

The Mayor,  
Pieta Local Council,  
11, 'il-Pelikan'  
Triq K. Mifsud,  
Pieta

28 April 2016

### **Financial Statement for the year ended 31 December 2015**

During the course of our audit for the year ended 31 December 2015, we have reviewed the accounting system and procedures operated by the council. We have also reviewed the operations of the council and how they conform to the Local Council Act 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

#### **1 Previous management letter**

##### **1.1 Income**

We noted that tax is not being withheld anymore on BOV account 40017418483. On the other hand, whilst BOV account 40019357076 and HSBC account 085-043156-050 are still marked as taxable, these do not earn interest since one is pending closure and the second is a current account.

The council is still not issuing the regional committee invoices within the prescribed period (refer to note 2.1).

Once again, we noted that the Council received funds which were recognised as income although these were included in the opening debtor balance (refer to note 2.3).

We did not come across any material accrued income balance on administration fees. On the other hand, the council insists that the deposit service is retained at once a week to reduce costs and hence it still is not depositing twice weekly (refer to note 2.5).

Once again, we noted various weaknesses in accounting for other income (refer to notes 2.7 to 2.9)



## **1.2 Payroll**

Once again, we noted differences in the payroll reconciliation (refer to note 3.1).

The council is still effecting payments of SSC and Payee in bulk rather than monthly (refer to note 3.4)

## **1.3 Expenditure**

Once again we noted that the council is still supporting petty cash expenses by cash register chits (refer to note 4.1). We also noted that the council is still not supporting all transactions by proper fiscal invoice/fiscal receipts (refer to notes 5.1 – 5.3).

Whereas we did not identify any issues with the tender procedures, the council is still not adequately insuring its assets (refer to note 4.2) and again identified a discrepancy in allocation of expenses refer to note 4.5 – 4.7).

## **1.4 Tax invoices**

We again noted that the council is accepting computer generated invoices (refer to notes 5.1 – 5.3) and that proper marking of invoices and issue of purchase orders was lacking (refer to note 5.4).

We also noted that the Council is excluding some payments from the schedule of payments and approval of payments is effectively taking place after the cheques have been issued to suppliers (refer to note 5.6)

## **1.5 Fixed asset Register**

The council is monitoring its fixed assets through the function within the accounting package. However, this still lacks details in relation to location, and supplier (refer to note 6.1).

We again noted errors in capitalisation of assets (refer to note 6.10) and differences in depreciation workings (refer to note 6.4).

## **1.6 Receivables**

We again noted errors in the receivables figure at year end (refer to note 7.1).

## **1.7 Payables**

The Council is still not obtaining monthly statements from its suppliers (refer to note 8.1). On the other hand, we did not identify any differences between the creditors list and the creditors control account.

The creditors list again highlights overdue creditor balances (refer to note 8.3) and differences were noted between the creditors list and supplier statements (refer to note 8.8).

The EUR18,870 bill for a fountain at the ex-torpedo depot was effectively transferred and settled by another entity.

We were pleased to note that pending payroll tax and social security costs were not included with accruals. On the other hand, the Joint Venture balances were not resolved by 31 December 2015 (refer to note 8.10).

## **1.8 Bank**

Once again, we noted that the bank reconciliations were not being done every month (refer to note 9.1). On the other hand, we did not come across any stale cheques.

The bank account signatories have been updated with the exception of one account (refer to note 9.5). The bank loan, on the other hand, was fairly allocated between the current and non-current element in the financial statements.

## **1.9 Presentation of financial statements**

Once again we noted a number of departures from IFRS requirements (refer to note 10).

### **1.10 Meetings**

We again noted instances in which meetings took place after more than 5 weeks (refer to note 11) but did not identify any signatory issues.

### **1.11 Liquidity position and Financial Situation Indicator**

The council's liquidity and FSI position are still not on line with the financial regulations (refer to notes 12 and 13).

### **1.12 Budget and business plan**

We noted that the 2016 was approved on 15 February 2016, however, the business plan was not prepared (refer to note 14).

### **1.13 Funds held on behalf of third party**

Funds held on behalf of third parties were used to settle liabilities relating to the source of financing. The council does not have any more funds in this account.

## **Current year issues**

## **2 Income**

### **LES revenue**

- 2.1 When testing administration fee income from regional committees, we noted that invoices were not always issued within the prescribed time. At 31 December 2015, the Council had accrued income amounting to EUR1,036 relating to administration fees for October – December 2015. The invoice for these was issued on 6 January 2016. We also noted that invoices for the period September to August 2015 were issued on 24 November 2015. These amounted to EUR1,413.
- 2.2 We recommend that the council complies with memo 91/2011 and issues monthly invoices within one working week from the end of the month in which the collections were made.
- 2.3 A reconciliation of the funds recoverable from Regjun Xiokk indicated that the amount recoverable should be EUR285 whereas the debtors account was indicating an amount payable of EUR57. The difference of EUR342 was identified as omitted invoices amounting to EUR564 less funds received of EUR222 that was recognised as income although EUR107 of the amount was already booked as income (and recognised in amount receivable). The balance of EUR115 formed part of the omitted invoices. As a result, both the receivables balance at year end and the income for the year were understated. We proposed an adjustment to allocate income against debtors. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.4 We recommend that the Council retains a proper debtors' control account and ensures that all invoices are issued from Sage and recorded on the system and that all receipts are allocated fairly. We also recommend that the debtors' balances are reconciled periodically to identify any anomalies in the figures reported.

### **Deposits**

- 2.5 In previous management letters, we highlighted the fact that deposits are not being carried out on a timely basis. In the Council's reply to the management letter, the Council continued to insist that its deposits are done weekly to limit the costs related to such functions.
- 2.6 Whilst understanding the cost limitation and that funds collected are not usually material, we recommend that the Council adheres to procedures and deposits cash collected from general income and custodial receipts twice weekly.

### **Other income**

- 2.7 In January 2016, DLG effected a payment of EUR16,887 to WasteServ for tipping fees incurred in 2014/2015. The Council did not accrue for this income and we proposed an adjustment to include it as income for the year and accrued income in the Statement of Financial Position. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.8 We also noted that EUR600 in funds received from Greenpak in 2015 were recognised as income even though these related to previous periods and were included in amounts receivable.
- 2.9 We strongly recommend that WasteServ statements are periodically reviewed to ensure that any funds allocated by DLG are accounted for in a timely manner. We also reiterate our recommendation that a periodical reconciliation of debtors is necessary to ensure that any miss-allocation of receipts is identified and corrected in a timely manner.

### **Grants recognised in income**

- 2.10 The Council was allocated EUR25,661 in UIF funds which were used for the embellishment of Alley 3. The funds were correctly included in accrued income but erroneously recognised as income for the year even though the related expenditure was capitalised. We proposed an adjustment to defer the income to future periods whilst allocating only EUR2,060 for 2015. The amount deferred was split between current and non-current at EUR2,255 and EUR21,346 respectively. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.11 We also noted that the agreement with MEPA for the project noted in 2.10 above required that the Council informs MEPA once the project is 50% complete so as to enable them to review the works. The Executive Secretary indicated that MEPA were not informed and the project is now completed. The

Council should abide with the terms of the agreement since there is a risk that the funds are withheld by MEPA.

- 2.12 We also noted that the Council carried out maintenance on pavements costing EUR11,327. Surplus funds received from the Central Regional Committee were used to finance the project. However, this was not reflected in the books of the Council. We proposed an adjustment to allocate EUR11,327 from deferred income to income for 2015. The council approved our adjustment and reflected it in the audited financial statements.
- 2.13 At 31 December 2015, the Council had EUR30,818 in unallocated funds received from the Central Regional Committee. The Executive Secretary estimates that around EUR10,000 of these will be used in 2016 and hence, we proposed an adjustment to defer the amount of EUR20,818 to non-current deferred income. The Council approved our adjustment and reflected it in the audited financial statements.

### 3 Payroll

#### Wages reconciliation

- 3.1 Our testing on payroll identified a difference of EUR1,255 between wages as per accounting records and amounts declared on the FS7. We noted that the difference is mainly arising from the payment of EUR1,053 to an employee of the Council that is subcontracted with it from DLG. The Council paid him for overtime worked during locality activities. Such payment was not captured within the FSS system. A summary of the reconciliation follows:

	2015 EUR
Gross salary as per ledger	91,177
Opening bonus accrual	- 4,289
Closing bonus accrual	4,533
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Amount paid in 2015	91,421
Gross wages per FS7	90,166
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Difference	1,255
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- 3.2 Our reconciliations also identified other differences between the amounts reported in the FS3s, FS7 and FS5s as follows:

	2015 EUR Gross	2015 EUR Tax	2015 EUR SSC
As per FS5's	89,895	9,305	13,152
As per FS3's	90,166	9,065	13,152
As per FS7	90,166	9,305	13,152

- 3.3 We recommend that on preparation of FSS reports, a reconciliation is carried out between FSS documents and ledger to ensure that all elements are captured and the figures reported reconcile with each other. We also recommend that the Council contacts the department responsible for issuing payment to its subcontracted employee and ensure that all payments made are passed through the FSS system.

#### **PAYEE and SSC payments**

- 3.4 We also noted that FS5's and related payments of SSC and Payee are not being done monthly but in bulk on a quarterly basis. The receipts for January to March are dated 22 July, those for April to June are dated 23 October whilst those for July to August are dated 11 January 2016. The Council has accrued for the amount due for the last quarter. This is in breach of the Local Council (Financial) Regulations and local income tax legislations. The council is subject to penalties on the delay in filing and payments.
- 3.5 As recommended in the previous management letter, we reiterate that the Council should prepare all FS5s on a monthly basis and submits these with payment prior to the end of the following month. We also recommend that the Council reviews its position with the Inland Revenue Department to determine the extent of penalties arising from this practice and sort out the matter with the Department in question.

#### **Allocation of salary expense**

- 3.6 We also noted that the allocation of salary expense in the nominal ledger may be improved. The Executive Secretary salary is not recognised separately in the ledger and the amounts disclosed against each class of employee in the financial statements does not reflect the gross salary attributable to that category.
- 3.7 As a result, we proposed an adjustment to reclassify EUR15,881 from social security costs to wages costs. We also proposed a reclassification of EUR30,343 from wages and reclassification of EUR2,651 from bonuses to Mayor's Allowance (EUR1,398), Executive Secretary (EUR30,887) and Councillor allowances (EUR709). The necessary amendments to the financial statements were also proposed to disclose the actual cost per category. The

Council approved our adjustment and reflected it in the audited financial statements.

- 3.8 We recommend that the payroll is allocated to each appropriate heading to ensure that this fairly reflects the gross salary paid to that category. Separate nominal accounts for employee bonuses, Executive Secretary Bonuses, overtime and other statutory bonuses are recommended.

#### 4 Expenditure

##### Petty cash expenditure

- 4.1 We noted that the Council continued to support its petty cash payments by cash register chits rather than receipts addressed to the Council. We recommend that, where possible, the Council obtains invoices addressed to the Council.

##### Insurance

- 4.2 We review the council's insurance policy to determine whether assets are insured adequately. The following discrepancies were noted:

Asset	Sum insured EUR	Cost in books EUR	Variance EUR
Premises	175,000	142,331	32,669
Contents of Council premises	50,000	112,031	(62,031)
Car park	94,000	-	94,000
	<b>319,000</b>	<b>254,362</b>	<b>64,638</b>

- 4.3 The above illustrates that the Council's assets are not insured for the correct value of assets. The overall amount insured is in excess of the cost in the books since the Car Park has now been removed from the assets of the Council. The Motor vehicle is insured under a separate policy whereas urban improvements (EUR120,822), street signs (EUR26,205) and Construction (EUR973,925) are not covered by an insurance policy.
- 4.4 We recommend that the Council updates its insurance policy to ensure that all assets are properly insured against theft, damage and loss. We also remind you that the Council is bound by section LCP 1.15b 04 of the Local Councils (Financial) Procedure, 1996 to carry out a periodic review to assess the adequacy of the Council insurance cover.

##### Allocation of expenses

- 4.5 Our testing identified an expense which was not allocated to its appropriate expense heading in the financial statements. The expense was IT

developments amounting to EUR946 which was allocated to Professional fees rather than office services.

- 4.6 We recommend that the Council allocates expenses in line with their nature to ensure fair reporting. We also recommended that the expense is re-allocated within administrative expenses on the financial statements. The Council approved our recommendation and reflected it in the audited financial statements.
- 4.7 We also noted that the nominal account other support services included expenditure that should have been allocated to Electricity (EUR517) and other contractual services (EUR1,490). We proposed an adjustment to reclassify these costs. The Council approved our adjustment and reflected it in the audited financial statements.

## 5 Tax invoices

- 5.1 It came to our attention that the Council is accepting computer-generated invoices which do not satisfy fiscal requirements and are not backed up by fiscal receipts. Some examples include:

Supplier	Date	Details	EUR
Saviour Galea	02/02/2015	Road & Street Cleaning Jan 15	2,246
Saviour Galea	06/04/2015	Road & Street Cleaning Mar 15	2,335
Saviour Galea	06/05/2015	Road & Street Cleaning Apr 15	2,246
Saviour Galea	03/07/2015	Road & Street Cleaning Jun 15	2,765
Saviour Galea	02/09/2015	Road & Street Cleaning Aug 15	2,482
Saviour Galea	02/10/2015	Road & Street Cleaning Sep 15	2,423
Saviour Galea	02/11/2015	Road & Street Cleaning Oct 15	2,329
Saviour Galea	07/12/2015	Road & Street Cleaning Nov 15	2,329
Saviour Galea	31/12/2015	Road & Street Cleaning Dec 15	2,329
Dr Edwin Mintoff	07/04/2015	Architect fees Mar 2015	590
Dr Edwin Mintoff	24/06/2015	Architect fees May 2015	590
Dr Edwin Mintoff	03/09/2015	Architect fees Aug 2015	590
Dr Edwin Mintoff	02/12/2015	Architect fees Nov 2015	590

- 5.2 We also noted the following expenses which were not supported by any invoices or fiscal receipts. These expenses were:

Supplier	Date	Details	EUR
Modern Bathrooms	28/01/2015	Steel pipes	1,047
Kumpanija Testaru	10/06/2015	Harga tal-Milied	774
Kumpanija Testaru	10/06/2015	Harga tal-Milied	750

- 5.3 We remind the Council that all purchases are to be supported by either a valid tax invoice or a VAT receipt.

#### **Approval of invoices**

- 5.4 The invoices selected for vouching (which include all invoices in 5.1 and 5.2 above together with other invoices) clearly indicated that the Executive Secretary is not signing the documents as proof that he has verified and approved the expense. We also noted that purchase orders are still not being used.
- 5.5 We recommend that the Executive Secretary issues a purchase order for each acquisition made by the Council as required by the Local Council (Financial) Procedures, 1996. Upon receipt, invoices are to be reconciled to the purchase order to verify the item and cost of goods/services received. Invoice should be signed as proof that it has been verified and approved by the Executive Secretary prior to inclusion in schedule of payments for Council approval as required by the Local Council (Financial) Procedures.

#### **Schedule of payments**

- 5.6 Our testing on payments indicated that the Council is still not including all payments on the Schedule of Payments and we also noted that payments are in fact issued prior to their approval at Council level. The table below identifies the cheque payments that were not traced to a Schedule of Payments (NT) or traced to Schedules that were approved after the cheque was cashed.

<b>Cheque no</b>	<b>Payee</b>	<b>Amount EUR</b>	<b>Date cashed</b>	<b>Schedule number</b>	<b>Date approved</b>
2697	Inland Revenue	11,670	21/01/15	NT	N/A
2905	Schembri Infrs.	16,697	06/02/15	31	22/6/15
2920	Attard Bros.	25661	20/02/15	NT	N/A
2972	Schembri Infrs.	12,006	24/04/15	NT	N/A
3047	Inland Revenue	6,240	24/07/15	NT	N/A
3076	Schembri Infrs.	13,345	13/08/15	NT	N/A
3127	Galea Cleaning	7,440	21/10/15	36	16/11/15
3150	Galea Cleaning	6,232	26/11/15	38	18/01/16

- 5.7 We recommend that all payments issued by the Council are included in the Schedule of Payments. These include payroll and other monthly payments to suppliers under providing a service under a tender. We also remind the Council that all payments (with some minor exceptions) require approval by the Council prior to issuing the cheque. Approving payment after the cheque

is issued eliminates the scope of the control since payment cannot be withheld.

## 6 Fixed assets

### Fixed asset register

- 6.1 In 2015, the Council used the function within the accounting package as a tool to monitor its fixed assets rather than Microsoft Excel as was previously done. However, the information provided still lack details in relation to location and supplier of each asset. We also noted that the Executive Secretary room and the administration room had a list of assets in that room attached to the door. However, the individual assets were not labelled.
- 6.2 We reconciled the fixed asset register to the fixed asset schedule prior to posting of audit adjustments and identified the following differences:

Class of assets	Cost per FA Schedule EUR	Cost per FAR EUR	Difference EUR	NBV per FS Schedule EUR	NBV per FAR EUR	Difference EUR
Car Park, Fit & Equip	10,014	10,012	2	-	-	-
Police Station	15,389	21,444	- 6,055	13,401	12,674	727
Buildings	142,331	136,218	6,113	111,674	112,810	- 1,136
Motor Vehicles	3,500	3,500	-	1,729	2,240	- 511
Office Equipment	79,229	63,077	16,152	47,806	30,829	16,977
Urban Improvements	119,548	109,559	9,989	28,555	54,891	- 26,336
Furniture & Fittings	32,802	32,802	-	12,521	14,408	- 1,887
New Street Signs	26,205	26,206	- 1	-	-	-
Construction	973,925	1,000,128	- 26,203	320,220	391,313	- 71,093
	1,402,943	1,402,946	- 3	535,906	619,165	- 83,259

- 6.3 We recommend that the Council uses the required tools to maintain its fixed asset register and update this accordingly to ensure that a proper record is maintained of the asset, its supplier, cost, location and depreciation. We also recommend that adequate tagging is applied to ensure all assets are identified to the location.

### Depreciation of fixed assets

- 6.4 We performed a test to reconcile the depreciation provision and depreciation charge per fixed asset schedule to the nominal. A number of reclassification differences were passed to agree the unaudited ledger to the fixed asset schedule.
- 6.5 We recalculated depreciation and identified the following differences between the depreciation charge recognised in administrative expenses and our re-

calculated charge for the year. These resulted from the rates and methodology applied and are analysed as follows:

	<b>Our workings</b>	<b>Per schedule</b>	<b>Difference</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Police Station -	924	872	52
Buildings	1,123	1,140	(17)
Motor Vehicles	418	560	(142)
Office Equipment	8,735	19	8,716
Furniture and Fittings	1,020	1,559	(539)
Construction	34,985	45,956	(10,971)
Urban Improvements	3,459	8,523	(5,064)

- 6.6 We recommend that the Council ensures that a proper fixed asset register is maintained and that depreciation is applied automatically and appropriately using the rates and reducing balance methodology prescribed by the Local Council Regulations. The Council should also ensure that finalised projects are brought to depreciation once these are available for use.

#### **Devolution of assets**

- 6.7 We were informed that during 2015, the authorities reversed the devolution of the police station and the car park. This was not reflected in the books of the Council and hence we recommended that the Council reverses the cost and provision for depreciation on each asset with the balance being recognised as an expense. The cost of the Car Park was EUR10,014 and had already been fully provided for. On the other hand, the Police Station had a cost of EUR15,389 of which EUR2,040 had already been provided for by the reversal of devolution date. This resulted in a loss on disposal of EUR13,349. The council approved our adjustment and reflected it in the audited financial statements.
- 6.8 The cost of the Police Station was made up of refurbishment expenses incurred in 2014. These were financed from a grant. Since the devolution was reversed and the asset was written off, we proposed an adjustment to write off the remaining deferred income balance on the Police Station which amounted to EUR14,642. The Council approved our adjustment and reflected it in the audited financial statements.
- 6.9 We remind the Council that a periodical of assets held by the Council should be carried out to ensure that assets that are not in the control of the Council are written off. Such an exercise would have identified the need to write off such assets.

### **Fixed asset additions**

- 6.10 We noted that the architect fees relating to Urban Improvements additions for the year were not capitalised. Under IAS16, property plant and equipment all costs necessary to bring the asset to working condition for its intended use are to be capitalised. This also includes architect fees. We proposed an adjustment to capitalise EUR1,274 from professional fees. The council approved our adjustment and reflected it in the audited financial statements.
- 6.11 We recommend that the Council monitors payments appropriately to ensure that these are allocated fairly between expense, capital and payables.

### **7 Receivables**

- 7.1 The Council had a receivable balance of EUR174 from the licences and trading department that was brought forward from 2013. The Executive Secretary indicated that the amount was settled in the past and hence we proposed an adjustment to write off the balance. The Council has approved our proposed adjustments and reflected these in the financial statements.
- 7.2 We recommend that the Council updates its debtors control procedures to ensure that all invoices and receipts are booked appropriately in a timely manner. The Council should also monitor balances within the control account and chase to ensure collection.

### **8 Payables**

#### **Supplier statements**

- 8.1 The Council did not obtain monthly statements from all of its suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.
- 8.2 We remind the council that the statements are important for the sound accounting system to ensure that the creditors are correctly recorded in the accounts. Statements from suppliers will highlight any difference from recorded amounts. Any such differences should be promptly investigated.

#### **Overdue balances**

- 8.3 We also noted that the creditors' list includes overdue balances that exceed 60% of amount payable. After adjusting for PPP payables (which are based on an agreement) and WasteServ (which is repayable by DLG), the overdue amount covers over 26% of amount payable. These include the following:

	EUR
Dipartiment propjeta tal-gvern	5,575
Environmental Landscapes	12,100
Land Department	8,151
Mica Med	11,294
Water Services (various areas)	10,619
Guard and Warden Services	1,144
Med Developers	1,414
Dr Edwin Mintoff	2,950
TCTC	1,350
Wilson Mifsud	3,098
Other minor suppliers	7,297
<b>Total overdue balance</b>	<b>64,992</b>

We recommend that the Council investigates the nature of these balances and ensure that all valid liabilities are settled in a timely manner.

#### **Over/under stated payables**

- 8.4 We noted that the amount of EUR1,258 included as a liability due to the Joint Committee should have been cleared since the Joint Committee to which Pieta was affiliated has been closed off. We proposed an adjustment to write-off this amount. The Council has approved our proposed adjustments and reflected these in the financial statements.
- 8.5 The Council operates several accounts with GO plc. Although invoices are allocated to the respective and separate account in the purchases ledger, payments are allocated to one account only. This results in one account having a debit balance of EUR1,275 and other accounts with credit balances of EUR2,298. The amount due on each account at 31 December 2015 could not be reconciled with the respective bills.
- 8.6 The creditors' list indicated that the Council had a debit balance with Asfaltar Limited for EUR1,062. On investigating this, we noted that invoice number 3537 for EUR1,062 was not booked by the Council although it was paid. We proposed an adjustment to account for this invoice. The Council has approved our proposed adjustments and reflected these in the financial statements. Other accounts with a debit balance at year end were:

Audio Visual Centre Ltd	222
Caxton Printshop Ltd	12
Island Beverages Co Ltd	388
Melita Cable	300
Saviour Galea	367
Thegofer.com	306
F. Zammit Nurseries	59
	<hr/>
	1,653
	<hr/>

- 8.7 The differences above further highlight the importance of obtaining monthly statements and reviewing the payables position to ensure that any posting errors are identified immediately. We also recommend that the Council allocates payments against the relevant invoice within the appropriate supplier account. We also recommend that the Council reviews the nature of debit balances above and take any remedial action necessary to recover over paid amounts or account for any missing invoices as may be the case.

#### Supplier Statements

- 8.8 We obtained a number of supplier statements and performed a reconciliation between the creditors' list and the supplier statement. The following variance was identified:

Supplier	Per ledger EUR	Per statement EUR	Difference EUR
Environment Landscapes Consortium Ltd	20,758	18,760	1,998

We asked the Council for a reconciliation of this balance but this was not prepared. Furthermore, the Council was unable to provide us with explanation of the above unreconciled amount (that was brought forward from previous periods).

- 8.9 The above situations highlight the importance of reconciling creditors' balances to suppliers' statements as noted in note 8.2.

#### Joint venture account

- 8.10 The other creditors account still includes balances relating to a joint venture account of EUR1,351 and a deposit of EUR2,749 in respect of the issue of a new tender which has been in dispute since 2011.
- 8.11 We recommend that the Council monitors this matter and discloses any issues and developments to ensure that these are fairly reported.

## **9 Bank**

### **Bank reconciliations**

- 9.1 We requested copies of the monthly bank reconciliations, however, the reconciliations provided were actually the list of reconciled transactions rather than the reconciled balance and unreconciled transactions. Proper testing on these reconciliations could not be carried out whilst a proper reconciliation for December was re-issued from the accounting system.
- 9.2 The Local Council (Financial) Regulations requires that bank reconciliations are prepared monthly and these are approved by the Executive Secretary. We recommend that proper monthly reconciliation reports (identifying the reconciled balance and un-reconciled transactions) are presented to the Executive Secretary in timely manner, verified, signed as approved and filed with the bank statements for future reference.

### **Cash balance**

- 9.3 At 31 December 2015, the Council had a cash balance of EUR1,150 which was not traceable to actual cash. We noted that this amount was reclassified from a bank account since it was an unreconciled transaction brought forward from previous periods. We investigated past transactions and noted that this was a double posting of tender fees issued in 2013. We proposed an adjustment to reverse this balance against current year income. The Council approved our adjustment and reflected it in the audited financial statements.
- 9.4 We recommend that the Council analyses cash and bank balances in detail to ensure that the figures reported are fairly stated.

### **Signatories**

- 9.5 The Council has requested the change in bank signatories for all accounts except for BOV account 40019357076. The account is still under old signatories, however, the Council does not have any funds in it and its status is pending closure.

## **10 Financial statements**

### **Presentation of financial statements**

- 10.1 By virtue of memo 1/2014, councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit, we pointed out that the Council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS):

- IFRS 7 *Financial Instruments: Disclosures*: the Council did not disclose the necessary quantitative and qualitative disclosures relating to credit risk since the analysis of receivables in note 15 on page 20 includes the amount impaired of EUR3,594 within the exceeded credit period but not impaired category. The figure included within credit period does not consider the ageing of amounts not impaired.
  - IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council did not cover all the changes applicable for the year. The note also fails to identify all standards that have been issued but are not yet applicable. The note on page 9 also refers to 2014 rather than 2015.
  - IAS 16 *Property, Plant and Equipment* requires disclosures on any general and special hypothecs held against the bank loan. These were not disclosed in the un-audited accounts and were hence included after our notification. However, the value of the hypothec was disclosed at Lm43,000 whereas this should read EUR100,163.
  - IAS 7 *statement of cash flow* relating to disclosure on capital creditors and grants received was not presented correctly. The Council amended the statement after our recommendation.
  - IAS 24, *Related party Disclosures*: The Council did not disclose its related parties and transactions carried out with related parties and key management personnel. The Council amended disclosed the information after our recommendation.
  - The Council reported a rental cost of EUR18,006 and rental income of EUR45,201, however, the financial statements do not disclose the necessary disclosures required by IAS 17 *Leases*. Note 21 on page 24 does not disclose the maturity commitments arising under lease agreements and does not provide any information on the lease agreement.
  - The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the Council.
- 10.2 Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

### Capital commitments

- 10.3 The Council did not present a capital commitment note in the unaudited financial statements. Following our notification, the Council included a Capital Commitment note in the audited financial statements. However, the note was included with liquidity risk rather than as a separate note. It also quantifies commitments at EUR13,084 whereas the estimates for 2016 quantified these at EUR61,084 dividend between construction (EUR45,000), improvements (EUR13,084) and equipment (EUR3,000).

### Other shortcomings

- 10.4 We also noted the following shortcomings in the financial statements:

- The audited financial statements included the following shortcomings :
  - Cash flow: The depreciation figure under the comparative column should read EUR83,258 rather than EUR83,257 whilst net cash flows from financing activities should read EUR14,380 rather than EUR24,875.
  - Local enforcement income (note 6) should have been split between Pre-Regional receipts (EUR1,719) and administration fees (EUR7,986).
  - Certain costs reported in the comparative column of administrative expenses (note 12) were miss-printed as follows. The column does not cast due to these errors.

Expense	Correct amount EUR	Amount disclosed EUR
Sundry minor expenses	415	41
National & Int member.	82	8
Provision for bad debts	(10,495)	10,495
Meetings & conventions	800	80
Bank charges	265	26
Other expenses	-	5

- Note 15 have included EUR1,263 as amounts due within credit period and EUR6,851 as amounts exceeding credit period but not impaired.
- The released portion of deferred income for 2014 should read (EUR17,713) not EUR17,713 under the comparative column.
- The annual financial allocation included with related parties in Note 20 does not agree to the figures in note 5.

## 11 Meeting and minutes

- 11.1 The minutes of the Council are not being bound at the end of the financial year. The Council must ensure proper measures are taken to adhere to the provisions in the Local Council (Office) Procedures, 1996 and arrange for the previous years' minutes to be bound. The binding of minutes are an important permanent source of documentation for the Council and thus proper binding of the minutes will ensure that they remain intact and unchanged.

### Frequency of meetings

- 11.2 The Local Council Act requires that the Council meets at least once a month and such meetings should not be in excess of 5 week intervals. Although the Council met every month, the 5 week interval was exceeded in the following instances:

Meeting date	Meeting date	Weeks
12 December 2014	22 January 2015	5.8 weeks
3 August 2015	28 September 2015	8 weeks

- 11.3 We recommend that the Council ensures that meetings are held within the required periods.

## 12 Liquidity position

### Going concern

- 12.1 The Council has decreased its negative liquidity position to EUR75,848 when compared to EUR61,373 in 2014 (after eliminating prepayments, accrued income and deferred income).
- 12.2 We recommend that the Council takes remedial action to improve the liquidity position. The Council should do its utmost to curb recurring and capital expenditure without failing in its functions and without negatively impacting the long term future of the locality.
- 12.3 We included an emphasis of matter paragraph in our auditor's report in the financial statements to highlight the existence of this material uncertainty regarding the Council's ability to continue as a going concern.

## 13 Financial Situations Indicator

- 13.1 Owing to the matter described in point 12.1 above, the Council's Financial Situation Indicator (FSI) is negative at 31 December 2015.

- 13.2 May we remind the Council that in accordance with the Local Councils (Financial) Regulations, 1993 (section 4(1)(c)), the Executive Secretary is to maintain a positive balance and the FSI must not be less than 10 per cent of the allocation approved in terms of section 55 of the Local Council Act. In addition to this, the Executive Secretary has to inform the Director that the FSI is less than ten percent of the allocation approved and explain the actions that are intended to be taken by the Council to remedy the situation.

#### **14 Budget and business plan**

- 14.1 The Council has not yet prepared a three year rolling business plan.
- 14.2 According to article 56 of the Local Council Act, the Council is required to prepare a 3 year rolling business plan. We recommend that the Council adheres to these procedures and prepare the necessary plans and estimates in line with the provisions of the Act.

#### **Conclusion**

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr. Simon Cauchi and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta