

Encls.



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The Mayor  
Marsaxlokk Local Council  
2, Triq Vittorjo Cassar,  
Marsaxlokk MNK

Our ref ABC/scl/029116

28 April 2016

Dear Sir,

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## Financial statements 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 your council. We have also reviewed the operations of the council and how they conform with the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and with 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 Income

LFS administration fees were not understated. However we noted that different classes of income were incorrectly classified as LFS administration fees (refer to note 2.1).

The council is still not depositing general income and custodial receipts at least twice weekly (refer to notes 2.3 and 2.5).

Government grant was recorded in accordance with IAS 20.

Current and non-current deferred income were accounted for appropriately.

#### 1.2 Payroll

We still identified differences between the FS5s and the FS7 (refer to note 3.4).

#### 1.3 Expenditure

Not all petty cash supplies and services were supported by valid receipts addressed to the council (refer to note 4.1).

We identified one instance where the council exceeded the € 23.29 threshold in aggregate (refer to note 4.3).



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The council still used the expired street lighting contract. However, a new tender was issued and signed during the year.

Names of councillors were included in the insurance policy. However these were not updated (refer to notes 4.12 and 4.13).

Following our recommendation, personal group accident insurance was limited to the Maltese islands only as required by the Financial Procedures.

The council has a membership with GAL Xlokk (refer to note 4.21).

#### 1.4 **Property, plant and equipment**

Property, plant and equipment acquired were appropriately classified in accordance with IAS 16.

We still identified a difference between the net book value disclosed in the financial statements and that recorded in the accounts (refer to note 5.1).

The council did not dispose of any assets in the year under review. However, testing revealed other weaknesses with respect to obsolete assets (refer to note 5.8).

The fixed asset register lacks necessary details (refer to note 5.5).

Fixed assets on the council premises are still not tagged (refer to note 5.14).

Fixed asset additions were correctly recorded according to their nature.

We still identified differences between the fixed asset register and fixed assets disclosed in the financial statements (refer to note 5.11).

The depreciation charge is understated (refer to note 5.16).

The council's capital expenditure exceeded the capital expenditure budgeted for in 2015 (refer to note 5.21).

Fixed assets are not adequately insured (refer to note 4.15).

#### 1.5 **Receivables**

We still identified long outstanding debtors (refer to note 6.1).

We again identified an error in prepayments (refer to note 6.6).

We did not encounter any instance where the council did not accrue for grants.

The garnishee order coming from prior years is still showing in the council's books of accounts (refer to note 6.8).

Debtors as per Logus IT system is more than IES debtors recorded in the council's books of accounts (refer to note 6.10).

#### 1.6 **Bank**

The council's books of accounts include bank accounts which are not in the council's name (refer to note 7.1).

No 'stale' cheques were identified.

We did not identify any cheques which were accounted for but not cashed.

The council still has bank accounts subject to withholding tax on interest received (refer to note 7.7).

#### **1.7 Trade and other payables**

The council did not request supplier statements from all creditors (refer to note 8.1).

The council has debit balances in the creditors' list (refer to note 8.3).

We still identified long outstanding creditors (refer to note 8.5).

No omitted invoices were encountered during our audit fieldwork.

The council did not accrue for all expenses incurred in 2015 (refer to notes 8.11 and 8.12).

The council did not follow up with respect to the € 931.77 payable balance to Nexos (refer to note 8.6).

There was no accrual for water and electricity. We confirmed that undisputed bills were all paid. However there remains a bill in dispute (refer to note 8.14).

Accrued invoices tested during our audit were verified.

Refundable deposits with respect to Public Contracts Review Board are still showing as payables in the council's books of accounts (refer to note 8.16).

#### **1.8 Financial statements**

The council's financial statements were adjusted to include all the required disclosures as required by International Financial Reporting Standards (refer to note 9.1).

Capital commitments disclosed in the financial statements agree to budgeted expenditure disclosed in the budget for 2016.

The council does not have contingent liabilities. However, refer to note 8.14.

The council has reclassified expenses and appropriately disclosed the comparative figure. However, refer to note 9.4.

The cash flow was prepared in accordance with IAS 7.

#### **1.9 Budget**

The budget was approved on 15 February 2016 as required by article 56 of the local councils act.

#### **1.10 Council meetings**

Meeting minutes are still not bound (refer to note 10.1).

#### **1.11 Electronic site**

The council are still not uploading all documents in accordance with memo 36/2011 and memo 01/2014 (refer to note 12.1)

## 2 Income

### Income from regional committees

- 2.1 The council has classified the receipt of € 1,000 from Regjun Xlokk, with respect to the termination of the authorised officer contract as LES administration fees. We proposed an audit reclassification to reclassify this amount to LES income which should be disclosed as a separate line item under LES income.
- 2.2 We recommend that the council discloses income from LES administration fees and other LES income separately in the financial statements. The council has correctly amended the audited financial statements as recommended.

### General income

- 2.3 During our testing, we noted that receipts for general income were not deposited regularly. Examples include the following:

Details	Receipt date	Receipt number	Deposit date	€
Silvana Attard	04.03.2015	2696	12.03.2015	23.29
Michael Psaila	07.05.2015	2915	22.05.2015	142.13
J Dimech	17.12.2015	3517	04.01.2016	10.00

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

### Custodial receipts

- 2.5 The council did not deposit custodial receipts on a regular basis. Some instances encountered during the audit are the following:

Description	Receipt number	Receipt date	Deposit date	€
Land Department	609518	13.04.2015	28.04.2015	49.40
Land Department	602812	04.02.2015	17.02.2015	112.50
LES receipts	2875443	27.01.2015	17.02.2015	23.29
LES receipts	2893566	17.02.2015	03.03.2015	34.94
LES receipts	3081006	16.09.2015	25.09.2015	23.29

- 2.6 We recommend that the council abides by the Local Council (Financial) Procedures and deposits its receipts twice a week to avoid retaining cash on the council premises.

### Income from regional committees

- 2.7 Whilst testing income from LES administration fees we noted that the council did not send the invoices to the respective regional committee and LESA within the first week of the following month. The following are some examples:

Invoice month	Invoice date
January 2015	09.02.2015
February 2015	20.03.2015
April 2015	11.06.2015

May 2015	11.06.2015
June 2015	16.07.2015
July 2015	22.08.2015
August 2015	17.09.2015
October 2015	09.11.2015
December 2015	18.01.2016

- 2.8 In accordance with memo 91/2011 local councils are required to issue the regional committee and I.RSA invoices in the first week of each of the following month.

### 3 Payroll

#### Reconciliation of wages between FS5s and books of accounts

- 3.1 The council did not prepare a wages' reconciliation. Meanwhile our reconciliation of FS5s to payroll expenditure revealed a difference of € 2,018.59. Further testing revealed that the difference is due to the following:
- i. A double posted councillor allowance payment amounting to € 1,522.88. An adjustment was proposed and approved by the council in the audited financial statements to rectify this error (refer to note 7.3).
  - ii. Overstated accrual of social security contributions by € 554.47. An adjustment was proposed for this difference as well. This was correctly reflected in the audited financial statements.
- 3.2 No explanation was provided for the remaining difference of € 58.76, hence no adjustment could be proposed.
- 3.3 We strongly 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 FS5s at least on an annual basis to identify any discrepancies before the finalisation of the accounts. The personal emoluments' disclosure in the financial statements should be amended accordingly.

#### Reconciliation of wages between FS5s and FS7

- 3.4 During our payroll audit procedures we found that wages declared in FS5s and those declared in the FS7 do not agree. Gross emoluments in the monthly FS5s were in total understated by € 360.
- 3.5 We remind the council that the FS5s and FS7 should always be in agreement. If any mistakes are discovered in an FS5 after it has been duly submitted, the council should notify the Commissioner of Inland Revenue accordingly and make the necessary corrections.

#### Payment of FSS tax and NI

- 3.6 In addition, the council did not remit FSS and NI for January, August, September, October, November and December 2015 to the Commissioner within one month.
- 3.7 We recommend again that the Final Settlement System Rules, 1998 are adhered to. FSS and NI should be remitted to the Commissioner of Inland Revenue by the last working day of the month following that during which the council has paid the

emoluments. Interest at the rate of 1<sup>st</sup> per month might be levied on unpaid amounts.

#### 4 Expenditure

##### Petty cash expenditure

- 4.1 During petty cash payments controls' testing we found that some payments were not supported by a tax invoice addressed to the council but by a cash register chit. Some examples are:

Date	Supplier	Details	€
19.01.2015	White Cross Pharmacy	Medicines	11.44
12.03.2015	J Cassar Confectionery	Hospitalities	10.10
30.04.2015	Maltapost	Mail	20.92
12.06.2015	Dove's Pet Shop	Garbage bags	18.00
16.07.2015	Midsea Books	Books for library	7.00
17.08.2015	T.M Ironmongery	Sealer and paintbrush	8.50
03.10.2015	J. J Ironmongery	Sand	20.00
03.10.2015	J. J Ironmongery	Cement	9.00
17.11.2015	Sylvia Bazaar	Table cloths	8.00
22.12.2015	Sea Coast Confectionery	Juices	8.14

- 4.2 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.

- 4.3 In addition we noted that the council purchased twice in the same day from J. J Ironmongery. The two cash register chits amount to € 29 in aggregate, thus exceeding the € 23.29 threshold.

- 4.4 We remind the council that the purpose of the threshold is to limit petty cash payments to small amounts. Thus, the council cannot by-pass this rule and exceed the € 23.29 limit.

- 4.5 The petty cash sheet prepared by the council does not include the allocation of the expenses to the accounts. We recommend that the council facilitates approval of petty cash expenditure by providing an analysis of all such expenses and allocating the monthly total of each expense category to the correct account.

##### Payment approval

- 4.6 Whilst testing cheque payments we identified one instance where the council issued a cheque, namely cheque 8781 for € 995.05 payable to Mr Jonathan Tabone, prior to approval of the council.

- 4.7 We remind the council that this is in contravention of the Local Councils (Financial) Procedures, 1996 which state that payments in excess of € 23.29 must be approved by the council in meeting. The existing procedure of issuing payments prior to their approval could present the council with a risk of making payments for unapproved purchases or uncertified work. To this end we reiterate our recommendation that the council approves payments prior to issuing a cheque.



### **Tendering procedures**

- 4.8 Whilst testing tendering procedures, we noted that tenders MXLC01/15, MXLC02/15 and MXLC02/14, had a complete schedule of tenders which was correctly witnessed when the tender box was opened. However, the list was not underlined to indicate cut-off after the last tenderer.
- 4.9 We recommend that this procedure is adopted to reflect good business practice and to obviate the possibility of the addition of further tenders at a later time.
- 4.10 Furthermore, we noted that for adjudicated tenders MXLC03/15 for the upkeep and maintenance of public convenience and tender MXLC03/14 for the wearing course of Xatt is-Sajjieda and major patching works, the bidder selected failed to provide the performance bond within seven days of the letter of acceptance.

Details are as follows:

<b>Tender reference</b>	<b>Letter of acceptance</b>	<b>Date of performance bond</b>
MXLC03/15	04.12.2015	30.12.2015
MXLC03/14	27.02.2015	14.04.2015

- 4.11 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within the stipulated time frame.

### **Insurance policy document**

- 4.12 During our audit we reviewed the group personal accident insurance policy and noted that the council did not update the insurance policy to include the current councillors and mayor. Furthermore, the previous mayor and councillors were still insured until year end even though their office terminated on 30 April 2015.
- 4.13 The same deficiency was also noted in the Local Council Association's health insurance policy.
- 4.14 We refer the council to the Local Councils (Financial) Regulations which require that insurance policies are regularly reviewed and updated upon approval of the council members.
- 4.15 Moreover, we also noted the following discrepancies between the asset insurance cover and cost as per nominal ledger.

<b>Asset</b>	<b>Sum insured €</b>	<b>Cost as per accounts €</b>
Office furniture and fittings	8,955	95,871
Electronic and office equipment	9,230	72,839
Computer equipment	-	21,119
Plant and machinery	2,492	14,170
<b>Total</b>	<b>20,677</b>	<b>203,999</b>

- 4.16 The above illustrates that some of the council's assets are not adequately 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 council during the year. The council's must comply with section LCP 1.15b.04 of the Local



Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage.

#### **Donations**

- 4.17 When reviewing meeting minute 48 held on 7 April 2015 we noted that the council approved to purchase a musical instrument and a commemorative plaque amounting to € 500 as a gift to the local musical band.
- 4.18 The council should assess whether the above is a form of donation. If there is any doubt, we recommend that the council seeks advice from the Department. 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.

#### **Travel expenditure**

- 4.19 The council did not prepare a travel report with respect to the travelling expenses incurred with respect to the 'Itineramed' project held in Trapani.
- 4.20 We recommend that the council prepares the travel report in accordance with MIP circular 05/2015.

#### **GAL Xlokk membership**

- 4.21 The council's membership expenditure account includes € 1,000 relating to a membership fee paid to GAL Xlokk Foundation.
- 4.22 We recommend that as members, the council obtains the financial statements from GAL Xlokk so that it is able to assess the cost/benefit of this membership.

### **5 Fixed assets**

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

- 5.1 When reconciling the fixed assets' net book value for each asset category disclosed in the unaudited financial statements to that recorded in the books of accounts we found that urban improvements and construction do not agree by € 845.
- 5.2 As highlighted in the prior year's management letter, this difference is a result of the incorrect classification of grants received in prior years. No reclassification was proposed since we were not able to determine whether this amount should have been classified as a construction or urban improvements grant. To this end, we recommend that the council investigates this difference and adjusts accordingly.
- 5.3 During our audit procedures we also noted that the council netted off reclassified assets under construction amounting to € 795 against additions for the year.
- 5.4 We recommend that the council adheres to the relevant IFRS and discloses reclassifications and additions separately in the financial statements.

#### **Upkeep of fixed asset register**

- 5.5 When reviewing the fixed asset register we again found items with descriptions that do not enable us to identify individual assets. Examples are descriptions such as 'toroq 2000', 'resurfacing', '11 benches', and 'kerb, hot asphalt, membrane'.

- 5.6 As stated in the prior year's management letter, the fixed asset register must at least include the following details:
- Supplier details
  - Asset description
  - Invoice number
  - Amount
  - Invoice date
  - Asset tag code
  - Location of asset
- 5.7 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

#### Obsolete assets

- 5.8 Whilst reviewing the fixed asset register we also noted that the council includes various fixed assets that are not in good working order. For example, the register is still including a laptop and two computers which the executive secretary confirmed as obsolete.
- 5.9 In addition the executive secretary also stated that the Toyota Town Ace motor vehicle included in the register was disposed of in 2014. However the council did not dispose of this asset from the register and the accounting records. We did not propose an adjustment since the council did not provide supporting document for disposal of motor vehicle.
- 5.10 In accordance with the Local Council's (Financial) Procedures P1.16b the secretary is required to create, maintain and control an accurate and up-to-date inventory of council fixed assets. Therefore we recommend that any obsolete items included in the fixed asset register are identified and written off. If the council scraps such assets, the list of items scrapped or written off should be approved in a council meeting.

#### Reconciliation of financial statements to fixed asset register

- 5.11 During our fieldwork, we noted that the fixed asset register does not agree to the financial statements. The following is a summary of the differences:

	NBV as per fixed asset register €	NBV as per financial statements €	Difference €
Office furniture and fittings	76,736	79,590	(2,854)
Plant and machinery	12,096	12,110	(14)
Office equipment	53,784	56,315	(2,531)
Construction works	334,299	331,293	3,006
Special programmes	-	1,026	(1,026)
	476,915	480,334	(3,419)

- 5.12 Whilst testing completeness of the register we also noted that live streaming equipment acquired in the prior year is not included in the fixed asset register.
- 5.13 In addition to the requirement in the regulations, the council is contravening memo 59/2012 which obliges councils to ensure that the fixed asset register agrees to the nominal ledger. To this end we reiterate our recommendation to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

#### **Tagging of assets**

- 5.14 Furthermore, the fixed assets are not permanently tagged (where applicable) to facilitate identification as required by article 40(2) of the Local Councils (Financial) Regulations.
- 5.15 We reiterate our recommendation that the council labels all assets (where applicable) in order to facilitate the identification of inventory items in the plant register.

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

- 5.16 During fixed assets' testing procedures we again noted that the council's depreciation charge for the year is understated by € 6,075 when compared to our workings. The reason for such difference is mainly the result of wrongly classified fixed assets in the fixed asset register. We did not propose an adjustment since it is an accounting estimate based on the estimated useful lives of assets.
- 5.17 We recommend that the plant register is updated to agree to the nominal ledger. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

#### **Motor vehicle addition**

- 5.18 When reviewing fixed asset additions, we tested the tender adjudicated to Burmarrad Commercials, relating to the acquisition of the Isuzu Elf CCA, amounting to € 16,250. We traced this amount to the payment voucher and noted that the actual amount paid to the contractor was € 18,546.
- 5.19 May we remind you that the Tendering Procedures dictate that where the variations are more than 10% specified in Cl.47 of the General Conditions of Contract the council must decide whether it would be more feasible and economical to issue a new tender.
- 5.20 We also refer to section 25 of the Local Councils Act, 1996 which state that the executive secretary shall ensure that capital expenditure corresponds to the annual budget estimates and business plans, unless authorised by the council. The council did not include the motor vehicle in the budgeted capital expenditure even though it was aware of this acquisition.
- 5.21 Furthermore the council budgeted a total capital expenditure of € 41,000 but instead incurred € 274,908, thus exceeding budgeted amount by € 233,908. To this end, we recommend that the council effectively budgets for capital expenditure to ensure proper cash flow planning and secure the liquidity, solvency and ongoing operations of the council.

#### **Resurfacing Xatt is-Sajjieda**

- 5.22 During 2015, the council adjudicated tender MXLC 03/2014 with respect to resurfacing of 'Xatt is-Sajjieda' to Road Maintenance Services Limited. The resurfacing works were completed and certified by the architect on 25 April 2015.

However, we noted that the council approved and issued cheque payment 8551 of € 17,500 on 26 March 2015, that is before the architect certified the work.

- 5.23 This contravenes the Local Councils (Tendering) Procedures, which state that councils should only pay the contractor once work is certified by the council's architect or contracts manager.
- 5.24 We also remind the council that fixed assets are only recorded upon certification by the council's architect, to ascertain that works were carried out to standard and the bill of quantities is correct.

## 6 Receivables

### Overdue receivables

- 6.1 The council's receivables include the following amounts which have been long overdue:

Debtor	€
Green MT	560.00
Schembri Concrete Blocks	37.76
Starlite	93.17
	<u>690.93</u>

- 6.2 The council already has a provision for doubtful debts of € 1,170. This provision has also been there for a number of years and we have not been supplied with a breakdown of this provision. However, since all other debtors are current, we have assumed that the provision covers the above receivables.
- 6.3 We recommend that the council liaises with these debtors to establish whether the delay of failure to pay the amounts may indicate that the amounts are not recoverable. In addition, the council should ascertain, from previous books of accounts, what is included in the provision for doubtful debts.

### Trade receivables

- 6.4 We came across discrepancies between third party confirmations and the debtors' list provided by the council. These are listed below:

Debtor	Balance in books of accounts €	Balance confirmed by debtor €	Difference €
Gozo Region	155.96	272.45	(116.49)
Central Region	627.34	620.55	6.79
South East Region	349.23	116.32	232.91
South Region	440.95	202.50	238.45
	<u>1,573.48</u>	<u>1,211.82</u>	<u>361.66</u>

- 6.5 We would like to recommend that all receipts from debtors are matched with any pending invoices to ensure that any differences are highlighted and reconciled.

### Prepayments

- 6.6 Whilst performing prepayments' audit procedures we noted that the council erroneously reversed € 1,000 opening prepaid rent against the membership account instead of the rent account. Furthermore, we also found that prepaid rent as at year end was understated by € 429. In order to rectify these errors, we proposed an

audit adjustment and the council approved in the audited financial statements to increase rent expense by € 571 and prepaid rent by € 429 as appropriate.

- 6.7 We recommend that the council accounts for the reversal of opening prepayments correctly. Furthermore, we recommend that the provision for prepaid expenditure is computed reasonably and properly accounted for so as to reflect expenditure based on the accruals concept.

#### **Garnishee order**

- 6.8 The council's other debtors include € 2,808.36 with respect to a garnishee order which was served on the council by Dr Gaetano in 2008. The executive secretary stated that this was received by the Joint Committee in 2014. However this was not written off from the books of accounts.
- 6.9 We recommend that the council confirms whether the garnishee order was released. If release is confirmed the council should amend the books of accounts accordingly.

#### **Pre-regional LES debtors**

- 6.10 In our testing on LES debtors, we obtained report 622 generated from version 1 of the Loqus system, and found that tribunal pending payments as at 31 December 2015 were € 100,808.34, compared to the amount of € 51,056.06 reported in the unaudited financial statements. This results in a difference of € 49,752.28 for which the council did not provide us with any explanations. Hence we could not propose any audit adjustments.
- 6.11 We would like to remind you that it is the council's responsibility to investigate these differences and refer them to Loqus.

### **7 Bank**

- 7.1 When performing bank audit procedures we again noted that the council's books of accounts are still including two bank accounts of € 11.15 each which are not in the council's name. We were informed that these are bank accounts in the name of the committees.
- 7.2 We recommend that the council only includes bank accounts which are legally held by the local council. No adjustments were proposed as the balances on the above mentioned accounts are immaterial.

#### **Bank reconciliation**

- 7.3 During the course of our audit the council provided the bank reconciliation for BOV current account number 40023668683. When testing the reconciling unrepresented cheques' list we found that cheque number 18, relating to a councillor's allowance payment of € 1,522.88, was encashed by the recipient prior to the year end. Further testing revealed that this cheque was accounted for twice in the books of accounts. We proposed an audit adjustment and the council approved in the audited financial statements to reverse the double posted cheque against the wages and salaries account as appropriate.
- 7.4 We recommend that the council reviews the bank account reconciliations and investigates any anomalies immediately.

### Petty cash reconciliation

- 7.5 Our petty cash reconciliation revealed a difference of € 50.12. The executive secretary explained that this difference is the result of double posted petty cash vouchers numbered 56, 57, 58 and 59 which in total amount to € 48.57. No explanation was provided for the remaining € 1.55.
- 7.6 The council must reconcile petty cash on a monthly basis as required by the Financial Procedures so that differences are identified and adjusted immediately as they arise.

### FWT on bank interest

- 7.7 We noted that interest received by the council in bank accounts listed below are subject to withholding tax:
- i. HSBC savings 147-069356-050
  - ii. HSBC current 047-069356-001
  - iii. BOV savings 40021731033 (pending closure)
- 7.8 We recommend that the council instructs the bank not to withhold tax from deposits held in these bank accounts, since the council is exempt from income tax.
- 7.9 We also would like to point out that BOV savings account 40021731033's status is pending closure. We advise the council to instruct the bank to close the account as soon as possible.

## 8 Trade and other payables

### Suppliers' statements

- 8.1 Contrary to the relevant Procedures and memos issued by the Department, the council did not request monthly statements from all suppliers.
- 8.2 We repeat our recommendation that the council requests monthly statements and regularly reconciles creditors' balances in the accounts to these statements.

### Debit balances in creditors' list

- 8.3 The creditors' list includes debit balances of € 171.65 which were all brought forward from the prior year. The council did not provide any explanations with regards to these balances.
- 8.4 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore the council must investigate why these creditor accounts are in debit and have been in the accounts for over a year.

### Long outstanding trade creditors

- 8.5 In addition to the above our review of the creditors' ledger noted that the following balances are overdue for settlement:

Creditor	€
Attard Farm Supplies	494.40
Brian Bugeja	120.00
I Hydro Rock Construction	218.40



### Contingent liabilities

- 8.14 Whilst reviewing meeting minutes 13 we noted that the council received a bill of € 84,000 payable to Water Services Corporation in relation to Piazza Madonna Pompei. The executive secretary stated that, after contesting this bill, the Water Services Corporation sent an updated bill of € 11,521.54. However, discussions are still ongoing since the council is still not agreeing with this amount.
- 8.15 We recommend that the council investigates this issue and given that there is a possible liability, consider the inclusion of a contingent liability note in the financial statements.

### Refundable deposits on appeals

- 8.16 As also highlighted in the prior year, the council's other payables comprise € 1,266 refundable deposits which were received from tenderers for appeals. The executive secretary stated that this amount was surrendered by the tenderers who lost their appeal as decided by the Public Contracts Review Board and therefore will not be refunded back. However these are still showing in the council's books of accounts as payable.
- 8.17 We propose that this is verified and adjusted as appropriate. We recommend that the council transfers refundable deposits to other income when appeals are adjudicated since, if not done, this will result in overstating the council's liabilities. We suggest that the decision is approved by the council in meeting.

## 9 Financial statements

### Presentation of financial statements

- 9.1 In accordance with the Department's communications and instructions, all local councils' financial statements have to be prepared in conformity with International Financial Reporting Standards (IFRS). However, we noted that accruals disclosed as financial liabilities in note 14 to the financial statements include statutory liabilities. This contravenes the requirement set out in IAS 32: *Financial Instruments Presentation*.
- 9.2 Other shortcomings were noted as follows:
- Income raised under LFS in the statement of comprehensive income does not agree to note 4 in the financial statements.
  - Income from bye-laws in note 6 should be disclosed separately.
  - The deferred Government grants in note 16 do not agree to the statement of financial position.
  - We have noted other casting errors in note 19 in the liquidity risk section.
- 9.3 The council has amended the audited financial statements as recommended.

### Composite figures

- 9.4 During our audit fieldwork we noted that the council has correctly reclassified some expenses in the financial statements. However, the comparative figures for the expenses in question were not amended.
- 9.5 The council should ensure that the classification of expenditure in the financial statements should be applied consistently to enhance the comparability of financial statements with previous years. We recommend that the council adjusts



comparative figures to conform with the current year presentation. After our notification the council has amended comparative figures as appropriate.

#### **Contingent asset**

- 9.6 Our review of meeting minutes revealed that the council received the approval for a grant of € 10,000 from The Ministry for Justice, Culture and Local Government with respect to the Capital Project scheme. However no agreement has been signed by the parties to date and therefore the amount has not been accrued for in the financial statements.
- 9.7 We recommend that full disclosure is made of the council's contingent assets in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. This was correctly amended in the audited financial statements.

### **10 Council meetings**

#### **Binding of minutes**

- 10.1 As also noted in our previous management letter, the council did not bind the minutes of the preceding year.
- 10.2 We reiterate our recommendation that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and binds the minutes accordingly. The binding of minutes should be given due importance since these provide the only permanent, unchangeable record of council meetings and decisions.

### **11 Schedule of payments**

- 11.1 During our audit procedures we noted that various schedules of payments did not include all the cheque numbers and as a result, we could not ensure that all cheque payments are included. Examples include schedules 01/2015, 05/2015 and 10/2015.
- 11.2 Furthermore the council did not include the account number to which the purchase payment was allocated.
- 11.3 We recommend that the council abides by section P1.11.c.c.01. of the Financial Procedures which dictates the amount of detail required on the schedule and a further memo issued by DLG which requires the cheque number to be inserted.
- 11.4 We also noted that the council did not include cancelled cheques on the schedule. Examples are cheques 8458, 8492 and 8511.
- 11.5 We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheque should be retained in the cheque book as evidence of cancellation.

### **12 Electronic site**

- 12.1 During our audit fieldwork we noted that the council has not uploaded documents such as schedules of payments, meeting minutes, quarterly financial reports, business plan, audited financial statements and annual administration reports within the required time frame. The following are some instances and weaknesses encountered:
- i. All quarterly financial reports were not uploaded in time.

- ii. Quarterly financial reports uploaded on the council website are not signed by both the mayor and the executive secretary.
  - iii. The annual administrative report and financial statements for 2014 uploaded on the website are not signed.
  - iv. To date the business plan for 2015-2017 is not uploaded on the website.
  - v. Meeting minutes 46, 48, 49, 50 uploaded on the website are not signed.
- 12.2 We recommend the council uploads all documents within three days of approval. Furthermore, the council should sign all the documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

### **13 Financial situation indicator**

- 13.1 The council's Financial Situations Indicator (FSI) at the end of the financial year under review is 2%, which is less than the minimum positive balance of 10% of the annual Government allocation.
- 13.2 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 percent 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 percent, and explain the actions that are to be taken by the council to remedy the situation.

### **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 as 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 Duncan Hall and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

