

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

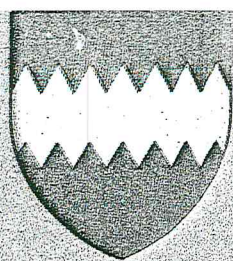
8.1 It was noted that the performance bonuses of both the Executive Secretary and the other employee were being accounted for together with their salaries. These bonuses amounting to Euro 3,402 were reclassified to the bonuses nominal account.

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.



9.0 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.



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Our Ref: DLG/06/2015.

8th June 2015.

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Comments on the Management Letter

With reference to the management letter for the period ended 31st December 2014 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 under construction so that depreciation will be charged from their date of completion.

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

The recommendations by the auditors regarding the fixed assets register have been noted and the necessary steps will be taken in order to update the fixed assets register to be in line with the nominal ledger.

The Council will consider revising the insurance 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 accrued income on projects will also be given further attention and provisions made for this purpose.

The auditor's recommendations regarding revenue receivable from Water Services Corporation were carried out and the adjustments 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. The recommendation made by the auditor regarding the issuing of cheques has been noted and such circumstance will be avoided in the future.

5.0 Payables

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

The invoices received after year end were not in hand at the time of preparing the unaudited financial statements. These were reflected in the audited financial statements as were all other audit adjustments recommended by the auditors.

6.0 Income

The recommendations made by the auditors have been noted; this was already mentioned in the management letter under receivables.

7.0 Expenditure and tenders

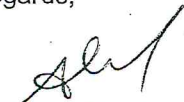
The budget was exceeded in the account headings mentioned by the auditors due to activities held during the year and other circumstances that arose during the year. Further attention will be taken so that the budget will be revised in line with the actual expenditure to avoid such instances.


The Council is aware that the contracts 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.

8.0 Payroll

The recommendations made by the auditor regarding the recording of the performance bonus in the accounts have been noted, and the necessary adjustments have been made and were reflected in the audited financial statements.

Regards,


Anthony Grech
Executive Secretary.


Carmen Said
Mayor.

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