



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 used, but the staff did not have sufficient time to do this. This exercise is now planned to take place in 2014.
- 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 two particular projects were still categorized as asset under construction even though such projects were ready during 2013. These costs amounted to Euro 35,654 and related to the following:
- 2.3.1 the resurfacing of rural track, Tal-Ponta, Munxar, which project was ready by March 2013; and
 - 2.3.2 the furniture of Tal-Ponta, where the whole installation was ready in March 2013.
- 2.4 In addition, we noticed that the above projects were being depreciated before these were actually ready in March 2013. No adjustment was passed since the amount over depreciation was not material.
- 2.5 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.
- 2.6 Moreover, an adjustment had to be passed in relation to the depreciation accounted for amounting to Euro 2,299 on the Tal-Kantra project where the furniture was not yet installed in place by 31 December 2013 and yet the asset still started being depreciated during the year.
- 2.7 We emphasise that care should be taken in order to capitalise the items of property, plant and equipment only when the whole project is ready and in place, since this will have an effect on the depreciation for the year. Property, plant and equipment schedule should show a more realistic picture of the types of assets owned by the Local Council and should identify the assets that are still under construction as at the end of the year.
- 2.8 We also encountered an instance where a project was ready by the end of the year but the related costs were not accrued for and capitalised. The project related to the design, installation and commissioning of service at the Visitors Centre within the Xlendi Underground Flour Mill in Munxar, which project was ready by December 2013. The total of such costs amounted to Euro 64,345. Such project should have been included in the year under review by way of an accrual and therefore adjustments were passed to reflect the cost of this project. This also had an



impact on the depreciation charge for the year and on the deferred income relating to relevant grants. When the project is completed, the deferred income should be amortized in line with the depreciation.

- 2.9 It is important that once the 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 recognise such assets. The Local Council should embrace the accruals concept.
- 2.10 During the year, the Local Council also carried out restoration works on the underground mill amounting to Euro 165,142. The Council has capitalised such expenses while it was clear that such works are of a revenue nature and not of a capital nature. Such wrong classification 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.
- 2.11 Items of expenditure should only be capitalised as property, plant and equipment when they meet the criteria of *IAS16: Property, Plant and Equipment*. Otherwise, expenditure of a revenue nature should always be written off to the statement of comprehensive income irrespective of the amount paid out.
- 2.12 From our testing, we found that a payment with respect to project management fees paid in relation to an Eco-Gozo project was expensed instead of being capitalised. These fees amounting to Euro 854 were reclassified to property, plant and equipment through an audit adjustment. An adjustment was also passed to reflect the adjusted depreciation charge for the year in respect of this asset.
- 2.13 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.
- 2.14 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 higher by Euro 42,663, the cost was higher by Euro 38,782 and the accumulated depreciation was lower by Euro 3,881. When we investigated the variances, it resulted that an invoice was inputted in the FAR as Euro 2,851 instead of Euro 26,839, Euro 3,881 representing an audit adjustment on the depreciation charge passed in the previous year was not reflected and another adjustment amounting to Euro 14,794 in relation of the VAT refund and the 10% co-financing received during 2012 and which were netted off against the cost of the assets was also not reflected. No adjustments were necessary to be passed in the accounts with respect to the costs since the accounting entries were correct. Since the depreciation is calculated on the FAR figures, we also tested the impact on the depreciation of the two errors. An adjustment of Euro 1,357 was passed with respect to the depreciation on the invoice whose amount was wrongly posted, but no adjustment was passed on the other error since the difference was immaterial.



- 2.15 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.
- 2.16 An adjustment had to be passed to account for the works already carried out on a project which was still in progress but no invoices were yet issued before the year end. Although the projects relating to the 'Supply and fixing of pedestrian guardrails and construction of pavements at Triq il-Kantra, il-Xlendi,' and to the 'Creating a Pedestrian Zone within il-Munxar Church Square' were not fully completed by the end of the year, the expenses incurred up to 31 December 2013 should have been accounted for as an accrual as at year end. An audit adjustment was passed for the amount of Euro 32,100 in this respect to reflect the accrual as at year end and the respective asset under construction.
- 2.17 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 69,882 while the net book value of all the items found in the open amount to Euro 518,786 excluding the assets under construction amounting to Euro 52,170. The cost of these assets, again excluding the assets under construction, amount to Euro 1,058,929.
- 2.18 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 our audit, it was noted that the amounts received under the Activities Scheme Memo 65/2011 amounting to Euro 3,738 and the Sports Scheme amounting to Euro 315, were accounted for as income for the year when these should have been accounted for against the accrued income brought forward. The activities to which these items of income relate were carried out during 2012 and therefore the income was already accrued for last year. We had to pass the necessary audit adjustments to reallocate these receipts.
- 3.2 During the year 2013 the Local Council organised several activities:
- 3.2.1 a sports activity in Xlendi for which the Local Council will receive funds as per Memo 49/2012; and
 - 3.2.2 other activities which will be funded as per Memo 38/2012.

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 3,186.

- 3.3 The concept of recording income in the period 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.

- 3.4 When checking a number of invoices, we came across an invoice for rent payable by the Local Council and amounting to Euro 625, which was paid during 2013 but related to the yearly rent up to December 2014. However this invoice was left as an expense for the year 2013 instead of being accounted for as a prepayment. An audit adjustment was passed to reflect the prepayment.
- 3.5 Kindly note that when an invoice is paid during a particular period but the expense relates to the following or other future periods, the expense should be accounted for as a prepayment and not expensed in the period in which its invoice was paid.
- 3.6 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 Measure 313, given that several projects under this scheme were completed during the year under review. The amount accrued for was Euro 28,464.
- 3.7 When checking the list of prepayments as at year-end, we noticed that there was an amount of prepaid rent that was coming over from the previous year and that remained in the list of the year-end prepayments. Since no invoice was issued during 2013, there should not have been a similar prepayment this year. Therefore the opening prepayment was reversed through an audit adjustment.
- 3.8 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 1,680 forming part of a total balance of Euro 2,070 due from Green MT has been coming from previous years. Given that these balances are not material, no adjustment has been passed.
- 3.9 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.
- 4.0 **BANK AND CASH**
- 4.1 During our testing, it was noted that some cheques were presented before they were actually approved in a Council's meeting. These cheques were the December wages and salaries of the employees which were eventually approved in the meeting held on 21 January 2014.



- 4.2 All payments need to be approved by the Council during a meeting before being affected. In such instance, the December wages and salaries 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.
- 4.3 When testing a sample of the cheques not yet presented as at the end of the year, we found a cheque amounting to Euro 500 which remained not presented. When we investigated on this cheque we were told that this cheque was originally issued as a guarantee in favour of Muesec but was never actually presented but just maintained by Muesec. This guarantee expired and therefore this cheque should now have been cancelled and the corresponding receivable reversed. An audit adjustment was passed to reflect this.
- 4.4 It is important that the Local Council continuously monitors the list of unpresented cheques. Any cheques that are either deemed to have become stale or otherwise is known that they will never be presented for some reason of another, should be investigated and the necessary action taken.

5.0 PAYABLES

- 5.1 Funds amounting in total to Euro 54,594 received in the previous year to fund various projects, which were either in progress or not yet started during 2013, were being amortized during the year. It should be noted that the grant should be amortised only once the project is ready and therefore the amortisation thereof of Euro 5,216 had to be reversed. The deferred income will eventually start to be amortized as from the date when the projects will be completed.
- 5.2 During the year the Local Council carried out restoration works on an underground mill amounting to Euro 165,142. 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.
- 5.3 In another instance, we found funds amounting to Euro 7,085 which were written off to the statement of comprehensive income when they related to a project of a capital nature. Funds relating to projects of a capital nature should only be amortised in line with the depreciation charge and not allocated in full to the statement of comprehensive income when received.
- 5.4 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. On the other hand, funds relating to capital expenditure should be deferred and then amortised once the capital expenditure starts being depreciated.
- 5.5 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 totalled to Euro 21,271.



- 5.6 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.
- 5.7 When checking the invoices received after year-end, it was noted that some invoices that were dated in 2014 but related to 2013 expenses, were posted within the accounts payable instead of accounted for as accruals. This error was not corrected since there was no impact on the statement of comprehensive income and these invoices with the total amount of Euro 4,639 were still included with the liabilities.
- 5.8 It is important that in the future, the correct classification of liabilities is used according to the definitions given by the IFRSs.
- 5.9 We also noted that the accrual for the rent payable, for the expenses in relation to Christmas Decorations and for the electricity for the last period of the year, which amounted together to Euro 9,421, were not accounted for. An adjustment was passed to reflect these expenses and accruals.
- 5.10 In addition to the above, an adjustment of Euro 143 was passed to reflect an invoice dated in 2013 which was paid after year end and was not reflected with the accounts payable as at 31st December 2013.
- 5.11 As already mentioned in point 2.16 above, when a project is in progress as at the end of the year and therefore is an asset under construction, the costs incurred up to that date have to be accrued for at the end of the year. It is important that the architect in charge of the projects gives the Council a close estimate of the costs incurred on these projects till the end of the financial year.
- 5.12 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.
- 5.13 When reconciling the balance due to WasteServ Malta Ltd, we noticed that there was a variance of Euro 2,015 between the accounts and the supplier's statement. This variance represented the amounts not accounted for by the Local Council in previous years since the yearly amounts invoiced by WasteServ Malta Ltd exceeded 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 adjusted such variance to reflect the total amount due to WasteServ Malta Ltd, which amount was fully settled in the beginning of 2014, as a result of the Department of Local Government's specific allocation to cover such disputed amounts.