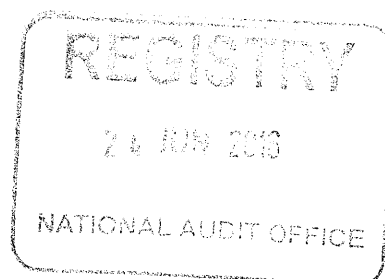
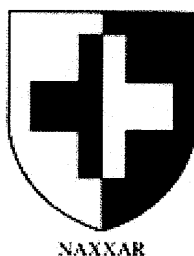


LOCAL COUNCIL NAXXAR

Report to Management  
for the financial year ended 31 December 2015



Date 10<sup>th</sup> May 2016

The Mayor  
LOCAL COUNCIL NAXXAR  
Civic Centre  
21<sup>st</sup> September Avenue  
NAXXAR

Dear Madam,

**REPORT TO MANAGEMENT**

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. This report will also be used by the National Audit Office to compile its own report on Local Councils.

For clarity purposes, this report is distributed to your Council, the National Audit Office and the Department of Local Councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2015, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank Mr. Paul Gatt and his Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Neville Cutajar  
Partner

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## 1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2014

### 1.1. Local Enforcement System

Since the Council does not have direct control on this matter and is dependent on third party reports, it could not address the problem in full and therefore we draw your attention to paragraph 2.1 of our management report.

### 1.2. Income from Bye-Laws

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.2 of our management report.

### 1.3. Revenue Recognition

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.4 of our management report.

### 1.4. System of Council Income Receipting and Invoicing

The Council has addressed this matter during the year under review.

### 1.5. Procurement procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.1 of our management report.

### 1.6. Inappropriate documentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.2 of our management report.

### 1.7. Personal Tax Deductions

The Council has addressed this matter during the year under review.

### 1.8. Cash and cash equivalents

The Council has addressed this matter during the year under review.

### 1.9. Reconciliation of Receivables

The Council has addressed this matter during the year under review.

### 1.10. Accounting for Prepayments

The Council has addressed this matter during the year under review.

### 1.11. Accrued Income

The Council has addressed this matter during the year under review.

### 1.12. The upkeep of the Fixed Asset Register (FAR)

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.1 of our management report.

1.13. Assets not yet Capitalised

The Council has addressed the matter during the year under review.

1.14. Computer Software

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.4 of our management report.

1.15. Depreciation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.3 of our management report.

1.16. Physical tagging and disposals of tangible assets

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.7 of our management report.

1.17. Capital Expenditure accounted for as revenue expenditure

The Council has addressed the matter during the year under review.

1.18. Insurance Policy

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.5 of our management report.

1.19. Payments to Suppliers

The Council has addressed the matter during the year under review.

1.20. Debit balances in the list of Creditors

The Council has addressed the matter during the year under review.

1.21. Accrued Expenses

The Council has not addressed the matter during the year and therefore we draw your attention to paragraph 9.2 of our management report.

1.22. Deferred Income

The Council has not addressed the matter during the year and therefore we draw your attention to paragraph 9.3 of our management report.

1.23. Deposits refundable on crane and machinery permits

The Council has not addressed the matter during the year and therefore we draw your attention to paragraph 9.4 of our management report.

1.24. Contingent Liabilities

The Council has not addressed the matter during the year and therefore we draw your attention to paragraph 9.5 of our management report.

1.25. Disclosures required in respect of Financial Procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.1 of our management report.

1.26. Disclosures required in respect of certain IFRSs

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.2 of our management report.

1.27. Financial Statements presentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.3 of our management report.

1.28. Comparison with the Annual Budget

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 11.1 of our management report.

1.29. Council Minutes and Schedule of Payments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.2 of our management report.

1.30. Opening Balances and Audited Adjustments in Accounting Software

The Council has addressed the matter during the year under review.

## 2. INCOME

### 2.1. Local Enforcement System (Pre-Regional)

#### Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31 December 2015. During the year under review, the Council has been correctly recording any cash receipts received by the Joint Committee, as well as making the distinction between LES pooling and pre-pooling receipts. Income received in relation to the former amounted to € 454.

One also has to note that the Joint Committee function ended in August 2011 in view that from September 2011 the Local Enforcement System was delegated to Regional Committees, which delegation has now been passed to LESA as from October 2015.

#### Issues Arising

In view of the absence of an audited annual report from the North Joint Committee for the period ending 31<sup>st</sup> December 2015, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the completeness of amounts being recorded in the financial statements as income and expenditure arising from the Local Enforcement System in relation to contraventions issued pre Regional Committees. In this respect, we have qualified our audit report.

#### Recommendations

The Council should put pressure on the North Joint Committee so that the latter would produce the required financial reports outstanding and the Council could then factor any accounting provisions as the case may be in its annual financial statements.

### 2.2. Income from Bye-Laws

#### Observations

An important portion of the income arising to the Council consists of income from bye-laws. The Council collects fees from rent of the council hall. Income from this source amounted to €576.

#### Issues Arising

The Council does not have a bye-law in place to regulate income derived from hire of council facilities.

#### Recommendations

The Council should set-up a bye-law entitled "Rental of Council Hall" in line with the requirement of having bye-laws set-up to cover any income arising from non-government sources. It should also ensure that all income arising from bye-laws should be properly disclosed in the proper note within the financial statements.

### 2.3. Classification of income

#### Observations

During our testing we noted 'Income from Permits' include income from skip permits which the Council has a bye-law for. These are being included under 'General Income' in the Financial



Statements. Furthermore, under 'General Income' we also found an expense for 'Media Advertising'. The Council has a bye law for advertising which covers such income.

#### Issues Arising

The short-comings listed above distort the classification of income earned by the Council during the year under review as reported in the financial statements. It is important that income is properly categorised for better understanding and comparability by the users and decision-makers of the Council.

#### Recommendations

The Council should ensure that income generated from bye laws is accounted for and disclosed properly in its financial statements under the proper heading. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified accordingly.

### 2.4. Revenue recognition

#### Observations

We noted a receipt of €2,000 in relation to European Mobility Week 2014 from Transport Malta as well as a credit note of €930 in relation to income recognised in previous years in relation of LC Sports Initiative Scheme of 2012 (Memo 90/11), the amount of which was not reimbursed.

#### Issues Arising

Although these amounts received are not material to warrant a prior year adjustment, the income/reversal should have been recognised in the previous financial years when the activities/projects were undertaken.

In terms of IAS 18: Revenue Recognition, income should be recognised when it is generated and accrues to the Council rather than when it is received. This is also in line with the fundamental concepts of accrual and matching concepts of accounting.

#### Recommendations

The Council should follow the provisions of IAS 18-Revenue Recognition and ensure that all income is properly recorded in the year in which it is generated as well as that all income is properly accounted in the nominal ledger and subsequently in the financial statements.

### 2.5. Supplementary Government income

#### Observations

The Department of Local Councils (DLG) once again in 2015 has committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd.

Logistically the DLG is making the payments directly to Wasteserv Malta Ltd on behalf of the Council. Recurrent vote 40 in the budget 2016 of the Ministry for Justice, Culture and Local Government confirms the commitment by the DLG to effect other payments in 2016. The Council has accounted for such income on a cash basis and thus the income is only recognised in the accounting period when the DLG issues the payments.

#### Issues Arising

During 2015 the DLG has effected payments of €34,481 to Wasteserv Malta Ltd covering the 2014 tipping fees difference.

However payments by the DLG to Wasteserv Malta Ltd covering the 2015 tipping fees difference has not been made by end of 2015 and this has been omitted from being reported as supplementary government income in the financial statements of 2015.

All such income should be accounted for appropriately in its financial statements, based on the requirements of the "accruals concept" of accounting in line with generally accepted accounting principles and International Financial Reporting Standards.

#### Recommendations

The "accruals basis" of accounting should always be applied by the Council and ensure that all accrued income is appropriately recognized in the financial statements.

### 3. PERSONAL EMOLUMENTS

#### 3.1. Payroll Reconciliation

##### Observations

We have identified a variance of €86.41 between the amount declared in the FS3 and those declared in the FS7. The variance relates to an underpayment of FSS and was accounted for as an accrual and paid by the Council in 2016.

##### Issues Arising

It is important for the Council to pay the correct amounts of FSS and on time. It should be highlighted that by virtue of Legal Notice 88 of 1998, the Inland Revenue Department may from time to time enforce penalties for late filing at 1% interest per month on FSS amounts due.

##### Recommendations

The Council should check that amounts as per nominal ledger and financial statements are properly reconciled with the documents submitted to the Inland Revenue Department on an annual basis.

#### 3.2. Performance bonus of the Council's employees

##### Observations

The Council has calculated the performance bonus of its two employees based on their 2015 gross salary. This resulted in a difference of €25.92 each between the performance bonus as worked by the Council and the regulations which require this to be based on the December basic salary.

##### Issues arising

The Council should base the performance bonuses amounts on December basic salary of each employee for the year for which the performance bonus shall be paid.

##### Recommendations

The Council should ensure to follow the requirements arising to ensure proper calculation of the performance bonus.

## 4. EXPENDITURE

### 4.1. Tendering procedures

#### Observations

Whilst examining tender documentation we have noticed instances where the Tender Form and the Non-Collusive Tendering Certificate were not dated.

With respect to the tender of Printing of Naxxar Local Council Publications, it was noticed that the Performance Bond was received by the Council more than 7 days from the Letter of Acceptance, which was dated 10/09/15. This resulted because the Council had sent the letter on 18/09/15.

#### Issues Arising

The Council is in breach of the Local Council (Tendering) Procedures of 2009 which regulate the way that the tendering process should be undertaken and require that the conditions arising from the tender document should be duly adhered too.

All tender forms need to be appropriately and completely filled up and bidders who submit inappropriate documentation should be immediately be disqualified and not considered in the adjudication process.

The Local Council (Tendering) Procedures of 2009 – K.L.P. 3/96 – P3.06 states that within 7 days of acceptance of a contract, the contractor is to be submit a guarantee equal to 10% of the awarded contract value.

#### Recommendations

The Council should comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensures that all tender offers considered have their documentation fully in line with the procurement and tendering regulations.

### 4.2. Inappropriate documentation

#### Observations

Throughout our audit testing on the expenditure undertaken by the Council, we have identified an instance whereby the expenditure was not supported by a proper fiscal receipt in terms of the VAT Act 1998. This related to the renting of a garage at Hard Rocks for the amount of €1,280. The Council is chasing the supplier to furnish the VAT receipt.

#### Issues Arising

It should be assured that all expenditure and payments by the Council should only be affected against an appropriate invoice or request for payment and where necessary, after an architect's or engineer's certification (as the case may be) is obtained.

A fiscal receipt should also be obtained at all times unless the supplier submits a written declaration that his/her annual turnover is not in excess of €7,000. This declaration has to be done in terms with Memo 77/2011.

#### Recommendations

Although it is acknowledged that the Council has always asked for a proper invoice and a VAT fiscal receipt against payment to its suppliers, it should take a proactive approach in this respect and avoid custom from suppliers not providing the referred appropriate documentation.

#### 4.3. Procurement for Maintenance of Street Lighting

##### Observations

During the year under review an amount of €5,491.96 was procured as service of installation and maintenance of street lighting under the terms of a contract which is expired. No new tender was adjudicated as Council is expecting that such service will be formally taken over by the Regional Committee.

##### Issues Arising

The Council is quoting 19(1) (a) Subsidiary Legislation 363,160, as one of the functions of the Regional Committee should be to provide for the proper upkeep and maintenance of street lighting in accordance with national and international standards. However Memo 34/2013 required the issue of street lighting services tender for a full year with the possibility that such contract can be extended for a maximum of three years.

The current situation of the Council's street lighting contract is in breach of the procurement procedures. These clearly state that adjudicated contracts shall remain valid for the contract period stipulated by the tender/quote offer and once expired a new tender/quote offer is to be issued

##### Recommendations

The Council should follow the recommendations of Memo 34/2013 and initiate the process for issuing a tender to cover street lighting expenditure. The Council should also comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensures that all tender offers considered have their documentation fully in line with the procurement and tendering requirements

#### 4.4 Quotations

##### Observations

We noted instances where the Council has procured or paid for expenditure amounting to more than €1,165 or purchased items of the same nature from the same supplier within a consecutive four-month period and no call for quotations or public tender offers were issued, as follows:

Supplier	Expense	Aggregate amount in €
BDL	Books	1,200.00
Leo Paramount	Transport	1,465.18
Peace Band Club	Cultural/ Social activities	4,300.00
TCTC	Leaflet distribution/Computer courses	2,401.23
Victoria Bank Club	Cultural/ Social activities	1,600.00

##### Issues Arising

The Council is not in line with the Financial Regulations Part VIII (Expenditure) which require that orders, contracts, agreements or items not exceeding €1,165 shall be authorised by the Council according to order 32(1) of the Standing Orders contained in the Sixth Schedule to the Act, provided that items of the same nature are not purchased within a consecutive four-month period.

Anything beyond that threshold has to be covered by a call for quotations or a call for tenders depending on the amount of expenditure to be undertaken.

### Recommendations

The Council should issue calls for quotation or a tender for the provision of any service or supply of goods exceeding €1,165. Alternatively it should place its orders with different suppliers and therefore abide with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996

## 5. PROPERTY, PLANT AND EQUIPMENT

### 5.1. The upkeep of the Fixed Asset Register (FAR)

#### Observations

The Council is maintaining a Fixed Asset Register, however its composition is not in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b. A number of deficiencies have been noted as follows:

- The description of the asset in the FAR card does not always contain the desired detail. For example, we noticed items such as “CONS019 – Tikhil u zebgha”; “CONS027 – Kurduna”; and “PAV010 – Concrete”. These generic descriptions defeat the ultimate scope of maintaining a FAR. We also noted items such as “PAV031- Triq is-Sejjieh and Triq San Gorg Paving works “which are included as one item in the FAR, when these should be identified separately.
- There is no common reference in the description of the asset in the FAR and the related transaction in the nominal ledger.

#### Issues Arising

The upkeep of a proper Fixed Asset Register is of utmost importance to the Council. The Fixed Asset Register is deemed as one of the principal accounting ledgers of a Council, which enables the Council to maintain its control of capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme natural elements.

The incorporation of a proper fixed asset register within the Council's books is conducive to better safeguarding the assets and makes it easier to regularly reconcile the physical existence of the assets with the amounts in the nominal ledger.

#### Recommendations

The incorporation of a proper fixed asset register within the Council's ledger is conducive to better safeguarding of the assets and makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers.

The Council should therefore take the following factors into consideration:

- ✓ There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes reconciliations between the two ledgers easier in case of variances and discrepancies.
- ✓ The assets should be correctly categorised under specific asset category relating to their nature and the application of the depreciation rate should be in conformity with the accounting policies as noted in paragraph 5.3 below.

- ✓ The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. This would be useful for insurance claims and asset disposal adjustments.

## 5.2. Reconciliation of Asset Categories in Fixed Asset Register to Nominal Ledger

### Observations

We reconciled the fixed asset category amounts as per nominal ledger with the fixed asset category amounts in the FAR and it was noted that the cost and the depreciation in the Financial Statements of certain asset categories do not agree with the corresponding amounts in the FAR. With regards to street signs these have been fully provided for in the nominal ledger and financial statements, however as per Fixed Asset Register, this was not the case in the FAR. The following are the differences found:

Asset Category	As per FS		As per FAR		Variances	
	Cost	Acc Depn	Cost	Acc Depn	Cost	Acc Depn
Property	23,296	1,901	23,296	1,884	-	17
Urban improvements & Construction	517,998	348,182	517,998	346,668	-	1,514
Furniture & Fittings	46,220	26,410	46,220	26,280	-	130
Street Lightning	11,138	11,138	11,138	3,029	-	8,109
Plant, machinery & equipment	283,788	44,956	288,109	92,922	4,321	47,966
Special Programmes	3,023,639	1,230,970	3,011,334	2,119,787	12,305	888,817

The variance of Euro 888,817 in the depreciation of Special Programmes should be offset with grants amounting to Euro 896,827. Furthermore, Street Lighting is stated as New Street Signs in Note 11 of the financial statements.

### Issues Arising

The Fixed Asset Register is a subsidiary ledger to the nominal ledger, and therefore it should be in agreement therewith at all times. Non-agreement can lead to a number of issues, such as variances arising, lack of proper depreciation on all assets as applicable and so forth.

### Recommendations

The Council should reconcile and adjust the amounts as per FAR and nominal ledger and reallocate the balances from one asset category to another as required.

## 5.3. Depreciation

### Observations

Depreciation charge for year amounts to €128,807. The Council has a Fixed Asset Register, and depreciation is properly calculated and posted through the Fixed Asset Register in Sage Line 50® on a monthly basis as required by the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002).

However we noted that the Council has categorised some assets in different incorrect asset categories, with the consequence that these are being depreciated with an incorrect depreciation rate. For example, trees and playing field equipment are being depreciated at 10% under special programmes, computer equipment is being depreciated under office equipment, street signs are depreciated under urban improvements when these should be written off and so forth.

We have also noted that computer software has been separately categorised in the FAR but it is not being separately disclosed in the financial statements in line with the requirements of IAS 38-Intangible

#### Issues Arising

The observations above indicate that asset depreciation calculations are not in line with the policy disclosed in note 2 to the financial statements – Accounting Policies and Reporting Procedures - property, plant and equipment. We have qualified our audit report in this respect.

The incorrect classification of computer software and the EU funded mobile application with property, plant and equipment is also not in line with the requirements of IAS 38-Intangible Assets.

#### Recommendations

The Council should rectify its position accordingly and carry out the necessary amendments and/or reclassifications so that the net book value of property, plant and equipment shows a true and fair value in line with the respective policies as well as ensure that depreciation rate is properly allocated and then depreciation commences from when an asset is placed in use.

### 5.4. Accounting for intangible assets

#### Observations

The Council has invested, through the application of EU funding, in a Mobile Application amounting to €227,000 which has been accounted for in the financial statements and in the Fixed Assets Register (FAR) under the “computer equipment” category.

Furthermore, the depreciation charge was recognised for a whole year when in actual fact the mobile application was capitalised during November 2015.

#### Issues Arising

Such applications falls under the definition of “Intangible assets” and are regulated by IAS 38 – Intangible Assets. This class of assets needs to be disclosed separately in the financial statements.

#### Recommendations

The Council should adopt the requirements of IAS 38 in this regard and adjust this amount both in the nominal ledger and in the financial statements. The Council should also ensure that the depreciation rate is properly allocated and that depreciation commences from when an asset is placed in use. Following our recommendations the statement of financial position was properly revised to disclose this intangible asset however the related note 11 was not duly revised accordingly.

### 5.5. Insurance policy

#### Observations

We noticed that the Council is not properly insured in different categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council's furniture and fittings for the amount of € 103,000; office and computer equipment for the amount of € 40,000 and Council's property for the amount of € 80,000.

The Council's total cost of fixed assets, excluding amounts not yet capitalized, as disclosed in its financial statements, amount to €3,953,885 of which €46,220 relates to furniture and fittings,

€283,788 relates to plant and machinery, office and computer equipment, €517,998 relates to urban improvements and construction, €302,639 relates to special programmes, €47,806 relates to trees, € 11,138 relates to street lights and € 23,296 relates to property improvements.

#### Issues Arising

The Council's insurance policy in respect of assets insured needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment.

#### Recommendations

The Council should review its insurance cover so as to avoid unnecessary over and under insurance cover for each respective asset categories. The insurance policy should detail better those areas to be covered under each asset category. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.

### 5.6. Capital Commitments

#### Observations

During our review of the financial statements, it was noted that there is no disclosure of capital commitments in the Financial Statements. Upon inquiry with the Local Council we were provided with a list of capital commitments amounting to €203,000.

#### Issues Arising

Capital commitments need to be disclosed in their entirety in line with the requirements of IAS 16-Property, Plant and Equipment. Furthermore, it is important that a proper reconciliation is provided, which should tally with both the capital commitments as per financial statements and those as per the forthcoming Annual Budget. In this way financial reports issued by the Council would be comparable.

#### Recommendations

The Council should ensure that capital commitments are properly assessed and disclosed and a proper reconciliation provided to ensure that capital commitments as disclosed in the Council's budget are in line with those being disclosed in the financial statements.

### 5.7. Physical tagging of tangible assets

#### Observations

When we physically reconciled fixed assets items with the Fixed Asset Register (FAR), we noticed that these assets are not tagged with the respective fixed asset code. Consequently certain assets were not readily identifiable on a physical basis.

#### Issues Arising

The marking and labelling of Fixed Assets is stipulated by the Local Council Procedures (1996) – Finance) KLP 1/96, P1.16b. Besides that the importance of maintaining a proper FAR is attributable to matter of insurance as well as impairment assessment which would be needed from time to time or at a date when an asset of the Council becomes no longer usable.

#### Recommendations



The Council should carry out an exercise of labelling all the fixed assets shown in the Fixed Asset Register (FAR) as far as possible so that apart from being in compliance with the financial procedures, whenever an asset is disposed, it would be easier to trace to the FAR.

## 6. INVENTORIES

### 6.1. Stock of books

#### Observations

The Council has published two books for resale: "Naxxar Walks" and "Naxxar Viva I-Vitorja". During our stock count we found some variances from the stock sheet provided. With regards "Naxxar Walks" we counted 169 books more than accounted for. With regards "Naxxar Viva I-Vitorja" we found 91 books less in the actual count.

Furthermore, it was noted that "Naxxar Viva I-Vitorja" is not being included with inventory in the financial statements. We were informed that the Council rarely have sales of this book and is mainly used for gifts.

#### Issues Arising

The variances noted during our stock count indicate that the Council's stock sheets are not properly reconciled with the actual stock in hand. Furthermore, no value of the closing stock of the books "Naxxar Viva I-Vitorja" was recognised in the financial statements.

#### Recommendations

The Council should ensure that a perpetual inventory control system is properly maintained to individually record the amount of books being sold by entering the corresponding official Council receipt number. Any books given on a complimentary basis should be approved during a Council meeting. These should also be recorded in the perpetual inventory control system and reference should be made to the Council meeting number approving the distribution thereof.

At the end of every financial year end, a stock count of the books is undertaken, a cost value is assigned to each book, and the balancing stock figure is recorded in the financial statements.

## 7. RECEIVABLES

### 7.1. LES Debtors

#### Observations

The Council forms part of North Joint Committee for which it has signed a pooling agreement with the other members of this Committee as from 1st September 2002. One also has to note that the Joint Committee function ended in August 2011 since from September 2011 the Local Enforcement System was delegated to Regional Committees. The LES Debtors as per nominal ledger amounted to €27,506.72 with an equivalent amount as provision of bad debts. We could not confirm whether there were any movements in this amount in view that we were not provided with LES report 622 titled "Tribunal Pending Payments" with a date range for contraventions issued from 1<sup>st</sup> January 2000 till 31<sup>st</sup> August 2011 and tribunal period 1<sup>st</sup> January 2000 till 31<sup>st</sup> December 2015.

#### Issues Arising

On an annual basis the Council should extract this report to ensure whether any movements have occurred and reflect them accordingly in the financial statements.

### Recommendations

The Council should ensure that this report is duly issued at year end and any movements properly reflected accordingly.

## 7.2. Trade Receivables

### Observations

From analysis of the Council's more general receivables, it transpires that 94% of outstanding balances are old with the majority being more than one year old. In fact the Council has already provided for the amount of Euro 19,551 in this regard.

Furthermore, from the debtors' confirmation undertaken, a number of discrepancies have been noted between the balances as per accounts and the confirmations provided, although these are trivial.

### Issues Arising

On an annual basis the Council should review its debtors and write off any amounts which are not recoverable. Any balances which are impaired are to be provided for.

Furthermore, the Council is to ensure a proper reconciliation of its debtors' balances to ensure that these agree with the statements provided.

### Recommendations

The Council should ensure regular reconciliations are prepared in relation to its receivables and any amounts which are not recoverable are duly written off. The Council should also obtain legal advice on any balances which it deems could be recoverable through proper legal action.

## 8. CASH AND CASH EQUIVALENTS

### 8.1. Stale Cheques

#### Observations

The Council had a number of cheque payments recorded in its BOV bank account number 15303494010 which had exceeded six months from the date of issue but which had not been presented.

#### Issues arising

The period by which these cheque payments should have been presented at the bank exceeded six months and therefore legally they have become stale.

#### Recommendations

The Council should verify such cheque payments and transactions on a regular basis by undertaking proper bank reconciliations and adjust its records accordingly as required.

## 9. PAYABLES

### 9.1. Creditors Reconciliation

#### Observations

The value of balances due to suppliers as per note 15 to the financial statements amounts to €108,113. Overall the Council reconciles its creditors' balances on a frequent basis thus ensuring that balances as per suppliers' ledger agree with those as per suppliers' statements. However we noted some shortcomings in relation to Wasteserv account reconciliation which balance is understated by € 4,112.06. The differences have arisen due to the following:

- Two cheques of €2,513.71 each have been posted in Council accounts but these were not reflected by end of year in Wasteserv statement.
- On 23<sup>rd</sup> of June there was a receipt of €1,152.76 which still needs to be reflected in the Council accounts.
- On 31<sup>st</sup> December an entry of €236.78 has been posted in Council accounts which needs to be reversed.

#### Issues Arising

These variances may distort the amount due by the Council at any point in time to its creditors. It could be a sign that certain creditors' balances are not being reviewed and reconciled on a periodic basis with any variances or errors adjusted for accordingly.

#### Recommendations

The Council should ensure that all supplier invoices are duly accounted for when received and payments are allocated against them when issued. On a regular basis the Council should request the necessary supplier statements and confirmations from its creditors to ensure that its balances are correct and adequately reconciled.

### 9.2. Accrued Expenditure

#### Observations

Following cut-off tests on creditors and accruals recognised in the financial statements, it transpired that invoices amounting to €1442.80 were incorrectly accounted for as accruals when in actual fact these should have been creditors.

Furthermore, we noticed that the accounting of accruals/creditors has not been complete and we found instances where no accrual/recognition of creditor has been undertaken, as follows:

- There is no accrual for tuition services provided by Anamaria Magri Pantea amounting to Euro 531.
- There is no accrual for library services provided by Grace Camilleri amounting to Euro 170.82.
- Invoice from CP Partners in relation to contract management services amounting to Euro 381 was not accounted for.
- Invoices in relation to Christmas Activity from Edmund Jackson, Liliانا Fenech and JB Stores amounting to Euro 397.75 was not accounted for
- An accrual for Euro 810 in relation to the Christmas Staff Party was recognised even though this event was held in January 2016.

#### Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. Furthermore, creditors should be accounted in the correct financial period.

### Recommendations

We recommend that all amounts invoiced in the current financial year be expensed and credited in the current financial period, even though it is paid in the subsequent financial period. We also recommend that accruals are accounted for all amounts which will be invoiced in the subsequent financial period but for which products/services have been expended in the current financial period.

## 9.3. Deferred Income

### Observations

The Council has recorded the amount of € 499,690 as deferred income as at 31<sup>st</sup> December 2015, with an amount of € 30,046 being released to the income statement.

When we reviewed these balances, we noted that the release to the income statement is incorrect, in view that release of deferred income to the income statement did not include an amount due in relation to Triq Castro, amounting to €34,984 which is still accrued for.

Furthermore the release to the Statement of Comprehensive Income was also affected by the below issues:

- Triq H Luke-Amount of credit note has been deducted from original cost immediately from capitalization of asset, rather than issue of credit note and equivalent release of deferred income adjusted accordingly.
- Public Access Terminal- Amount of release should have been revised to be based on actual cost of asset being € 4215.67 against which grant had been provided.
- Online Streaming Scheme- Amount of release should have been revised to be based on date when equipment was bought and installed that is In November 2014 against which grant had been provided rather than started as from November 2014.
- Restoration Scheme- Amount of release should have been based on whether the corresponding expenditure had been capitalized in 2014. It is not evident that such expenditure has been capitalized and therefore in such circumstances the grant should have been expensed in the year the expenditure has been incurred.
- Mobile application project- Amount of release is equivalent to one month depreciation however the Council has depreciated this asset for a whole year even if the asset was actually capitalised during November 2015.

### Issues Arising

In line with the income approach of IAS 20- Accounting for Government Grants and Disclosure of Government Assistance, grants should be recorded as deferred income and whenever the asset is placed in use, it should be amortised directly to the Comprehensive Income Statement at the same rate and from the same date from when the asset is being depreciated which should agree to the date of its capitalisation. Furthermore, based on the above issues, the deferred income has not been correctly split in the current deferred income portion and the long term deferred income portion. We have qualified our audit report in this regard.

### Recommendations

The Council should account for such grants in line with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, applying correctly the income approach. The Council should also ensure that the above issues are adjusted to ensure that the release to the Comprehensive Income Statement is accurate.

#### 9.4. Deposits refundable on crane and machinery permits

##### Observations

The Council withholds a deposit upon application for crane and machinery permits by any individual or body corporate. The deposit is refunded back in terms of the law if the site has been left in good condition. We noted a variance of € 3,160 between the amount as per financial statements and the list provided by the Council in this respect.

##### Issues Arising

The Council's administration keeps a detailed list of the applicants' deposits and movements in deposits refunded, however for some reason certain deposits date back to the year 2002. According to the Executive Secretary, these refunds are in process of being collected by the contractors.

##### Recommendations

The Council should ensure an ongoing reconciliation process is maintained by the Council's administration to ensure that these deposits are either forfeited in favour of the Council as penalties or refunded to the contractors as soon as the work is finished and the site has been inspected. The Council should, in no case, hold third party monies without a justifiable cause.

#### 9.5 Contingent Liabilities Disclosure

##### Observations

The Council failed to disclose the following contingent liabilities:

- Case with Untours Limited whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for €6,500.
- Case with Gasan Mamo whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for less than €1000.

On the other hand, the Council has disclosed a provision of Euro 2608 in note 17 to the financial statements being the share of costs awarded against the Council in respect to a claim for a road accident in Triq is-Salini. However rather than accounting for this as a Provision for Liabilities in the Statement of Financial Position, the amount was deducted from the Trade Receivables balance.

##### Issues arising

The Council should assess on an annual basis whether as at year end there is any possible obligation depending on whether some uncertain future event can occur. A contingent liability needs to be disclosed only if this meets the definition of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and no contingent liability should be disclosed if such an obligation has already been recognised as a liability.

With respect to provision these are to be separately disclosed under the Liabilities section of the financial statements in line with the disclosure requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

##### Recommendations

The Council should therefore ensure that as at every financial year end, a review of such possible obligations is undertaken and accordingly disclose/account for them appropriately in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

## 10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

### 10.1. Disclosures required in respect of Financial Procedures

#### Observations

The financial statements prepared and approved by the Council do not contain the corresponding budget figures for the year under review.

#### Issues Arising

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the period. However, in line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements. In this respect, we have qualified our audit report.

### 10.2. Disclosures required in respect of certain IFRS.

#### Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements are not compliant in all respects with the requirements of these standards and in fact disclosures emanating from certain accounting standards are missing or not in line with the relevant accounting standard.

Amongst other things, omissions/issues were noticed in relation to a number of disclosures, as follows:

- Lack of full disclosure of the applicable revised or new standards being adopted/not yet adopted in line with the requirements of IAS 1-Presentation of Financial Statements.
- Lack of proper accounting and disclosure arising from the requirements of IAS 38-Intangible Assets in relation to the non-disclosure of an accounting policy for intangible assets as well as the non-separate disclosure of intangible assets additions, amortisation and net book value.
- Disclosure of related parties and related party transactions in note 20 is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with.
- Disclosure of a going concern note in Note 23 of the financial statements which is not applicable in view that its Statement of Financial Position show a positive Current Asset position and the Council made a surplus of Euro 90,444 during the year under review

Other presentation and disclosure deficiencies have been duly noted in other areas of this management report.

#### Issues Arising

All disclosures need to be undertaken in line with the requirements of International Financial Reporting Standards. These disclosures are not simply quantitative but also descriptive and we noted that the latter have sometimes been omitted as noted above. In this respect, we have qualified our audit report.

### Recommendations

The financial statements should be prepared in accordance with International Financial Reporting Standards and that all necessary disclosures are undertaken as required. Going concern note should also be removed accordingly.

### 10.3. Financial Statements presentation

#### Observations

During our review of the financial statements we noted a number of areas in the presentation of the financial statements which were incorrect or were not properly presented.

#### Issues arising

- In the Statement of Cash Flows zero balances for both current year and comparative year should be removed.
- The date of approval in Note 1 on page 8 to the Financial Statements of the audited Financial Statements has not been included.
- Note 2 to the financial statements does not include a policy on intangible assets.
- Note 2 to the financial statements does not include disclosure of all the new and amended standards that are applicable to Local Council's operations.
- In Note 5 on page 14, 'Administrative charges to Regional Committees' should be renamed 'Contraventions'. Further to our recommendations, this has been adjusted accordingly.
- In Note 6 on page 14, Media Advertising and Income from Permits should be reallocated under note 4 'Income raised from Bye-Laws'. Further to our recommendations, this has been adjusted accordingly.
- In Note 6 on page 14, 'Admin Fee Re Regional Committees' should be reallocated to note 5. Further to our recommendations, this has been adjusted accordingly.
- In Note 7 on page 16, the personal emoluments of mayor's honoraria, the executive secretary, employees' salaries and the social security contributions do not agree with the FS3s.
- In Note 13 on page 20, in the note to the general receivables, the provision for bad debts of Euro 19,551, under the current year figures, has been omitted.
- In Note 16 on page 22, the release for the year should have amounted to Euro 30,046 as per Note 3 amount-Supplementary Government Income.
- Note 18 of the Notes to the Financial Statements – Related party transactions, should reflect the requirement of articles 25 and 26 of the said standard.
- Note 21-Going Concern is not applicable since the Council does not have any going concern issues arising.

#### Recommendations

The Council should ensure compliance with *International Financial Reporting Standards, respective Memos and Local Councils Procedures* in the preparation of the Financial Statements.

## 11. GENERAL

### 11.1. Comparison with the Annual Budget

#### Observations

During our review of the annual budget 2015, it was noted that some expenditure incurred in 2015 varied significantly higher when compared to the budgeted amount. The variances identified are presented in the following table:

	Budget	Actual	Variance	Percentage Variance
	€	€	€	
<b><u>Operations and Maintenance</u></b>				
Contractual Services	324,309.72	405,970	81,660	25%
<b><u>Administration &amp; Other expenditure</u></b>				
Travel	3,000	22,715	19,175	639%

#### Issues Arising

The Council should compile the annual budget with due care and diligence to use it as the basis on which its expenditure will be expended during the year as well as a tool of cost control. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure in other expense categories or increase in income received for that year.

#### Recommendations

In compiling a budget, each item of income or expenditure should be scrutinised to determine whether there is some form of agreement which gives certainty of the projection being presented. In the absence of a contract or an agreement, the item should be extrapolated over historic data to approximate the desired projections for the entire consolidation of the official final draft of the budget.

### 11.2. Council Meetings, Minutes and Schedule of Payments

#### Observations

The Council's Minutes and Schedule of Payments uploaded on the website [www.lc.gov.mt](http://www.lc.gov.mt) on were not signed by the Mayor/Chairman and the Executive Secretary. Additionally all the Council meetings were held after 7.30pm.

#### Issues Arising

Memo 89/2010 requires the Executive Secretary to publish the minutes and the schedule of payments within 2 days of Council's approval. The publishing of the schedule of payments was further regulated through Memo 102/2010. Paragraphs 14(A)(6) and 14(A)(7) to the Sixth Schedule of the Local Councils Act (Cap. 363) require that the minutes become public once they have been approved and signed by the Chairman and the Executive Secretary.

Furthermore, the Local Councils Act (Cap. 363) requires that unless otherwise determined by the unanimous decision of the Councillors, meetings of the Local Councils shall not start before 5.30pm and later than 7.30pm and shall not last more than 3 hours.

#### Recommendations

The Council should ensure adherence with the requirements of the specified Memos.