



1.5 Income

The invoices issued to Water Services Corporation for road re-instatement which were not in accordance with the agreement were once again issued during 2014.

1.6 Expenditure and Tenders

In some cases last year, purchase requests were not being drawn up in line with the Local Council Financial Procedures. These situations were not encountered during our testing this year.

The Local Council has not issued a new tender for the services being provided by the Director for Tourism and Economic Development and therefore is still applying the expired contract.

During last year's audit it was pointed out that the Council has exceeded the budgeted expenditure in certain categories. This was also encountered during 2014.



## **2.0 PROPERTY, PLANT AND EQUIPMENT**

- 2.1 When carrying out the physical inspection of a sample of assets found in the Fixed Asset Register, we found that some of the electronic equipment listed therein, were not being used since new electronic equipment was purchased to replace it. We were informed that the Local Council should have carried out an exercise to write off any assets which are no longer being used, but the staff did not have sufficient time to do this. This exercise is now planned to take place in 2015.
- 2.2 It is important that the Local Council carries out physical inspections regularly on a sample of items of property, plant and equipment, to check whether the assets are still in existence and in good condition for use. If any assets are found missing or not in a good condition for use, after making the necessary investigations, the Council should follow the regulatory procedures to ensure that such assets are written off from the accounts and the Fixed Assets Register.
- 2.3 When testing the assets under construction we noticed that the costs relating to one particular project were still categorized as assets under construction even though such project was completely ready during 2014. These costs amounted to Euro 20,070 and related to the lamp posts and furniture of Tal-Kantra project, where the whole installation was ready by August 2014. In addition, we noticed that the above assets were not being depreciated after they were actually installed.
- 2.4 It is important that once a project is completed, all the relevant costs are capitalised under the specific asset category and depreciation started as from the date of completion. The property, plant and equipment schedule should show a more realistic picture of the types of assets owned by the Local Council and should clearly indicate the assets that are still under construction as at the end of the year and those that were completed.
- 2.5 When testing the depreciation, we noticed that depreciation was not calculated correctly for the urban improvements category. Depreciation as per accounts amounted to Euro 2,348 when it should have been Euro 7,280. An audit adjustment for the difference of Euro 4,932 has been passed to rectify this error.
- 2.6 Care should be taken when calculating and accounting for the depreciation charge for the year to ensure that it is being calculated on the correct figures. If the fixed assets register is not updated as per our recommendation in point 2.11 below, variances will surely result in the depreciation calculation. From the variance, only approximately Euro 1,000 resulted from our audit adjustments on property, plant and equipment meaning that the rest is resulting from the fixed assets register.
- 2.7 During the year, the Local Council also did the production and design of a leaflet and map relating to Measure 313 – encouragement of tourism, amounting to Euro 3,329. The Council did not account for such capital costs which formed part of an invoice which was dated in 2014. This has not only impacted the cost of the assets of the Local Council but also affected the depreciation and the deferred income since such project was co-financed from the Measure 313 scheme. Adjustments were passed to correct these errors.



- 2.8 During our testing, we found that a payment with respect to project management fees paid in relation to Tal-Kantra project was expensed instead of being capitalised. These fees amounting to Euro 5,470 were reclassified to property, plant and equipment through an audit adjustment.
- 2.9 It is important that every expense incurred is analysed and accounted for depending on whether it is of a capital nature or of a revenue nature. Expenses of a capital nature should be capitalised while expenses of a revenue nature should be written off to the statement of comprehensive income. All expenditure forming part of the cost of the asset according to paragraph 16 of IAS 1: Property, Plant & Equipment should be capitalised. Moreover, the Local Council should ensure that all invoices received are immediately recorded in the books of accounts.
- 2.10 When carrying the reconciliation between the Fixed Asset Register (FAR) and the Nominal Activity it was noticed that these were not agreeing, before passing any audit adjustments. The net book value in the accounts was lower by Euro 50,148, the cost was lower by Euro 66,530 and the accumulated depreciation was lower by Euro 16,382.
- 2.11 When we investigated the variances, it resulted that an invoice was inputted in the FAR as Euro 2,851 instead of Euro 26,839, a credit note of Euro 5,349 on the contract management fee of the Munxar Pjazza project was not reflected and an adjustment of Euro 14,794 in relation to the VAT refund and the 10% co-financing received during 2012 and which were netted of against the cost of the assets was also not reflected. Other audit adjustments which were passed in 2013 but were not reflected in the FAR include the following:
- Works carried out in 2013 on Measure 313 & 323 not accounted for and management fees in connection with Eco Gozo - Triq San Xmun which were expensed instead of capitalized, amounting to Euro 65,179
  - Works on restoration of underground mill in Xlendi not being of a capital nature amounting to Euro 165, 142.
- No adjustments were necessary to be passed in the accounts with respect to these costs since the accounting entries were correct.
- 2.12 It is important that the Fixed Assets Register is kept continuously updated with all movements accounted for in the nominal ledger and reconciliations carried out on a regularly basis, in particular before generating the depreciation calculations routine as mentioned above.
- 2.13 When inspecting the insurance coverage policy document we noticed that while the net book value of the Local Council's premises, equipment and furniture are adequately covered, the items of property, plant and equipment found outside the Council's premises are under insured. The insurance policy states that property in the open is covered up to Euro 60,000 while the net book value of all the items found in the open amount to Euro 971,979 excluding any assets under construction. The cost of these assets, again excluding any assets under construction, amount to Euro 1,607,716.
- 2.14 The Council should consider revising its insurance policy in order to ensure that all the items of property, plant and equipment falling under its responsibility are adequately covered so that in the case of an accident, the Local Council would be in a position to recover the losses incurred.



**3.0 RECEIVABLES**

3.1 During the year 2014, the Local Council organised several activities:

3.1.1 An end of summer activity in Xlendi for which the Local Council will receive funds as per Memo 25/2013; and

3.1.2 Other cultural activities which will be funded as per Memo 27/2014.

The funds receivable with respect to these activities were not accrued for in the accounts. Audit adjustments were passed to account for such funds which amount to Euro 6,500.

3.2 The concept of recording income in the year as it accrues 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 such income. This will also ensure that the income is matched with the expenditure to which it relates.

3.3 When a capital project has been completed and the grant attributable to that project is still partly receivable, the part of the grant still to be received by the Local Council should be accounted for as accrued income, given that all the terms and conditions attributable to the receipt of that grant have been abided with. This will consequently increase the deferred income relating to the project to the full amount and the amortisation could then be worked out on the total amount of the grant. On this basis, we have adjusted the grant still due to the Local Council under Public Private Partnership, given that the projects under this scheme were completed during the year under review. The amount accrued for was Euro 130,036.

3.4 On the above basis we have also adjusted the grant still due to the Local Council under Measure 313 and Measure 323, given that several projects under these schemes were completed in 2014. The amounts accrued for in this respect totalled to Euro 9,316.

3.5 In the list of accounts receivable, we noticed a balance of Euro 1,498 due from Malta Environment and Planning Authority which has been coming from previous years. Given that this balance is old, one starts questioning its recoverability. Similarly, an amount of Euro 2,488 forming part of a total balance of Euro 24,588 due from Water Services Corporation has been coming from previous years. After discussing these balances with the Executive Secretary, it was decided that an adjustment of Euro 3,586 is to be passed to provide for such balances.

3.6 In addition to the above, in the list of accounts receivable, there was an amount of Euro 22,100 due from Water Services Corporation. This amount represented invoices issued to Water Services Corporation for road reinstatement works. Since the road reinstatement works are not being carried out by the Local Council in accordance with the agreement reached, the Water Services Corporation is disregarding this amount as due. Given that this amount is highly probable that it will not be recovered, it was set-off with the deferred income related to such road reinstatement works.

3.7 It is important that at least, at the end of each financial year, the Local Council goes through the list of receivables and assess whether any of the receivables is deemed doubtful to collect. If

such balances are noticed, then a provision for doubtful debts should be accounted for immediately. As per guidance given by the Department, any amounts older than two years are to be considered as doubtful.

#### **4.0 BANK AND CASH**

- 4.1 During our testing, it was noted that some cheques were issued before they were actually approved in a Council's meeting. These cheques included the payments of the December wages and salaries of the employees and other expenses which were eventually approved in the meeting held on 21 January 2015. A good amount of these cheques were presented in the first two weeks of January 2015 before the meeting was held.
- 4.2 All payments need to be approved by the Council during a meeting before being affected. In the case of the wages and salaries, these could be approved in the last meeting of that particular year. It is important that meetings are planned in such a way so as to avoid having such occurrences.

#### **5.0 PAYABLES**

- 5.1 During the year, the Local Council carried out maintenance works on the 'Passagg tax-Xlendi' amounting to Euro 20,000. The Local Council obtained funds for such restoration works which were accounted for as deferred income. During the year, no deferred income was taken to the statement of comprehensive income with respect to such works in order to match the income with the expenditure which they were intended to cover.
- 5.2 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.
- 5.3 When testing the amortisation of the deferred income relating to capital projects, we noted that in several cases, the amortisation was not started on the date when the related capital project was actually completed. Several adjustments had to be passed to correct these errors which adjustments netted to the amount of Euro 2,104.
- 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 When checking the invoices received after year-end, it was noted that the water and electricity for the last period of the year and legal services, which amounted together to Euro 2,720, were not accounted for. An adjustment was passed to reflect these expenses and accruals.
- 5.6 In addition to the above, an adjustment of Euro 2,096 was passed to adjust the rent related to the Local Council premises since it was under-accrued. Another adjustment of Euro 353 was



passed to reverse the accrued rent of the playing field since this was paid in 2014 and to reverse part of the windmill's rent.

- 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.
- 5.8 When going through the list of accounts payable, it was noted that one of the suppliers, being Road Construction Co Ltd, has issued a credit note in 2015 to amend an invoice related to works carried out in 2014. An adjustment equal to Euro 699 was passed to reflect such credit note.
- 5.9 In addition to the above, an adjustment equal to Euro 9,588 was passed to the list of accounts payable in order to account for two invoices issued towards the end of 2014 for the production, design and printing of a booklet, leaflet and map and for the supply and for restoration works at the Flour Mill, which were omitted from the accounts.
- 5.10 It is important that the Local Council accounts for all the invoices received. If for some reason, the supplier does not send the invoices on time, the Local Council should be aware of what invoices have not yet been received and should chase the supplier in order to be able to account for such invoices not yet received.

## **6.0 INCOME**

- 6.1 Within the income nominal accounts, we found Euro 5,150 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 no such works were carried out yet. Since the works were not carried out, it was agreed to defer this income until the works are done.
- 6.2 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, given that the time period stipulated for the works to be done according to the agreement already expired, and consequently the Council is not entitled to these fees, the deferred income was eventually set off against the balance being shown as due from the Corporation, by way of an audit adjustment as explained in point 3.6 above.

## **7.0 EXPENDITURE AND TENDERS**

- 7.1 The Council has exceeded the Budgeted expenditure under the following headings:
- 7.1.1 International memberships (category 2500) by Euro 980;
  - 7.1.2 Office expenses (category 2600) by Euro 1,005;
  - 7.1.3 Training (category 3200) by Euro 830;



7.1.4 Community Services (category 3300) by Euro 11,786.

7.2 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.

7.3 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 various services with expired contracts.

7.3.1 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 2014 was Euro 6,775.

7.3.2 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 2014 was Euro 524.

7.4 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 2014 for such services was Euro 484.

7.5 We recommend that when a contract is about to expire 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.

## **8.0 PAYROLL**

8.1 It was noted that the performance bonuses of both the Executive Secretary and the other employee were being accounted for together with their salaries. These bonuses amounting to Euro 3,402 were reclassified to the bonuses nominal account.

8.2 When posting transactions relating to wages and salaries, it is important that the appropriate nominal account is used so that the necessary data is then readily available for the proper presentation of payroll costs in the notes to the financial statements.