



- 5.15 When going through the list of accounts payable, we noticed that there were several accounts with small negative balances. When we enquired on how such negative balances arose this year, we were informed that they resulted due to the fact that the payments included in the payables' accounts were including the bank charges incurred by the Local Councils. It was agreed to pass an audit adjustment to clear these negative balances even though in total these balances were not material.
- 5.16 It is important that in the future, in order to avoid getting such negative balances, the payments posted are the amounts actually received by the suppliers and that the bank charges that the Local Council incurs over and above such amounts, are accounted for directly as bank charges.

## 6.0 INCOME

- 6.1 When checking the income relating to the main allocation from the Central Government, we noticed that some expenses were netted off against such income.
- 6.2 Deductions 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 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 8 December 2013 till 7 December 2014 while in the deferred income account there was still the opening balance covering from 1 January 2013 to 7 December 2013. An adjustment of Euro 422 was passed being the difference between the opening deferred income and the closing deferred income.
- 6.4 It is important that rental income is accounted for in the period to which it relates using a time apportionment basis and not in the period when the money is received or the invoice is issued.
- 6.5 Within the income nominal accounts we found Euro 5,550 worth of invoices issued to Water Services Corporation for road reinstatement works. When we enquired whether the road reinstatement works were carried out by the Local Council in accordance with the agreement reached with the Corporation, we were told that till the audit no such works were carried out and a tender will be issued with respect to such works. 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 then matched with the related income.
- 6.6 The Council should ensure that any income 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. In the case of these charges for road reinstatement, the Local Council should obtain advice as to whether the Council will be able to claim such fees given that the time period stipulated for the works to be done according to the agreement already expired. If the Council is not entitled to these fees, then the deferred income should be set off against the balance being shown as due from the Corporation.





- 6.7 When we were vouching the rent received during the year by the Local Council, it was noticed that the Local Council received the income including VAT although it did not request such amount, but only the net amount was requested given that the VAT does not apply to Local Councils. In spite of this, the Local Council treated the VAT element received as its own income when in reality this amount should technically be refunded to the lessor.

## **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 The Council has exceeded the Budgeted expenditure under the following headings:
- a. Community Services (category 3300) by Euro 6,963;
- 7.4 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) year 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.
- 7.5 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 various services with expired contracts.
- 7.5.1 Cleaning of the public conveniences: The contract which was entered into way back in 1994, was valid for 3 years. The total amount invoiced for this service during 2013 was Euro 6,710.
  - 7.5.2 Street Sweeping and Cleaning: The contract which was entered into in 1994, was valid for 3 years. The total amount invoiced for this service during 2013 was Euro 4,642.
  - 7.5.3 Collection of Bulky Refuse: The contract which was entered into in 1994, was also valid for 3 years. The total amount invoiced for this service during 2013 was Euro 548.
- 7.6 Furthermore, we also noticed that the Local Council is using the services of the Department of Agriculture for the Upkeeping and Maintenance of soft areas. The contract which was entered into way back in 1996, was valid for 3 years. The total amount invoiced during 2013 for such services was Euro 175.





- 7.7 The Local Council is being provided with the service of Street Sweeping in Xlendi under a tender which was issued in 2011. The contract is being renewed every year. However, neither the tender document nor the contract stipulates that such contract can be renewed. The total amount invoiced during 2013 amounted to Euro 5,866 and from expiry to date amounted to Euro 11,777. On 23 October 2013, the Local Council published a new tender for the Street Sweeping in Xlendi (MXR/001/2013) and after year end it was adjudicated to the same contractor since he offered the lowest offer.
- 7.8 We recommend that when a contract is about to expiry and the contract does not have provisions for any further extensions, then a new tender should be issued immediately as stipulated in the regulations. We can understand that at times the Council keeps using expired contracts since the rates charged would be definitely lower than the rates that would be quoted under a new contract. In such cases, the Local Council should seek guidance and approval from the Local Government Department rather than just extend the contracts without any approval.



**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 way 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 a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.



Our Ref: DLG/05/2014.

2<sup>nd</sup> June 2014.

Director  
Department for Local Government  
26, Triq I-Arcisqof  
Valletta VLT2000  
Malta.

**Comments on the Management Letter**

With reference to the management letter for the period ended 31<sup>st</sup> December 2013 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**

The Council intends to carry out an exercise in order to write off the fixed assets that are no longer in use.

The recommendations made by the auditor have been noted. In future more attention will be given to assets' date of completion so that depreciation will be charged from this date.

The recommendations made by the auditors have been noted and the adjustments reflected in the audited financial statements.

The recommendation by the auditors regarding the classification of fixed assets and the updating of the fixed assets register to be in line with the nominal ledger have been noted. The Council has made the adjustment as recommended by the auditors.

**3.0 Receivables**

The necessary adjustments for the funds receivable under the various funding schemes were accounted for as recommended by the auditors.

The prepayment on the rent paid was adjusted as indicated by the auditors.

The points raised by the auditors have been noted and the recommended adjustments made and these have been reflected in the audited financial statements.

**4.0 Bank and Cash**

Salaries are statutory payments set in the conditions of employment. It is normal procedure to pay employees salaries at the end of each month. As stated by the auditor these were approved in the December council meeting.

The cheque to Muesec was a guarantee that was held as a guarantee on an EU funds application. This cheque was not cancelled when it was returned. In future the executive secretary will ensure that such cheques are cancelled when they are returned.



## **5.0 Payables**

The points raised by the auditors regarding the deferred income and amortisation of such income has been noted. In future more attention will be given to the points mentioned in order to avoid a repeat situation.

The invoices received at year end will in future be treated as accruals if these are not dated in the year under review. The other recommendations made by the auditors have been noted and the recommended adjustments made and reflected in the audited financial statements.

The account relating to Wasteserv has been reconciled. The accounts payable that are mentioned by the auditor consisted of 3 suppliers who were working on a project funded under measure 313. The amount of bank charges were initially included in the supplier accounts but were adjusted by removing the amount relating to bank charges. This was reflected in the audited financial statements.

## **6.0 Income**

When the allocation is sent to the Council by DLG the deductions of various items are made at source and the Council does not receive a breakdown of these deductions immediately. The Council will continue to query the DLG in order to account for revenue and deductions correctly.

The recommendations made by the auditors have been noted and further action will be taken to ensure that the matters mentioned are resolved. The audit adjustments have been made and reflected in the audited financial statements.

## **7.0 Expenditure and tenders**

The Council will start to issue purchase requests and purchase orders when making a purchase from suppliers.

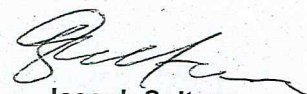
The budget was exceeded in community and hospitality due to activities held during the year. In future the budget will be revised according to actual expenditure to avoid such instances.

The Council is aware that the contract for cleaning of public convenience, street sweeping and cleaning, upkeep and maintenance of soft areas, and bulky refuse collection have expired and will discuss this further taking into consideration the auditors' recommendations.

Regards,



**Anthony Grech**  
**Executive Secretary.**



**Joseph Sultana**  
**Mayor.**

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