

RSM Malta

Cobalt House, Level 2
Notabile Road,
Mriehel BKR 3000, Malta.

T +356 2278 7000

F +356 2149 3318

www.rsm.com.mt

11/05/16The Mayor
Local Council Ghajnsielem
J.F Chambray,
Ghajnsielem GSM 1501,
Gozo

Dear Mayor,

RE: MANAGEMENT REPORT – FOR YEAR ENDED 31 DECEMBER 2015

We have completed our audit of the financial statements of the Local Council Ghajnsielem for the year ended 31 December 2015. The purpose of this report is to summarise our principal findings arising from this work.

Our audit was primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation. Consequently, the matters raised in this report cannot be regarded as a comprehensive statement of all weaknesses that exist or all improvements that might be made. Our aim is to offer guidance to the Local Council such that it would be in a better position to improve its internal controls, enhance its book keeping function and consolidate its overall governance.

Our engagement obliges us to distribute copies of this report to (a) your Council; (b) the National Audit Office; and (c) the Local Councils' Department. Consequently this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent.

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 14 of this report.

During the course of our audit for the year ended 31 December 2015, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the Council. We also examined, whether or not your Council abided by the procedures as they are provided for in the Local Councils Act, 1993, the Financial Procedures and various Legal Notices issued to your Council.

The objective of this letter is to bring to your attention those divergences in the system that were noticed during our audit work and suggest ways of how these can be remedied.

We would like to take this opportunity to thank the Executive Secretary and the Council Staff for their assistance during the course of our audit.

Yours faithfully

Conrad Borg (Partner)
for and on behalf of
RSM Malta**THE POWER OF BEING UNDERSTOOD**
AUDIT | TAX | CONSULTING

Local Council Ghajnsielem

Management Report for the year ended 31 December 2015

Contents	Page
Follow-up to last year's Management Report	3
Property, plant and equipment	5
Receivables	8
Cash and Bank	9
Payables	10
Income	11
Expenditure and Tenders	12
Personal Emoluments	13
Responsibility Statement	14

1.0 Follow-up to Last Year's Report

1.1 Property, plant and equipment

During the previous audit, several weaknesses relating to the fixed assets register had been identified namely:

- In 2012 an exercise was performed to build a fixed assets register from scratch. Following the completion of this exercise, due to lack of Sage backups, several discrepancies had arose between the fixed assets register and the accounts such as variances in the opening cost of the assets, variances in the opening accumulated depreciation and lack of important details. Variances in these amounts were just written off through a prior year adjustment.
- The totals of the new fixed assets register did not agree with the totals shown in the nominal ledger and in the financial statements.

During the year being reviewed, the fixed assets register which was built in 2012 was still being used. This resulted in all the discrepancies noted during the previous year being inherently carried forward to the year being reviewed.

During the previous year, whilst testing the projects which were still under construction as at year end, we had requested a report from the architect to pass the necessary accrual for the works which were performed till year-end and which were still not invoiced and not accounted for. A similar issue was found this year whereby costs relating to a particular project were omitted from the accounts.

1.2 Receivables

When testing the receivables, we had noted several discrepancies between the balances in the Council's books and the balances confirmed by the debtors. These discrepancies were not investigated. This issue was noted again during the audit for the year ended 31st December 2015.

1.3 Payables

In last year's management letter, we pointed out that there were instances where invoices that were issued in the year being reviewed but which were received in the following year were not accounted for as accounts payable and other instances where invoices were issued in the following year but related to the year being reviewed which were not accrued for. These problems were noted again this year.

Issues had also been noted in relation to the classification of deferred income between current and non-current. This issue has been noted again during the year under reviewed and is discussed further below.

1.4 Expenditure

During the previous audit, the following weaknesses had been highlighted:

- Purchase requests and purchase orders were not prepared regularly.
- Actual expenditure in certain categories exceeded the budgeted expenditure within those particular categories
- Whilst going through the various nominal accounts relating to the expenses incurred during the year, it had been noted that in a particular case an expense was accounted for in the wrong account.

All the above weaknesses were encountered again during the year being audited.

1.5 Personal emoluments

During the previous year, it has been noted that the FS documents included several errors were details are concerned. This issue was noted again during the year being reviewed.

2.0 PROPERTY, PLANT AND EQUIPMENT

- 2.1 During 2012, the Local Council outsourced the exercise of building the fixed assets register from scratch. One of the problems encountered in this exercise was the fact that the Council had no Sage backups of the accounts prior to the year 2008 since there was a change in the Council's accountant and apparently he had the backups on his computer. We were given to understand that the procedure adopted was that the Council staff went around the Council premises and the urban areas within the locality and gathered all relevant documents about the items of property, plant and equipment of the Council. As for the road resurfacing, the executive secretary contacted the architect who was responsible for the roads which were resurfaced by the Council from 1994 onwards and the expenses connected to such works were taken from the final architect certification. As for the Council premises, the Council listed all the assets present in the new civic centre and agreed them to the nominal ledger.
- 2.2 The method used by the Council created discrepancies in relation to the 2011 audited financial statements and the difference between the register and the nominal ledger has been accounted for as impairments through a prior year adjustment. The following were the variances noted:
- 2.2.1 The closing cost of property, plant and equipment as per the audited financial statements for the year ended 31st December 2011 amounted to Euro 1,046,654 whilst the new opening cost as at 1st January 2012 amounted to Euro 889,317. This means a difference of Euro 157,337 out of which Euro 1,108 represented a reclassification to under intangible assets.
 - 2.2.2 The accumulated depreciation as per the audited financial statements for the year ended 31st December 2011 amounted to Euro 464,800 whilst the new opening accumulated depreciation as at 1st January 2012 amounted to Euro 361,049. This means a difference of Euro 103,751 out of which Euro 330 represented a reclassification to under intangible assets.
 - 2.2.3 The resulting net figure after removing the reclassified amounts was Euro 52,808. This amount has been passed as a prior year adjustment without an indication as to which assets the amounts written off relate to.
- 2.3 Moreover the new fixed assets register lacks important details in particular with respect to the new civic centre. A one line item under the buildings category shows the total balance of all the construction works, electrical works and other expenditure incurred in the building of the new civic centre. It is understood that the Council grouped all the assets together as one asset since the civic centre was capitalised wholly. During our audit visit, we were then provided with an itemised list on MS Excel.
- 2.4 The method used for the building of the new fixed assets register as described above, creates several problems. There is no assurance that the costs taken for the individual items of property, plant and equipment are all correct. It is very possible that items have been left out from the register even though they are still in existence and in good condition. There is no assurance that the new calculation of the depreciation of the assets was carried out correctly by commencing the depreciation calculation from the correct date. The new register still lacks sufficient details to ease the traceability of the different assets.

- 2.5 Due to the materiality of the amounts involved and the number of uncertainties in the new valuations of the Local Councils' property, plant and equipment, we had to qualify our audit report.
- 2.6 It was also noted that the fixed assets register figures did not agree with those shown in the nominal ledger and the financial statements as at 31st December 2015 prior to any audit adjustments as follows:
- 2.6.1 A variance of Euro 249,402 arose in the total cost between the fixed assets register which was showing an amount of Euro 1,020,286 and the financial statements which were showing an amount of Euro 1,269,688.
 - 2.6.2 A variance of Euro 44,694 arose in the total accumulated depreciation in the fixed assets register which was showing an amount of Euro 527,327 and the financial statements which were showing an amount of Euro 572,021 including the government grants.
- 2.7 It is recommended that an adequate and detailed register is built at the earliest possible as this will help the Council to keep track of all the assets under its ownership and responsibility. It is important that variances between the accounts and the register are traced and adjusted for. The register is to be reviewed and updated in a timely manner and it should include among other details, the detailed description of the assets, their identification codes, their locations and the category of the assets according to their nature.
- 2.8 Furthermore we highly recommend that the Council obtains copies of the accounts backups for the periods before the year 2008. Kindly note that the Council is obliged to have such backups available at its offices.
- 2.9 When testing the projects and their classifications, several errors were noted.
- 2.9.1 The Council's architect issued a report confirming that the project relating to the Ghajn tal-Hassellin was complete by year-end. This project was still included in the financial statements as a project still in progress. As a result of this, Euro 84,930 worth of costs relating to this project were not being depreciated.
 - 2.9.2 A similar situation to the one mentioned above was noted for the Hamri Belvedere Project. The project was completed in 2015 however no depreciation was being charged thereon. The total costs of this project amounted to Euro 145,799.
 - 2.9.3 Whilst going through the additions for the year, it was noted that the Council was not classifying differently the trees and plants purchased in relation to Hamri Belvedere Project. Such costs were just being accounted for under the project account and not taking into account that as per the Local Council's procedures such items have different depreciation rates. In the case of trees, these should not be depreciated whilst plants should be capitalised and then fully depreciated during the same year.
- 2.10 Apart from the above issues, whilst going through the architect reports that we requested for our audit, we identified a project which was being totally omitted from the Council's books. All receipts in the project related bank account, all invoices received in relation to this project, all payments made and the related accrued income were being omitted. The project related to the Apparition

Square. The following were the issues we found in relation to this project for which we had to adjust for through audit adjustments:

- 2.10.1 Total costs amounting to Euro 160,775 were omitted from the accounts. Furthermore, since this project was not capitalised, no depreciation was being charged thereon despite the fact that the project was finalised during the year being reviewed.
 - 2.10.2 The total funds received by the Council in the bank account relating to this project were not accounted for. The total deposits made during the year in this account amounted to Euro 87,114. This error has resulted in the Council's financial statements not including all the bank accounts held by the Ghajnsielem Local Council. An audit
 - 2.10.3 Apart from the deposits mentioned above, the Council even omitted all the payments made to the suppliers from this bank account. Such payments amounted to Euro 43,670
- 2.11 It is important that the Council requests an architect's report on the various projects under his responsibility at the end of each year prior to closing off the accounts. This will help the Council have a better understanding of the progress of the ongoing projects and have a more accurate estimates of the costs already incurred that might have not yet been invoiced. This would enable the Council to correctly account for the projects still under construction at the end of each financial year and avoid missing out any projects as was done in this case. The report would also assist the Council in clearly distinguishing between those projects that have been completed by the end of the year and those that were still in progress as at that date.
- 2.12 Whilst testing the depreciation charge for the year, several variances have been noted. These variances arose mainly due to all the points highlighted above. An audit adjustment amounting to Euro 5,429 was proposed and passed to rectify the variance arising in relation to the category special programs.
- 2.13 Care should be taken to ensure that the depreciation charge for the year is calculated for every month of each calendar year. Depreciation should always be calculated as from the date when the asset is actually completed and ready for use.
- 2.14 During the course of the audit, we also noted that the Local Council's property, plant and equipment are under insured. After passing the audit adjustments mentioned above, we could conclude that the net book value of the Council's property, plant and equipment, as at 31st December 2015 (excluding the assets still under construction and including the software) amounted to Euro 840,364. However, the latest insurance policy was covering assets amounting in total to only Euro 538,740. This amount is split into the following, buildings up Euro 234,985, plant and machinery including CCTV, PV system and lift Euro 43,759, furniture and fittings Euro 26,772 and property in the open Euro 233,224.
- 2.15 In the case of theft, fire or any other accident, the Local Council will not be in a position to recover all the losses incurred. We therefore highly suggest that the Local Council takes the necessary steps to ensure that an insurance policy is taken that adequately covers the items of property, plant and equipment under the Council's responsibility.

3.0 RECEIVABLES

- 3.1 As part of our testing on the receivables, we obtained a confirmation from the Water Services Corporations (WSC). The statement showed that the WSC had no amounts due to the Council as at 31st December 2015 whilst the Council's records were showing a balance of Euro 2,054.
- 3.2 This variance was investigated in the previous year and at that time WSC confirmed that they were not receiving any invoices from the Council relating to permits issued. No actions were taken on this variance and the Council insisted that the invoices are being issued on a regular basis and that the full amount is due to the Council and therefore should not be written off.
- 3.3 It is recommended that this issue is tackled with WSC to check why these invoices are not being received and also to confirm whether the recoverability of the amount shown in the Council's records is probable or not. Any receivables which are doubtful should then be provided for or be written off in future periods to ensure that the prudence concept is followed.
- 3.4 Furthermore it was noted that no provision for doubtful debts was made in the accounts for receivables relating to the LES administrative fees which have been due for more than two years. These amounted to Euro 2,147. In view that the amount is immaterial no adjustment was passed in the accounts.
- 3.5 Any receivables older than two years are to be considered as doubtful as instructed by the Department for Local Government and should therefore be provided for. It is important that at the end of each financial year, the Local Council goes through the full receivables list and any balances, whatever their aging, whose collection is doubtful, should also be provided for.
- 3.6 Another discrepancy which was noted whilst testing receivables, related to the amounts due by The Ministry for the Family and Social Solidarity. It was noted that the Council was accounting for all the receipts during the year in relation to the CIES scheme as income for the year instead of setting off the opening accounts receivable in respect of such funds. An audit adjustment amounting to Euro 2,396 was passed to reverse the respective receivables and reduce the income for the year.
- 3.7 Furthermore, whilst going through the other receivables, it was noted that the Council had opening balances in relation to sports activities. In the prior year, we had confirmed that no formal contract existed between the Council and the other entity and thus it has been decided that such receivables should not be increased year on year. During the year under review, the Council received Euro 1,000 in this respect. However instead of reversing part of this opening receivable, such receipt was treated as income for the year. An audit adjustment was passed to correct this error.
- 3.8 Such treatments will be overstating both the income for the year and the receivables. Every receipt should be carefully analysed and if it is known that it relates to a receivable from the previous years, it should be accounted for against that particular receivable.
- 3.9 When performing audit procedures on the accrued income, several errors have been noted and audit adjustments were necessary to be passed to correct these errors. These included:
- 3.9.1 During the previous year, the Council had accrued for Euro 10,000 worth of promised funds in relation to Bethlehem f'Ghajnsielem 2014. These funds were received in 2015, and instead of setting off this receipt with the opening accrued income, the Council incorrectly accounted for these funds as income for the year.
- 3.9.2 During the previous year, the Council had accrued for Euro 24,890 worth of promised funds in relation to the Interreg Program. These funds were received in

2015, and Euro 10,287 of these funds were being treated as income for the year instead of setting off fully the accrued income. Furthermore, the accountant passed a minor journal entry through the "Overseas Tickets" account to reverse such funds but this entry was overstated by Euro 283.

- 3.9.3 During 2015, as highlighted in the property, plant and equipment section, there was a particular project – Hamri Belvedere which was concluded in the year being reviewed. The Council was promised Euro 145,000 for such project however the only funds included in the books were Euro 25,000 as these were the only funds received by the end of the year. The difference of Euro 119,824, representing funds not yet received, were not accrued for.
 - 3.9.4 Whilst going through the receipts after year-end we noted that the Council received Euro 4,000 in relation to National Enterprise Award 2015 and Euro 855 in relation to the CIES Scheme – December 2015 payment. Even though these actually related to 2015, they have been omitted from the accounts.
 - 3.9.5 During the year, the Council also received receipts in relation to the Apparition Square project which was concluded in the year being reviewed. The Council was promised Euro 100,462 and as at year-end had only received Euro 87,114 out of this amount. Again the difference of Euro 13,348 was not accrued for.
- 3.10 It is important for the Local Council to keep an updated record of the funds which are still to be received with respect to activities already held or projects completed by the Council and at the end of the year accrue for such funds in order to ensure that the income is matched with the expenditure that it intends to cover. When such funds, or part thereof, are eventually received, these are then to be netted off against the opening amounts receivable and not treated as income of that particular year.
- 3.11 When testing the prepayments, it was noted that these were not complete and some prepayments were being omitted. Through our sampling testing we noted two instances amounting to Euro 2,150. These have been adjusted through audit adjustments.
- 3.12 Failing to account for all prepayments will not only be understating the current assets of the Council but will also be overstating the expenses for the year depicting a picture which might not be necessary true.

4.0 CASH AND BANK

- 4.1 The bank reconciliations submitted during our fieldwork contained minor discrepancies that were not investigated by the Council. Unless variances are immediately investigated as and when they arise, it would eventually become more difficult to solve and leaving them outstanding is not good practice. One of the reconciliations relating to a current account had an unexplained variance of Euro 1,708 which is quite significant.
- 4.2 The bank reconciliation statement should at all times identify the variances between the book balance and the actual balance as per bank statement without leaving any unsolved variances. We recommend that the Council keeps the reconciliation clean of any discrepancies by investigating and resolving the issues as they arise.
- 4.3 When testing the petty cash transactions, we noted that there were two particular expenses paid from the petty cash whose amount exceeded the limit set by the regulations governing Local Councils of Euro 23.29.

- 4.4 For any expense in excess of Euro 23.29, the Council should issue a cheque and should not affect the payment through the petty cash.

5.0 PAYABLES

- 5.1 During the audit, it came to our attention that invoices that were received after year-end, but which related to services rendered during the year being reviewed, were omitted from the accounts and not accrued for. The total omitted accruals amounted to Euro 22,474. An audit adjustment was passed to accrue for these expenses. These related to works at Hamri Belvedere Euro 16,064, waste disposal Euro 1,254, street lighting costs Euro 1,759, social events Euro 495 transport costs Euro 896 and performance bonuses Euro 2,006.
- 5.2 Apart from the omitted accruals, it was noted that adjustments passed in the previous year relating to accrued expenses for 2014 events, were not reversed even though the invoices were received during the year. An audit adjustment amounting to Euro 5,939 was passed to reverse such accruals.
- 5.3 Furthermore, it was noted that a significant number of invoices which were received during the year were totally omitted from the accounts. In total these amounted to Euro 20,634. These were adjusted for due to the number of the invoices in question and due to the materiality of the value in question.
- 5.4 Another issue noted related to the wrong classification between accruals and accounts payable. The errors noted were a journal entry of Euro 5,169 passed from the accounts payable to the accruals which entry was incorrect and invoices dated in 2015 which were posted as accruals amounting to Euro 13,828. Audit adjustments were passed to classify such liabilities appropriately.
- 5.5 The concept of recording liabilities and costs in the year as they accrue should be adhered to. The Council should keep track of what works and services were carried out during the year and still not invoiced by the time of drawing up the financial statements and accrue for the cost or request a copy of the invoice from the respective suppliers as the case may be.
- 5.6 We strongly recommend the accruals concept is embraced by the Council and effectively record expenses as and when they accrue and that errors similar to those noted are not repeated in future. Furthermore the Council should ensure that no payables are omitted from the accounts and that the liabilities are correctly classified to ensure proper presentation in the financial statements
- 5.7 When checking the classification of the deferred income between current and non-current liabilities several errors had been noted. In particular, the current deferred income as per the unaudited financial statements amounted to Euro 11,790 whilst once the deferred income was tested it transpired that the current portion should amount to Euro 32,666. The necessary reclassifications were made in the financial statements.
- 5.8 IAS 1 – Presentation of the Financial Statements, specifically states that any liabilities which will be “settled” within 12 months from the reporting period, in this case December 2015, should be treated as current liabilities. In this situation the 2016 amortisation for projects which are to be completed between January 2016 and December 2016 should be classified as current liabilities.
- 5.9 When testing the deferred income and the release therefrom of the portion relating to 2015, we noticed several variances relating to the amortisation. Following an exercise, we concluded that the amortisation for the year amounted to Euro 12,548. An audit adjustment amounting to Euro 1,780 was passed to amend these errors, which resulted in increasing the amortisation for the year. The following were the variances identified:

- 5.9.1 An understatement of Euro 1,214 relating to Hamri Belvedere Grant
- 5.9.2 An overstatement of Euro 271 relating to the Eco Gozo Grant
- 5.9.3 An understatement of Euro 837 relating to the Apparition Square Grant

5.10 It is highly recommended that the Council follows the International Accounting Standard 20 – Government Grants and applies the income approach as instructed by the Department. The Council should ensure that the amortisation calculations are correctly carried out and accounted for.

6.0 INCOME

- 6.1 Whilst going through the supplementary income received during the year, it was noted that a grant of Euro 2,300 which was received in relation to online streaming equipment, was being treated as income for the year instead of being deferred and amortised throughout the useful life of the equipment purchased. In view of the immaterial value it has been agreed that no adjustment is to be passed in this respect.
- 6.2 Whilst we were performing tests on the LES administration fees, we requested a report from the system for the contraventions paid at the Council. When we received this report and computed the theoretical income from this stream, we noted that the income for the year was being understated by Euro 1,349. An audit adjustment was passed to account for such omitted income.
- 6.3 Such error will result in not only the income of the Council being understated, but also in understating current assets. We recommend that the Council should regularly carry out such reconciliation to ensure that all such income is being billed and received.
- 6.4 We also noticed that two of the general income accounts, namely "Other Income" and "Cultural Activities", included several funds received by the Central Government relating to items such as funds for cultural activities and advances in relation to the CIES Scheme. Since the income received from the Central Government is disclosed separately in the financial statements, such funds were reclassified to Other Government Income. A reclassification adjustment amounting to Euro 32,692 was passed to reclassify such income.
- 6.5 It is important that income is properly categorised in the accounts to ensure that it is then properly presented in the financial statements and also ensure comparability from one year to the other.
- 6.6 It was noted that during the year the Department for Local Government had paid Euro 3,269 directly to WasteServ Malta Limited on behalf of the Council to make good for the discrepancy between the amounts being invoiced to the Council and the amounts from the Central Government allocation given for tipping fees. Such payment was not accounted for by the Council and this had two effects:
- 6.6.1 This payment is deemed to be other supplementary income for the Council however no such income was accounted for; and
 - 6.6.2 The settlement of the liability was not being accounted for and thus liabilities were being overstated.
- 6.7 It is advised that when the Central Government pays something on behalf of the Council, this is treated as other income for the year. An adjustment was passed to reflect this transaction.
- 6.8 During the year, the Council received money in relation to the pre-pooling funds from the Joint Committee. In previous years, the Council had fully provided for such funds as it was deemed that the recoverability of such funds was low due to the aging of such balance. In view of this receipt, such provision had to be reversed through an audit adjustment and at the same time clear off the receivable in the Council's books. An audit adjustment amounting to Euro 2,879 was passed in this respect.

- 6.9 Whilst reviewing the main Central Government allocation for the year, we noted that the figure in the financial statements did not agree with the relevant allocation schedule. Upon further investigation, we identified deductions made by the Department for Local Government which were not being accounted for as expenses for the Council but were being netted off against the income. The following were the deductions for 2015:

- 6.9.1 MITA – Euro 427
- 6.9.2 Wi-fi – Euro 120
- 6.9.3 Advertisements – Euro 180

- 6.10 Unless a particular International Financial Reporting Standards permits such netting off, all items of income and expenditure should be shown separately in the financial statements. In particular, the Central Government allocation for the year should be shown gross.

7.0 EXPENDITURE AND TENDERS

- 7.1 We noticed that the Council does not draw up purchase requests in line with the Local Councils Financial Procedures. With regards to the purchase orders, these are prepared for the majority of the purchases but there are still exceptional cases where these are not prepared. There appears to be no specific reason behind this practice. It is understood that at times the urgency of matters might require that bureaucracy is reduced to the minimum possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures.
- 7.2 The above issues are against the Local Councils Financial Procedures that the Council has to abide with. Therefore we strongly recommend that the Council takes immediate action to regularize itself on these matters and to ensure that such occurrences are not repeated in the future.
- 7.3 It was noted that the Council has exceeded the budgeted expenditure for several categories, namely:
- 7.3.1 Materials and Supplies (Category 2200) by Euro 261
 - 7.3.2 Repair and Upkeep (Category 2300) by Euro 8,285
 - 7.3.3 Rent (Category 2400) by Euro 406
 - 7.3.4 International Memberships (Category 2500) by Euro 574
 - 7.3.5 Office Services (Category 2600) by Euro 1,890
 - 7.3.6 Travelling (Category 2800) by Euro 3,868
 - 7.3.7 Professional Services (Category 3100) by Euro 5,705
 - 7.3.8 Training (Category 3200) by Euro 1,459
 - 7.3.9 Community and Hospitality (Category 3300) by Euro 30,050
 - 7.3.10 Others (Category 3400) by Euro 23
- 7.4 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) years business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Council is also allowed to revise budgets in line with actual requirements and there are enough reporting tools to note which areas in the budget need revising.
- 7.5 We recommend that the Council makes use of the reporting tools in hand to take corrective measures in the budget every quarter such that by the end of the accounting period/year such discrepancies would not materialise.
- 7.6 During our audit procedures on the expenditure, the following issues emerged:

- 7.6.1 Cases were encountered whereby the Council was not provided with a VAT fiscal receipt. From the sample tested, expenses amounting to Euro 154,902 were not backed by a VAT fiscal receipt;
 - 7.6.2 No call for tenders was issued by the Council in relation to Waste Disposal. The total amount invoiced during the year by the supplier of this service amounted to Euro 16,204.
 - 7.6.3 No quotations were requested for the organisation of a reception which in total amounted to Euro 1,447
 - 7.6.4 No quotations were requested for the CCTV Camera System which in total amounted to Euro 1,352. The Council decided to write off such expenditure through the statement of comprehensive income instead of capitalising it as it was argued that this was bought as a replacement of another camera which was damaged. It has been agreed to capitalise this asset and to later on trace the carrying amount of the other camera and write it off.
- 7.7 The above issues go against the Local Councils Financial Procedures that the Council has to abide with. Therefore we strongly recommend that the Council takes immediate action to regularize itself on these matters and ensure that such instances are not repeated in the future.
- 7.8 The street lighting contract used by the Council was entered into by the Joint Committee. It originally expired on 3 April 2008 but was then extended for another year until 3 April 2009. However, no proof of further formal extensions was ever traced. During the year under review, the Local Council was still using the services of the same supplier with the same terms and conditions set out in the original contract.
- 7.9 Memo 34/2013 instructed Local Councils using expired contracts for street lighting to issue a call for new offers either individually or jointly with other Local Councils, given that discussions were still underway to eventually transfer the maintenance of street lighting to the Regional Committees. These instructions were not followed as mentioned above.

8.0 PERSONAL EMOLUMENTS

- 8.1 When going through the FS5 forms of the Council, it was noted that the May form contained a minor error. The social security contributions had been included in the "Total Due to Inland Revenue" box instead in box D5.
- 8.2 It is highly recommended that special care should be taken when filling the FSS documents to ensure that all details are included and that the information included therein is correct.
- 8.3 When going through the various nominal accounts relating to payroll items we noticed that a transactions was posted in the wrong account. The councillors' allowances amounting to Euro 4,800 were incorrectly posted in the mayor's allowance account. This was reclassified for comparability purposes.
- 8.4 Every transaction being posted should be carefully analysed to clearly understand the exact nature of the transaction, ensure that the appropriate nominal account is chosen and that items are properly presented in the financial statements.

Responsibility Statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Local Council arising out of our audit, we emphasise that our consideration of the Local Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under International Standards on Auditing.

We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.



KUNSILL LOKALI GHAJNSIELEM
GHAJNSIELEM LOCAL COUNCIL

Our Ref: c 567-audit2015

27th July 2016

The Director
Mr Adrian Mifsud
Department for Local Government
26 Archbishop Street
Valletta

Dear Sir,

The following are Ghajnsielem Local Council reply to the management letter for the year ended 31 December 2015.

1. Follow up of Last Year Report

1.1 In respect of the fixed asset registry build in 2012, as pointed out by the auditors the registry prepared was restricted by the lack of Sage backups of prior periods which resulted in difficulties in matching items identified to the accounting system. The Council will seek advice with the DLG before writing off any assets since this will have an impact on the reported operating results of the Council.

The Council will start to obtain from its architects and estimate of works to be completed before finalizing the accounts as recommended by the auditors.

1.2 The Local Council will investigate any discrepancies in trade debtors and pass for the approval of The Council before reflecting any adjustments in the accounting system.

1.3 The Local Council will try to chase its suppliers to have all invoices pertaining to the year under review available before closing off the financial year. This to ensure that all costs have been reflected in the accounting system. When invoices are not yet available, the Local Council will prepare a list and pass to its accountants to reflect such accruals in the accounting system.

1.4 The Local Council will try to limit the shortcomings listed by the auditors.

1.5 The Local Council will arrange details in the FSS documents are noted by the auditor.

2. Property, Plant and Equipment

The Local Council agrees that the lack of back-up of the Sage accounting system created problems were creating the plant asset registry. However, the Local Council believe that all assets of the Local Council are included in the plant registry since as stated by the auditors, a touring of the premises was performed and all assets sought were included in the plant registry.

The Local Council will again try to contact the previous accountants to obtain backups prior to year 2008. The Local Council does not believe that a new plant registry is required unless the Council obtains these backups, since a new plant registry will encounter the same problems encountered in 2012.

The Council will rectify the position in relation to projects completed and still shown as projects under construction. The Council will also rectify and reclassify trees and plants from the Hamri Belvedere project was recommended by the auditor.

The Council will ensure that the accounting system of the Local Council is regularly updated in order to avoid problems in the future where assets, bank accounts and payments and deposits are completely omitted from its accounting system and financial statements.

The Council also will follow the auditor recommendation and will request an architect report on all projects being undertaken by the council at end of the year.

The Council will analyse the insurance policy and compare it to the plant asset registry and the financial statements. The insurance policies will be updated once this analysis is performed.

3. RECEIVABLES

The Council retaliates that the amounts due by Water Service Corporation are correct. The Council will request a meeting with WSC in order to tackle the problems encountered.

The Council from next year will commence to provide for provision for doubtful debts on LES amounts due more than two years as instructed by the DLG.

The Council will be more vigilant in the entries in the accounting system in order to avoid problems were as receipts from debtors and included as income during the year as happened last year.

The Council will follow the auditor recommendation and will maintain a list of funds which are still to be received and pass it to the accountants to include in the financial statements.

4. CASH AT BANK

The council will ensure that all bank accounts are being included in the accounting system of the company. Furthermore, the Council will also pass to the accountants a list of all bank balances held by the Council at year end together with their balance.

This will ensure that no bank accounts are omitted from the accounting system and the financial statements.

In respect of bank reconciliations the Local Council agrees that any discrepancies should be investigated at once and will do so.

The Council will also ensure that any expense higher than € 23.29 will be paid for by cheque and not in cash

5. PAYABLES

The Council will commence to prepare a list of invoices received after year end by pertaining to the current year and pass this information to the accountants in order to update the accounting system with accruals and reflect such accruals in the accounting system.

The Council will also ensure that suppliers forward invoices in time in order to avoid situations encountered this year were invoices issued during the year, but received late, are omitted from the accounting system and financial statements. Again the Local Council will prepare a list of invoices to be received and pass to the accountants to include for such in the financial statements.

The Council will also obtain a list of opening prepayments, accruals, deferred income and accrued income in order to ensure that such are reversed.

In respect of deferred income, the Local Council is following IAS 20 Government Grants and applies the income approach as instructed by the Department. The Council understand that once all accrued and deferred income are identified and reported, there would be no adjustments required in respect of the release to income and to the current/long term portion classification.

6. INCOME

The Local Council, with the help of the Council accountants, will be given proper guidelines to its staff on how to account for income transactions in order to avoid reclassifications passed by the auditors.

In respect of LES administration fee the Local Council will do reconciliations to ensure that these are not omitted.

The Council will also do reconciliations of accounts due with Waste Serve in order to identify any amounts paid directly by the DLG on behalf of the Council and report such income and payment in its accounting system.

The Council will also follow the auditors recommendations and ensure that no netting off is effected between income and expenditure.

7. EXPENDITURE AND TENDERS

The Local Council as stated by the auditors prepares purchase orders and only in exceptional cases these are not prepared. The Council will try to limit and possibly avoid such instances. However, in certain cases as stated by the auditors exceptions it is understood that at times the urgency of matters require that bureaucracy is reduced to the minimum.

The Council will try to maintain expenditure in line with budgeted expenditure. However, there will be exceptional cases whereas an unexpected expenses has to be incurred.

The Council will put in place a system where as staff will start to chase suppliers that do not provide a Vat fiscal receipt.

In relation to Waste Disposal contract, no tender was issued because the Council is being offered a very efficient service at a minimum price.

The Council will also ensure that quotations are received as requested by Local Councils Financial Procedures.

In respect of street lightning contract, the street lightning contract always has given excellent services at an affordable price.

8. PERSONAL EMOLUMENTS

The Local Council, with the help of the Council accountants, will be given proper guidelines to its staff on how to account for wages and salaries, councilors allowance and major honoraria in order to avoid reclassifications at year end.

CONCLUSION

The Local Council believes that with the above procedures that the Council will adopt, the internal controls of the Ghajnsielem Local Council will be enhanced resulting in better operational controls and financial reporting.

Regards



Franco Ciangura
Mayor

cc. Auditor General, National Audit Office
Mr Conrad Borg, RSM Malta