

National Audit Office  
Notre Dame Ravelin  
Floriana FRN 1600  
Malta

Phone: (+356) 22055555  
E-mail: [nao.malta@gov.mt](mailto:nao.malta@gov.mt)  
Website: [www.nao.gov.mt](http://www.nao.gov.mt)  
[www.facebook.com/NAOMalta](https://www.facebook.com/NAOMalta)

Our Ref: NAO 107/2015/41

Your Ref:

27 June 2016



KUNSILL - MSIDA		
SIN		
SEG		

The Mayor and Executive Secretary  
Msida Local Council  
Msida

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS  
YEAR ENDING 31 DECEMBER 2015**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2015.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



**Tanya Mercieca**  
Asst. Auditor General

Encls.

The Mayor,  
Msida Local Council,  
Msida Civic Centre,  
Pjazza Menqa  
Msida



KUNSILL - MSIDA		
SIN		
SEQ		

27 May 2016

## Financial Statement for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015, we have reviewed the accounting system and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Council Act 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### 1 Previous management letter

#### 1.1 Fixed assets

The fixed asset register still includes items with a general description (refer to note 2.1) and we again identified differences between the estimated depreciation charge and that as per ledger (refer to note 2.5). We also identified differences between the fixed asset register and the fixed asset schedule (refer to note 2.3).

#### 1.2 Creditors

The Council is still not obtaining monthly statements from suppliers (refer to note 3.1). All differences between the creditors' list and supplier statements were clarified and reconciled and the creditors' control account, creditors' list and the financial statements were in agreement.

#### 1.3 Income

Funds from the Central Regional Committee have been deferred appropriately and the 10% administration fees were recognised separately.

Once again we proposed an adjustment to reduce the accrued income for tipping fees (refer to note 4.4).

We managed to obtain supporting documentation for all income tested.

#### **1.4 Receivables**

The Council still has aged receivables on its books (refer to note 5.1). We also noted that the provision for bad debts was not adjusted to cater for recoveries made in 2015 (refer to note 5.4).

---

#### **1.5 Expenditure**

We noted that the Council is still operating expired contracts (refer to note 6.1).

We noted again that a number of expenses were not supported by proper fiscal invoices (refer to note 6.4).

#### **1.6 Bank and cash**

We noted again a petty cash transaction in excess of EUR23.29 (refer to note 7.1) and that the petty cash balance is in excess of the limit of EUR233 (refer to note 7.2).

We noted again weaknesses with the bank reconciliation process (refer to notes 7.4 to 7.6).

#### **1.7 Tendering procedures**

Once again, we identified issues with tendering procedures (refer to note 8).

#### **1.8 Minutes of meetings**

Similar issues with minutes were identified in the current year (refer to note 9).

#### **1.9 Insurance**

Similar issues were noted in the current year (refer to note 10).

#### **1.10 Payroll**

None of the Council's employees carried forward more than half of their leave entitlement for the year. All leave carried forward from 2014 was utilised in 2015.

#### **1.11 Presentation of financial statements**

We again identified departures from IFRS requirements (refer to note 12).



Capital commitments could not be tied in to the estimates for 2016 since these were not available at audit stage.

## 1.12 Liquidity position

The Council still has a negative cash liquidity position and its FSI is still below the required threshold (refer to note 13).

### Current year issues

## 2 Property, plant and equipment

### Asset tagging

- 2.1. During the audit, we were once again presented with a fixed asset register which still included general descriptions given in the assets, such as, "new office furniture and fitting" and "office furniture" and lack of supplier details and invoice numbers, we were unable to trace the assets selected. Moreover, the assets in the Council's premises are not tagged to further distinguish them.
- 2.2. We reiterate the recommendation that the Council should also include supplier details, invoice number and asset tag code details in the fixed asset register.

### Reconciliation of fixed asset register to ledger

- 2.3. The net book of PPE as per fixed asset register provided by the Council did not agree to the net asset value as per financial statements by EUR3,519. The difference is partly arising from differences in cost and partly from accumulated depreciation as follows:

Asset class	Cost per schedule EUR	Cost per FAR EUR	Difference EUR	Depreciation/ grants per schedule EUR	Depreciation per FAR EUR	Difference EUR
Trees	20,417	20,417	-	-	-	-
Office Furn & Fittings	72,286	72,286	-	51,458	51,457	1
Comp & office equipment	52,573	50,272	2,301	38,862	38,863	1
Urban improvements	185,690	232,613	- 46,923	122,853	122,854	1
Plant & Machinery	2,798	2,798	-	1,516	1,515	1
Motor vehicles	13,860	13,860	-	12,030	12,031	1
Street signs, mirrors & lights	50,440	50,565	- 125	50,440	50,565	- 125
Construction works	1,818,081	1,769,940	48,141	1,019,740	1,019,740	-
Building	465,835	465,835	-	91,085	91,084	1
Total	2,681,980	2,678,586	3,394	1,387,984	1,388,109	- 125
NBV				1,293,996	1,290,477	3,519

- 2.4. We recommend that all fixed asset additions are instantly reflect in the fixed asset register and periodical reconciliations are carried out between the register and the ledger to identify and investigate any differences.

#### **Depreciation**

- 2.5. We recalculated the annual depreciation for each category using the monthly reducing balance method. Our workings revealed that depreciation provision for the year on construction was overstated by EUR2,408, on buildings was over stated by EUR11,643 and on urban improvements was overstated by EUR1,082.
- 2.6. We noted that the depreciation rate used for all assets except buildings is the annual rather than monthly reducing balance. We recommend that the Council should communicate with Sage to remedy the calculation shortcoming.
- 2.7. Buildings, on the other hand, are being depreciated over the term of the lease rather than 1%. We recommend that the Council obtains approval from DLG to apply a depreciation rate that is different to that enshrined within the Act.

#### **Existence of assets**

- 2.8. We selected a sample of assets from the fixed asset register to ensure that these physically exist. One of the assets selected was labelled as office furniture for Regional Office. These were acquired in 2010 with a cost of EUR1,089. The depreciation provision (as per FAR) on this asset at 31 December 2015 was EUR361 of which EUR59 was provided for in 2015. These furniture items were not traceable within the Msida Local Council and the Mayor indicated that these were the property of the Central Regional Committee. The Region took them to its premises.
- 2.9. Such assets are not the property of the Council and should not be included in the Fixed Asset Register. We recommend that the Council identifies such assets and eliminates them from the fixed asset register. The Council should also ensure that these assets are not included within the PPE balance of the Council.

### **3 Creditors**

#### **Suppliers' statements**

- 3.1 We noted that the Council has still not managed to obtain monthly statements from all its suppliers.

- 3.2 We recommend that the Council requests monthly statements and regularly reconciles the creditors' balances in the accounts to these statements.

#### **4 Income**

##### **Central Regional Committee surplus**

- 4.1 Throughout the year, the Council received EUR50,850 from the Central Regional Committee of which EUR14,385 had been accrued for at 31 December 2014. At 31 December 2015, the Council had received EUR78,850 in funds from the Central Regional Committee which have been deferred since these need to be used for projects.
- 4.2 The Council's bank balance at 31 December 2015 amounted to EUR64,608. This implies that the Council has already utilised part of these funds to settle day to day expenses even though these funds should have been allocated to a separate account.
- 4.3 We recommend that the Council identifies specific projects to be carried out from these funds to utilise them accordingly. We also recommend that the Council physically transfers these funds to a separate bank account to ensure that these are utilised for designated projects that are to be communicated to the Central Regional Committee.

##### **Tipping fees**

- 4.4 The Council accrued for additional income amounting to EUR31,347, being the difference between the tipping fees charged by WasteServ and allocation for the year. The amount paid by DLG to WasteServ in January 2016 amounted to EUR22,717. Hence, we proposed an adjustment to reduce the amount accrued by EUR8,630. The Council approved our adjustment and reflected it in the financial statements.
- 4.5 Whereas the Department has settled these on behalf of the Council for the past two years, there was no assurance at the financial position date, that such differences will be settled by the Department. We recommend that the Council accounts for the amounts paid by the department on receipt of funds.

#### **5 Receivables**

- 5.1 We noted the following amounts included with trade receivables that are over 365 days old:



Debtor	EUR
Active Enterprises	580
Green MT	8,750
Due from other Local Councils	2,014
Due from Regions	6,386
Water Services Corporation	2,900

5.2 The Council managed to recover EUR2,096 from Active Enterprises, whereas the balance from Green MT increased from EUR7,459 to EUR8,750 since an invoice raised in 2014 has now been due for over 365 days. Throughout 2015 the Council did not issue any further invoices to Green MT.

5.3 We recommend that the Council chases up overdue debtors and, if the amounts are doubtful, the Council should provide for them. Any debtors that are written off the books should be discussed during Council meetings and any decisions taken should be minuted.

#### **Provision for bad debts**

5.4 The Council's provision on Green MT and Active Enterprises balances brought forward from previous periods were not updated to reflect the recoveries made on these balances. The Council had a provision amounting EUR11,426, whereas the amount due from Green MT and Active Enterprises was EUR9,330. We proposed an adjustment to decrease the provision for bad debts by EUR2,096. The Council approved our adjustment and reflected it in the audited financial statements.

5.5 We recommend that the Council monitors its recoverability of debtors and ensures that adequate provisions are made to cover doubtful debts. The Council should still continue to chase the respective debtor to recover the balance and once this is not possible, it should consider writing it off.

5.6 The Council also wrote off EUR187 in credit balances in debtors. These arose in 2015 from receipts that were not backed up with invoices. EUR158 was received from Birkikara Local Council and EUR29 were received from Licensing Department. The Council allocated the receipt against the debtor account and at 31 December 2015, the amounts were written off against the provision for bad debts. We proposed an adjustment to reclassify this amount from the provision for bad debts to general income. The Council accepted our proposed adjustment and reflected it in the audited financial statements.

## 6 Expenditure

### Expired tenders

6.1 We noted that the Council is still making use of the following contractors' services despite the fact that their contract period expired:

- The Maintenance and Upkeep of the Public Convenience in Msida (6/11/14)
- The Services of Contract Manager (31/11/13)
- The Collection of Bulky Refuse from Msida (31/8/13)
- The Maintenance and Installation of Street Lighting (8/11/12)
- Accountant (6/11/14)

6.2 We note that the tender for Upkeep of Public Convenience was issued in November 2014 and has still not been adjudicated. The tender for an accountant and for street lightning was issued in December 2015 and awarded in 2016. The tender for Bulky Refuse is under appeal proceedings for which no update is available. The contractors of tenders which expired were informed that their contract will be extended but this was not formally done through an extension letter. The expenses incurred in 2015 under these expired contracts were:

Contract	Amount EUR
The Maintenance and Upkeep of the Public Convenience in Msida	8,591
The Services of Contract Manager	7,749
The Collection of Bulky Refuse from Msida	14,440
The Maintenance and Installation of Street Lighting	12,369
Accountant	3,540

6.3 In accordance with the provisions of the Local Councils (Tendering) Procedures, we recommend that the Council issues a call for tenders prior to their expiration rather than extending them for a period beyond the agreed term.

### Petty cash payments

6.4 Most petty cash payments are supported by a cash register chit that is not addressed to the Council. Examples include:



Details	Date	Amount EUR
Stationary	10/12/15	22.50
Stamps	17/11/15	21.12
Cement	17/08/15	18.50
Stamps	8/04/15	24.00

- 6.5 We recommend that the Council obtains fiscal invoices or fiscal receipts that are addressed to the Council in order to comply with the relevant procedures.
- 6.6 We also noted that petty cash expenses amounting to EUR133 were booked twice in the system whereas October petty cash transactions amounting to EUR222 were not booked onto the system. We proposed an adjustment to account for these payments in line with the nature of the expense.

## 7 Bank and cash

### Petty cash transactions

- 7.1 Article 23 of part VIII of the ACT 363.01 states that petty cash transactions should not exceed the EUR23.29. However, during testing we noted that the following transaction was in excess of this amount:

Description	Supplier	Date	Amount EUR
Bulk posting	Maltapost	08/04/15	24.00

- 7.2 We also noted that, similar to last year, the petty cash balance at 31 December 2015 amounted to EUR235 which is in excess of the allowed limit of EUR233.
- 7.3 We recommend that the Council adheres to the limitations implied by the legislation in relation to petty cash payments.

### Bank reconciliations

- 7.4 We requested copies of monthly bank reconciliations and although we were informed that these are carried out regularly, we noted that:
- Copies of bank reconciliations for the periods January to March and July to August were not available,
  - October transactions were reconciled in the November statement reconciliation,
  - The only reconciliations signed as verified by the Executive Secretary were the April, May, June and December reconciliations.

- 7.5 We remind the Council that monthly bank reconciliations need to be prepared for all bank accounts held by the Council within 10 working days from the end of the month. We also remind the Council that bank reconciliations need to be approved by the Executive Secretary. We recommend that approved bank reconciliations are filed with the respective bank statement.
- 7.6 We also noted that unreconciled transactions at 31 December 2015 included the following stale cheques:

Bank Account	Date posted	Chq no	Amount
			EUR
BOV Current Account 149 06260 011	06/06/2014	10249	30.00
	17/07/2014	10340	116.25
	27/03/2015	10698	40.00

- 7.7 We recommend that the Council monitors its unreconciled transactions and investigates any stale cheques to determine whether these should be reversed.

#### Accounts representative

- 7.8 We noted that although the name of the Executive Secretary signatory was amended, the accounts representative of BOV accounts 40016614204 and 40020186618 is still the former Mayor. The bank balances amount to EUR102 and EURnil respectively. The Former account is marked as 'active' whereas the latter is marked as 'pending closure'.
- 7.9 We recommend that the Council instructs the bank to update the signatories for these accounts for security reasons.

### 8 Tendering procedures

#### Accountancy services

- 8.1 The value of the invoices issued by the accountant is not in line with the existing tender. The amount originally tendered for was inclusive of VAT at EUR3,000, however, since the tender was submitted, the service provider lost her VAT exempt status and is now charging VAT on the tendered amount (EUR3,540).
- 8.2 Since the original submission indicated that the fee was inclusive of VAT, the supplier should have suffered the VAT element rather than passing it onto the Council. We recommend that in such instances, the Council abides with the

agreed terms or issues a new tender. A new tender was issued in November 2015 and awarded in 2016.

## 9 Minutes of meetings

9.1 Whilst reviewing the minutes of Council meetings, we came across the following weaknesses:

- The web link to minutes of meeting number 26 (9<sup>th</sup> January 2015) was broken, whereas minutes of meeting 29 (23 April 2015) were not uploaded,
- The schedule of payments for the months of January, February and June were not uploaded,
- The schedule of payments was not bound with the minutes of the Council meetings,
- The original signed minutes of meeting numbered 28 and 28(2) were not traced in the file but were only traceable online.

9.2 We remind the Council that all minutes of Council meetings and related schedule of payments are to be uploaded on the Council's website within 2 working days from their approval. All originally signed copies are to be stored safely and bound in an annual volume.

## 10 Insurance

10.1 We reviewed the Council's insurance policies and noted a discrepancy between the insurance cover and cost as per nominal ledger. The Council's motor vehicle is insured under a separate policy and trees were excluded from the analysis below due to the nature of the asset.

Category	Cost per ledger EUR	Sum insured EUR	Difference EUR
Buildings	465,835	412,700	53,135
Furniture and Fittings	72,286	27,952	44,334
Street signs, mirrors, lights	50,440	20,000	30,440
Urban improvements	185,690	67,500	118,190
Computer & office equipment	52,573	-	52,573
Plant & machinery	2,798	-	2,798
Construction works	1,818,081	-	1,818,081



- 10.2 We recommend that the Council ensures that assets held are not under insured in accordance with section LCP1.15b.04 of the Local Councils (Financial) Procedures, 1996, which states that the Executive Secretary should carry out a periodical review to assess the adequacy of the insurance coverage.

## 11 Payroll

### Payroll reconciliation

- 11.1 The reconciliation of payroll cost of FSS forms identified unreconciled differences between the FS3 forms, the FS7 and the cost per ledger. These are tabulated below:

	Gross EUR	SS cont EUR
Gross amounts per FS3's	127,062	7,607
Gross amounts per FS7	126,706	7,607
Differences	356	-
Gross amount per ledger	127,553	7,607
Adjust for:		
Opening accruals	6,193	-
Closing accruals	- 6,471	-
Adjusted amount per ledger	127,275	7,607
Difference between ledger and FS3	- 213	-
Difference between ledger and FS7	- 569	-

- 11.2 We also noted that the receipt date of payments of the following FS5s were beyond the end of the following month. These are tabulated below.

Month	Receipt date
January 2015	04/03/2015
March 2015	07/05/2015
April 2015	22/06/2015

- 11.3 We recommend that regular reconciliations are carried out between the FSS documents and the ledger cost to identify and correct any differences in a timely manner. We also remind the Council that monthly FS5s are to reach Inland Revenue with payment by the end of the following month to avoid incurring unnecessary fees.

## 12 Financial statements

### Presentation of financial statements

- 12.1 In line with the Department's requirements, the Council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).
- 12.2 The Council's financial statements are not compliant with IFRSs in the following instances:
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council did not cover all the changes in the financial statements. These were amended in the audited financial statements.
  - The Council reported a rental cost of EUR4,445, however, the financial statements do not disclose the necessary disclosures in relation to commitments and a description of lease arrangements as required by IAS 17 *Leases*.
  - The Statement of Cash Flows did not disclose the actual cash movement on acquisition of property, plant and equipment and receipt of grants as required by IAS 7, *Statement of Cash Flows*. This was amended upon our notification and reflected in the audited financial statements.
  - The Council's key management emoluments disclosed in note 22 does not include the National Insurance cost payable by the Council as required by IAS 24, *Related Party Disclosures*. This was amended upon our notification and corrected in the audited financial statements.
  - The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the Council.

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

### Other matters

12.3 We also noted the following in the financial statements:

- The approval date of the financial statements as per the Statement of Local Council Members and Executive Secretary's Responsibilities on page 3 is 27 May 2016, whereas the date on the Statement of Financial Position is 17 May 2015.
- The total current assets figure in the 2015 column of the Statement of Financial Position should read EUR206,843 rather than EUR206,343.
- The movement in trade and other payables in the 2014 column in the Statement of Cash Flows should read EUR(84,401) rather than EUR184,401.

### 13 Liquidity position

#### Going concern

- 13.1 At the end of this period, the Council has a negative cash liquidity position of EUR109,043 (not including prepayments, funds to be used for projects, and deferred income) down from a negative position of EUR85,202 as at 31 December 2014. The overall cash position of the Council, after excluding funds to be used for projects is also negative. This indicates that the Council may encounter difficulties in meeting its current obligations as they fall due.
- 13.2 The Council's liquidity problems continue to create significant doubts about its ability to continue as 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.
- 13.3 As a result of the above uncertainties, we have included an emphasis of matter paragraph in our auditors' report on the financial statements.

#### Financial Situation indicator (FSI)

- 13.4 The Council has a negative FSI which is less than the minimum of ten percent of the allocation approved in terms of Article 55 of the Act. We reiterate that the Council should inform the Director of this matter and provide details of the actions the Council intends to take to remedy the situation. Our report has been qualified due to this situation.



#### **14 Appointment of new Executive Secretary**

- 14.1 We also noted that the Council had appointed Mr. Christopher Cutajar as Acting Executive Secretary on 1 September 2015 and eventually he was replaced by another Acting Executive Secretary, Ms. Karen Camilleri, as from 27 May 2016. In such circumstances, the Council is required to perform an interim audit that covers up to the date of termination of the outgoing Executive Secretary, however, these were not carried out.

#### **15 Reply to the Management Letter**

- 15.1 The Council did not send its reply to the previous management letter. This contravenes section 2 of the Local Councils' (Audit) Regulations and instructions issued by the Department.
- 15.2 The above is in breach of the Local Councils (Audit) Regulations which oblige the Mayor and the Executive Secretary to submit the Council's reply to our management letter, after discussing it in a meeting. In their reply, the Mayor and the Executive Secretary must specifically indicate how the Council will remedy all the weaknesses and shortcomings identified by the auditor during the fieldwork.

#### **Conclusion**

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

We would like to take this opportunity to thank Mr. Christopher Cutajar, Ms. Karen Camilleri and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta