements as proposed.

- 6.3 The shortcomings identified above highlight the importance of periodic reconciliations directly with customers to ensure that balances are correctly stated in the accounts.

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

- 6.4 In our testing on LES debtors, we obtained report 622 generated from version 1 of the Logus system, and found that tribunal pending payments as at 31 December 2015 were € 198,916, compared to the amount of € 211,872 reported in the unaudited financial statements. This results in a difference of € 12,955.

- 6.5 We recommend that the council investigates this significant difference and adjusts the books of account accordingly in a way that LES receivables at the reporting date reflect all adjudicated contraventions not yet paid once the reason for the difference is found.

### **Prepayments**

- 6.6 We noted that the prepayments' list is understated by € 460 compared to the accounts. It transpired that a transaction was posted by the council to adjust an opening balance error identified in the prior year. However the council has incorrectly accounted for this error as a prepayment instead of accrued income.

- 6.7 We recommend that prepayments' list is properly updated and reconciled with the books of accounts.

- 6.8 We also recommend that the council investigates the opening balance adjustment and adjusts accordingly.



**Long outstanding receivables**

- 6.9 Included with trade debtors are the following which have been outstanding for more than one year:

<b>Debtor</b>	<b>€</b>
D J S Trading Limited	9,440.00
Water Services Corporation	3,621.51
Claire Morawski	25.00
	<u>13,086.51</u>

- 6.10 As outlined in the previous management letter, the council is alleging that D J S Trading Limited did not pay one of the main artists for his performance in an event held a few years back. The council is claiming back the amount paid to the organiser so that it can pay off the artist. We are not aware of the reason why the contractor did not pay the performer. The council did not follow up this matter during the year.

- 6.11 We would like to reiterate 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 a meeting as well as assesses the recoverability of this balance and write it off as appropriate.

- 6.13 WSC did not agree with the amount recorded in the council's book of accounts but only confirmed an amount due of € 321.54. The executive secretary explained that the difference results from trenching works performed in the prior year which have not been verified and certified by WSC.

- 6.14 The council should follow up with WSC for payment and refer the matter to LCA for collection in line with the agreement made by WSC and the latter some years ago.

- 6.15 As for the balance of € 25 receivable from Claire Morawski, the executive secretary explained that this balance was written off during the year. However we noted that the council did not account for the bad debt write off but only reversed the specific provision provided for in the prior year. We did not propose an adjustment since the amount is considered to be immaterial.

- 6.16 Furthermore we noted that the council did not approve this write off during the council meetings.

- 6.17 We recommend that the council contacts the debtors to collect the amounts due. If it is determined that these balances are not valid or irrecoverable, the council should consider providing for these amounts after decisions are taken and minuted during council's meetings.

**Debit balances in creditors' list**

- 6.18 We identified a total of € 1,379.56 debit balances in the creditors' list. € 1,229.63 relates to a double posting in the CIR account and the remaining amount of € 149.93 was the result of an overpayment to a supplier.



- 6.19 We proposed an audit adjustment in order to rectify the double posting error of € 1,229.63 as appropriate. This adjustment has been properly reflected in the audited financial statement.
- 6.20 The overpayment of € 149.93 identified above was refunded after year end, hence we proposed an audit reclassification and the council approved to transfer the balance to other debtors as appropriate.
- 6.21 We recommend that the council investigates all debit balances in the creditors' list as these could represent an overpayment, an invoice which has not yet been received or an error in an entry in the books of account.

## 7 Inventory

### Stock list

- 7.1 The council provided us with a stock list which differed from the stock value as per books of accounts by € 4.99.
- 7.2 We again remind the council to exercise proper control over its inventories by compiling a stock list which must agree to the accounts.

### Net realisable value of inventory

- 7.3 As noted in our previous management letter, the council's inventory comprises books which are primarily held for free distribution and therefore unlikely to have any realisable value.
- 7.4 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. Write-offs or provisions of inventory might be necessary if the books remain slow-moving or have no realisable value in accordance with IAS 2, *Inventories*.
- 7.5 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

### Bank reconciliations

- 8.1 We noted that the council's bank balances for some accounts do not reconcile to the bank reply. The following are the differences identified:

Bank account	Difference €
HSBC current account 089-035547-050	(6.73)
BOV current account 18603779018	(17.09)
APS current account 1146763001-0	7.00
BOV savings account 18603779021 (note 8.3)	(963.02)
APS savings account 1146761001-6 (note 8.2)	(496.98)
	<u>(1,476.82)</u>



8.2 During our audit fieldwork, we identified income received of € 450 which had not been accounted for in the APS savings account 1146761001-6. An audit adjustment was proposed as indicated in note 6.1.

8.3 Furthermore, we identified income received amounting to € 1,000 with respect to 'Live Streaming'. This receipt was not accounted for in BOV savings account 18603779021. We proposed an audit adjustment for this income as indicated in note 2.9, thus reducing the difference from € 963.02 to € 36.98. No explanation was provided for this difference.

8.4 Regarding the remaining differences identified above we did not propose an audit adjustment since no explanation was given as to how the differences arose. However, it is suggested that the council reconciles all bank accounts at least monthly.

#### **Bank statements**

8.5 The council did not provide us with a bank statement up to 31 December 2015 for BOV savings account 18603779021 but only with a printed copy generated from the internet banking. In addition the bank statement for BOV savings account 40013777678 was dated to 24 December 2015.

8.6 The council should obtain 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.

#### **'Stale' cheques**

8.7 During our testing on the unrepresented cheques we noted that the BOV current account reconciliation included the following 'stale' which were not cashed in 2016:

<b>Cheque number</b>	<b>Cheque date</b>	<b>Amount</b>
		€
12825	08.07.2015	150.00
12826	08.07.2015	186.00

8.8 In addition to the above mentioned 'stale' cheques, we identified further errors in BOV current account reconciliation:

- i. A stop payment for cheque 13051 amounting to € 324.50 was posted twice by mistake in the council's books of accounts.
- ii. Cheque number 13124 amounting to € 150.00 was cancelled. However this was not reflected in the accounts and thus is still showing as an unreconciled payment as at year end.

8.9 It is important that the council investigates these 'stale' cheques and reverses them against the respective account if the cheques are unlikely to be cashed or have been replaced.

#### **Cash count**

8.10 During our audit procedures, we counted the cash of the council and reconciled back to petty cash in hand as at 31 December 2015. This procedure highlighted a small discrepancy of € 3.41.

8.11 Following the discrepancy identified above, we recommend that the council performs cash counts on a regular basis and reconciles to the petty cash in hand. The Local Councils (Financial) Procedures, 1996 requires that the executive secretary establishes adequate control over cash.



8.12 We also noted that the petty cash balance at year end was in credit by € 92.79. We were informed that petty cash payments were made by an employee who had not yet been reimbursed.

8.13 We recommend that the Imprest system is used for all petty cash movements.

## 9 Trade and other payables

### Long-outstanding creditors

9.1 The council's creditors' list includes the following balances which have been outstanding for more than a year:

Creditor	€
Building & Design Consultants Ltd	70.80
WasteServ Malta Ltd	5,206.02 (see 9.4 below)
	<u>5,276.82</u>

9.2 We advise the council to review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

### Trade creditors

9.3 The council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.

9.4 A number of exceptions were identified in our testing of creditor balances:

- i. The payment of € 84.57 to WasteServ Malta Limited was not recorded in the council's books. The council has correctly adjusted the amount based on our proposed adjustment.
- ii. We also noted that the council accounted twice for invoice 58330 from WasteServ Malta Limited amounting to € 642.38. We have proposed an audit adjustment and the council approved to reverse the double posting.
- iii. Upon obtaining a direct confirmation from Nexos Street Lighting we found that the supplier is claiming € 114.01. However the council is stating that they do not owe anything to Nexos Street Lighting.

9.5 In view of the mistakes identified during our audit, we strongly recommend that the council appreciates the importance of reconciling creditor balances with supplier statements. We also remind you that the Procedures and memo 3/2016 specifically state that the council should obtain monthly statements from suppliers and agree amounts to the balances in the accounts.

### Accrued expenditure

9.6 Our test on accruals revealed that the council did not accrue for Christmas decorations in December 2015. This was invoiced on 25 January 2016 and amounted to €2,200.

9.7 The council should make adequate provisions for accruals so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.



## 10 Grant accounting

### Release of grants to income

10.1 Memo 3/2016 makes it obligatory for the council to compile a list of deferred income and related workings and provide them to the auditor.

10.2 The council provided us with a grant schedule which did not tally with the released income as accounted in the books of accounts. The difference identified amounted to € 1,231.

10.3 We recommend that the council compiles 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.

10.4 In addition to the above we noted that the council's release of deferred Government grant has been overstated by € 788.75 and deferred income has been understated € 1,710.71. We proposed an audit adjustment and the council approved to correct these differences.

10.5 In view of adjustments proposed in notes 10.4 and 2.3 we proposed an audit reclassification of € 53,926.69 and 17,692.72 so that deferred income and deferred Government grants are properly classified between current and non-current portions.

10.6 We remind the council that the income approach of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, requires that grants related to assets are set up as deferred income and recorded as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

## 11 Financial statements

### Presentation of financial statements

11.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS):

- i. The council did not disclose the list of all the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements (e.g. IFRS 9 '*Financial instruments*'). It has also included IFRS policies which are not relevant to the council.
- ii. The council did not disclose all the relevant accounting policies (e.g. operating expenses accounting policy and significant management judgement policy).
- iii. Fixed assets schedule is not disclosed in accordance with the respective IFRS 16 *Property, Plant and Equipment: Disclosure*.
- iv. The council's financial statements do not give all the quantitative and qualitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*.

11.2 The council has amended only item I and iii in the audited financial statements. We necessarily had to qualify our audit opinion in light of the above departures from IFRSs.

11.3 We recommend that the council addresses these issues when preparing financial statements and makes the necessary adjustments.





### Cash flow statements

- 11.4 The council has not properly disclosed the cash flow outflows and inflows, examples include:
- cash payments to acquire property, plant and equipment
  - cash receipts from grants in the cash flow statement
  - non-cash grant release not deducted from cash flows
  - proceeds from disposal of property, plant and equipment
  - non-cash movement in trade receivables.

- 11.5 We recommend that the council considers the effects of capital accruals, creditors and accrued grants in the preparation of the financial statements in accordance with IAS 7, *Statement of Cash Flows*. Our audit opinion was qualified in light of the above departures.

### Contingent liability

- 11.6 An amount of € 5,532.96 in HSBG account 089-035547-050 has been blocked by the bank. The council did not provide the reasons for such blocked funds.

- 11.7 In addition to the above, the council did not disclose the restriction on this amount in the financial statement as required by IAS 7, *Statement of Cash flows*.

- 11.8 We recommend that the council adheres to the requirement of IAS 7, *Statement of Cash flows*.

### Contingent asset

- 11.9 We also noted that the council disclosed € 48,221 contingent asset with respect to the Housing Authority receivable grant (refer to note 2.3).

- 11.10 IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* requires that when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. This was correctly amended in the audited financial statements.

### Capital commitments

- 11.11 The council's disclosure of capital commitments in the financial statements amounting to €10,500 contracted for does not agree to the budgeted capital expenditure of €70,500 for 2016.

- 11.12 We recommend that the council properly discloses its future capital expenditure commitment in line with IAS 16, *Property, Plant and Equipment*. The council should also add a note explaining how this future capital expenditure is to be funded.

## 12 Schedule of payments

- 12.1 During our audit procedures we found that one of the schedule of payments provided to us, namely schedule 5, did not include all the cheque numbers and as a result, we could not ensure that all cheque payments are included.

- 12.2 We recommend that the council abides by section P1.11.c.c.01. of the Financial Procedures which dictates the amount of detail required on the schedule and a further memo issued by DLG which requires the cheque number to be inserted.



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**13 Administration**

**Duration of meetings**

13.1 As we reviewed the minutes of the council, we identified that meeting 7 lasted more than three hours.

13.2

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. In addition, we did not identify from the minutes the council's resolution to extend this meeting.

**14 Annual administrative report**

14.1

We noted that the administrative report for 2014 which summarises the performance, operations and achievements of the committee during the year was not prepared and approved by the council.

14.2

In accordance with the Local Councils (Financial) Regulations an administrative report must be compiled under the direction of the mayor, members and the executive secretary after the end of each financial year.

**15 Annual budget**

**Comparison with annual budget**

15.1 When comparing the budgeted figures with the actual figures of the year, we identified the following differences:

	Budget €	Actual €	Difference €
<b>Expenditure</b>			
Personal emoluments	116,044.00	110,435.62	5,608.38
Operations, maintenance & administration	243,209.00	323,743.90	(80,534.90)

15.2

The council did not exercise adequate control over its expenditure and consequently this has resulted in a loss of € 30,260.61. To this end, we recommend that the council monitors all expenditure, in particular expenditure which is not necessary for the operations of the council.

**16 Quarterly financial reports**

16.1 We noted that that the council did not publish the quarterly financial reports for 2015 within the prescribed timeframe.

16.2

We recommend that the executive secretary complies with the Local Councils (Financial) Procedures B1.01 d.06 and presents the quarterly financial reports to the council for its consideration within two weeks after the end of each fiscal quarter and compares the quarter's results against the budget.

16.3

Furthermore we recommend that the council abides by the directive given in memo 02/2014 where it is stated that all meeting minutes and schedules of payments must be uploaded on the council's site within three days of approval. The signature on the documents are the confirmation that the uploaded documents are the approved and correct ones.



**17 Books of account**

17.1 The trial balance provided by the council did not agree to the unaudited financial statements approved by the council and submitted for audit. We encountered differences between the two during our audit procedures; for instance the reclassifications of non-current deferred income and reclassification of debit balances in creditors' list.

17.2 We recommend that the council updates the books of account continuously and keeps the two sources in agreement so that the trial balance reflects the amounts included in the financial statements.

**Conclusion**

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

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

Yours faithfully,