



- 5.2 Since the Photovoltaic System on the Local Council's premises was installed in 2011, the approved funds of Euro 6,700 should have been recognised and accounted for as deferred income under the income approach in accordance with International Accounting Standard 20 and also the amortization thereof had to start being released in line with the depreciation charge. However, the Local Council did not account for the deferred income and the respective amortization of these grants. Consequently an audit adjustment had to be passed.
- 5.3 In another instance, deferred income amounting to Euro 7,547 was not amortized in line with the corresponding depreciation. The asset, namely the Munxar Playing Field, was capitalized in the year 2010 and the amortization only started being released to the statement of comprehensive income as from October 2011. An audit adjustment was passed to account for the difference in the amortization. Since the 2010 portion was not material, no prior year adjustment was deemed necessary.
- 5.4 We recommend that in the future, the matching concept and the application of the International Accounting Standard 20, are correctly applied. It is important that funds received are allocated as deferred income until the respective works are completed. Once the works are completed, the treatment of the grant is to be made on the income approach basis in accordance with International Accounting Standard 20.
- 5.5 During our testing on the payables, we noted that an invoice dated 04 January 2012 and amounting to Euro 8,850, related to professional fees and other expenses incurred during 2011 in connection with the Architectural and Management Study and Plans in relation to the project carried out under Measure 323 and 313. The necessary audit adjustment was passed to accrue for this amount since this was not posted in the Council's books. Due to the fact, that these two projects comprise both capital and revenue expenditure, the said amount was split in proportion to the type of expenditure and debited as follows: Euro 5,961 as asset under construction and Euro 2,889 as engineering services.
- 5.6 We also noted that the accrual for the legal services rendered by the lawyer for the year under review, which amounted to Euro 300, was not booked.
- 5.7 The concept of recording liabilities and costs in the year as they accrue should be respected. The Council should know what orders for works and services were made and still not invoiced by the time of drawing up the financial statements and as such should be able to either accrue for the cost or request a copy of the invoice or statement from the respective suppliers. We strongly recommend that the Accruals Concept is embraced by the Council.

6.0 INCOME

- 6.1 During the financial year under review, the Local Council issued invoices on a monthly basis to Water Services Corporation for road re-instatement works by referring to the list sent by the Corporation of the roads in which it carried out different sorts of works. However, we noticed that the Local Council did not actually carry out the reinstatement of roads with hot rolled asphalt for which work it was issuing the mentioned bills. In accordance with the agreement reached with the Corporation, the Local Council is only to invoice Water Services Corporation on a monthly basis for the patching works which should have been carried during the particular month by the Council in the agreed manner.



- 6.2 The amount in question of Euro 6,000 was accounted for as accounts receivable and credited as income for the year. This should not have been recognized as income since the services by the Local Council were not rendered in 2011. An audit adjustment was passed to reclassify this amount as deferred income since the Local Council will carry out these works in the year 2012.

7.0 EXPENDITURE AND TENDERS

- 7.1 During our testing on this area we noticed that the Council does not draw up any purchase requests in line with the Local Council Financial Procedures. Also, purchase orders are not drawn up on certain circumstances. There appears to be no specific reason behind this practice. It is understood that at times the urgency of matters might require that bureaucracy is reduced to the minimum possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures.
- 7.2 The Council has exceeded the Budgeted expenditure under the following headings:
- 7.2.1 Contractual Services - by Euro 506;
 - 7.2.2 Professional Services – by Euro 7,886;
 - 7.2.3 Hospitality and community services – by Euro 11,062
- 7.3 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) years business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Council is also allowed to revise budgets in line with actual requirements and there are enough reporting tools to help the Council revise the budgets in line with actual expenditure.
- 7.4 We recommend that the Council makes use of the reporting tools in hand to takes corrective measures in the budget every quarter such that by the end of the accounting period such discrepancies would not materialise.
- 7.5 A case was encountered whereby the Council obtained two quotes over the phone for the supply of cold asphalt to repair damages in one of the locality's roads. The Local Council opted for this procedure since it did not expect the total expenditure to exceed Euro 1,000. However, since the damages were more than the estimate made by the Local Council, more cold asphalt was used and the total expenditure amounted to Euro 1,759.
- 7.6 The Local Council might consider making reference to a professional for estimates when costs cannot be easily determined, in order to ensure that adherence is made at all times with the Local Councils' Procedures.
- 7.7 When testing one of the samples of expenditure selected, it was noted that professional fees of the architect in relation to a capital project, amounting to Euro 1,180, were expensed. During the audit, an adjusting entry was passed to reclassify these professional fees and capitalize them as part of the cost of the relevant asset item.
- 7.8 We advise the Local Council to ascertain the exact nature of each expenditure item being posted in order to ensure that the expenditure is correctly recorded under the appropriate classification.



- 7.9 It was also noted that the contract for the collection of mixed household waste which became effective on 01 February 2011, was only signed on 30 June 2011. Although the services started being used as from February, the contract was not signed as the Local Council was still trying to negotiate better prices even though the supplier was the lowest bidder. For the reason that the terms and conditions might change, the contract was not signed.
- 7.10 Furthermore, while testing a particular invoice it was noted that the contract for engineering services expired. However, the Local Council was still using the services of this particular supplier without there being any renewal of the contract.
- 7.11 The Council should always ensure that any contract is signed before its effective date so that the Council is protected by the terms and conditions included in the contract agreement. The Council should also ensure that for any contracts that are about to expire, a new tender is issued on time in order to have the new agreement coming into effect by the time the old contract terminates. If this time elapses, the Local Council should seek approval from the Department to renew the old agreement on a monthly basis until the new agreement is entered into.

8.0 FINANCIAL STATEMENTS

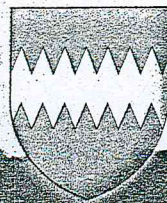
- 8.1 The Financial Statements submitted during our fieldwork were not entirely in line with the IFRS's and we also found some other weaknesses.
- 8.2 Some of the issues that cannot remain unchecked are:
- 8.2.1 Disclosures relating to the application of new IFRSs and IFRSs in issue but not yet effective were still those of the previous year and have not been updated.
 - 8.2.2 The disclosures required by International Financial Reporting Standard 7 – Financial Instruments: Disclosures were not adequate;
 - 8.2.3 The movements in government grants and deferred income in the statement of cash flows were not correctly presented.
 - 8.2.4 The deferred income has not been properly classified between current and non-current and the disclosures relating thereto were not adequate;
 - 8.2.5 The Schedule of special needs was still included in the financial statements even though it is no longer relevant.
- 8.3 We had to bounce back the Financial Statements to the Council for the necessary amendments and with a view to bring them in line with the requirements of the IFRSs, apart from reflecting the audit adjustments, making the necessary reclassifications and correcting other errors found.



Responsibility Statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Local Council arising out of our audit, we emphasise that our consideration of the Local Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under International Standards on Auditing.

We make these suggestions in the context of our audit but they do not in any modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.



Our Ref: DLG/10/2012.

8th June 2012.

Director
Department for Local Government
26-28 Triq l-Arcisqof
Valletta VLT 1443
Malta

Comments on the Management Letter

With reference to the management letter for the period ended 31st December 2011 prepared by Spiteri Bailey & Co. we wish to answer and make the following comments:

1.0 Follow up to last year's report

We took note of last year's follow-up report.

2.0 Property. Plant and equipment

As pointed out in the management letter the Council will be carrying out an exercise in order to write off the fixed assets that are no longer in use.

The recommended reclassification of assets made by the auditors was made, and the necessary changes will also be made in the fixed assets register. The council always does its best to categorise assets according to their type, however this is subject to interpretation.

3.0 Receivables

The necessary adjustment for the funds receivable under the energy saving scheme were accounted for as recommended by the auditors.

As pointed out by the auditors the statement from Enemalta was dated 29th February and could not be included in the financial statements that were presented on 19th February. All the recommended adjustments made by the auditors have been made in the financial statements presented to the NAO on the 2nd May.

4.0 Bank and Cash

The batch of cheques mentioned by the auditors was erroneously entered into the accounting system with the wrong. The recommended adjustment was made.

The council has always reconciled income from various sources with the respective receipts. The petty cash account is also reconciled on a regular basis. Based on the recommendation of the auditor the council will consider keeping two cash boxes, to keep petty cash separate.

5.0 Payables

The points raised by the auditors under this title have been noted and will be looked into in further detail. In future more attention will be given to the points mentioned in order to avoid a repeat situation. Please note that funds received in 2010 in relation to the Project Ghar ta' Karolina amounted to Euro 10,000 and not Euro 15,000 as stated by the Auditor.

The invoices mentioned by the auditors were not entered into the financial statements since these were received after the financial statements were prepared on the 19th February. These were brought to the attention of the auditor by the Council Secretary in order to have these included in the final financial statements presented to the NAO on the 2nd May.

6.0 Income

The income receivable from water services was treated as recommended by the auditors.

7.0 Expenditure and tenders

In future the Council will ensure that it adjusts its budget according to its actual expenditure. This was not done since the Council felt that this would beat the scope of the budget. It is important to know where the shortfalls were on the previous year's budget in order to be able to plan better for the future.

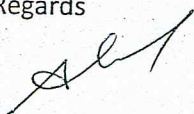
The point raised by the auditors where the Council obtained two quotes over the phone and the cheapest contractor was chosen may be a valid point. However it must be noted that in Gozo there are only two contractors for the supply of cold asphalt. The contractor offering the cheapest rate was selected. The shortcoming that will be avoided in future is that quotes will be requested in writing. However one must also note that these were emergency repairs.

The contract for household waste had expired and the new contractor needed to start offering the service even though the contract was not yet signed. Had the negotiations for better rates been successful it would have been beneficial to the Council. Once the contract is signed no further negotiations are possible. In future contracts will be signed before commencement as recommended by the auditors.

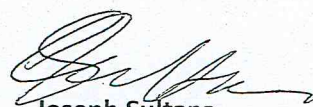
8.0 Financial Statements

The financial statements drawn up following the audit adjustments and presented to the NAO were in line with the IFRS's and all items that have been mentioned in the management letter were resolved.

Regards



Anthony Grech
Executive Secretary.



Joseph Sultana
Mayor.

Copies: National Audit Office, Malta.
Spiteri Bailey & Co.