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The Mayor,
Iklin Local Council,
11, The Three Villages,
Trejjet Ir-Rumanzieri
Iklin

10 May 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**1.1 Non-current assets**

We did not identify any material variances between the register and nominal ledger or the financial statements and accounting

We again noted a difference between the estimated capital expenditure for 2015 and the actual amount capitalised (refer to note 2.1).

1.2 Grants

The situation with the grant on the football ground remains unsettled (refer to note 3.1).

We were pleased to note that the Council did not recognise additional funds received from the Central Regional Committee as income for 2015. On the other hand, these deferred funds were partly amortised without any reference to actual applicable expenditure. We also noted that part of these funds was used on a project and this was not reflected in the books of the Council (refer to note 3.3).

At 31 December 2015, the Council was not required to accrue for additional surplus funds to be received from the Central Regional Committee.

REGISTRY

- 6 JUN 2016

NATIONAL AUDIT OFFICE

1.3 **Income**

Although the Birkikara Joint Committee has furnished a set of audited financial statements, these include a qualified audit report (refer to note 4.1)

1.4 **Expenditure**

We noted that petty cash payments are still being supported by cash register chits (refer to note 5.1).

The Council is still making use of expired contracts (refer to note 5.2). On the other hand, we did not identify any issues with the tender process.

We again noted discrepancies between the cost of assets and value insured (refer to note 5.6).

1.5 **Cash and cash equivalent**

We again noted some weaknesses in the bank reconciliation process (refer to note 6.1).

1.6 **Trade and other payables**

The Council has still not managed to obtain monthly statements from its suppliers (refer to note 7.1).

We again identified reconciling differences with WasteServ statement at year end (refer to note 7.3).

The non-current portion of PPP payables was appropriately disclosed and the reconciling differences have been cleared.

1.7 **Accrued income**

We again identified an error in accounting for accrued income (refer to note 8.1).

1.8 **Receivables**

The Council has recovered EUR1,429 out of EUR1,745 due from Green MT.

1.9 **Payroll**

We did not come across any issues with the councillor allowances and councillor attendance.

1.10 Financial statements

We again identified minor departures from IFRS requirements (refer to note 10) and differences in capital commitments note figures and the Council budget (refer to note 10.4).

1.11 Meetings

We did not encounter any issues with minutes of the Council. We also noted that a meeting was not held in April and that over 5 weeks passed between the meeting held on 24 March 2015 and that held on 4 May 2015. However, we understand that this was due to the election of the new Committee which was held in April with the new Council taking office in May 2015.

Current year issues

2 Non-current assets assets

Budgeted capital expenditure

- 2.1 The Council budget for 2015 estimated a capital expenditure of EUR56,000 however, actual expenditure amounted to EUR78,512. Variances between estimated and actual expenditure are analysed below:

	Estimated EUR	Actual EUR	Difference EUR
Improvements	22,000	-	22,000
Equipment	9,000	1,140	7,860
Special Programs	25,000	56,081	(31,081)
Construction	-	21,291	(21,291)
	56,000	78,512	(22,512)

- 2.2 We recommend that the Council follows its estimated expenditure. Whilst we understand that actual expenditure may differ from estimated one, such difference should be discussed and approved at Council level.

Capital expenditure

- 2.3 We noted that an invoice from Med Development and Design for the amount of EUR3,178 was revised down to EUR1,701. The invoice had been capitalised as part of Giovanni Curmi street project. The revised invoice was not reflected in the books of the Council and hence, we proposed and adjustment to reduce the non-current asset by EUR1,477 and adjust the depreciation charge for the year by EUR12. The Council approved our proposed adjustments and reflected them in the financial statements.

02/04
24/04

3 Grants

Football ground project Grant

- 3.1 The balance of long term deferred income includes an amount of EUR 18,670 relating to the construction of a car park and football ground. This grant was received over ten years ago. The project was stopped in its initial phase and the only expenses incurred relate to permits amounting to EUR11,800. The Executive Secretary indicated that the Council is waiting for the Lands Department to issue a call for tenders. He further added that if the project is approved this will be the responsibility of the Government and not the Council.
- 3.2 We reiterate our recommendation that the Council seeks clarifications from the Government and, if this project is within the Government's responsibility, remove this project from the list of long-term deferred income and seek approval from the authority on whether the remaining funds are to be refunded back to Government.

Central Region Surplus

- 3.3 The grant amortisation workings provided by the Council indicated that the funds received from the Central Regional Committee were amortised and allocated between current and non-current portion without being assigned to a project. Due to this, we reversed the amortisation of EUR567 and reclassified the amount of EUR6,442 from current portion to non-current. The Council approved our proposed adjustment and reflected it in the financial statements.
- 3.4 At 31 December 2015, the Council had received EUR67,997 and from discussions with the Executive Secretary, we noted that EUR56,081 from these funds were indeed used for resurfacing of G. Curmi street. Hence, we proposed an adjustment to reclassify the funds to a separate deferred income account, allocate EUR467 to income and EUR5,313 to current deferred income. The Council approved our proposed adjustment and reflected it in the financial statements.
- 3.5 After the above adjustments, we noted that the Council has EUR11,916 in funds that still need to be allocated to a project. We encourage the Council to identify projects to be financed from these funds.

4 Income

Income from pre-regional committees

- 4.1 The Birkikara Joint Committee of which Iklin Local Council formed part up to 31 August 2011 has recently provided the Council with audited accounts for

As per article 17(i)(f) of same Regulations, the renting of premises do not fall/are excluded from the existing regulations.

The auditor of the Joint Committee stated that from explanations provided by the software house during a meeting held at Transpired that the discrepancies encountered may be of a temporary basis and cut-off procedures may not have been applied appropriately. The auditor suggested that the software-house should embark on another exercise wherein the transactions forming part of the old operating system should be fully reviewed and any timing differences noted and appropriately flagged.

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.

4.2 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.

Government subvention

4.3 In the unaudited financial statements, the Council reported its subvention income at EUR227,257, i.e. net of deductions at source of EUR120. We proposed an adjustment to state income at the gross amount. The Council accepted our recommendation and included the adjustment in the audited financial statements.

4.4 We recommend that the Council reports its income gross of any deductions that are effected from the subvention from time to time.

Expenditure

Petty cash expenditure

5.1 During our audit we found that the source document for most petty cash expenditure is a cash register chit. Cash register chits do not satisfy the requirements of the Local Council procedures 1996 that supplies are only made on the provision of a valid invoice which is addressed to the Council. To this end, we recommend that where possible the Council obtains a tax invoice or a VAT receipt addressed to the Council for petty cash purchases.

Contracts

5.2 The Council is still making use of the contracts entered into with: Abbey Holdings Limited in 2006 relating to the rental of Wilson Garage, and Environmental Landscapes Consortium (ELC) in 1995 relating to the maintenance and cleaning of parks and gardens. The amount invoiced by Abbey Holdings in 2015 amounted to EUR1,812 and EUR1,195 was invoiced by ELC.

5.3 Whilst we understand that the Council insists that the deal with these 2 suppliers is favorable to the Council, we still recommend that the Council

As per Article (17)(i)(1) of the Regulations related with Public Contracts, please note that the said regulations do not apply when transactions/purchases are made between public entities that are being financed by the Central Government.

should issue a call for new tenders as required by the Local Council (Financial) Procedures.

Allocation of expenses

- 5.4 We identified a miss-allocation of expenses between "road and street cleaning" and "cleaning services". We noted that EUR2,565 in "road & street cleaning" expenses were allocated to "cleaning services" and hence proposed an adjustment to reclassify the amount. The Council accepted our recommendation and reflected the adjustment in the audited financial statements.
- 5.5 The Council should ensure that all expenses are allocated against the correct nominal ledger account to ensure that the financial statements report fairly the expenditure incurred on a line item basis.

Insurance

- 5.6 We reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and cost as per nominal ledger.

To Review

insurance cover

Asset	Sum Insured	Cost as per accounts
	EUR	EUR
Property – Premises A	46,587	-
Property – Premises B	34,940	-
Stock	233	-
Office furniture, fittings & Fixtures	11,172	23,354
Plant & Machinery and elec. equip	5,000	34,360
Rent (agreed to cost for the year)	12,591	13,023
	<u>110,523</u>	<u>70,737</u>

- 5.7 The "cost of construction", "street signs", "urban improvements", "special programs" and "street lights" amounting to EUR1,380,964 is not covered by this policy. The above illustrates that the Council's assets are still not appropriately insured. In this regard, the Council should update its insurance policy to ensure that assets held are not under/over insured, as well as to include new assets bought by the Council during the year. 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 Council's insurance coverage.

6 Cash and cash equivalents

Bank Reconciliation

- 6.1 During our audit we were not provided with HSBC current account monthly reconciliations for the months of January – March whereas those for June and August were provided and found to be prepared on time. The December HSBC Current account reconciliation provided was till 21 December 2015 rather than 31 December.
- 6.2 We also noted that the reconciliation included 3 cheques that have been pending for over 6 months. These are:

Cheque no.	Date issued	Amount EUR
7852	18/08/14	30
8112	11/03/15	29
8157	09/04/15	180

- 6.3 We recommend that the Council prepares and prints bank reconciliation reports for all bank accounts by the 10th working day of the following month. The report is to be approved and signed by both the accountant and the Executive Secretary and filed with the corresponding bank statements. We also recommend that a review of un-presented cheques is carried out and any stale cheques are investigated and if necessary reversed and re-issued.

Bank Reconciliation

- 6.4 During our audit we noted that bank and petty cash transactions are being posted in batch which creates a limitation on the audit trail and our ability to trace transactions within the nominal ledger. We encourage the Council to book transactions individually and eliminate the use of suspense accounts

7 Trade and other payables

Trade payables

- 7.1 During the course of our audit we noted that the Council did not manage to obtain monthly suppliers statement from all suppliers.
- 7.2 Whilst we acknowledge the fact the Council requests such statements, we again recommend that these are obtained 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.

WasteServ Malta Limited

- 7.3 We requested a copy of WasteServ statement and transaction history to reconcile the balance with the Council's ledger. We identified a difference of EUR4,507 between the two documents. Our reconciliation indicated that the Council failed to book invoices received from WasteServ for the months of January and August 2015. We proposed an adjustment to account for these invoices. The adjustment was accepted by the Council and reflected in the audited financial statements.
- 7.4 The difference highlighted above strengthens our recommendation that supplier statements need to be requested and a reconciliation of the balances is carried out to identify any differences and apply the necessary corrections.

8 Accrued Income

- 8.1 In January 2016, DLG paid WasteServ the sum of EUR10,689 for tipping fees incurred in 2014 and 2015. The Council did not recognize this income in 2015 although the related expenditure was recognized in the books of the Council. We proposed an adjustment to recognize the amount as accrued income at 31 December 2015. The Council accepted our proposal and reflected it in the audited financial statements.
- 8.2 We remind the Council to make appropriate provisions for income receivable if this is not received by year-end.

9 Payroll

- 9.1 Our review of payroll indicated that the performance bonus accrual amounted to EUR3,542 whereas the actual amount paid in 2016 to the Executive Secretary and Council employees amounted to EUR3,878. We proposed an adjustment to increase the accrual by EUR336. The Council accepted our proposal and reflected it in the audited financial statements.
- 9.2 We also noted that the payroll cost allocated to each separate nominal ledger category did not reflect the actual amount paid to that category. This was also reflected in the unaudited financial statements. We proposed a reclassification of EUR801 from the Mayor's Allowance and EUR1,701 from the Executive Secretary salary to Council employees' salary.
- 9.3 Whereas the difference in accrual is not material, we encourage the Council to make provisions that reflect the actual cost to the Council. We also encourage the Council to ensure that the payroll cost is allocated fairly to the respective nominal ledger accounts. We also recommend that reconciliation between the FS3s and the amount disclosed in the financial statements is prepared to ensure that the figures disclosed represent the actual

salary/allowances paid to the Mayor, councillors, Executive Secretary and employees.

10 Financial statements

Presentation of financial statements

10.1 By virtue of memo 1/2014 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out the Council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS) due to the following:

- The Council did not disclose the list of all new and amended IFRSs that have been adopted by the Council in the preparation of the financial statements. This was amended after our notification.
- The long term PPP creditor is being accounted for at cost rather than amortised cost as required by IAS 39, *Financial Instruments: recognition and measurement*.
- The Council has a rental expenditure amounting to EUR13,023 for 2015, however it did not disclose its future operating lease commitments and a description of its lease arrangement as required by IAS 17, *Leases*.

We have qualified our report on matters that were not corrected in the audited financial statements.

10.2 In addition to the above, we noted the following in the audited financial statements:

- The personal emoluments expense for 2014 in the Statement of Comprehensive Income on page 5 should read EUR67,718 rather than EUR67,716.
- The net book value of office furniture & fittings as at 31 December 2014 as reported in note 3 should read EUR7,252 rather than EUR7,257.

Contingent liabilities

10.3 The Council did not disclose any contingent liabilities however:

- The Executive Secretary indicated that at 31 December 2015, the Council had contested an invoice for EUR3,149 for works on Censu Bugeja street. The invoice was not recognized within liabilities or accruals. In 2016, the Council managed to reduce the value of the works to EUR1,523.
- The Council's Lawyer also indicated that the Council has a claim for damages on a motor vehicle of a private citizen for the sum of EUR726.
- The Council's lawyer also indicated that the Council may be required to replace the ceiling of a garage rented to Council at a cost of EUR20,000. This is included within capital commitments in note 16 (refer to note 10.4).

Our report will be qualified on the undisclosed contingent liabilities.

Capital commitments

- 10.4 The Council's unaudited financial statements indicate that the anticipated capital commitments over the next financial period will amount to EUR110,741. This contradicted the Council's financial budget which estimates capital expenditure of EUR91,200. The Council corrected the note in the audited financial statements, however the allocation of the commitment differs from the estimates as follows:

Description	Per financial statements EUR	Per financial estimates EUR	Difference EUR
Construction works –			
Council	41,541	22,000	19,541
Street paving	32,459	-	32,459
Urban Improvements	3,500	52,000	(48,500)
Furniture and Equip	500	17,200	(16,700)
Motor vehicle	13,200	-	13,200
Total	91,200	91,200	-

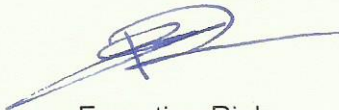
- 10.5 We recommend that the Council properly discloses its future capital expenditure commitments in line with IAS 16, *Property, Plant and Equipment*. The Council should also add a note explaining how this future capital expenditure is to be funded.

Conclusion

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

We would like to take this opportunity to thank Mr. Etienne Montfort 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