

The Mayor,  
Santa Venera Local Council,  
Kumpless Umberto Colosso,  
Triq il-Kbira San Guzepp  
Santa Venera SVR 1013

25 April 2016

## **Financial Statement 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 the council. We have also reviewed the operations of the council and how they conform to the Local Council 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**

#### **Income**

We again noted a difference between amount recognised as LES administration income and Loqus reports. However, the difference is insignificant at EUR178.

The majority of funds received from Regional Committee have been deferred until these are allocated to a project. We recommend that the Council identifies projects to be financed from these access funds that now amount to EUR139,075 (refer to note 6.3).

We again noted errors in timing of recognition of funds/grants (refer to notes 2.1 to 2.7).

#### **Payroll**

We again noted an error in accruing for performance bonuses (refer to note 3.1).

#### **Expenditure**

We noted again that most petty cash payments are supported by cash register receipts (refer to note 4.1).



Similar to what was identified in 2014, we noted that some expenses incurred on a particular project were not recognised in 2015 since they were paid in 2016 (refer to note 2.6).

The council has not resolved the issue of the tender for the provision of street lighting repairs (refer to note 4.5).

### **Fixed assets**

The council fixed asset register still lacks information about current location of assets and we again noted differences between the fixed asset categories in the nominal ledger and those in the fixed asset register (refer to note 5.1).

The differences between the fixed asset schedule and admin expenses have been resolved and an attempt was made to clear the differences between the values in the fixed asset register and the values in the ledger. Still, we noted that the amounts reallocated between different categories on the Fixed Asset Register were not in line with the differences reported last year. We also noted that depreciation was not provided on amounts reallocated from one classification to another (refer to notes 5.4 – 5.9).

### **Grants**

Whereas we did not identify any major issues with allocation of deferred income to profit and loss, we did note that application of the deferral principal on new grants was not correct (refer to note 6.1). Still, the Council is limiting his allocation analysis to 12 months and is not analysing the maturity of grants over different periods (refer to note 10.2).

### **Debtors**

The debtors list has now been cleaned up and, whereas the amounts recoverable from Water Services Corporation and MP&DC consultants were not recovered, the Council has made the necessary provision due to issues with recoverability. We still encourage the council to chase these balances.

The difference in the Southeast Region balance with customer records has been cleared.

### **Bank and cash**

Whereas the account signatories on the Reserve Cheque account have been corrected, the signature on the LES account was not (refer to note 8.1).

We again noted some issues with the bank reconciliation process (refer to note 8.3).

### **Creditors**

We again noted some differences between the creditors list and creditors control account (refer to note 9.1). On the other hand, the council provided all statements from sample suppliers to confirm the year-end balances. Still, the Council is not requesting monthly statements (refer to note 9.3).

FSS and PAYEE balances were settled at year end, and hence there was no issue with allocation on the statement of financial position.

The balance with Central Asphalt was allocated between current and non-current portion. However, a maturity analysis of the non-current portion was not included (refer to note 9.5).

### **Financial statements**

We again noted a number of departures from IFRS requirements (refer to note 10).

### **Minutes**

We again noted one instances in which the time lapse between one meeting and another exceeded the 5 week interval (refer to note 11).

No excessive absenteeism was noted from Councillors in the year under review.

### **Local Enforcement system**

Our audit work on LES income receivable was again limited in the absence of the audited financial statements of the Birkirkara Joint committee (Refer to note 12).

## **2 Income**

### **Tipping fees in excess of allocation**

- 2.1 In January 2016. The Department of Local Government transferred EUR27,512 to WasteServ to settle tipping fees charged to the Council throughout 2014 and 2015 in excess of the amounts budgeted by the Government. Since this amount relates to the period under review and before, has already been recognised as an expense by the Council and the amount

can be fairly determine, the Council should include it as income for the year ended 31 December 2015. The Council did not record this income and we proposed an adjustment to recognise it as income and include it with accrued income under receivables. The Council has approved our proposed adjustment and reflected it in the audited financial statements.

- 2.2 We recommend that the Council identifies similar income and one its can be fairly determined, recognizes it in the period in which the expenditure is incurred to apply the matching concept.

### **Street Advertising**

- 2.3 The Council signed two agreements for street advertising that generated EUR2,040 in income. The contracted amount covers the period 1/9/15 to 31/8/16 and hence, 8 months need to be deferred to 2016. We recalculated the deferred portion and arrived at a figure of EUR1,360. The Council recognised deferred income of EUR1,560. We proposed an adjustment of EUR200 to increase the amount recognised in income and reduce the deferred income portion. The Council has approved our adjustment and updated its financial statements.
- 2.4 We recommend that the Council allocates such income properly over the period of the invoice.

### **Twinning project**

- 2.5 In 2015, the Council carried out a twinning project in conjunction with the Municipality of Kastoria in Greece. The project was a funded initiative that required the organization of a seminar in Malta to be attended by locals and foreigners. The Council recognised income amounting to EUR9,000 in relation to this project that was carried out and completed in 2015. However, whilst reviewing the agreement, we identified an additional EUR4,000 that were receivable on this project and were in effect received in 2016. We proposed an adjustment to recognize these EUR4,000 as income and included under accrued income. We also proposed a separate adjustment to reclassify this income from supplementary Government income to other income since it was not earned directly from local authorities. The Council has approved our adjustments and updated its financial statements.
- 2.6 The funds received were used to settle expenses incurred in the realization of the project. We noted however that throughout 2015, the Council only recognized around EUR8,890 in expenses whereas additional expenses amounting to EUR3,895 were not accounted for since these were paid in 2016. We proposed an adjustment to recognize these costs as expenses and included them under accruals. The Council has approved our adjustment and updated its financial statements.

- 2.7 Once again, we recommend that the council applies the accruals and matching concept appropriately when accounting for income and expenditure.

#### **Bank interest**

- 2.8 At 31 December 2015, the Council recognised EUR225 in accrued interest income, however, the bank audit reports indicated that these should amount to EUR63. We proposed an adjustment to reduce interest income and accrued interest income by EUR162. The Council has approved our adjustment and updated its financial statements.
- 2.9 Similar to previous recommendations, we recommend that the council applies the accruals concept is applied appropriately.

#### **Government allocation**

- 2.10 The unaudited financial statements approved by the Council indicated that the Government allocation amounted for the Council in 2015 amounted to EUR384,684 whereas the official allocated amount was EUR384,804. The difference of EUR120 was identified as WIFI costs deducted from the allocation. We proposed an adjustment to increase income and related costs by EUR120. The Council has approved our adjustment and updated its financial statements.
- 2.11 We remind the Council that although certain Council related costs are deducted directly from the allocation, the Council is required to gross up the income received in line with the financial allocation and reflect all deduction in expenses.

### **3 Payroll**

#### **Performance bonus**

- 3.1 We noted that the performance bonus for 2015 was paid in 2016, and although the Council accrued for the expense at EUR4,037, the actual amount approved and paid was EUR4,446 (EUR2,651 due to the Executive Secretary and EUR1,795 due to 2 clerks). We proposed an adjustment of EUR409 to accrue for the difference. The Council has approved our adjustment and reflected this in the financial statements.
- 3.2 We recommend that the council accrues for expenses in the year in which they arise.

### **Allocation of payroll costs in the nominal ledger**

- 3.3 Our testing on payroll indicated that the expense was not being appropriately allocated between the different nominal ledger accounts. We noted that EUR10,733 in FSS deductions were included with the Council NI costs account. This also resulted in an overstated NI cost (and understated salary costs) in the financial statements disclosure note. We also noted that Mayor salary, allowances paid and employee salary nominal accounts did not reflect the actual cost fairly and EUR3,257 in Mayor salary and allowances were included in Employee salaries. This error was also reflected in the disclosure note in the financial statements.
- 3.4 We proposed an adjustment of EUR10,733 to reclassify FSS cost from NI cost to staff costs and an reclassification of EUR3,257 to Mayor salary and allowances. The Council has approved our adjustments and reflected them in the financial statements.
- 3.5 We recommend that the Council allocates payroll expenses against the appropriate nominal ledger accounts and ensures that these are properly reflected in the financial statements disclosure note.

### **Council member allowances**

- 3.6 From our review of the allowances paid to council members, we noted that the Council has made deductions from allowances payable to Council members that were absent from Council meetings. However, we noted that for one Council member, the Council deducted the equivalent of 2 meetings from the member's December allowance rather than just one. We proposed an adjustment of EUR86 to accrue for the extra deduction which will now be paid in 2016. The Council has approved our adjustments and reflected them in the financial statements.
- 3.7 We recommend that the Council continues to monitor the Councilor attendance and apply the necessary deductions. We understand that this was a small oversight in a process to ensure that all deductions are effected

## 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:

Description as per Schedule of Petty Cash Payments	Supplier as per Supporting documentation	Date as per Supporting documentation	Amount as per Supporting documentation EUR	Type of Supporting Documentation
Toiletries	J&T Mini Market	13/11/2015	23.36	Cash Register Receipt
Upaper, Parazone ect	Chain Supermarket	10/10/2015	19.56	Cash Register Receipt
Stamps	Malta Post	26/10/2015	20.80	Cash Register Receipt
Diesel Fiat Fiorino	St. Joseph Petrol Station	14/09/2015	10.00	Cash Register Receipt
Tea bags, coffee, bleach, washing up liquid, hand wash, lemon cleaner, toilet paper	Lidl - Zejtun	20/08/2015	17.93	Cash Register Receipt
Cafe, sugar, svelto, toilet paper, powder milk	St. Venera Self Service	20/07/2015	18.49	Cash Register Receipt
Diesel Fiat Fiorino	St. Joseph Petrol Station	03/06/2015	10.00	Cash Register Receipt
leaves, flowers, 1 wreath of bay	Florist and Greengrocer	Cashsale receipt: 03/05/2015 Cash Register Receipt: 06/05/2015	15.00	Cashsale handwritten receipt & Cash Register Receipt
Registered Letters	Malta Post	10/04/2015	10.54	Cash Register Receipt
Tea bags, coffee, sugar ect	Lidl - Zejtun	28/03/2015	9.04	Cash Register Receipt
Tea bags, coffee, sugar ect	Lidl - Qormi	24/02/2015	19.87	Cash Register Receipt
Toilet rolls, nonna piu piatti, lavapavimenti, bleach, air freshner	Sparkle Image	29/01/2015	14.07	Cash Register Receipt
St. Joseph Petrol Station	St. Joseph Petrol Station	23/01/2015	10.00	Manually filled Receipt

- 4.2 Cash register chits do not satisfy the requirements of the Local Councils (Financials) Procedures 1996 that supplies are only made on the provision of a valid tax invoice which is addressed to the council. To this end, we recommend that where possible, the council obtains a tax invoice or VAT receipt for petty cash purchases.
- 4.3 We also noted that in one instance, the amount of Petty Cash expense amounted to EUR23.36 which slightly exceeds the limit of EUR23.29 allowed on petty cash expenses by the Financial Regulations.
- 4.4 Whereas the amount is exceeded by a minimal amount, we recommend that the Council monitors and avoids such instances.

### Street lighting contract

- 4.5 The contract with Mica Med Limited for the maintenance of street lighting expired with the cessation of operations of the Birkirkara Joint Committee of which the council formed part. Subsequently, the council has not issued a



tender for the service. The amount invoiced by Mica Med in 2015 amounted to EUR14,749.

- 4.6 The contract with Mica Med limited for street lighting repairs is to remain valid until this is delegated to regional committees as per memo 106/2011. Therefore we recommend that the council complies with memo 10/2013 and obtains approval in meeting for its extension and sign an extension letter with the contractor.

### Asset Insurance

- 4.7 We identified some discrepancies between the cost of fixed assets (as fair approximation of replacement value) and the sum insured as follows:

Description	Cost as per records EUR	Sum Insured EUR	Difference EUR
Building of insured premises	-	35,000	- 35,000
Furniture, Fixtures and Fittings	30,801		
Office Equipment	19,484	53,923	2,188
Plant and Machinery	5,826		
Loss of Rent (S.Venera local council - EUR 510.13/year)	-	600	- 600
Electronics, Computer and other data processing equipment	21,417	21,417	
Motor vehicles	500	160	340
New Street Signs	37,216	-	37,216
Urban Improvements	265,122	-	265,122
Constructions	647,711	-	647,711
Special Programmes	666,592	-	666,592
Trees	4,141	-	4,141
Assets not capitalised	920	-	920
	<u>1,699,730</u>	<u>111,100</u>	<u>1,588,630</u>

- 4.8 The above illustrates that the council's assets are not appropriately insured. In this regard, the council should update its insurance policy to ensure that assets held are not under/over insured, and also include new assets bought by council during the year.



- 4.9 The council must comply with section LCP 1.15b.04 of the Local Councils (Financials) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage and ensure that its insurance cover is in line with the lease agreement

#### **Refuse collection tender**

- 4.10 In 2015, the Council issued a tender for refuse collection which was awarded to Waste Collection Limited. The agreement with the supplier was signed on 25<sup>th</sup> November 2015 and is applicable as from 1 December 2015. The contract is valid for one year with the possibility to extend for another 3 consecutive years at EUR69,900 per annum. A bid bond was presented by the Supplier prior to signing the contract for the amount of EUR5,823.43. The guarantee expires on 25 November 2016.
- 4.11 We remind the Council that the validity of the guarantee as per tender procedures is to expire one month after the stipulated completed date of the contract. We recommend that the Council ensures that the bid bond does not expire without its consent.

### **5 Fixed assets**

#### **Fixed asset register**

- 5.1 We reiterate the recommendations that the register should state the location of the asset and supplier's name. Furthermore, all assets are to be appropriately tagged (where applicable) and referenced to the register.

#### **Depreciation charge**

- 5.2 We re-calculated the depreciation charge for the year on fixed assets to ensure that this is worked out under the monthly reducing balance methodology. From our testing, we noted that the depreciation charge on improvements was overstated by EUR719, the depreciation charge on special programs was overstated by EUR661 and the charge on construction was overstated by EUR796. We proposed an adjustment of EUR2,176 to adjust the provision for the year. The Council has approved our adjustments and reflected them in the financial statements.
- 5.3 The Council should ensure that the provision for depreciation is applied using the monthly reducing balance methodology.

## Reconciliation of financial statements to accounting records

- 5.4 We identified a number of differences between the cost, accumulated depreciation and net book value of assets in the financial statements and the net book value in the fixed asset register. These are summarized below:

Category	Cost - Schedule	Cost - FAR	Difference	Depr./Amor - Schedule	Depr. - FAR	Difference	NBV - Schedule	NBV - FAR	Difference	Audi Adj	Diff
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Office furn & fittings	30,801	30,801	-	21,507	21,507	-	9,294	9,294	-	0	-
Office equip	19,484	19,483	1	15,690	15,690	-	3,794	3,793	1	0	1
Motor vehicles	500	500	-	157	157	-	333	333	-	0	-
Computer equip	21,417	21,417	-	19,644	19,645	(1)	1,773	1,772	1	0	1
New Str signs	37,216	37,216	-	37,216	37,216	-	-	-	-	0	-
Urban improvement	265,122	265,111	11	110,115	110,835	(720)	155,007	154,276	731	719	12
Construction	647,711	646,803	908	282,693	283,492	(799)	365,018	363,311	1,707	796	911
Speical Programes	666,592	666,592	-	591,600	592,262	(662)	74,992	74,330	662	561	1
Trees	4,141	4,141	-	-	-	-	4,141	4,141	-	0	-
Piant & Machinery	5,826	5,826	-	3,687	3,687	-	2,139	2,139	-	0	-
Asset not capitalised	920	-	920	-	-	-	920	-	920	0	920
	1,699,730	1,697,890	1,840	1,082,319	1,084,501	(2,182)	617,411	613,389	4,022	2,176	1,846

- 5.5 The table above indicates a difference of EUR1,840 in cost of assets and a difference of EUR2,182 in provision for depreciation. However, the difference in depreciation is mainly arising from the adjustment to depreciation charge of EUR2,176 noted in paragraph 5.2. Hence, the overall impact on the net book value of assets is EUR926 after deducting the EUR920 in assets not capitalised.
- 5.6 The above differences arise from the items noted in previous management letter that were not fully corrected. We also noted that in a bid to correct the previously reported differences, the Council transferred an element of cost from one class of asset to another on the fixed asset register. Hence, the amount reclassified was not being depreciated in the fixed asset register.
- 5.7 The Council should investigate the remaining differences between the fixed asset register and the nominal ledger/fixed asset schedule and eliminate them as necessary. The Council should also ensure that in this procedure, specific assets are transferred to maintain the audit trail whilst depreciation is continuously applied as required.
- 5.8 The Council should also determine what the EUR920 in asset not capitalized is and reclassify accordingly since this was brought forward from previous period.

## 6 Grants and deferred Income

### Live streaming

- 6.1 During the year, the Council received a grant for live streaming amounting to EUR2,078. This was fully recognised as income. The related cost was capitalised and depreciated under the 20% monthly reducing balance policy. The matching concept and Local Council memos require that the grant received is taken to income in line with the depreciation rate on the capitalised asset. As a result, we proposed an adjustment to defer the grant of EUR2,078 from income and a separate adjustment to recognise EUR346 as income for the period. A further adjustment of EUR346 was passed to current portion from the non-current portion of deferred income. The Council has approved our adjustments and reflected them in the financial statements.
- 6.2 We refer the council to memo 1/2014 and the accounting policies set out in its financial statements which state that grants from the Government are to be treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this approach, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge. The council should also compile a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate of assets.

### Surplus from Central Region

- 6.3 During the year, the Council received the sum of EUR96,410 from the region. When we add this to the opening balance of EUR70,000 (net of opening accrued income), the Council closed the financial year with a deferred income balance of EUR166,410. The Council has not yet identified any projects to be financed with these funds and hence, we expected to identify the balance of EUR166,410 in the appropriate bank account set up for these funds. The closing bank account balance however amounted to EUR139,482. We enquired about this and the Executive Secretary informed us that the Council had effectively used the funds for a project that had a cost of EUR27,335. This cost was partly traced to capital expenditure and partly (EUR1,146) to current expenditure. We also obtained correspondence with the Central Regional Committee on the use of such funds.
- 6.4 The above clearly indicated the Council did not capitalise EUR1,146 in certification fees on a capital project. The Council also failed to allocate EUR27,335 from deferred income to this project. As a result, we also calculated the amount to be recognised in income for the period to counter-act the depreciation charge in the project which amounted to EUR1,770. We also allocated the current and non-current portions of deferred income

allocated to this project which amounted to EUR1,601 and EUR23,964 respectively. We proposed the identified adjustments arising from this transaction (in addition with an amendment to depreciation of EUR74) and these were properly reflected in the financial statements.

- 6.5 The Council is required to allocate the Regional Funds to specific projects that are identified and reported to the Central Regional Committee. Any amounts used for projects are to be allocated as a separate item of deferred income and recognised in income in line with the recognition of the related expenditure.

## **7 Debtors**

### **Provision for bad debts**

- 7.1 The council has brought forward an overdue balance of EUR2,748 receivable from Water Services Corporation (WSC) for trenching works and EUR4,931 from MP & DC architects. Whilst the Council is still chasing these amounts, it has correctly made a provision against the amounts receivable. However, the provision was applied against the original debtor, hence eliminating any audit trail in relation to these amounts. Disclosure of the amounts provided for was not evident in the financial statements note on receivables and the provision was included with Operations and Maintenance expenses rather than administrative expenses. We proposed an adjustment to re-instate the receivable in the books of the Council and to show a separate provision for bad debts account in the ledger. We also proposed changes to the financial statements to include a disclosure of the amounts provided for and to present the charge for the year under administrative expenses. The Council has approved our adjustments and amendments and reflected them in the financial statements.
- 7.2 We understand that the council is following the matter and is encouraged to continue chasing the balance recoverable to collect in the shortest time frame possible. We also recommend that the Council ensures that these amounts are retained within the audit track or else risk losing track of the amounts since the provision becomes more of a bad debt.

### **Other overdue amounts**

- 7.3 Our testing identified that other amounts due for over 365 days amounted to EUR183 and are recoverable from the Gozo Regional Committee. The overall amount receivable from the Gozo regional Committee at year end was EUR247.
- 7.4 We recommend that the council monitors this debtor to ensure that it recovers the amount due to it in the shortest time frame possible.

## **8 Bank and cash**

### **Account signatories**

- 8.1 We again noted that the signatories on the LES account held at BOV still refer to the former executive secretaries.
- 8.2 Whereas this account is not being used, we recommend that the council seeks to update the representatives of this account.

### **Bank reconciliations**

- 8.3 Our review of the bank reconciliation process identified a number of weaknesses within the process. The Twinning account December reconciliation was dated 23 January 2016 whereas the other BOV account December reconciliations were dated 16 February 2016. This indicates that the reconciliations were not prepared within 10 working days from the end of the month as required by the financial regulations.
- 8.4 We also requested bank reconciliations for other months and we received copies of monthly reconciliations for the main cheque accounts. These reconciliations were only made for one bank account and these were all dated in January 2016.
- 8.5 We also noted that the statement as at 30 June 2015 was used to reconcile the Twinning Account at 31 December 2015 and the hence, the reported unreconciled amounts were actually presented by the balance sheet date.
- 8.6 We recommend that the Council ensures that monthly bank reconciliations for all accounts are carried out by the 10<sup>th</sup> working day of the following month. Such reports are to be printed, approved and filed with the monthly bank statement.

## **9 Creditors**

### **Creditors list and accruals list**

- 9.1 We identified a difference of EUR223 between the creditors list and the creditors control account. This difference arises as a result of an audit adjustment we had to pass due to opening balance differences (refer to note 10.2).
- 9.2 We also identified a difference of EUR1,899 between the accruals list and accruals in ledger. Similarly to point 9.1, the difference arises from the audit adjustment passed to eliminate an opening balances difference arising from the non-accounting for a 2013 audit adjustment (refer to note 10.2).

### **Creditors' statements**

- 9.3 During the course of our audit we noted that the council did not manage to obtain monthly suppliers statement from all suppliers. In its reply to the previous year management letter point, the Council indicated that this is time consuming and that end of year statements should be enough. End of year statements for our sample testing were provided in full.
- 9.4 We again recommend the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledger. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements and allows enough time to investigate and amend any differences.

### **Non-current payables – Central Asphalt Limited**

- 9.5 The council has properly classified the amount due to Central Asphalt Limited between current and non-current portion. However, the analysis provided was limited to a current and non-current distinction.
- 9.6 We recommend that the council discloses a breakdown of movements and a maturity analysis of long-term payables in accordance with NAO's Instructions, including those falling due between one and two years, two and five years and more than five years. The Council did not provide such an analysis in its notes to the financial statements.

## **10 Financial statements**

### **Presentation of financial statements**

- 10.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).
- 10.2 The council's financial statements are not compliant with IFRSs in the following instances:
- An opening balance test that reconciles the prior year closing balances as per audited balance sheet to the opening ledger balances for 2015 indicated a number of differences. These differences resulted in comparatives figures that were not agreeing to the prior year signed financial statements and a net difference in opening retained funds of EUR1,677. The Council approved our proposed adjustments and amended the audited financial statements.



- The council has not included all quantitative disclosures as required by IFRS 7, *Financial Instruments: Disclosures*. These include information on the maximum exposure to credit risk, proper contractual maturities of financial liabilities and categories of financial assets and liabilities. We proposed amendments to the financial statements to ensure a proper disclosure. The Council has amended these disclosures after our notification.
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the council did not cover all the changes in the unaudited financial statements. We proposed amendments to the financial statements to ensure a proper disclosure. The Council has amended these disclosures after our notification.
- IAS 7 *statement of cash flow* relating to disclosure on capital creditors and movements in grants are not presented correctly. We proposed amendments to the financial statements to ensure a proper disclosure. The Council has amended these disclosures after our notification.
- The council did not disclose whether it made judgments in the process of applying accounting policies and information about key assumptions and other sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities. These requirements emanate from IAS 1, *Presentation of Financial Statement*. We proposed amendments to the financial statements to ensure a proper disclosure. The Council has amended these disclosures after our notification.
- The council reported a rental cost of EUR9,730, however, the financial statements do not disclose the necessary disclosures required by IAS 17 *Leases*. The Council has amended its disclosures in the audited financial statements, however, this does not reflect properly the Council's commitments at year end which should have amounted to EUR18,516 at 31/12/15 and EUR27,525 at 31/12/14. This also needs to be analysed over its maturity period and a brief description of the arrangements should have been disclosed. Our audit report is qualified on this matter.
- The council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the council. Our audit report is qualified on this uncorrected matter.



- The Council did not disclose the maturity analysis of deferred income in accordance with NAO's instructions. Our audit report is qualified on this uncorrected matter.

10.3 Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

#### **Capital commitments**

10.4 The capital commitment note presented in the unaudited financial statements was equal to the amount presented in 2014, includes the amount due to PPP Contractor and was not in line with the amounts presented in the Council's financial estimates for 2016. This was amended in the audited financial statements however, the figures presented were still not in line with those presented in the approved estimates for 2016.

#### **Other presentation issues identified in the audited financial statements**

10.5 We also identified the following errors in the audited financial statements:

- The authorization date in Note 1 on page 10 was not amended to reflect the date the audited financial statements were approved. It should read 25 April 2016.
- Accruals and deferred income in note 13 on page 20 should read EUR188,584 not EUR214,318 and total payables should read EUR224,639 as disclosed in the statement of financial position.

### **11 Minutes**

#### **Frequency and duration of meetings**

- 11.1 Whilst reviewing the minutes of the council, we noted that meeting 35 dated 18 February 2015 was held just over five weeks from the proceeding meeting which was held on 13 January 2015.
- 11.2 We understand that this was exceeded by just 1 day however, we draw your attention to section 43(2) of the Local Councils Act stating that council meeting should be held at least once a month and not in excess of 5 week intervals.

## 12 Local Enforcement system

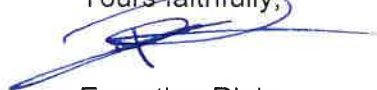
- 12.1 The Birkikara Joint Committee of which Attard Local Council formed part up to 31 August 2011 has recently provided the council with audited accounts for the period ending 31 December 2015. These accounts indicate retained earnings of EUR5,229 and cash at bank of EUR2,204. The audit report is also qualified since the auditor could not reconcile amount receivable to the turnover and debtors reports issued from the IT system.
- 12.2 The balance sheet of the committee does not indicate that the Council is entitled to a material share from the profits of the pooling system and the qualification presented raises doubts on the reliability of the Committee's receivables (which are fully provided for). We have qualified our audit report since the amount recoverable from the joint committee cannot be fairly determined.

## 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 possible 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. Michael Mifsud and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta