

The Mayor
Hamrun Local Council
Duke of Edinburgh Street
Hamrun HMR 2063
Malta

27th April 2016

Dear Sir,

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

During our audit for the year ended 31 December 2015, we have reviewed the accounting systems and procedures operated by the 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 Payroll

During the year, another difference was noted between the salaries in the accounts and gross wages as per FS7 submitted to the Inland Revenue Department (refer to 2.1).



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1.2 Bank

During the year under review, once again we identified a difference in one of the bank reconciliations and as in the previous year, bank reconciliations are not being performed on a monthly basis (refer to note 2.2).

Whilst going through the bank letter we noted that the Council had not accounted for accrued interest payable and accrued interest receivable (refer to note 2.3 and 2.11).

We are pleased to note that the Council closed the BOV savings accounts (3736) with a €Nil balance and also that bank representatives were updated in line with the appointment of the new Mayor.

1.3 Bank loan

We are pleased to note that there was no difference between our and the Local Council's working of the current portion of the bank loan.

Also the Council disclosed the appropriate interest rate on bank borrowings in the unaudited financial statements.

1.4 Petty cash

As in the previous year, most petty cash payments vouched during the audit were supported by cash register chits (refer to note 2.4).

During the year, the Council abided by the procurement provisions of the Local Councils (Financial) Procedures, 1996 to raise duly signed purchase orders and obtain quotations for all purchases in excess of € 23.29.

1.5 Property, plant and equipment

Unlike in the previous year, no differences were noted between the net book value of assets in the financial statements and the corresponding net book value in the nominal ledger.

We also noted that the fixed assets register is being kept using the Sage Accounting Package unlike in previous year, when it was still in Excel format.

We are also pleased to note that all fixed assets have been labelled during the year.

While testing depreciation, we have again noted that the Council has depreciated the 'Council premises and car park' using the reducing balance method at a rate of 1% instead of over its 30-year lease term (refer to note 2.6).

We are pleased to note that the Council renewed its insurance policy to ensure that assets are not under- or over-insured.

1.6 Amount receivable from Water Services Corporation (WSC)

The overdue balance of €11,326 due from Water Services Corporation (WSC) has not yet been settled (refer to note 2.7).

1.7 Local Enforcement System receivables

The balance of € 8,561 receivable from contraventions collected by the LCA and LTD on behalf of the Council was still in the unadjusted accounts for year ended 31 December 2015. This was written off during the audit (refer to note 2.8).

Similar to prior year, confirmation letters were sent to related parties. We are pleased that we had a better response than last year. In fact, only one Regional Committee did not confirm the balance due to the Local Council (refer to note 2.10).

1.8 Payables

During the year under review, we were not provided with suppliers' statements and it was also noted that regular reconciliations are not prepared (refer to note 2.12).

As in the previous year, whilst testing payables, it came to our attention that a number of balances have been outstanding for more than one year (refer to note 2.13).

We are pleased to note that debit balances in creditors' list have been presented separately from trade payables in the financial statements. However, an amount brought forward from previous year was written off during the course of the audit (refer to 2.9).

Similar to last year, we found a discrepancy in the balance due to WasteServ Malta Limited (refer to note 2.14).

1.9 Deferred income from grants

Whereas the previous year no release to income was accounted for with respect to government grants included as deferred income, during the year under review, it was noted that the Council was applying the straight line method in releasing such income to the income statement. Additionally, similar to last year, no proper workings were provided by the Local Council with regards to the deferred income balance in the statement of financial position (refer to note 2.16).

1.10 Financial statements

We are pleased to note that the Council's financial statements were prepared in accordance with the disclosures required by International Financial Reporting Standards (IFRS).

We are pleased to note that the cash flow statement has been prepared to reflect the actual cash movements, in accordance with IAS 7; Statement of Cash Flow.

1.11 Meetings

As in the previous year, it was noted that in one occasion the period between meetings was more than five weeks (refer to note 2.17).

We are pleased to note that all excuses were made in writing and were signed accordingly. Moreover, the Council was provided by a valid and justifiable excuse for all absences from meetings.

As in the previous year, it came to our attention that meeting number 353 lasted more than three hours (refer to 2.17).

We are pleased to note that all minutes were approved by the Council Members.

In line with previous year, the Council did not upload all minutes and schedules of payments on the electronic site of Local Councils within two working days from their approval. In addition, the website is still not updated with the appointment of the new Mayor and Councillors (refer to 2.18).

1.12 Unadjusted errors

Similar to prior year, there were a number of unadjusted errors which arose during our testing and which were not passed as audit adjustments as they were below the materiality threshold, both individually and in aggregate (refer to note 2.21).

1.13 Legal letter

Unlike in the previous year, a legal letter was made available during the course of the audit to be able to determine whether there are any legal cases and the possibility and probability of the outcome of such cases.

2 Management letter points for the year

2.1 Salaries reconciliation

While testing the salaries for the year, a difference amounting to € 1,048 was noted between the salaries in the accounts and gross wages as per FS7 submitted to the Inland Revenue Department. Such amount has been included in the list of unadjusted errors (ref 2.21).

	€
Gross Wage as per FS7/FS5s	116,412.00
1/2 the total social security as per FS7/FS5s	7,647.68
Non-taxable fringe benefits	-
Total as per FS7/FS5s	<u>124,059.68</u>
Wages and salaries as per accounts	113,987.00
Mayor's remuneration as per accounts	10,572.00
NI as per accounts	7,666.00
Add opening accrued performance bonus	2,560.00
Less closing accrued performance bonus	(6,367.00)
Less CIR dues for prior years	(3,310.00)
Total as per accounts	<u>125,108.00</u>
Difference	<u>(1,048.32)</u>

We recommend that a reconciliation is performed at the end of the year before the FS7 is submitted to the Inland Revenue Department. Failure to submit correct forms could result in the Council incurring fines in case of an inspection by tax authorities.

Moreover, the Executive Secretary's performance bonus exceeded the amount stipulated by law by € 249. Such amount has been included in the list of unadjusted errors (refer to note 2.21). As per Local Councils (Human Resources) Regulations, the Council may at its discretion, award to the Executive Secretary, at the end of any financial year, a performance bonus not exceeding 10% of the last salary received

Also, we noted that the tax portion of the Mayor's allowance was included with the Employees' salaries wages whilst the tax portion, NI element and bonus of the Executive Secretary was also included with the Employees' salaries wages. We have reclassified such amounts at audit stage as per RECL C/15 and RECL D/15 in note 2.22.

Contract of employments have not been updated for an indefinite period. We suggest that the Local Council performs an indefinite contract for each employee that has been in employment for more than four years.

Unused leave carried forward exceeded 48 hours in the case of two employees. As per Local Councils (Human Resources) Regulations, accumulation of vacation leave cannot exceed the maximum of 48 hours.

Employee	Leave carried forward (hours)
Ms Maronia Bonello	49.75
Ms Fiorella Schembri	83.25

2.2 Bank reconciliations

While performing our testing on bank balances, we noted that bank reconciliations were not being performed on a monthly basis for the following bank accounts:

Bank	Account No.
Bank of Valletta P.L.C	13810602025
HSBC Bank Malta P.LC	023-073166-001
HSBC Bank Malta P.LC	023-073166-050

We strongly recommend that monthly reconciliations of all bank accounts are performed. Apart from enhancing internal controls, this also assists the Council in managing receipts and payments.

Furthermore, it transpired that the bank reconciliations of the following bank accounts were not being performed correctly. In HSBC bank account 023-073166-050, a difference of €48 was identified to be bank interest not recorded. We proposed an audit adjustment which the Council approved (refer to AA 04/15 in note 2.20). Also, in BOV bank account 40017967714, a difference amounting to €3,932 was included with the list of unpresented cheques and which represents stop payments, as confirmed by the Council. We proposed an audit adjustment which the Council approved (refer to AA 09/15 in note 2.20).

The above weakness highlights the importance of preparing regular bank reconciliations to identify discrepancies promptly.

2.3 Accrued bank interest

While going through the bank letter, we noted that the Council had not accounted for accrued interest payable amounting to €1,130. Given that the amount is not material, no audit adjustment was proposed, but this was included in the list of unadjusted errors (refer to note 2.21).

We recommend that the Council accounts for such accrued interest in the unaudited financial statements before these are presented for the audit.

2.4 Petty cash

During our petty cash testing we noted that for the following petty cash payments, the only third party documentation was a cash register chit:

Details	Supplier	Date	€
Detergents	J2M Cash & Carry	13/11/2015	16.50
Beverages	Alfsons Enterprises Ltd	06/01/2015	18.00

This contravenes the Local Councils (Financial) Procedures, 1996, which specifically requires that purchases are made only against a fiscal receipt addressed to the Council.

While testing the petty cash balance, we noted that the opening balance carried forward in the accounts was different from the closing balance reported in 31 December 2014 by €63. In view of this, we proposed an audit adjustment which the Council approved (refer to AA 03/15 in note 2.20).

2.5 Fixed assets additions

While testing fixed assets additions, we have noted that while the tender which was entered into with Philip Agius & Sons Limited had expired in June 2015, no replacement has yet been made. This supplier was the main service provider of road works made to the Local Council which during 2015 amounted to €129,929. Such work was contracted prior to the expiration of the tender.

We recommend that a new tender is issued for the provision of this service given that the current situation is in contravention of the procurement procedures as per the Local Council Regulations.

As can be also noted in note 2.15 relating to accruals, there was a fixed asset addition amounting to €38,602 which was not accounted for during the year. Such invoice was issued by Philip Agius & Sons Limited on 2 February 2016 for the provision of hot asphalt and additional works on Triq il-Kanonku Bonnici, Hamrun, which was in reality incurred during 2015. This was accounted for at audit stage through an audit adjustment (refer to AA 05/15 in note 2.20). Consequently depreciation charge should have been €322 higher, however given the immateriality of the amount we included it in the list of unadjusted errors (refer to note 2.21).

When testing fixed assets additions we noted an amount of €348 which were in reality an expense for the hire of equipment, rather than an asset addition. With this respect given that the amount is highly not material we included such error with the unadjusted errors (refer to note 2.21). Consequently we have also included the reversal of depreciation charge taken on such asset with the list of unadjusted errors (refer to note 2.21).

2.6 Depreciation of fixed assets

The Council has depreciated the 'Council premises' and 'car park' using the reducing balance method at a rate of 1% instead of over 30-year lease term. This resulted in a variance of €44,762 for which we did not propose an audit adjustment, since the Council intends to renew the lease in perpetuity.

We recommend the Council to discuss the issue with the appropriate Government authority, to come into an agreement so that the intention of the Council to renew the lease in perpetuity would be possible.

When testing depreciation on fixed assets, we noted that depreciation for the year relating to 'Council premises & Car park' amounting to €17,974 was included in the depreciation on 'Construction roads'. A reclassification was passed to properly classify the depreciation in the property, plant and equipment schedule in the financial statements (refer to note 2.22).

2.7 Amount receivable from Water Services Corporation (WSC)

The Council is still carrying an amount of €11,326 receivable from WSC which has been outstanding for a number of years.

We reiterate our recommendation to investigate and discuss this balance with WSC and if it is decided that it is not recoverable, it should be written off after the Council's approval is obtained. After further enquiry with the Executive Secretary with regards to the recoverability of such balance, it was advised that this should not be written off at this stage given that communications between the Council and the supplier are taking place with the intention to recover the balance due.

2.8 LES receivables

As at 31 December 2015, the Council still had a balance of € 8,561 receivable from contraventions collected by the LGA and LTD on behalf of the Council. This balance had been brought forward from 2009. Given that we could not perform any procedures to confirm the amount and its recoverability we enquired with the Executive Secretary, whereby we were advised that such amount was highly unlikely to be recovered. Thus an adjustment was passed at audit stage to write off this amount receivable (refer to AA 02/15 in note 2.20).

2.9 Debit balance in creditors' list

During the course of the audit, we were instructed by the Council to write off an amount of €587 which was brought forward from previous year (refer to AA 07/15 in note 2.20).

2.10 Trade receivables

During our trade receivables testing, confirmation letters were sent to request confirmation of balances. We were unable to test the below balances as confirmations were not received and there were no related receipts after year end:

Trade receivables	Amount
	€
Northern Regional Committee	1,159
Franco Naudi	2,329

The below differences emerged from the confirmation letters received:

	As per Local Council	As per debtor	Difference
	€	€	€
LES Central Region	7,555	4,193	3,362
LES Southern Region	3,428	1,737	1,691
LES South Eastern Region	315	-	315

The total potential error and the amount not tested amount to €8,856, whilst its extrapolated amount is €15,443. This was included in the list of unadjusted errors, as it is below the materiality threshold (refer to note 2.21).

Although the Executive Secretary has taken a number of initiatives, even before the audit was performed, to reconcile all the above discrepancies with the respective parties, no replies were received from the respective third parties.

We recommend that the Council obtains confirmations and pass the necessary adjustments before the unadjusted financial statements are passed for the audit.

2.11 Accrued bank interest receivable

Whilst going through the bank letter we noted that the Council had not accounted for accrued interest receivable amounting to €4.77. Given that the amount is not material, no audit adjustment was proposed, but was included with the list of unadjusted errors (refer to note 2.21).

We recommend that the Council accounts for such accrued interest in the unaudited financial statements before these are presented for the audit.

2.12 Trade payables

While performing our testing on trade payables, we selected three suppliers for testing and found that no statements were available. We enquired whether a trade payables reconciliation is performed for these suppliers at the end of another period, and we were informed that no reconciliations are performed:

Supplier	Year-end balance
WasteServ Malta Limited	€30,570
J. & K. Contractors Limited	€4,232
Philip Agius & Sons Limited	-

We tested these suppliers through circularisations. We also noted that a number of invoices which were issued before year end amounting to €24,151 were included as an accrual rather than as a trade payable. We have passed a reclassification in this respect to properly classify the amounts with trade payables (refer to note 2.22).

Creditor reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of the Council whilst also ensuring that the supplier balances reflected in the accounts are accurate.

2.13 Long outstanding trade payables

Whilst reviewing the aged list of trade payables, it was noted that a number of balances have been outstanding for more than one year. These are:

Creditor	2015	2014
	€	€
Information Technology Serv. Ltd	6.90	-
Standard Publications Limited	52.86	-
Venture Trading Business Solutions	99.00	99.00
C. Gerada	100.00	-
Med Developers Designers & Consultants	214.25	-
Historical Re-Enactment Group	708.00	708.00
Kumitat Kongunt Centrali	1,465.40	-
Schembri Infrastructures Limited	1,567.56	1567.56
Asfaltar Limited	2,329.37	2,329.37

We recommend that the Council investigates these amounts, and if they are no longer due, writes them off after careful consideration and approval by the Council members.

2.14 Amount due to WasteServ Malta Limited

While testing related balances, we identified a difference of €24,788 between the credit balance of WasteServ Malta Limited and the statement obtained from the same entity. We proposed an audit adjustment (refer to AA 08/15 in note 2.20) to correct the above misstatement, which was accepted and passed by the Council.

2.15 Accruals

When testing accruals for the year, we noted that payroll tax liabilities for the year amounting to €9,218 were not disclosed separately in the financial statements but were included in the accruals balance. This was reclassified at audit stage as per note 2.22.

We also noted that the Council did not account for two invoices issued by Philip Agius & Sons Limited, which had to be included in the accruals for the year. One of the invoices amounting to €38,602 related to a fixed asset addition whereas another invoice of €15,020 related to patching works carried out during the year. Such amounts were adjusted at audit stage as per AA 05/15 (refer to note 2.20). Below are the details of such invoices:

Date	Supplier	Details	€
02/02/2016	Philip Agius & Sons Limited	Hot asphalt and additional works on Triq il-Kanonku Bonnici, Hamrun	38,602.45
02/02/2016	Philip Agius & Sons Limited	Patching works in Triq Manuel Magri, Il-Kappillan Mifsud and Il-Kappillan Muscat	15,020.00

We recommend that any invoices dated after year end which however relate to the year under review are accounted for as accruals immediately as otherwise the Council would be understating its expenses for the year.

2.16 Deferred income

During the year under review, we were not provided with proper workings and breakdown for part of the deferred government grants amounting to €202,611. In addition, we were not able to confirm whether the Council properly apportioned deferred income into its short- and long-term components in the unaudited financial statements. The apportionment should be based on the period within which the income from the grant is expected to be released. In addition, we could not test the release to income given that this is based on the deferred income workings which are still to be performed. This is not in accordance with International Financial Reporting Standards.

We could not propose an adjustment or a reclassification to rectify the above due to the lack of information available. This matter contributed to the qualified opinion.

When testing deferred income relating to rental income receivable from the Local Council's car park we noted an understatement amounting to €35. Given that the amount is not material, no adjustment was passed in the accounts with this respect and was included with the list of unadjusted errors (refer to note 2.21).

In addition, with respect to rental income from car park, an adjustment amounting to €4,361 was passed in order to properly provide for the rental income receivable for the year, which was passed against deferred income (refer to note 2.20).

At audit stage we were advised that there was a balance of €5,000 included with deferred income which related to a public access terminal which was directly funded by the Local Council Association. Thus this was not to be included with the deferred income balance. With this respect, an audit adjustment was passed to reverse the fixed asset cost amount and the corresponding depreciation (refer to note 2.20)

2.17 Council meetings

From our review of the Council's minutes, it came to our attention that meeting 353 lasted more than three hours.

Memo 68/2009 and section 43(3) of the Act limits the duration of meetings to three hours, unless consensus is obtained from all present. We were unable to trace such consensus in our review of the minutes. Therefore, we recommend that should a meeting exceed three hours, the Council formally registers Council Members' agreement and thereby abides by the requirement of the memo and the Act.

Also it was noted that there was one instance whereby the period of time between one meeting and another exceeded five weeks. As per Local Councils Act, Council meetings cannot exceed five consecutive weeks.

2.18 Uploading of minutes on website

We observed that the Council did not upload all minutes and schedules of payments on the electronic site of Local Councils within two working days from their approval.

In addition, the website is still to be updated with the details of the new Mayor and Councillors.

We remind the Council of the requirement under memos 77/2009 and 102/2010 to upload the minutes and schedules of payments on the website within two working days.

2.19 Financial allocation

We noted that the financial allocation received from Government was not in agreement to the actual amount by €119, as this was included in another income account (refer to note 2.22).

2.20 Adjustments

Ref		€	PL/BS
AA 01/15	Dr Special Funds Resurfacing	5,000	BS
	Cr Office equipment	(4,215)	BS
	Cr Other repairs and upkeep	(785)	PL
	Dr Acc.Dep.-Office Equipment	761	BS
	Cr Dep.Exp.-Office Equipment	(761)	PL
	<i>Being reversal of deferred income (part of which related to a disposal of asset) – Refer to note 2.16</i>		
AA 02/15	Dr LES Debtors write off	8,561	PL
	Cr Les Debtors - AKL Debtors	(5,129)	BS
	Cr Les Debtors - LTD Debtors	(3,432)	BS
	<i>Being write off of LES debtors – Refer to note 2.8</i>		
AA 03/15	Dr Sundry Minor Expenses	63	PL
	Cr Petty Cash Account	(63)	BS
	<i>Being adjustment to cash balance – Refer to note 2.4</i>		
AA 04/15	Dr HSBC Savings Account 9422	48	BS
	Cr Bank interest	(48)	PL
	<i>Being adjustment to bank balance – Refer to note 2.2</i>		
AA 05/15	Dr Patching (cold asphalt)	15,020	PL
	Dr Resurfacing project	38,602	BS
	Cr Accruals Account	(53,622)	BS
	<i>Being understatement of accruals – Refer to note 2.16/2.5</i>		

		€	PL/BS
AA 06/15	Dr Car Park Rental Income	4,361	PL
	Cr Deferred grants - short term	(4,361)	BS
	<i>Being adjustment to deferred income – Refer to note 2.16</i>		
AA 07/15	Dr Debit balances in creditors list	(587)	BS
	Cr Sundry minor expenses	587	PL
	<i>Being adjustment to debit balance in creditors list – Refer to note 2.9</i>		
AA 08/15	Dr Creditors control account	24,788	BS
	Cr Income from DLG re WasteServ	(24,788)	PL
	<i>Being income from DLG not accounted for – Refer to note 2.14</i>		
AA 09/15	Dr Bank	3,932	BS
	Cr Creditors control account	(3,932)	BS
	<i>Being reversal of unpresented cheques – Refer to note 2.2</i>		

2.21 List of unadjusted errors

During the audit we encountered a number of errors which were at trivial level for which there was no need to adjust the financial statements. Refer to the details below:

Ref		€	PL/BS
1	Dr Accrued Income	5	BS
	Cr Interest receivable	(5)	PL
	<i>Being adjustment with respect to accrued bank interest receivable – Refer to note 2.11</i>		
2	Dr Bank loan interest	1,130	PL
	Cr Accruals	(1,130)	BS
	<i>Being bank interest accrual not accounted for – Refer to note 2.3</i>		
3	Dr Depreciation	322	PL
	Cr Depreciation	(322)	BS
	<i>Being depreciation on accrued asset addition – Refer to note 2.5</i>		

4	Dr Income from car park	35	PL
	Cr Deferred income	(35)	BS

*Being understatement of deferred income –
Refer to note 2.16*

5	Dr Income	15,443	PL
	Cr Debtors control account	(15,443)	BS

*Being reclassification to include bonus –
Refer to note 2.10*

6	Dr Accruals	249	BS
	Cr Executive Secretary Bonus	(249)	PL

*Being overstatement of executive secretary
bonus – Refer to note 2.1*

7	Dr Bank	1,048	BS
	Cr Salaries	(1,048)	PL

*Being overstatement of salaries – Refer to
note 2.1*

8	Dr Hire of equipment	348	BS
	Cr Furniture & Fittings	(348)	BS
	Dr Depreciation	4	BS
	Cr Depreciation	(4)	PL

*Being reversal of asset additions and
respective depreciation as per fixed asset
register – Refer to note 2.5*

2.22 Reclassifications

Ref		€	PL/BS
RECL A/15	Dr Accruals	24,151	BS
	Cr Creditors Control Account	(24,151)	BS

*Being reclassification of accruals to
creditors balance – Refer to note 2.12*

		€	PL/BS
RECL B/15	Dr Depreciation – Construction	17,974	PL
	Cr Depreciation – Buildings	(17,974)	PL

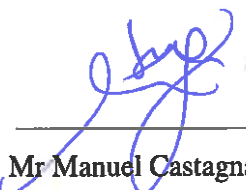
*Being reclassification of depreciation –
Refer to note 2.6*

RECL C/15	Dr Mayor's allowance	1,586	PL
	Cr Employees' salaries wages	(1,586)	PL
	<i>Being reclassification of mayor's allowance to include tax element – Refer to note 2.1</i>		
RECL D/15	Dr Executive Secretary Salary	6,673	PL
	Cr Employees' salaries wages	(6,673)	PL
	<i>Being reclassification to include tax, NI element and bonus – Refer to note 2.1</i>		
RECL E/15	Dr Accruals	9,218	BS
	Cr Payroll tax liabilities	(9,218)	PL
	<i>Being separate disclosure of FSS due – Refer to note 2.15</i>		
RECL F/15	Dr General Income	119	PL
	Cr Annual Government Income	(119)	PL
	<i>Being reclassification of income – Refer to note 2.19</i>		

We recommend that such misstatements should be identified before unaudited financial statements are presented for the audit.

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 designed primarily for the purpose of expressing our 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 defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would also like to take this opportunity to thank the Mayor, Executive Secretary and staff for the help during the course of our audit.



 Mr Manuel Castagna

For and on behalf of Nexia BT