

2.10 When in the previous years we investigated the variances that already existed at that time, it resulted that an invoice was inputted in the FAR as Euro 2,851 instead of Euro 26,839, an adjustment of Euro 14,792 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 included 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.

Audit adjustments passed in 2014 amounting to Euro 4,149 and all the additions made in 2015 amounting to Euro 328,683 were also omitted from the FAR.

No adjustments were necessary to be passed in the accounts with respect to these costs since the accounting entries were correct and the depreciation is not calculated on the FAR figures.

2.11 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.

2.12 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 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 (construction, urban improvements and special programmes) amount to Euro 1,180,417. The cost of these assets amount to Euro 1,932,614.

2.13 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 BANK AND CASH**

3.1 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 wages and salaries of the employees such as the December wages and salaries paid in December which were eventually approved in the meeting held on 21 January 2016.

3.2 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 meeting of that particular month given that they are to be paid by the last working day of each month. It is important that meetings are planned in such a way so as to avoid having such occurrences.

### **4.0 PAYABLES**

4.1 When testing the amortisation of the deferred income relating to capital projects, we noted that in several cases, the amortisation was started even when the related capital project was not completed. It was also noted that certain grants which were still receivable as at year end but related to projects which were completed during the year did not start being amortised. Several adjustments had to be passed to correct these errors, which adjustments netted to the amount of Euro 2,423.

4.2 Following the correction of the mistake mentioned in point 2.5 above, we had to pass an audit adjustment of Euro 8,142 to write off to the profit or loss, the deferred income relating to the portion of the expenditure on that project that was of a revenue nature.

- 4.3 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.
- 4.4 With respect to the deferred income, we also had to pass two reclassification adjustments. One of the reclassifications related to the current and non-current classification of deferred income since the Council opened a separate nominal account for the current portion of deferred income and our calculation of the current portion differed from what was shown in that nominal account. The second adjustment was passed to reclassify from deferred income to other payables the excess funds received that need to be eventually paid back since they were not fully expended by the Local Council and therefore cannot be treated as deferred income.
- 4.5 It is important that the deferred income is correctly classified between the current portion and the non-current portion in accordance with International Accounting Standard 1: Presentation of Financial Statements. Furthermore it is important that any excess funds received are classified separately from deferred income unless the Local Council obtains specific authorisation to keep those funds and use them for another project.

## **5.0 EXPENDITURE AND TENDERS**

- 5.1 The Council has exceeded the Budgeted expenditure under the following headings:
- 5.1.1 International memberships (category 2500) by Euro 510;
  - 5.1.2 Maintenance (category 2300) by Euro 13,670;
  - 5.1.3 Office expenses (category 2600) by Euro 238;
  - 5.1.4 Public information (category 2900) by Euro 325;
  - 5.1.5 Community Services (category 3300) by Euro 4,050.
- 5.2 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.
- 5.3 While testing a sample of expenses, we noticed that the Local Council was using the services of the Director for Tourism and Economic Development for the cleaning of the public conveniences under an expired contract. The contract which was entered into way back in 1994 was valid for 3 years. The total amount invoiced for this service during 2015 was Euro 7,192. The Executive Secretary told us that if a new call for tender is issued, the cost for the cleaning of the public conveniences would be almost five times more than which the Council is currently paying which does not make sense.
- 5.4 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 Department for Local Government rather than just extend the contracts without any approval.
- 5.5 The street lighting contract used by the Council was entered into by the Joint Committee. It originally expired on 3 April 2008 but was then extended for another year until 3 April 2009. However, no proof of further formal extensions was ever traced. During the year under review, the Local Council was still using the services of the same supplier with the same terms and conditions set out in the original contract.
- 5.6 Memo 34/2013 instructed Local Councils using expired contracts for street lighting to issue a call for new offers either individually or jointly with other Local Councils, given that discussions



were still underway to eventually transfer the maintenance of street lighting to the Regional Committees. These instructions were not followed as mentioned above.

## **6.0 PAYROLL**

- 6.1 It was noted that the performance bonuses of both the Executive Secretary and the other employee were being accounted for together with their salaries and not in the separate specific account.
- 6.2 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.

## **7.0 LIQUIDITY**

- 7.1 The Statement of Financial Position on page 5 of the Financial Statements indicates that the current liabilities exceed the current assets by Euro 21,556. This implies that the Council does not have enough current assets to support its current liabilities.
- 7.2 The current ratio is Euro 0.91 of current assets for every Euro 1.00 of current liabilities indicating that the Council may be in a situation of 'overtrading'. The acid test ratio is in fact only Euro 0.73 of cash and cash equivalents for every Euro 1.00 of current liabilities.
- 7.3 We recommend that the Council curtails its current expenditure and does not enter into further capital expenditure until the cash deficit situation is remedied.

### **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.