



# Grant Thornton

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Dear Madam,

## **Financial statements for the year ended 31 December 2014**

During the course of our audit for the year ended 31 December 2014 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### **1 Previous management letter**

#### **1.1 System of council income receipting**

We did not encounter any instances where an official receipt was not issued.

#### **1.2 Local Enforcement System**

The council did not receive any amounts from pre-regional contraventions. However refer to note 6.5.

#### **1.3 Government allocation**

We again encountered differences in annual government allocation (refer to note 2.1).

#### **1.4 Income from Kalkara boat yard**

The council is no longer leasing the boat yard and has no agreements in vigour.

#### **1.5 Income from bye laws**

During our audit it transpired that the council can no longer rent the boat yard and hence a bye-law is no longer required.

#### **1.6 Other government supplementary income**

The council has rectified this issue and payments issued directly from the DLG were booked as other government supplementary income.



**1.7 Library income**

The council has again recorded ground rent in library services income (refer to note 2.7).

**1.8 Settlement of employees' tax and social security contributions due**

We noted that the council rectified this shortcoming after last year's audit recommendation.

**1.9 Personal tax and national insurance deductions**

We noted that the council rectified this shortcoming in the year under review.

**1.10 Performance bonus**

The executive secretary provided us with a copy of the DLG's approval of his performance bonus. However, this has not been properly accrued for in the financial statements (refer to note 3.3).

**1.11 Leave request form and sick leave certificates**

The council rectified this issue and opened a file for each employee.

**1.12 FSS statutory documentation reconciliation with nominal ledger**

We again found a difference in the wages reconciliation (refer to note 3.1).

**1.13 Payroll workings shortcomings**

We are pleased to note that the council took the appropriate measures and rectified this issue.

**1.14 Mayoress' remuneration and allowance**

The council has not revised the mayoress' honorarium in line with increases in the parliamentary member's increment (refer to note 3.5).

**1.15 Actual expenditure exceeding budget expenditure**

The council did not prepare the budgets for 2014 and therefore we were unable to determine if the council exceeded the budgeted amounts (refer to note 12).

**1.16 Inappropriate expenditure documentation**

During our audit we again encountered instances where expenditure was not supported by proper documentation (refer to note 5.32).

**1.17 Quotations**

The council had again instances where expenditure exceeding €1,165 were not supported by quotation (refer to note 5.30).

**1.18 Tendering procedures**

The council provide most of the tenders' documentation. However we identified certain shortcoming in the tendering process (refer to note 5.6 and 5.10).

**1.19 Expenses in relation to the twinning project**

The council did not incur any twinning expenses during the year under review.

**1.20 Allocation of expenditure in the nominal ledger**

We did not identify any expenses which were wrongly allocated to the nominal account.

**1.21 Purchase request and purchase order forms**

The council did not raise purchase orders for all its expenses (refer to note 5.30).

**1.22 Christmas staff party**

The council did not follow the rules applicable to the Christmas staff party (refer to note 5.28).

**1.23 The upkeep of the fixed asset register**

The council again failed to update its fixed asset register (refer to note 4.1)

**1.24 Reconciliation of the fixed asset register and nominal ledger**

The council has failed to provide any form of fixed asset register (refer to note 4.11).

**1.25 Depreciation**

The council failed to address the issue of posting depreciation through the fixed asset register (refer to note 4.9).

**1.26 Insurance cover**

The council's assets are still not adequately insured (refer to note 5.18).

**1.27 Capital commitments**

The council did not produce the annual budget for 2015 and consequently we were unable to assess the council's capital commitments over next year (refer to note 12.1)

**1.28 Capital expenditure accounted for as revenue expenditure**

We did not encounter any instances where capital expenditure was accounted for as revenue expenditure.

**1.29 Capitalisation of projects not yet capitalised**

The council has not rectified the assets not yet capitalised (refer to note 4.7).

**1.30 Regrouping and classification of assets**

Assets were not properly classified to the correct grouping (refer to note 4.5).

**1.31 Certification of works completed**

We did not encounter exceptions in the certification of completed works.

**1.32 Fixed assets labelling**

The council has again failed to tag all the fixed assets where possible (refer to note 4.14)

**1.33 Long overdue receivables**

We noted that the council failed to address the issue in the year under review (refer to note 6.9).

**1.34 Prepayments**

During our audit we again encountered shortcomings in prepayments (refer to note 8.3).

**1.35 Accrued income**

During our audit we again encountered instances where the council failed to account for all accrued income (refer to notes 2.9 and 8.8).

**1.36 Customer balances**

We did not encounter instances where the council failed to issue invoices on time.

**1.37 Debtor control account**

The council rectified the shortcomings in the debtor control account as identified in the previous management letter.

**1.38 Cash deposits**

The council did not deposit cash collections at least twice weekly (refer to notes 2.5 and 2.11).

**1.39 Approval of cheque payments**

We noted that the council has taken corrective measures in approving cheque payments before they are issued.

**1.40 Bank reconciliations**

The council is still not reconciling periodically its bank accounts (refer to note 7.3).

**1.41 Unpresented cheques not accounted for**

The council again failed to address the issue of unpresented cheques (refer to note 7.3)

**1.42 Stale cheques**

The council did not address the issue of stale cheques in the year under review (refer to note 7.1).

**1.43 Petty cash**

The council has not addressed the petty cash balance (refer to note 7.11).

**1.44 Accounting for creditors**

During our audit we identified various differences in trade creditors (refer to note 9.4).

**1.45 Accrued expenditure**

During our audit we again encountered shortcomings in accrued expenses (refer to note 9.8).

**1.46 Debit balance in trade creditors list**

The council did not address the issue of debit balances in trade creditors list (refer to note 8.10).

**1.47 Deferred income and accounting Grants**

The council did not address the issue of deferred income and grants (refer to note 10).

**1.48 Creditors control account**

The council did not address shortcomings in creditors' control account (refer to note 9.1).

**1.49 Disclosures required in respect of IFRS**

During our audit we encountered shortcoming in the IFRS disclosures (refer to note 16.1).

**1.50 Disclosures required in respect of financial procedures**

Our auditor's opinion will be qualified because the financial statements does not include budgeted figures for 2015 (refer to note 16.13).

**1.51 Financial statements presentation**

During our audit we encountered shortcoming in the financial statements presentation (refer to note 16.3).

**1.52 Opening balances**

The accountant of the council requested us to pass an adjustment in the opening balances to agree to the financial statements (refer to note 14.2).

**1.53 Prior year adjustments**

The council has again passed a prior year adjustment for an insignificant amount (refer to note 16.5).

**1.54 Council's minutes and schedule of payments**

The council did not address these matters during the year under review (refer to notes 11.1 and 11.5).

**1.55 Statutory documentation**

The council failed to submit the quarterly financial report on time (refer to note 11.7).

**1.56 Councillors attendance and allowance**

Councillors provided letters of excuse.

**1.57 Information not provided for audit purposes**

With the exception of the grants schedule, the council produced all documentation required for the purposes of our audit (refer to note 10.1)

**1.58 Liquidity of the council**

The council is still facing liquidity problems (refer to note 15).

## 2 Income

### Income from Central Government

- 2.1 It was noted that the council omitted from recognition an amount of € 4,638 settled with WasteServ Malta Limited and the e-government fee of € 120 which were directly deducted from the annual Government allocation. An adjustment has been proposed in this respect to correctly reflect the gross income received from Central Government in accordance with instructions received from the NAO.
- 2.2 It is important that Central Government income as per accounts (N/C 0001) agrees to the financial allocation document as per section 55 of the Local Councils Act, 1993. Any amounts deducted at source should be grossed up such that Central Government income is reported in full.

### Income from LES administration fees

- 2.3 We tested income from LES administration fees by reference to Loqus report 483 and noted that the council's income from LES administration fees for 2014 is overstated by € 428. Further investigation revealed that the council recorded the invoices issued to regional committees between August and December 2013 during the year under review.
- 2.4 We recommend that the council records income in the period in which it arises by recording invoices according to their issue date, and if issued after the end of the reporting period, by making an adequate provision for accrued income.

### General income

- 2.5 During our audit we noted that in some instances the council did not deposit its income at least twice weekly. Examples are::

Receipt date	Receipt no.	Receipt date	Deposit date	€
Permit for kiosk	2160	11.11.2013	13.01.2014	34.94
Crane permit	2210	28.01.2014	21.03.2014	132.81
Kiosk permit	2325	25.06.2014	11.07.2014	23.29
Truck permit	2253	15.04.2014	11.07.2014	2.33
Kiosk permit	2382	29.07.2014	09.09.2014	46.58

- 2.6 Apart from the security implications of leaving cash and cheques unnecessarily on the premises, this contravenes the Financial Procedure P.14.c.09. We recommend that the council adheres to the Financial Procedures and ensures that all receipts are deposited at least twice weekly.

### Income from rent

- 2.7 We noted that the council received €420 from the Health Department as reimbursement of rent paid by the council in 2013. The council recorded this receipt as current year income from library rather than against accrued income. The council approved in the audited financial statements to reverse these amounts against the provision for accrued income by means of our proposed audit adjustment.
- 2.8 It is important that the council records receipts from grants properly to ensure that, in this case, income is not double counted and accrued income is not overstated.

2.9 Meanwhile, the council also failed to record accrued income of € 600 from the reimbursement of rent due for 2014. The council approved our proposed audit adjustment to record this accrued income in the financial statements.

2.10 We remind the council that income should always be recorded in the period to which it relates based on the accruals concept.

#### **Custodial receipts**

2.11 We came across instances where the council failed to deposit custodial receipts on a timely basis. Examples are:

Details	Receipt date	Deposit date	€
Local Enforcement System	02.05.2014	14.05.2014	23.29
Local Enforcement System	21.02.2014	21.03.2014	23.29
Local Enforcement System	26.05.2014	10.06.2014	23.29
Lands Department	16.04.2014	28.04.2014	300.00
Warden services	27.08.2014	09.09.2014	47.52
Warden services	14.04.2014	24.07.2014	23.76

2.12 We strongly recommend that the council adheres to the Procedures and deposits cash collected from custodial receipts at least twice weekly.

#### **Income account Classification**

2.13 During the course of our audit we noted that in the unaudited financial statements donations of € 650 were incorrectly classified as other Government income instead of general income. We have reclassified this amount and the council reclassified as general income in the audited financial statements.

2.14 We recommend that income receivable is allocated to the appropriate accounts so that the income of the council is properly reported.

### **3 Payroll**

#### **Wages' reconciliation**

3.1 The council did not prepare a wages reconciliation. Meanwhile our reconciliation of FS5's to payroll expenditure revealed a difference of € 491 which was not reconciled by the council. Furthermore, we also found a difference of € 192 in gross emoluments between FS5's and FS7.

3.2 We recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue. In addition, it is advisable that the council prepares a wages' reconciliation to reconcile payroll expenses to FS5's at least on an annual basis to identify any discrepancies before the finalisation of the accounts.

#### **Performance bonuses**

3.3 We noted that the council's provision for accrued performance bonuses at year-end was understated by € 1,719.71. The council agreed to adjust this difference by means of our proposed audit adjustment in the audited financial statements which was approved in meeting.

3.4 The council should make adequate provisions for such accruals so that payroll expenditure accounted for in the correct period.



**Honorarium paid to mayoress**

- 3.5 We noted that during the year under review, the mayoress was paid € 6,703 while she was actually entitled to € 6,868. This means that she was underpaid by € 165.
- 3.6 We recommend that the council pays the equivalent of one-third of the parliamentary member's salary to the mayoress in honorarium every year.

**FSS tax and NI due**

- 3.7 Whilst carrying out our audit procedures, we observed that FSS tax and NI due to the CIR at year-end was understated by € 1,069. The council approved to adjust this difference by means of our proposed audit adjustment which is incorporated in the audited financial statements.
- 3.8 We recommend that the council makes adequate provisions for payroll tax liabilities in the accounts and financial statements.

**Statutory liabilities**

- 3.9 The council has incorrectly presented FSS tax and NI payable of € 2,027.50 with accruals in the unaudited financial statements
- 3.10 Payroll taxes and all statutory liabilities should not be classified with accruals since they are preferential creditors and therefore require separate disclosure. In addition they are not financial liabilities and should not be disclosed as such.

**4 Fixed assets****Fixed asset register**

- 4.1 We noted that the council does not maintain a fixed asset register. The council is required to compile a register that agrees to the nominal ledger.
- 4.2 Items in the fixed asset register should ideally be assigned an asset code, name of the supplier and the corresponding details of the purchase invoice. This facilitates identification of assets as well as traceability to the supporting documentation.
- 4.3 The absence of an updated fixed asset register restricts the council from exercising proper control over the council's property, plant and equipment and can give rise to, inter alia, the following problems:
- Where an asset is disposed of, it is impossible to determine the original cost and accumulated depreciation.
  - There is no suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use.
- 4.4 We draw your attention to the Local Councils (Financial) Procedures, 1996 and memo 1/2015 which state that the executive secretary is required to create, maintain and control an accurate and up-to-date inventory of the council's fixed assets. The fixed asset register should include at least the following details:
- Description of asset
  - Date of purchase
  - Supplier details
  - Invoice number
  - Asset tag code (where applicable)
  - Cost



- Depreciation method and rate
- Location of the asset

#### **Classification of assets**

- 4.5 When testing fixed asset additions, we noted that the PA system, DVD player and defibrillator were incorrectly categorised as urban improvements. The council approved to pass our proposed audit adjustment to reclassify the PA system and DVD player to office equipment and the defibrillator to plant and machinery. An adjustment was also passed to correct the depreciation charge for the year. These adjustments have also been effected in the audited financial statements.
- 4.6 We recommend that assets are allocated to the proper asset class according to their nature. This is important not only to give proper disclosure in the financial statements but also to compute depreciation correctly in accordance with the depreciation policy of the council.

#### **Assets under construction**

- 4.7 Note 10a to the financial statements shows that at year-end, the council had assets under construction amounting to € 48,032 which, according to the executive secretary, have been completed and certified by the council's architect in 2012 and 2013. The council did not provide us with the respective invoices and certifications and therefore we were unable to propose the necessary audit adjustments to transfer these assets to the respective fixed asset account and charge depreciation up till 31 December 2014.
- 4.8 We would like to remind you that the cost of assets under construction should be transferred to the respective fixed asset account on date of completion and certification when the asset is available for use as intended by the council. On this date, the council should also start charging depreciation on the assets in accordance with IAS 16, *Property, Plant and Equipment*. The council should allocate this balance to the correct asset accounts over the coming financial year.

#### **Depreciation of fixed assets**

- 4.9 When testing depreciation for reasonableness, we noted that the council's depreciation charge for the year is overstated by € 11,504 according to our workings. We did not propose and audit adjustment for this difference because the council did not provide us with the depreciation workings.
- 4.10 Furthermore, since the council does not have a fixed asset register, the council is computing depreciation manually. This is contrary to the Local Councils (Procedures) Regulations, 1996 councils which require the use of the month-end facility in the Sage accounting package to calculate depreciation. May we also draw your attention that depreciation should be calculated on a monthly basis using the reducing balance method in line with the respective Procedures and memos.

#### **Reconciliation of financial statements to accounting records**

- 4.11 We identified the following differences in the net book values of asset categories between the nominal ledger and the fixed asset schedule in the unaudited financial statements.

Asset category	NBV in nominal ledger €	NBV in financial statements €	Difference €
Urban improvements	74,025	93,519	(19,494)
Construction works	51,490	31,996	19,494

4.12 The council approved in meeting to pass our proposed audit adjustment in the audited financial statements to correct these discrepancies such that the nominal ledger at the end of the year agrees to the audited financial statements.

4.13 We recommend that the council ensures that there are no differences between the asset accounts in the nominal ledger and the financial statements.

#### Tagging of fixed assets

4.14 We noted that the council's furniture, fittings, office and computer equipment are not tagged.

4.15 Assets should be tagged and referenced to the fixed asset register in accordance with the Local Councils (Financial) Procedures, 1996. This would enable the council to identify the assets and verify their physical existence and condition.

## 5 Expenses

### Petty cash expenditure

5.1 During our audit we found that the source document for most petty cash expenditure is a cash register chit. Some expenditure also exceeded the € 23.29 threshold as per Local Council Financial Procedures. Some instances which were encountered during our audit fieldwork are the following:

Details	Supplier	Date	€
Postage stamps	Maltapost	27.06.2014	26.00
Postage stamps	Maltapost	21.10.2014	26.00
Postage stamps	Maltapost	20.11.2014	24.00

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

Details	Supplier	Date	€
No details available	Anthony Farrugia	25.05.2014	5.00
Pif Paf	Josette Attard	08.10.2014	3.25

5.3 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures 1996 which state that supplies are only made on the provision of a valid invoice which is addressed to the council. To this end, we recommend that, where possible, the council obtains a tax invoice or a VAT receipt addressed to the council for petty cash purchases. Furthermore, section P1.08b of the Local Councils (Financial) Procedures specifies that only cash transactions costing less than € 23.29 in the aggregate may be paid through petty cash. If expenditure exceeds this amount, then the council must obtain prior approval by means of a signed purchase order.

5.4 We also noted that the petty cash vouchers prepared by the council do not include the allocation of the expenses to the accounts.

- 5.5 We recommend that the council facilitates approval of petty cash expenditure by providing an analysis of all petty cash expenses and allocating the monthly total of each expense category to the correct account.

#### **Schedule of offers**

- 5.6 We identified that the schedule of offers for tender KLC/T01/2014 regarding the provision of general architectural services was signed by the mayoress and two councillors only.
- 5.7 The above instance is not in compliance with P3.04 of the Local Councils (Tendering) Procedures, 1996 which states that the executive secretary and at least two councillors shall be entrusted with opening the tender box, and prepare and sign a schedule of the offers received.
- 5.8 It also came to our attention that the schedule of offers for tender KLC/T01/2014 was not underlined at the end of the list or included the number of offers submitted to indicate cut-off.
- 5.9 We recommend that this procedure is adopted to reflect good business practice and to obviate the possibility of adding further tenders at a later stage.

#### **Green public procurement**

- 5.10 Whilst reviewing the council's tendering procedures, we observed that the tender form for KLC/T02/2014 for the collection of mixed household waste did not include provisions regarding the green public procurement.
- 5.11 This goes against contracts' circular 5021/2011 issued by the Department of Contracts which obliges local councils, amongst others, to integrate green public procurement criteria within the technical specifications section of the tender documents. The guidelines also require that the council sends a copy of the tender originator's form for calls for tenders to the Department of Contracts for approval prior to publication.
- 5.12 To this end, we strongly recommend that the council complies with national green public procurement guidelines for future calls for tenders and disqualifying offers which fail to meet the relevant criteria.

#### **Contract agreements**

- 5.13 The contract agreements for the provision of general architectural and collection of mixed household waste were signed by the executive secretary and contractor only.
- 5.14 We recommend that all contract agreements are signed by the mayoress and executive secretary, who jointly have the power to bind and represent the council.

#### **Street lighting contracts**

- 5.15 During 2014, the council made use of the expired contract between Nexos Street Lighting and Valletta Joint Committee for the services of street lighting repairs and maintenance under the same terms and conditions. This contravened memo 34/2013 which required the council to issue a call for tenders for the services of street lighting repairs until this is delegated to the respective regional committee. This is also against memo 10/2013, prohibiting councils from using expired contracts even if these are renewed in writing after the expiration date.

- 5.16 The council should note that the tender for street lighting repairs was adjudicated by Xlokk regional committee in 2015 and, as such, the requirements under memo 34/2013 have been superseded.
- 5.17 Nonetheless, we would like to refer you to memo 10/2013 which states that the council should not make use of expired contracts and should allow enough time to issue a fresh call for tenders and adjudicating it before the preceding contract expires.

#### **Asset insurance**

- 5.18 We reviewed the asset insurance policy of the council and found that the council's furniture and fittings, computer and office equipment and plant and machinery, which have a cost of € 48,911 at year-end are only insured up to € 14,000.
- 5.19 This implies that the council's assets are not adequately insured. In this regard, the council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind you that the council is bound by section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the council's insurance coverage.

#### **Personal accident insurance**

- 5.20 Whilst reviewing the insurance policy we also determined that it includes persons who no longer work at the council. The insurance is also extended to worldwide coverage instead of limited to Malta.
- 5.21 We recommend that the council updates the insurance policy accordingly to include only current councillors and employees and limit coverage to Malta only.

#### **Donations**

- 5.22 During our procedures on cheque payments, we identified a payment of € 116 to Ghaqda Regatta Nazzjonali and the purchase of a memento costing € 300 which was given to Prince William on his visit to Malta.
- 5.23 We would like to remind you that donations are contrary to section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation, whether in cash or in kind. If there is any doubt, we recommend that the council seeks advice from the Department.

#### **Use of mobile phone**

- 5.24 We observed that the council pays the executive secretary's mobile bill.
- 5.25 This contravenes the Procedures and memo 21/2013 issued by the Department providing guidance on the use of mobile phones by local councils. Amongst other requirements, the memo states that the mobile must be registered in the name of the local council and must have a new contact number (rather than using an existing mobile number). In view of this, we recommend compliance with the said memo.

#### **Reimbursement of fuel expenses**

- 5.26 We noted that during 2014, the council paid € 1,017 to two IPSL workers in fixed fuel allowance for using their own motor vehicle.
- 5.27 The Procedures applicable to local councils state that fuel reimbursements should only be paid on a mileage basis rather than a fixed amount and after being approved by the council in meeting.

### Christmas lunch

- 5.28 The council spent € 438.67 on the Christmas lunch, for which 9 persons from the council attended, that is, an average cost of € 48.74 per person.
- 5.29 This is against memo 8/2011 which limits the expenditure on Christmas lunches to € 30 per person. We would also like to remind you that the DLG may request a reimbursement from the councillors and administrative staff in the event of non-compliance.

### Procurement

- 5.30 Our testing on cheque payments revealed that some purchases were not supported by a purchase order and/or quotations in accordance with the Procedures. Examples include:

Supplier	Details	€
Josette Attard	Cleaning of council offices Apr-May	85.00
Regatta Youths	Donation to regatta club	116.00
B4 Group	Curtains	257.24
D Xquisite Pasticceria	Kalkara Day 2013	354.00
Leon Promotions	Carnival programme	700.00
Crème Caramel	Kalkara Day 2013	1,062.00
B Grima & Sons	Street signs	1,987.00

- 5.31 In accordance with the Local Councils (Financial) Procedures, 1996, councils should raise purchase orders for all purchases of more than €23.29. Furthermore, the council should obtain at least three signed quotations for all purchases in excess of € 1,165 of this amount up to €4,658. In addition, as stated in memo 1/2010, all calls for quotations must be published in the Government Gazette and another local newspaper.

### Tax invoices

- 5.32 The council accepted computer-generated invoices from Mr Mifsud for the provision of his services to the council which do not satisfy fiscal requirements.
- 5.33 The Financial Procedures state that a valid tax invoice should be obtained for all purchases made by the council. Therefore, we recommend that the council ensures that all supplies and services are supported by a valid tax invoice or receipt that is addressed to the council. Meanwhile, in instances where the supplier is not registered for VAT purposes, we recommend that the council obtains a signed VAT declaration from the supplier stating that his/her annual income does not exceed the threshold of € 14,000. A copy of this declaration should be kept with the schedules of payment as sufficient evidence of the expenditure.

### Reimbursement

- 5.34 During our review of the council's expenditure, we identified a payment of €35 to the mayoress as reimbursement of a taxi fare. We also noted that this was not supported by a proper third party documentary evidence.
- 5.35 The Local Councils (Financial) Procedures, 1996 state that supplied should only be made on the provision of a valid invoice addressed to the council. We recommend that the council obtains a tax invoice or VAT receipt addressed to the council for all expenses.



- 5.36 May we also remind you that the mayoress receives an allowance of € 1,600 to cover any communication and travel costs incurred in performing council related duties. Therefore, as per memo 107/2010, the mayoress has no right to claim a reimbursement of such costs.

#### **Expired contract**

- 5.37 We established that the service of household waste collection was provided by Mr Fenech during the year under review. The service was covered by an expired contract and cost € 70,008 during the year under review.
- 5.38 In line with the provision of the Local Council (Tendering) Procedures, the council should issue a call for tenders before contracts expire rather than being extended beyond their expiry date. The council is also bound by memo 10/2013 issued by the DLG which strictly prohibits the extension and continued use of expired contracts.

## **6 Receivables**

### **LES receivables**

- 6.1 According to report 622 issued from Loqus report, the council's tribunal pending payments for the pooling period up to 31 August 2011 is € 63,096 compared to € 82,777 as disclosed in the financial statements. We did not propose an audit adjustment to reduce LES debtors by this difference of € 19,681 because it has no effect on the financial statements since LES debtors are carried at nil value.
- 6.2 We recommend that the council investigates this significant difference and adjusts the books of account accordingly in a way that LES receivables at the reporting date reflect all adjudicated contraventions not yet paid.

### **Provision on pre-regional LES debtors**

- 6.3 We identified that the council was carrying pre-regional LES debtors at € 23,978 in the unaudited accounts drawn up to 31 December 2014. Therefore, we proposed an audit adjustment to increase the provision for doubtful LES receivables by € 23,978 and write down the carrying amount to nil. This adjustment has been approved by the council and is incorporated in the final set of financial statements.
- 6.4 Following DLG's instructions, tribunal pending payments which have been outstanding for more than two years are to be provided for in full as doubtful.

### **Receipts from pre-regional contraventions**

- 6.5 According the report 483, only one pre-regional contravention of € 46.58 with Kalkara as place of incident was paid during the year. This contravention was remitted to the council's bank account on 15 March 2015.
- 6.6 We recommend that the council ensures that all paid contraventions are remitted to the council on a timely basis. The council should investigate contraventions paid at other local councils, LTD and LCA which are not deposited in the council's bank account and inform the collecting party accordingly.
- 6.7 As to the accounting treatment of pre-regional contraventions, we would like to remind the council that any receipts should be recorded against LES debtors while the provision for doubtful debtors should be reduced by an equivalent amount.

### Overdue receivables

- 6.8 The council's debtors' list includes overdue balances receivable of € 1,237.86 from Maltacom plc and € 647.58 from Water Services Corporation.
- 6.9 The council should send out a letter to these debtors reminding them that these amounts have been long overdue. In the event that recoverability of these debtors remains doubtful, the council should also consider recording an impairment loss or writes them off the books of account after obtaining the approval in meeting.

### Trade receivables

- 6.10 When comparing the balance due from South Regional Committee in the books of account with the customer's confirmation, we identified an unreconciled difference of € 313.26. No explanation was provided to us.
- 6.11 We suggest that all differences identified are investigated and adjusted accordingly. The council should carefully consider receipts from third parties to ensure that these are properly allocated against specific invoices in the accounts thus highlighting any differences.

## 7 Bank and cash

### 'Stale' cheques

- 7.1 During our testing on the unrepresented cheques we noted that the BOV current account reconciliation included a 'stale' cheque, number 5318 issued on 19 July 2013 and amounting to €381.06.

Cheque number	Cheque Date	Amount €
Unknown	Year 2013	2,903.60
5318	19.07.2013	381.06
5330	13.08.2013	372.50
5391	31.10.2013	450.00
5499	14.04.2014	300.00

- 7.2 It is important that the council investigates these 'stale' cheques and reverses them against the respective account if the cheques are unlikely to be cashed or have been replaced. Meanwhile, no information was provided for the unrepresented cheques issued in 2013 with an amount of € 2,903.60.

### Unrepresented cheques

- 7.3 The bank reconciliation for BOV current account was prepared on a spreadsheet using Microsoft Excel rather than on Sage. When performing our audit tests, we noted that cheque number 5735 amounting to €60 issued on 16 December 2014 but presented to the bank on 3 January 2015 was not included in the reconciliation as an unrepresented cheque at year-end.
- 7.4 In the same reconciliation we also identified cheques that were issued and presented before year-end but still included in the bank reconciliation as unrepresented cheques. These are:



Cheque number	Cheque Date	Amount €
5673	06.10.2014	2,493.81
5724	27.11.2014	1,025.88
5727	27.11.2014	930.35

- 7.5 In addition to the above, when testing the council's bank reconciliation, we identified that the following cheques in the bank reconciliation had the wrong amount, as confirmed with the cheque image.

Cheque number	Cheque value as per reconciliation €	Value as per cheque image €
5661	45.01	594.55
5755	2,027.5	4,305.14

- 7.6 We recommend that the council reconciles the bank balance to bank statements using Sage at least on a monthly basis or more frequently depending on the volume of transactions to detect accounting and bank errors in a timely manner. The council should ensure that transactions in Sage are only marked as reconciled when matched to the bank statement. Discrepancies should be flagged immediately for investigation.
- 7.8 The council did not provide us with the bank reconciliation for BOV account 4049 with a year-end balance of € 1,883.54. The balance as per statement provided reads €1,997.41 leaving a difference of €113.87 which was not reconciled by the council.
- 7.9 Furthermore whilst reviewing the bank reconciliation for BOV account 4010 we identified a discrepancy of €507.98 between the books of account and the bank statement.
- 7.10 The above findings indicate that the bank reconciliation is totally incorrect and cannot be relied upon. It is critical that the council reconciles all bank accounts to bank statements at the reporting date. Reconciliation to third party documentation such as bank statements is essential to detect book keeping errors and to ensure that all transactions involving the bank have been recorded on the books of account and reflected in the financial statements.

#### **Petty cash**

- 7.11 According to the council's financial statements, petty cash in hand at the end of the year amounted to €162.77. However the executive secretary informed us that the council keeps no cash in hand.
- 7.12 We recommend that the council investigates this book balance and passes the necessary adjustments in the book of accounts following the outcome of its investigation.

## **8 Receivables**

### **Allocation of customer receipts**

- 8.1 Whilst scanning the debtors' activity during the year, we noted that the council is not allocating customer receipts to invoices, thus making it very difficult to reconcile debtor accounts.

- 8.2 We strongly recommend that the council allocates customer receipts to outstanding invoices in order to identify mistakes, reconcile balances directly with customers and for proper credit control.

#### **Prepayments**

- 8.3 Our audit procedures revealed that the council's prepayment of insurance was overstated by € 221.78. We proposed an audit adjustment to correct the prepayment which the council passed in the audited financial statements.
- 8.4 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accruals concept.

#### **Accrued income and grants**

- 8.5 We noted that the list of accrued income includes various amounts which have been brought forward from last year and for which the council has no information or supporting documentation:

	€
Kalkara boat house	2,000
Uniking	20,620
Payroll refund	1,388
Urban Improvement Funds	7,819
	<u>31,827</u>

- 8.6 It is strongly advisable that the council examines and verifies these balances and if it expects that they are invalid or no longer receivable, these should be reversed against the appropriate account. We urge the council to carry out this exercise over the coming financial year.
- 8.7 In view of our limitation to carry out procedures on the above list of accrued income due to lack of information and supporting documents, we necessarily had to qualify our audit opinion.
- 8.8 Further to the above, the council did not account for the reimbursement of Ms Camilleri's salary for December 2014 and a grant for the acquisition of equipment for the polyclinic. These amount to € 502 and € 3,071, respectively which the council approved to record by means of our proposed audit adjustments in the audited financial statements. A further adjustment was also proposed to release € 102 from the grant on the equipment to the income statement in line with IAS 20. The council has correctly included it in the audited financial statements.
- 8.9 The council should account for grants once these become receivable under the terms of the grant agreement, in accordance with International Financial Reporting Standards.

#### **Debit balance in creditors' list**

- 8.10 We identified a total of € 1,880.61 debit balances in the creditors' list. We have proposed an adjustment to reclassify these debit balances to other debtors. The council did not pass this reclassification in the audited financial statements.
- 8.11 We recommend that the council investigates all debit balances in the creditors' list as these could represent an overpayment, an invoice which has not yet been received or an error in an entry in the books of account. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

## 9 Payables

### Creditors' list

- 9.1 We found a difference of € 1,170 between the creditors' list and the control account.
- 9.2 The council should reconcile this difference to ensure that creditors' balances are properly stated in the accounts. It should also make routine checks and reconciliations of the list to the trial balance to identify and correct errors.

### Trade creditors

- 9.3 We identified that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 9.4 A number of exceptions were identified in our testing of creditor balances:
- (a) The payment of € 4,683 by the DLG to WasteServ Malta Limited on behalf of the council in respect of outstanding excess tipping fees was not recorded on the council's books. We proposed an audit adjustment to record this payment as "Other Supplementary Government Income" in line with memo 1/2015, which has been approved by the council and included it in the audited financial statements.
  - (b) We also noted that the council did not record an invoice for tipping fees from WasteServ Malta Limited amounting to € 1,612.54. The council accepted our proposed audit adjustments to correct this misstatement and is incorporated in the audited financial statements.
  - (c) We found that the creditor balance of Char Construction was understated by € 15,292 since an invoice issued in 2013 relating to works in the housing estate was not posted. This was corrected by means of our proposed audit adjustment, as approved in council meeting.
  - (d) The council failed to record invoices from Environmental Landscapes Consortium (ELC) and from the Government Property Department. These amounted to € 500 and € 400, respectively and adjustments were proposed and passed for both creditors in the audited financial statements.
  - (e) We determined that the council recorded twice an invoice of € 671 for street lighting repairs and maintenance from Mr Zammit. A correction was made by an audit adjustment. These were reflected in the audited financial statements.
  - (f) We found differences of € 1,438.61 and € 384.50 in the creditor balances of Mr Fenech and Mr Mifusd, respectively. These balances were not reconciled by the council.
- 9.5 In view of the mistakes identified during our audits, we strongly recommend that the council appreciates the importance of reconciling creditor balances with statements. We also remind you that the Procedures and memo 1/2015 specifically state that the council should obtain monthly statements from suppliers and agree amounts to the balances in the accounts.

### Long-outstanding creditors

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

Creditor	€
B Grima & Sons Ltd	61.55
Best Print Co Ltd	194.85
Bitmac Ltd	211.78
Catering Contractors	300.00
General distributors Ltd	69.88
Joe Bonnici & Sons	40.00
Lands department	593.99
Marshall Ltd	20.00
M-Gas Sound Company	80.00
M.G.Pulis Brumi Agents	151.50
Peppin Garage	40.12
Perit Alan Saliba	1,002.53
PM-Home Affairs	100.00
S&R Handaq	83.07
Super 1 Radio	130.56
Walter Barbara Photography	245.00
Wurth Ltd	600.90
	<u>3,925.73</u>

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

#### Accrued expenditure

- 9.8 In our audit testing, we identified that the council's accruals for refuse collection expenditure and street lighting repairs and maintenance were understated by € 3,557.37 and € 1,053.60, respectively. The council agreed to correct these provisions by passing our proposed audit adjustments in the audited financial statements.
- 9.9 The council should make adequate provisions for accruals so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

## 10 Grant accounting

### Deferred income brought forward

- 10.1 The previous auditor has always qualified his report on the basis that the council is not releasing deferred grants to income. Furthermore, memo 1/2015 makes it obligatory for the council to compile a list of deferred income and related workings.
- 10.2 During the performance of our audit, the council provided us with a list of grants making up the balance for deferred income of € 69,190 at year-end but did not provide us with supporting information, documents and agreements. In addition, the council has no workings on deferred income. In view of this, we were unable to carry out any tests or procedures on deferred income and propose the required audit adjustments.
- 10.3 We urge the council to analyse all past grant agreements to ensure that grants are 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 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.

- 10.4 The council should endeavour to investigate deferred income, prepare a detailed grants schedule and pass the necessary adjustments over the next financial year.
- 10.5 In light of the limitations mentioned in the points above, we have again qualified the audit opinion on the financial statements with regards to deferred income.
- 10.6 As noted in point 8.8 above, the council has approved an audit adjustment to record a grant of € 3,070.59 on equipment acquired for use at the polyclinic as deferred income and the release for the current year of € 102.

#### **Reclassification of current and non-current portion of deferred income**

- 10.7 We proposed an adjustment to reclassify deferred income into its current and non-current portions in the financial statements, amounting to € 297 and € 71,861, respectively. The council did not include it in the latest set of financial statements.
- 10.8 The balance for deferred income brought forward from prior years has been presented as non-current because the period of its realisation is unknown at the end of the reporting period.
- 10.9 We would like to remind the council that the apportionment should be based on the period within which the income from the grant is expected to be released to the income statement.

## **11 Administration**

### **Binding of minutes**

- 11.1 We observed that the minutes of the council of last year were not bound.
- 11.2 We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

### **Duration of meetings**

- 11.3 As we reviewed the minutes of the council, we identified that meetings 1, 2, 3, 5, 6, 7, 8, 19, and 13, all held during 2014, lasted more than three hours.
- 11.4 Unless otherwise determined by the unanimous decision of the councillors, memo 68/2009 and section 43(3) of the Local Councils Act state that council meetings shall not exceed three hours. In addition, we did not identify from the minutes the council's resolution to extend these meetings.

### **Electronic site**

- 11.5 During our audit work, we observed that the council did not upload the signed meeting minutes and schedules of payments number 3, 4 and 5 on the electronic site of local councils.

- 11.6 We remind the committee of the requirement under memo 2/2014 to upload the minutes and schedules of payments on the website within three working days. The Department may also take action against the members of the committee and/or executive secretary as the administrative head of the committee as appropriate. The council should upload the signed documents on the website to indicate that these are the final documents as approved by the council and have not been changed or updated subsequently.

#### **Quarterly financial report**

- 11.7 It came to our attention that the quarterly financial report for October to December 2015 was not completed by the date of our fieldwork.
- 11.8 We recommend that the executive secretary complies with the Local Councils (Financial) Procedures B1.01 d.06 and presents the quarterly financial reports to the council for its consideration within two weeks after the end of each fiscal quarter and compare the quarter's results against the budget.

### **12 Budget**

- 12.1 The budget was not yet prepared by 2 April 2015.
- 12.2 According to article 56 of the Local Councils Act, a budget should be prepared, submitted and approved by the council not later than 15 February of each year. To this end, we recommend that the council approves the budget early at the start of the year for proper financial planning and to prioritise expenditures. It should also be prepared in the correct format as laid down in the Local Councils (Financial) Procedures, 1996.
- 12.3 Without the budget, we could not determine the council's capital commitments for 2015 that need to be disclosed in the financial statements in accordance with IAS 16, *Property, Plant and Equipment*.

### **13 Change in executive secretary**

- 13.1 In April 2014, Ms Elaine Caruana was appointed executive secretary of the council replacing Ms Sharon Galea Iriele. The incoming executive secretary did not request a mid-term audit to be carried out, which is contrary to the Local Councils (Procedures) Regulations.
- 13.2 We draw attention to section P2.02 of the Local Councils (Procedures) Regulations P2.04 under which a mid-term audit has to be carried out whenever there is a change in the executive secretary of the council. Section P2.04 of the Local Councils (Audit) Procedures further states that the mid-term audit must be conducted from the beginning of the financial year to the last day of employment of the outgoing executive secretary. This will serve as an independent administrative handover from one executive secretary to another.
- 13.3 Based on the foregoing, the council should adhere to these regulations for similar situations arising in the future, subject to the exemption in memo 14/2014, which relieves the committee from the requirement of a mid-term audit whenever the change occurs not more than two months before or after the close of the financial year.



**14 Accounting function**

- 14.1 The audit adjustments proposed by us and other audit findings indicate that the council's accounting function needs to be improved significantly. For instance the loss for the year as per audited accounts is € 114,425 as opposed to € 70,596 as reported in the unaudited financial statements.
- 14.2 Furthermore, we were presented with an adjustment of € 4,363 which we were instructed to pass on opening balances. We would like to remind you that the council should make sure that all adjustments have been posted before they are presented to the council for approval and prior to the audit.
- 14.3 We recommend that greater attention is paid to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the council's results and state of affairs. The council should not rely on the year-end audit to reveal errors in the preparation of its accounts. Also, may we remind the council that as stated in memo 1/2015, the council must make sure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should also be up-to-date with the accounting standards and regulations.

**15 Liquidity position****Liquidity position**

- 15.1 The council has a negative cash liquidity position of € 152,217 at the end of the year under review. This indicates that the council may encounter difficulties in meeting its obligations as they fall due.
- 15.2 The council's liquidity problems continue to create significant doubts about its ability to continue as a going concern. To this end, the council should take immediate corrective measures to improve the financial position including postponing capital projects and reducing discretionary expenditure.
- 15.3 As a result of the above uncertainties, we have included an emphasis of matter paragraph in our auditor's report on the financial statements.

**Financial Situations Indicator**

- 15.4 The council's Financial Situations Indicator (FSI) at the end of the financial year under review is negative, which is less than the minimum positive balance of ten per cent of the annual Government allocation.
- 15.5 The executive secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the executive secretary must immediately notify the Director when the FSI falls below ten per cent, and explain the actions that are to be taken by the council to remedy the situation.

**16 Financial statements****Presentation of financial statements**

- 16.1 By virtue of memo 1/2015 councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we identified that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS):



- i. The council's financial statements do not give all the quantitative and qualitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*.
- ii. The council did not disclose the list of all the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements according to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- iii. The financial statements do not provide a disclosure of a reconciliation of the provision for doubtful LES receivables in line with IFRS 7.
- iv. The council did not state that there were no non-adjusting events after the end of the reporting period which required disclosure in the financial statements in line with IAS 10, *Events After the Reporting Period*.
- v. IAS 1, *Presentation of Financial Statements* requires the council to disclose in the summary of significant accounting policies, the judgements that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

16.2 We necessarily had to qualify our audit opinion in light of the above departures from IFRS's.

16.3 In addition to the above, we identified further shortcomings in the council's financial statements:

- i. Certain comparative figures do not agree to the signed financial statements of the preceding year.
- ii. FSS tax and NI due have been incorrectly disclosed with accruals.
- iii. An analysis of deferred income was not disclosed in accordance with NAO's instructions.
- iv. The council's accounting policy on LES income incorrectly states that it represents the share of profit derived from the Fgura Joint Committee rather than income from LES administration fees.
- v. Note 4 to the financial statements should have read LES administration fees and not Contraventions.
- vi. No date was disclosed when signing the audited financial statements.
- vii. The accounting policy on the depreciation of litter bins, street signs and street mirrors is still 100% whereas these should be accounted on replacement basis.
- viii. The comparative figure relating to property, plant and equipment in the statement of financial position does not cross cast to the respective note disclosed on page 15 to the audited financial statements.
- ix. Casting errors were noted in:
  - (i) the comparative figures disclosed in the statement of financial position.
  - (ii) the statement of changes in equity
  - (iii) the comparative figures disclosed in note 9 to the audited financial statements.
- x. Opening balances relating to urban improvements and office equipment disclosed in note 10.9 do not cross-cast to the respective closing balances disclosed on page 15 to the audited financial statements.

16.4 We recommend that the council takes note of these mistakes when preparing financial statements.

**Prior year adjustment**

- 16.5 During the year under review the council passed an entry described as 'prior year adjustment' of € 14 to correct an overstatement of depreciation last year.
- 16.6 We consider that this amount is not material to the council and therefore should have been included with the depreciation charge for the year.
- 16.7 Moreover, if the council wanted to pass this prior year adjustment it had to do so in accordance with the requirements of IAS 8. The council has not restated retrospectively the comparative amounts for the prior period presented in which the error occurred but has not presented three statements of financial position and all the related disclosures.

**Cash flow statement**

- 16.8 The council has not properly disclosed the cash payments to acquire property, plant and equipment and cash receipts from grants in the cash flow statement.
- 16.9 We recommend that the council considers the effects of capital accruals and creditors and accrued grants in the preparation of the financial statements in accordance with IAS 7, *Statement of Cash Flows*.

**Groupings**

- 16.10 Our review of the financial statements revealed that the council is not classifying income and expenses consistently in the financial statements.
- 16.11 We recommend that the classification of items in the financial statements is applied consistently every year to enhance the comparability of financial statements with the comparative periods presented.

**Budgeted figures for 2015**

- 16.12 Budgeted figures for the year were not disclosed in the financial statements as required by the Local Council (Financial) Procedures. Consequently we have qualified our audit opinion
- 16.13 We recommend that the council complies with the relevant Procedures and in addition to the actual figures for the current and preceding financial years, the income statements disclose the estimates made by the council for the year being reported upon.

**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 Ms Elaine Caruana and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

