

- 2.7 It is important that once a project is completed, all the relevant assets are capitalised and depreciation started. If the invoices are not issued by the end of the year, an accrual has to be passed to recognised such assets. The Local Council should embrace the accruals concept.
- 2.8 We would like to bring to your attention the fact that litter bins should not be capitalized as instructed the Local Government Department. It was noted that the new litter bins for Tal-Kantra were capitalized and fully depreciated during the year.
- 2.9 It was noted that the VAT refund and the 10% co-financing received during the year under two particular schemes (Measure 313 and Measure 323) were netted off against the cost of the assets. The cost of these assets was therefore understated and so was the related depreciation where applicable. An adjustment was passed for the amount of Euro 14,793 to correct this error. The depreciation and deferred income were also corrected.
- 2.10 Items of property, plant and equipment should always be capitalised at their total cost according to the invoices received in line with IAS16 *Property, Plant and Equipment* and the depreciation should be calculated on the total cost. The VAT refunds and co-financing should then be treated as government grants and accounted for as deferred income which is then amortised in line with the depreciation.

3.0 RECEIVABLES

- 3.1 During our audit, it was noted that the amounts that were receivable as at 31st December 2011 under the Energy Saving Scheme amounting to Euro 6,700; from the Gozo Region Committee amounting to Euro 587 and the income from the Sports Scheme amounting to Euro 315, were received during the current year, and have been accounted as a grant or income for the year, instead of accounting them against the amounts receivable brought forward. We had to pass the necessary audit adjustments to reflect these receipts properly.
- 3.2 During the year 2012 the Local Council organised several activities:
- 3.2.1 a sports night activities for which the Local Council was given funds as per Memo 90/2011;
 - 3.2.2 a sports activity in Xlendi for which the Local Council will receive funds as per Memo 90/2011; and
 - 3.2.3 other activities which will be funded under Memo 65/2011.

The respective amounts receivable were not accrued for in the accounts. Audit adjustments were passed to account for the funds which were receivable even though such funds were not yet received during the year under review. The total adjustment amounts to Euro 4,069.

- 3.3 The concept of recording accrued receivables and income in the period as they accrue should be respected. The Council should know what income is receivable and still not received by the time of drawing up the financial statements and as such should be able to accrue for the income. We strongly recommend that the Accruals Concept is embraced by the Council.

- 3.4 Included with the accounts receivable is an amount of Euro 13,888 due from the Water Services Corporation with respect to permits and road reinstatement works. When we sent the circularisation letter to the corporation to confirm the balance, we were told that only Euro 30 were due to the Local Council. This difference should be investigated to check whether the Local Council has the legal right to receive all such balances since for sure the road reinstatement works have not been carried out since the new agreement was signed with the corporation. In fact, in the accounts the Council has deferred Euro 11,400 worth of such income in order to match it with the expense of road reinstatement when it is done.
- 3.5 In order to avoid keeping possibly inflating the accounts receivables and the deferred income, we highly suggest that this matter is clarified once and for all and if the Local Council does not have the legal right to charge the corporation for road reinstatement, then the necessary credit notes are issued to cancel these entries.
- 3.6 When a capital project is completed and the government grant attributable to that project is still wholly or partly receivable, the grant still to be received by the Local Council should be accounted for as accrued income. This will consequently increase the deferred income relating to the project to the full amount and the amortization could then be worked out on the total amount of the grant. We have adjusted the grant still due on the Eco Gozo – Xlendi project which was completed during the year under review. The amount accrued for was Euro 30,420.

4.0 BANK AND CASH

- 4.1 When we came to perform the cash count, we were presented with two cash boxes. Despite of this it was noticed that the Local Council uses one of the cash boxes for both the petty cash and the cash from the receipts from permits, tender documents, etc. It seems that the other box is used as a cash float in case of emergencies.
- 4.2 For better control purposes, we suggest that the petty cash and the cash from the receipts, should be kept completely separate at all time.
- 4.3 It was also noted that some cheques were presented before there were approved in the meeting held on 22 January 2013. These cheques were the December salaries and wages of the employees.
- 4.4 All expenses need to be approved in a Local Council meeting before paid. In such instance, the December wages and salaries could be approved in the last meeting of that particular year in order to be able to pay them on time.
- 4.5 During our testing on the receipts deposited after year-end, it was noted that there were some receipts that were actually received before year-end but were only deposited in 2013. Such receipts should have been accounted when these were actually received irrespective of whether deposited or not. An adjustment (AA.11) was passed for the amount of Euro 2,681.
- 4.6 An audit adjustment was passed last year since a batch of cheques was erroneously posted in the accounting system dated 30 January 2012 instead of with the correct issue date of 30

December 2011. Such entry was not reversed this year and therefore an adjustment was passed to correct this error.

5.0 PAYABLES

- 5.1 The funds received during the year for the Financing of Projects and Initiatives taken by the Administration Committees in their locality which amounted to Euro 20,000 was amortized in line with the depreciation. Although this is the correct accounting treatment, it should be noted that since the asset was still under construction, the amortization had to be reversed together with the depreciation. The deferred income will eventually start to be amortized as from the date when the project will be completed.
- 5.2 During the year the Local Council carried out some restoration works amounting to Euro 1,406. The Council obtained funds in previous years for such restoration works and were accounted for as deferred income. However, during the year, no deferred income was taken to the statement of comprehensive income with respect to such works.
- 5.3 Please note that when an expense of a revenue nature is incurred, the deferred income attributed to such expense should also be allocated to the statement of comprehensive income to match the income with the expense it was intended to cover.
- 5.4 When testing the amortisation of the deferred income relating to government grants, we noted that in several cases, the amortisation was not started on the date when the related capital project was completed. Several adjustments had to be passed to correct these errors.
- 5.5 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.
- 5.6 When checking the invoices received after year-end, it was noted that some invoices that were dated in 2013 but related to 2012, were posted within the accounts payable instead of accounted for as accruals. Furthermore, we have noticed that the cheques to settle these invoices were dated 31 December 2012 and were accounted for as cheques not yet presented as at 31 December 2012. It is important to note that these cheques were not yet approved and were still held by the Executive Secretary. This error was not corrected since the total amount of the invoices and payments was Euro 1,719.
- 5.7 It is important that the correct classification of liabilities is used according to the definitions given by the IFRSs. Moreover, it is important that payments are not prepared before approval thereof is obtained during a Council meeting and it does not make sense to issue the payments with a date which is before the date of the invoice.
- 5.8 We also noted that the accruals for the legal services rendered by the lawyer, for the rent payable, for the expenses in relation to the Christmas Decorations and for the electricity for the

last period of the year, which together amounted to Euro 5,693, were not accounted for. An adjustment was passed to reflect these expenses and accruals.

- 5.9 In addition to the above, as already mentioned in point 2.5 above, when a project is either fully completed during the year but not yet invoiced or a project is in progress as at the end of the year and therefore is an asset under construction, these have to be accrued for at the end of the year. It is important that the architect in charge of the projects gives you the costs incurred on these projects till the end of the financial year.
- 5.10 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.
- 5.11 As already mentioned in point 2.9 above, we noted that the VAT refund and 10% co-financing received with respect to the Measure 323 and Measure 313 projects, were being netted off against the cost of the fixed asset. An adjustment had to be passed to gross up the cost of the capital projects and to include the grants received with the deferred income of those projects.
- 5.12 We suggest that in future these funds (the VAT refund and the 10% co-financing) should be treated as government grants in accordance with IAS20 using the income approach as instructed by the NAO. This would also be in line with the treatment of the remaining funds obtained for these projects which represent 90% of the net cost of these projects.
- 5.13 When reconciling the balance due to WasteServ Malta Ltd, we noticed that there is a variance of Euro 1,640 between the accounts and the supplier's statement. This variance represents the amounts not accounted for by the Local Council in previous years since the yearly amounts invoiced by WasteServe Malta Ltd exceed the amounts allocated to tipping fees from the central government allocation.
- 5.14 Since the Local Council has no legal right not to pay such amounts, we suggest that these variances in the invoices are accounted for in the books of the Local Council. Currently, in the financial statements these are just disclosed in the contingent liabilities note.

6.0 INCOME

- 6.1 When checking the income relating to the main allocation from the Central Government, we noticed that netted against such income was the penalty deducted of Euro 200.
- 6.2 We would like to bring to your attention that penalties and any other deduction from the main allocation of the Central Government should not be netted off with the income but should be shown separately as an expense item in the statement of comprehensive income.
- 6.3 Income related to services rendered by the Local Council in a particular period should be accounted for as income in that particular period. In the case of the services provided to Green MT, the Council should have either raised the invoices covering the whole year and accounted

for them as accounts receivable or else that income should have been accrued for. Instead, the Council only raised invoices and accounted for the income up to September 2012. An adjustment was passed to accrue for the income of the remaining months.

- 6.4 When testing the income derived from the renting of the HSBC kiosk, we noticed that the amount shown in the relevant income account covered the period from 8th December 2012 up till 7th December 2013. Therefore Euro 2,342 had to be taken out of the income and accounted for as deferred income.
- 6.5 It is important that rental income is accounted for in the period to which it relates and not in the period when the money is received or the invoice is issued.
- 6.6 Within the income nominal accounts we found Euro 5,400 worth of invoices issued to the Water Services Corporation for road reinstatement works. When we enquired whether the road reinstatement works were actually carried out by the Local Council in accordance with the agreement reached with the corporation, we were told that till the date of the audit no such works were carried out. The Local Council plans to do these jobs in the future. Since the works were not carried out, it was agreed to defer this income until the works are done so that then the expenses incurred for such works are matched with the related income.
- 6.7 The council should ensure that any income shown in the statement of comprehensive income is actually income that the Council has the legal right to receive in order to ensure that the income and consequently the receivables are not overstated.

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. There appears to be no specific reason behind this practice.
- 7.2 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.
- 7.3 While testing a sample of expenses, we noticed that the Local Council is using the services of the Director for Tourism and Economic Development for the cleaning of the public conveniences. The contract which was entered into way back in 1994, was valid for 3 years. The total amount invoiced during 2012 for such services amounted to Euro 6,729. We were given to understand that a new tender has not been issued since this would mean much higher rates being charged to the Local Council.
- 7.4 Although we understand the reason for such action, we still recommend that a new tender be issued as stipulated in the regulations. Otherwise the Local Council should seek guidance and approval from the Local Government Department.