

LOCAL COUNCIL RABAT

Report to Management  
for the financial year ended 31 December 2013





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MALTA

28<sup>th</sup> April 2014

The Mayor  
LOCAL COUNCIL RABAT  
8, Triq l-Isptar  
Rabat

Dear Sir,

### **REPORT TO MANAGEMENT**

As you are well aware, our firm has been appointed 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. The controls 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 2013, 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 the above. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank Ms. Orietta Masini Cardona and the 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



Clive Farrugia  
Partner

## TABLE OF CONTENTS

1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2012....	2
2. INCOME .....	6
3. PERSONAL EMOLUMENTS .....	8
4. EXPENDITURE .....	10
5. NON-CURRENT ASSETS .....	14
6. RECEIVABLES.....	17
7. PAYABLES.....	19
8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS .....	24
9. FINANCIAL POSITION .....	25
10. GENERAL .....	26

## 1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2012

### 1.1. Local Enforcement System (LES)

Since the Council does not have direct control on this matter, as it 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 Government Allocation

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

### 1.3. System of Council income recording and cash transactions

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.3 of our management report.

### 1.4. Income 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.

### 1.5. Councillors' Allowances

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.1 of our management report.

### 1.6. FSS reconciliation

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

### 1.7. Final Settlement System (FSS) payments

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

### 1.8. Number of Employees

The Council has addressed the matter.

### 1.9. Tendering Procedures

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

### 1.10. Quotation Procedures

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

### 1.11. Inappropriate Expenditure Documentation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.3 of our management report.

1.12. Purchase request forms

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

1.13. Expenses made on account of social/cultural events

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

1.14. The upkeep of the Fixed Asset Register (FAR)

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

1.15. Depreciation charge for the year

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.2 of our management report.

1.16. Computer Software

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

1.17. Disposal of Assets

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

1.18. Capital Commitments

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

1.19. Architect's certificate on works completed

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

1.20. Capital Expenditure vs Revenue Expenditure

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

1.21. Insurance Policy

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

1.22. Joint Committee Co-Operation amount receivable

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.1 of our management report.

1.23. Accounting for Prepayments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.2 of our management report.

1.24. Accrued income

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

1.25. Petty Cash Balance

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

1.26. Unpresented Cheques and Deposits

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

1.27. Bank Reconciliation

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

1.28. Long Outstanding Creditors

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.1 of our management report.

1.29. Creditors' balances and cut-offs

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.2 of our management report.

1.30. Accruals

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.2 of our management report.

1.31. Contractor's Deposit Guarantee

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.3 of our management report.

1.32. Accounting for Deferred Income

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.4 of our management report.

1.33. Disclosures required in respect of certain IFRS

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.1 of our management report.

1.34. Disclosures required in respect of Financial Procedures

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.2 of our management report.

1.35. Financial Statements presentation and accounts

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.3 of our management report.

1.36. Liquidity of the Council

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.1 of our management report.

1.37. Actual expenditure exceeding budgeted expenditure

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

1.38. Council minutes and Schedule of Payments

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

1.39. Attendance to Council Meetings

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

1.40. Accounting for Errors

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.5 of our management report.

1.41. Statutory Documentation

The Council has partly addressed the matter during the year under review and we therefore draw your attention to paragraph 10.3 of our management report.



## 2. INCOME

### 2.1. Local Enforcement System (LES)

#### Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the Birkirkara Joint Committee for the year ended 31 December 2013. 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.

During the year under review, the Council received €3,194 in relation to income arising from pre Region contraventions.

#### Issues Arising

In view of the absence of audited annual financial statements from the Joint Committee for the period ending 31<sup>st</sup> December 2013, 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 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. Reimbursement for administrative fees on LES fines collected

#### Observations

As from 1<sup>st</sup> September 2011, the Council started to receive 10% administrative reimbursement for LES fines collected on behalf of the Regional Committees. This reimbursement has to be invoiced by the Council on a monthly basis. The amount of invoices issued to the regional committees in line with the LES reports for the year ended 31<sup>st</sup> December 2013 amounted to €5,949.08 while the amount recognised in the financial statements amounts to €5,318, hence a variance of €631.08. This variance is due to the July invoices which were not posted in the accounts.

Moreover, income arising from pre regional contraventions and income arising in respect of the regional administrative fees, should be separately presented in the Statement of Comprehensive Income as 'Income raised from Local Enforcement System'. The Council disclosed this income under 'General Income'.

#### Issues Arising

It is of utmost importance that all invoices issued to the regional committees are appropriately issued and accounted for in the accounts, since having unposted invoices will result to an understatement of income and receivables.

#### Recommendations

Besides issuing regular invoices to the Regional Committees in line with the memos referred in the preceding paragraph, the invoices subsequently posted to the Council's debtors' ledger day book, should be regularly reconciled with the report 483 of the LES reporting system. Any variances should be analysed and remedied accordingly. We have proposed an audit adjustment to reflect

the above, which the Council correctly reflected in the adjusted Financial Statements. It however still failed to separately disclose this income in the Statement of Comprehensive Income.

## 2.3. System of Council income recording and cash transactions

### Observations

Following tests on the general income of the Council, it transpired that the system being used with respect to income recording does not entail a proper audit trail system. In this respect the Council was unable to provide us with a breakdown of the €1,400 included in nominal ledger account 4205 [ref: 150313] in order to be able to trace the receipts issued in respect of this income.

Furthermore, although the Council is issuing an official receipt when the income is from a Government source, it was noticed that the receipts are being issued after several months. The receipts issued in respect of the quarterly Government transfer for the 2013 allocation were all issued on the 24<sup>th</sup> March 2014.

### Issues Arising

The Council needs to ensure that all deposits banked are reconciled to the receipts. Furthermore, it must ensure that the receipt is provided as soon as the income is received by the Council.

### Recommendations

The Council should implement a computerised receipting system whereby all receipts are automatically recorded, an audit trail is maintained and reconciliations are easily facilitated.

## 2.4. Revenue Recognition

### Observations

Some shortcomings have been noticed in respect to revenue recognised during the year under review:

- The amount paid by the Department of Local Government to WasteServ Malta Limited on behalf of pending tipping fees was recorded in the Financial Statements under 'Other Government Income' and not under 'Other Supplementary Government Income', as required by Memo 1/2014.
- €10,998.72 paid on the 26<sup>th</sup> December 2012 from the Office of the Prime Minister in respect of the second and final payment under the *Project Constructing a Resilient Future*, was deposited in the bank and accounted for in 2013. It should be noted that the project was finished in 2012 and therefore such income should have been recorded in 2012. Furthermore, this income was accounted for under General Income, as income under the Common Agricultural Policy – EU Funds. Please note however that this income was received from Central Government, and thus should have been recorded as 'Other Government Income'.
- Nominal account 4006, 'Community Services' amounting to €1,595 and which is being disclosed in the Financial Statements as 'Contributions and Donations', relates to the administrative charge charged to Green MT. Please note that the income is not being posted under the correct nominal code and neither under the correct heading in the financial statements.
- Income received of €5,000 under the EU funded project, Archaeotur, is not being appropriately disclosed in the financial statements, when it is being recognised as 'Contributions and Donations' under the General Income. This should be disclosed as income in respect of EU Projects, under the General Income.

### Issues Arising

Any income which pertains to a particular financial year should be recognised in the appropriate financial year in which it arises. Should this income not be received by the end of that financial year, it still needs to be recognised against accrued income. These are the underlying principles behind the "accruals concept" of accounting in line with generally accepted accounting principles and International Financial Reporting Standards.

Furthermore, income should be posted to the correct nominal account, in order to ensure that revenue is properly categorised and recorded in the Council's accounts.

### Recommendations

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

## 2.5. Income raised under Local Council Bye Laws

### Observations

Upon our analysis of the nominal ledger account 4103, it transpired that this was income received from the elderly in respect of activities and outings organised by the Council.

### Issues Arising

Income of this type is governed by Local Council Bye Law 50/07/2012, thus the income of €4,801.36 should have been classified as 'Income raised under Local Council Bye Law' and not as 'Contributions and Donations' under General Income.

### Recommendations

All income which falls under any one of the Council bye laws, should be recognised separately in the Financial Statements.

## 3. PERSONAL EMOLUMENTS

### 3.1. Councillors' Allowances

#### Observations

It was noted that some of the Councillor's allowances are being considered as a "Part-time" emoluments when declared in Final Settlement System (FSS) documentation. Such observations were noted in the March and June FS5s and in the FS3s of 4 Councillors.

Furthermore, it was noticed that the allowance given to two Councillors for the period that these were forming part of the Council was €25 and €15 less than that which should have been paid.

#### Issues Arising

The Councillor's allowances do not qualify for the Part-Time Work Regulations (1996) and therefore the gross allowance should be declared in the FSS documentation as "Gross Emoluments (FSS Main or FSS Other Applies)" rather than "Gross Emoluments (FSS Part-time method applied)"

Furthermore, please note that the Councillors' allowance is paid on a pro-rata basis in relation to Council meetings attendance.

#### Recommendations

Although after last years' recommendation the Council has started considering the Councillors' allowances as Gross Emoluments (FSS Main or FSS Other Applies), we still recommend the Council to ensure that this is applied in every FSS document.

Furthermore, we recommend the Council to ensure that allowance workings are appropriately calculated based on the number of meetings held.

### 3.2. Personal tax deductions

#### Observations

The tax withheld from two of the employees' gross salary was overstated by €378 and €49.

#### Issues Arising

One should note that incorrect tax deductions will result to a payment or refund to/from the Inland Revenue Department. The scope of the FSS system is to deduct income tax correctly to the nearest Euro in order to avoid future settlements or refunds.

#### Recommendations

In terms of the FSS rules (1998), tax deductions should be followed strictly in line with the applicable rate selected by the payee in the FS4 form (Payee Status Declaration).

### 3.3. Other payroll shortcomings

#### Observations

The following payroll shortcomings were also noticed:

- The FS3 of a Councillor was dated until 31/12/2013, when he resigned from the Council on 16/07/2013.
- The basic weekly wage declared in the FS3 of one of the employees is €189.86, however according to her salary scale this should be €151.89 per week. Thus a weekly variance of €37.97.

#### Issues Arising

The FS3 forms should be appropriately prepared indicating the correct period when a person is on the Councils' payroll. By inappropriately filling in the FSS forms the Council would be in breach of the Final Settlement System Rules.

Furthermore, it is important that all employees are paid the weekly wage as stipulated in the Government Payscales.

#### Recommendations

The Council should ensure that the statutory documentation distributed to the employees as well as that being filed at the Inland Revenue Department is complete and appropriate in all material respects.

Furthermore, the Council should ensure that its employees are correctly paid in accordance with the applicable payscales.



### 3.4. Mayors' Honoraria refund

#### Observations

Mayors who had still not fully settled the Honoraria overpayment, and who were to run for the Council or General elections in March 2013, were requested by the Department to sign an agreement, which agreement requires the Mayors to pay any amount still due in respect of the Honoraria overpayment should they not be re-elected in the Council.

During the year under review, the ex Mayor signed this agreement, whereby it was agreed with the Council that the overpayment of €6,254 was to be paid in monthly instalments of €130.29. According to the agreement, during the year under review, 11 instalments should have been made, for a total payment of €1,433.19, thus leaving the balance due to the Council as at year end at €4,820.81. In actual fact however the payments made in 2013 amounted to €1,348.88, thus the actual balance due as at year end amounts to €4,905.12.

#### Issues Arising

Please note that the ex Mayor paid €84.31 less in 2013, than that which was agreed during the year. We were informed by the Council that this balance was then paid in 2014.

#### Recommendations

The Council needs to ensure that all payments in this respect are made in line with the agreement signed by the Council and the ex Mayor, in order to settle the balance as per agreement.

## 4. EXPENDITURE

### 4.1. Procurement Procedures

#### Observations

The Council abides with tendering procedures when the amount of any expenditure exceeds €4,659. Nonetheless, we encountered the following shortcomings which we are bringing to your attention:

- The Tender Form for Goods and Services in respect of the tender T122/2013 (awarded to WM Environmental Limited) was not properly filled up, with some items left blank.
- The supplier awarded the contract in respect of tender T127/2013 (awarded to Mark Barbara) was not the cheapest bidder.

Furthermore, the suppliers who were awarded work in respect of quotations RLC/Q/0080/13 and RLC/Q/0081/13 namely Neville Psaila and Charles and Joseph Gauci respectively, were not the cheapest bidders. A cheaper bid was provided in respect of RLC/Q/0080/13 than that chosen, while 8 cheaper offers were made in respect of RLC/Q/0081/13.

Finally, during the year under review the Council was requested to pay €1,418.90 to St Agatha Auditorium [cheque number 6240] in respect of Jum ir-Rabat of 2010. Although this expenditure exceeded €1,165, this is not covered by a quotation or a tender.

#### Issues Arising

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

Furthermore, it is important that the Council adheres to 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 according to the amount of the expenditure to be undertaken.

Finally, tenders and quotations need to be awarded to the cheapest bidder. This was highlighted in the National Audit Office document 'Contract Management Capabilities across Local Councils' issued in April 2012, whereby it was stated that tenders were not always being awarded to the cheapest bidder.

#### Recommendations

The Council should comply with the tendering procedures in all instances and ensures that all procedures are in compliance with the Local Councils Procedures (1996 – Tenders).

Furthermore, the Council should issue a call for quotations or a tender offer for the provision of any service of supply exceeding €1,165 or places its orders with different suppliers and therefore abides with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996.

### 4.2. Schedule of Payments

#### Observations

The Schedule of Payments being prepared and uploaded by the Council is in line with the template issued under Memo 37/2011, however it should be noted that this is not being completed in full.

#### Issues Arising

Some of the Schedules of Payments were found to lack details such as that of the cheque number, while items in respect of salary payments were found to have no amount.

#### Recommendations

The Council must ensure that it completely adheres to Memo 37/2011, and all fields are appropriately completed.



#### 4.3. Inappropriate Expenditure Documentation

##### Observations

Certain expenditure was not supported by adequate documentation. The items depicted below were not supported by a proper VAT fiscal receipt:

Description	€	Date	Ref	Nominal a/c	Supplier	Chq no.
energy saving bulbs	1,020.00	19.2.13	5435	7200	Chris Schembri ta' Joe tad-dawl	6340
printing of brochures	261.96	1.1.13	5369	7500	Print Right	6306
Prints	212.40	15.1.13	5372	7500	Delta Media.com	6311
cleaning council Nov	287.56	18.12.13	6203	7914	Gafa Saveway	6865
pruning of trees	2,821.00	1.3.13	5489	7917	Emanuel Ciantar	6409
architect fees	2,336.21	9.10.13	6154	7930	Architect Daniel Micallef	6797
water office	425.00	27.11.13	6179	7955	NIBE Marketing	6877
Monitor	112.95	11.12.13	6187	0032	Scan	6883
a/c unit	1,090.00	1.2.13	5363	0040	Agigod	6291
St Joseph Roundabout	1,085.60	15.4.13	6155	0072	F Zanmur	6802

The following shortcomings were also noticed in respect of expenditure documentation:

- Invoice issued by Godfrey Duca in respect of lapel badges [cheque number 6633, €250] is not appropriate.
- No receipt was issued by supplier Peppi Gauci since the invoice stated that this supplier is vat exempt. It should be noted however that the amount expended by the Council amounts to €10,000 [cheque number 6].
- A receipt of €4,000.11 was issued by architect Daniel Micallef, in respect of 3 invoices, for which a payment was made amounting to €4,720.11 [cheque number 6797].
- No receipt or vat exemption form was provided by supplier Frank Muscat in respect of a payment amounting to €1,130 [cheque number 6863].
- Payment voucher issued by the Council in respect of the payment for the Photovoltaic system from Alberta amounts to €3,734.94 [RLC 1958]. The amount invoiced and paid however amounts to €4,407.23. The payment voucher was exclusive of VAT.
- No invoice and no receipt were provided in respect of the payment made to Muscat in respect of works at Ghajn Qajjet [cheque number 6262, €26,250].

##### Issues Arising

It should be assured that all expenditure and payments made 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

The Council should ensure that an appropriate tax invoice, as required by the respective procedures, is obtained for all the expenditure incurred by the Council in the future. Payments unsupported by an appropriate invoice, should not be made. Furthermore, we recommend the Council to ensure that VAT fiscal receipts are always obtained, as applicable.

#### 4.4. Rental agreement

##### Observations

We were not provided with a rental agreement covering the rental expense being paid to the Rabat Scouts, for the use of premises for the elderly, amounting to €1,100 per annum.

##### Issues Arising

Kindly note that although invoices are being issued, the rental invoices should ideally be supported by an agreement including the rental terms and conditions.

##### Recommendations

We therefore recommend that a rental agreement is drafted and signed by both entities.

#### 4.5. Other expenditure shortcomings

##### Observations

The following shortcomings were also noticed during our testing of expenditure:

- Included in nominal account 7304 'Repair and Upkeep – Sundry Repairs' is a reversal of previous year accrual amounting to €961.59. The invoice was however posted in nominal account 7301 'Repair and Upkeep – Public Property'.
- Included in nominal account 7600 'Maintenance of Vehicles' is a reversal of previous year accrual amounting to €118. The invoice was however posted in nominal account 7601 'Hire of Transport'.
- Included in nominal account 7906 'Refuse Collection' is €1,147.92 in respect of the June bulky refuse service. This expenditure should however have been posted in nominal account 7907 'Bulky Refuse Collection'.
- Expenditure incurred by the Council in respect of 'industrial skips' is posted in nominal accounts 7908 'Bins on Wheels' and 7909 'Bring in Sites'.
- Expenditure incurred by the Council in respect of 'office hospitality' is posted in nominal accounts 7950 'Hospitality', 7954 'Other Hospitality Costs' and 7955 'Office Hospitality'.
- The Council has accounted for 2 monthly fees in respect of the same month, April, for the legal services provided. This was noticed in nominal account 7934, Legal Services. Following our recommendation to adjust for the double accounting, the Council adjusted the Financial Statements accordingly.
- An invoice dated 2010 from St Agatha Auditorium of €1,418.90 [cheque number 6240] in respect of Jum ir-Rabat of 2010 was posted in 2013.

##### Issues Arising

Please note that it is important that the correct nominal accounts are used. Furthermore, similar type of expenditure should be posted in the same nominal account, in order for the users of the accounts to have a better picture of the amount expended in respect of a particular item.

Finally, it is important that any expenditure which pertains to a particular financial year should be recognised in the year in which it arises accordingly. In cases where the Council would not have received the invoice by the date when its financial statements are prepared and approved, a proper estimate should be made and this should be accrued for. In cases where such an omission entails a material amount the Council would have to undertake a prior year adjustment to restate the comparatives accordingly in line with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.



### Recommendations

We recommend the Council to be more cautious when posting transactions.

Furthermore the Council should ensure that it reflects accurately all transactions within the proper financial year.

## 5. NON-CURRENT ASSETS

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

#### Observations

The fixed asset register being maintained by the Council is not in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b. The Council has so far prepared a FAR on Sage Accounting Software however this FAR is limited since it does not provide the necessary details.

The Council entered in every asset category an opening balance of assets capitalised by the Council in previous years. Additionally, there are a substantial number of items which are incorrectly categorised as well as a number of asset items with no description or simply described as adjustments.

In addition variances have been noted in fixed asset categories between the FAR and the nominal ledger as follows:

Asset Category in FAR	As per FAR		As per Trial Balance		Trial Balance details	Variances	
	Cost	Dep'n	Cost	Dep'n		Cost	Dep'n
	Eur	Eur	Eur	Eur		Eur	Eur
Computer Equip.	35,289.93	31,625.29	35,411.62	31,625.93		(121.69)	(0.64)
Urban Imp.	2,306,791.56	1,154,579.46	1,853,047.24	1,122,893.68	Urban Imp.	(73,047.40)	(26.41)
			27,050.77	5,139.63	Street paving		
			499,740.95	26,572.56	Road Resurfacing		
Special Programmes	990,805.19	531,508.15	1,240,040.87	530,483.68	Special Programmes	(255,927.68)	1,024.47
			6,692.00		Bar Iljun Project		

The variances noted in the cost of urban improvements and special programmes partly relate to grants against items of capital expenditure within this category not reflected in the Fixed Asset Register, which grants amount to €73,020 and €256,980.

Finally, included in the FAR category of Special Programmes, are litter bins amounting to €16,611.22.

#### Issues Arising

The upkeep of a proper Fixed Asset Register is of utmost importance to the Council. A Fixed Asset Register is deemed as one of the principle 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 nature 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 asset with the its record keeping in the ledgers.

In view of this, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of the fixed assets recorded and the depreciation calculated and recorded in the financial statements.

### Recommendations

The Council should frequently reconcile the figures in its Trial Balance and/or Financial Statements with those of the Fixed Asset Register to ensure that these are always in agreement. The Council should also reclassify accordingly in both the FAR and the nominal ledger any assets wrongly categorised as well as undertake the necessary adjustments to the depreciation charged on such assets. The Council should also ensure that any assets which are maintained on a replacement basis such as street signs and litter bins are accounted for accordingly. We also recommend that the FAR is reconstructed taking into consideration the following suggestions:

The description of each asset in the FAR card should contain the highest degree of detail possible. The detail should not be of a generic nature such as "office equipment", "construction", "trees", "street signs" or "road resurfacing". Opening balances need to be split in all the list of assets that make up this balance and duly entered separately in the Fixed Asset Register.

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 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. Depreciation charge for the year

### Observations

The Council has categorised a number of assets in different incorrect asset categories, with the consequences that these are being depreciated with an incorrect depreciation rate.

For example, chairs, tables and barriers have been categorised as office equipment, resurfacing of roads and pavements have been categorized as urban improvements, trees have been categorised under plants at 100% depreciation, litter bins, street lighting and playground equipment has been categorized under urban improvements at 10% depreciation rate as well as under special programmes and so forth.

### Issues Arising

Please note that the calculation and posting of depreciation is regulated in Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). The measurement of depreciation undertaken by the Council is in conflict with the depreciation accounting policy of local councils as in fact stipulated in note 2 (c) of the financial statements. In view of all of the above, we have qualified our audit report.

### Recommendations

We recommend that the Council adjusts all assets in their proper asset category, and revises their depreciation charged accordingly in line with the appropriate depreciation rate of their respective asset category.

## 5.3. Computer Software

### Observations

The Council identified a capital cost of €1,026 as software and recognised this as an intangible asset in the Financial Statements in line with the requirements of IAS 38-Intangible Assets. However in the FAR, intangible assets are not separately identified but have been incorporated under the "computer equipment" asset category. Furthermore, the FAR, lists three items of computer software, 'CE 012', 'CE020' and 'CR023' which when aggregated have a net book value amounting to €677. On the other hand the Financial Statements disclose intangible assets with a net book value amounting to €499 as at 31<sup>st</sup> December 2013.

### Issues Arising

Computer software needs to be disclosed separately in both the financial statements and in the FAR. Furthermore, both nominal ledger and FAR should reconcile and the amounts of every asset category should be in agreement.

### Recommendations

The Council should reconcile its financial statements with the FAR in respect of the intangible assets and ensures that the amounts of intangible assets as per FAR agree with those recognised within the financial statements accordingly.

## 5.4. Capital Commitments

### Observations

During our review of the financial statements approved on 17<sup>th</sup> February 2014, it was noted that the disclosure of capital commitments in the Financial Statements amounted to €510,361 however the capital expenditure forecasted in the Annual Budget issued by the Council for 2014 amounts to €700,652.

Upon communicating the variance to the Council, we were informed that the €700,652 disclosed in the 2014 budget mainly relates to a project which has been approved as at year end, but which was contracted in 2014. Furthermore, the €510,361 disclosed in the Financial Statements relate to a project which had already been contracted for in previous years, but which is still not finished and not provided for as at year end. The Council has now adjusted the Financial Statements to reflect the €700,652 disclosed in the 2014 budget.

### Issues Arising

It is important that a proper reconciliation is provided, which should tally with both the capital commitments as per financial statements and that of the three year business plan 2014-2016 and the Annual Budget. In this way financial reports issued by the Council would be comparable.

### Recommendations

We therefore recommend that in the future capital commitments are properly assessed and disclosed and a proper reconciliation provided to ensure that capital commitments as disclosed in the Council's budget and business plan are in line with those being disclosed in the financial statements.

## 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 €42,114, computer and office equipment amounting to €79,249 as well as and Council property for the amount of €272,535.

The Council's total cost of fixed assets, excluding amounts not yet capitalised, as disclosed in its financial statements amount to €4,095,300 of which €39,504 relates to furniture and fittings, €73,322 relates to office and computer equipment, €6,415 relates to plant and machinery, €65,308 relates to street signs, €2,379,839 relates to urban improvements, €1,246,733 relates to special programmes and €272,535 relates to Property.

### 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

We suggest that the Council reviews its insurance policy on an ongoing basis to avoid unnecessary over and under insurance cover for each respective applicable asset categories and to ensure that the Council is properly insured.

## 5.6. Street Signs

### Observations

During the year the Council capitalised and fully depreciated signage boards amounting to €623.04. These are included in nominal account 0018, Street Signs.

### Issues Arising

Please note that Memo 150/2010 states that street signs and litter bins should be treated on a replacement basis, and thus should be expensed and not capitalised from 2010 onwards. An audit adjustment was proposed, which was appropriately adjusted by the Council.

### Recommendation

We therefore recommend the Council to adhere to this Memo.

## 6. RECEIVABLES

### 6.1. Joint Committee Co-Operation amount receivable

#### Observation

We noted that the Council recognised a receivable amount of €559, being a deposit relating to the Joint Committee Co-Operation agreement. The Council however informed us that after pointing out this balance in previous year management report, it investigated this amount and it transpired that the deposit was paid back to the Council in 2012.

### Issues Arising

The Council must ensure that as at year end it goes through all the balances and ensures that what it is recognising as receivable, it is in actual fact receivable. Otherwise it should adjust the accounts accordingly. Following our recommendation, the Council has written off this amount accordingly.

### Recommendations

The Council should review all receivable balances as at year end and adjusts any balances which are not due to the Council.

## 6.2. Accounting for Prepayments

### Observation

Insurance prepaid recognised in the financial statements is over prepaid by €122.62.

### Issues Arising

The Council needs to ensure that prepayments are correctly included in the financial statements. An audit adjustment was proposed in this respect, which the Council adjusted accordingly.

### Recommendations

We recommend that the Council checks all invoices which relate to future periods and correctly calculates the portion of the expense related to the next financial year and includes such amounts as prepayments.

## 6.3. LES amount receivable

### Observation

The Local Council's financial statements did not show that as at year-end the Council had LES Debtors amounting to €43,230.68.

Please note that when we extracted LES report 622 titled "Tribunal Pending Payments" with a date range for fines issued from 1<sup>st</sup> January 2000 till 9<sup>th</sup> September 2004 and tribunal period 1<sup>st</sup> January 2000 till 31<sup>st</sup> December 2013, the amount of LES contraventions payable to the Council amounted to €43,230.68. We understand that this amount has been long impaired, and that it would be appropriate to also provide a full provision for bad debts in this respect.

### Issues Arising

Although the net effect is nil, since a full provision for doubtful debts is still required to be provided for, it is important that an amount is recognised and provided for in agreement to the actual LES contraventions payable to the Council, which are based on reports emanating from the LES system.

### Recommendations

The Council should take note to ensure the amount recognised and fully provided for should be equal to the tribunal pending payments amount as per LES report 622.



#### 6.4. Doubtful receivables

##### Observations

The Council as at year end recognised receivables of €4,100 from Green MT which amount has been partly long overdue.

##### Issues Arising

According to independent documentation, Green MT appears to be in financial distress, and there is serious doubt as to whether the amount recognised as receivable as at year end will in actual fact be received or not. According to requirements of IAS 36 - Impairment of Assets, where the collection of any receivables is uncertain, appropriate provision for doubtful debts needs to be undertaken and recognised in the financial statements. It is our opinion that this receivable is impaired and that, in line with the requirements of IAS 36, should be provided for. An audit adjustment has been proposed in this respect, which was correctly reflected in the Financial Statements approved on the 28<sup>th</sup> April 2014.

##### Recommendations

The Council should regularly check and reconcile its receivables and where collection is uncertain, an appropriate provision for doubtful debts should be recognised in the financial statements.

#### 6.5. Debit balances in list of debtors

##### Observations

From an analysis of the debtors list as at 31<sup>st</sup> December 2013, we noted a negative balance amounting to €120.52 in respect of Water Services Corporation. The Council however confirmed that all amounts with this entity have been settled.

##### Issues Arising

Please note that such items distort the amount due to the Council at any point in time by its customers. Following our recommendation to rectify this amount, the Council adjusted the Financial Statements accordingly.

##### Recommendations

We recommend the Council, that as at year end it goes through the list of receivables, and ensures that all amounts are appropriately recognised.

## 7. PAYABLES

#### 7.1. Long Outstanding Creditors

##### Observations

From an analysis of the aged payables report, we noted an amount of €197,518 consisting of balances that have been long outstanding. The major balances identified were of Central Asphalt Limited for road resurfacing amounting to €117,093, Ell's Urban Services Limited for patching works amounting to €10,000, Sammut Concrete Supplies Limited amounting to €17,852 and Wasteserv Malta for tipping fees amounting to €21,915.

Furthermore, the Council did not provide us with supplier statements as at 31<sup>st</sup> December 2013 in order to confirm the creditor balances recognised in the accounts. We were unable to test a number of balances by alternative audit testing procedures.

#### Issues arising

Balances of payables should be reviewed on an ongoing basis, and whilst there are balances for which such long outstanding amounts are understandable, other payables should be assessed and legal advice obtained whether they might be legally considered to be statute-barred.

Furthermore, as per Memo 1/2014 the Council should have obtained supplier statements showing the balance due to the Council as at year end. In view of this, we have qualified our audit report.

#### Recommendations

Any creditor balances which have been long outstanding or for which there is no legal basis to be recognised as payables should be written off when the debts in question are to be considered to be statute-barred and disclosed as Contingent Liabilities if appropriate.

Furthermore, the Council should regularly obtain supplier statements and reconcile these to the suppliers ledger in order to ensure that all balances recognised in the Financial Statements are appropriately being recognised.

### 7.2. Accrued Expenditure and Payables

#### Observations

From our review of the accruals accounted for by the Council as at year end, we noticed that the accounting of these accruals has not been complete and we found instances where no accrual has been undertaken or where the accrual should have been accounted for as a creditor.

The following should have been accrued as at year end, since the service/supply was provided throughout the year under review, even though no invoice was received until year end:

Supplier	€	Details	Invoice date
Emmanuel Ciantar	253.98	Maint and upkeep of Soft area 4 - Dec 13	31/01/14
Med Design Associates	50.00	Comments to DPA report	10/01/14
JS Lift Services	47.20	Fixed hydraulic lift	09/01/14
Bell's Minibus Service	17.50	Transport services	08/01/14
Arcikonfraternita Madonna tac-Cintura	700.00	Tizjin Milied	31/01/14
Justine Pearson	75.00	Piano Services Jum ir Rabat	25/03/14
Joseph Chircop	150.00	2 piece band Jum ir Rabat	25/03/14

Further to this, telecommunications accrued amounted to €423.84 but the invoices issued in 2014 in respect of the year under review amounted to €358.06, thus leaving an over accrual of €65.78.

The Council has also failed to account for some creditors, as follows:



Supplier	€	Details	Invoice date
Dolceria Percius Co Ltd	127.00	Catering Jum ir-Rabat 2013	30/12/13
Cleansing Directorate	900.00	Cleaning works at Imtahleb	12/12/13
Brian Caruana	237.50	Maint and Upkeep of Soft area 3 - Dec 13	31/12/13
Zarb Coaches Ltd	247.80	Transport Elderly outings	31/12/13
Dolceria Percius Company Ltd	711.00	Remaining part payment from previous schedule	30/12/13
Habits cash and carry	473.96	food	02/09/13
Habits cash and carry	(321.95)	Food [credit note]	11/09/13

Moreover, in some instances, as depicted below, items have been included as accrued expenditure even though an invoice was issued in 2013 and thus these should have been recognised as trade payables:

Koperattiva Tabelli u Sinjali	€1,196.95	Traffic Signs	07/11/13
Koperattiva Tabelli u Sinjali	€310.65	Traffic Signs	20/12/13
Koperattiva Tabelli u Sinjali	€101.50	Traffic Signs	07/11/13
Mark Barbara	€641.25	Maint and Upkeep of Soft Areas - Dec 13	01/12/13
Brian Caruana	€481.81	emptying of litter bins	31/12/2013
MITA	€70.31	email accounts	27/12/2013

Finally, from an analysis of the suppliers' list as at 31<sup>st</sup> December 2013, we noted three balances amounting to €82.89 with a negative balance. These situations arose because invoices were received and paid but the same invoice is not being posted in the supplier's ledger.

#### Issues Arising

The Council is not honouring the fundamental concept of accrual accounting thus providing an incomplete and misleading picture of the Council's financial position. In this respect, we have proposed audit adjustments to rectify the matter, which adjustments the Council correctly reflected in the Financial Statements approved on the 28<sup>th</sup> April 2014.

Furthermore, a clear distinction should be made between invoices to be recorded in the creditors' ledger and accounting estimates in the form of accruals. All invoices arising during the year should be properly posted and included as creditors if payment is not yet affected. Furthermore, in line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely.

These kind of errors and omissions also suggest that the Council is not regularly reconciling the creditors' ledger individual balances to the supplier statements. Besides not being in line with generally accounting practice, the Council is also breaching the guidelines of the various memos on the matter issued by the Department from time to time.

#### 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. Further to that, the Council should undertake an exercise to review all creditors and ensure that all balances at year end are correct.

Finally, the Council should seek a thorough and correct assessment of its accounting estimates including the appropriate and complete recording thereof in the general ledger and financial statements.

### 7.3. Contractor's deposit guarantee

#### Observations

The Council maintains a list of all the amounts payable to contractors, which amounts relate to money retained by the Council as a guarantee while the contractor carries on with the work so as to ensure that any latent damages would be covered.

According to the nominal ledger of the Council at period end, the balance due by the Council to contractors amounted to €8,080. However the detailed list of the applicants' deposits and movements in deposits refunded kept by the Council amounts to €7,912.82 thus leaving a variance of €167.18.

The Council explained that this variance was due to deposits made for filming an activity in the locality. These deposits were never refunded back and will be retained by the Council.

Furthermore, at the moment the Council does not have a separate bank account into which it deposits these contractors' guarantees.

#### Issues Arising

The Council should maintain an equivalent amount of these contractors' deposits in a specific bank account which should be used only for refunds. Only when a deposit is forfeited should these be transferred to the ordinary bank account of the Council and become part of the Council's funds. At that stage it should be treated as income.

An audit adjustment was proposed in order to transfer the non refundable deposits of €167.18 to other income. Following our recommendation, the Council adjusted the Financial Statements accordingly.

#### Recommendations

We recommend that the nominal ledger account is reconciled with the list kept by the Council's administration and any adjustments required are reflected. Furthermore, we recommend the Council to open a separate bank account into which it deposits the contractors' guarantees.

### 7.4. Accounting for Deferred Income

#### Observations

The Council received a number of government grants in respect of the capital projects over the last years. The grants workings provided by the Council show a liability of €147,402. However the Council recognised a Non Current Liability of €137,022 and a Current Liability of €6,441 in the Financial Statements approved on 17<sup>th</sup> February 2014, resulting in a variance of €3,939.

Upon analysis of the grant workings, we also noted that the Council released €6,440.94 during the year from the deferred income to the Statement of Comprehensive Income. This amount was however understated due to the fact that the Council failed to release income in relation to Tas-Santi project and Tal-Isbal/Tat-Targa Project with grants amounting to €60,000. It should be also noted that no grant was ever released in respect of these 2 projects, even though the projects have were finished in 2011 and 2012 respectively. Furthermore, we noted that the accumulated

grant released in respect of other projects was not equal or in proportion to the accumulated depreciation charged so far on the respective project. Variances were noticed in respect of all grants, which thus make the deferred income liability incorrect.

#### Issues Arising

According to the income approach of IAS 20- Accounting for Government Grants and Disclosure of Government Assistance, grants should be recorded as deferred income and when the asset is put in use it is amortised directly to Comprehensive Income Statement at the same rate which the asset is being depreciated but pro-rata to the grant where the grant provided is lower than the cost of the asset. In view of the inconsistencies identified above, we have qualified our audit report.

#### Recommendations

The Council should properly recognise the release of deferred income to the Statement of Comprehensive Income in line with the requirements of the income approach as per IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

### 7.5. Disclosure of contingent liabilities and assets

#### Observations

The Council failed to disclose as a contingency the fact that the Council has an appeal against MEPA, as a result of which a fine amounting to €3,059 may be imposed upon the Council. We obtained this information from the legal letter provided by the Council's lawyer.

Furthermore, the Council disclosed as a contingent liability the fact that as at year end, the Council had various claims amounting to €28,350 from third parties in respect of works carried out within the locality, which claims are not being accepted by the Local Council. From the documentation provided however, the claims which are not yet accounted for in the accounts as at 31<sup>st</sup> December amount to €25,490. It should be noted that although the Council is contesting these amounts with the Department for Local Government, based on the fact that no works order or no proper works order were ever issued by the Council in respect of such works, the Department has already requested the Council to settle some of the claims raised by the suppliers. This indicates that there is a probability that eventually these invoices will need to be settled by the Council. In this case, the contingent liability disclosure would not be appropriate, but a provision would be required.

Finally, the Council disclosed as a contingent asset that the Council has a claim of €26,366 against the Joint Committee in respect of LES pending payments. The report provided supporting this amount however represented contraventions issued during 2013, during which the Council was part of the Regional Committee.

#### Issues arising

Please note that IAS 37 – Provisions, Contingent Liabilities and Contingent Assets requires that any possible obligation depending on whether some uncertain future event can occur should be disclosed by way of a note to the financial statements. Furthermore, any probable outflows should be recognised in the financial statements and not simply disclosed by way of note.

Finally, the same accounting standard requires that only when an income is probable, should a contingent asset be disclosed. We were not provided with any information which shows that a probability exists that the Joint Committee will provide the Council with €26,366.

Following our recommendation to adjust the Financial Statements in line with IAS 37, the Council adjusted the Financial Statements to reflect the appeal against MEPA and removed the contingent asset note. The Council however failed to provide for a provision in respect of the claims which are not yet accounted for, and we have therefore qualified our audit report in this respect.

### Recommendations

The Council needs to apply correctly the requirements of IAS 37 and include any contingent liabilities. The correct amount of claims due to suppliers should be included as a provision and not as a contingent liability. Moreover, the amount disclosed as a contingent asset should not be included.

## 8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

### 8.1. 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 seem to be missing.

#### Issues Arising

The Council's financial statements lack certain disclosure requirements arising from the following accounting standards:

- ✓ IAS 1 – Presentation of Financial Statements
- ✓ IAS 24 – Related Party Disclosures
- ✓ IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
- ✓ IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
- ✓ IFRS 7 – Financial Instruments: Disclosures

In view of the lack of appropriate disclosures, we have qualified our audit report accordingly.

#### Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary disclosures are made.

### 8.2. 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 emphasised this matter in our audit report.



### 8.3. Financial Statements presentation and accounts.

During our review of the financial statements we noted the following areas which needed attention:

- Statement of Comprehensive Income – Comparative heading states 'restated'. These amounts however have not been restated.
- Statement of Financial Position – Comparative heading states 'restated'. Although a prior year adjustment was passed by the Council in the Financial Statements which were approved on 17<sup>th</sup> February 2014, following our recommendation to reverse the prior year adjustment, the Council adjusted the 2013 figures accordingly. It however failed to adjust the comparative figures and as a result the Receivables should therefore read €59,226 rather than €63,635, while the Retained Earnings should read €1,480,136 rather than €1,484,545.
- Statement of Changes in Equity – The balance as at 31 December 2012 and as at 1 January 2013 correctly reads €1,480,136, however the Retained Fund balance in the comparative Statement of Financial Position reads €1,484,545.
- Notes to the Financial Statements, Note 11 – The amount disclosed for in respect of Mayor's Remuneration should read €10,055 rather than € 11,655; that in respect of the Executive Secretary Salary and Allowances should read €32,207 rather than €34,194; and the amount disclosed in respect of the Mayor and Councillors' Allowances should read €10,950 rather than €7,480. Following our recommendation, the Council adjusted the Financial Statements disclosure note in respect of the Executive Secretary Salary and Allowances.
- Notes to the Financial Statements, Note 19 – The bank loan security details included in the Financial Statements are very generic. This should include the fact that the loan is secured by a General Hypothec for €93,922 on the Council's assets, by a Special Hypothec for €93,922 on a house and a garage in Rabat, and by a pledge. Furthermore, the note should include the repayment terms.
- Notes to the Financial Statements, Note 16a – Net Book Value as at 31 December 2013 amounts to €1,886,836, while the Net Book Value in the Statement of Financial Position amounts to €1,886,837.
- Notes to the Financial Statements, Note 16a – The net book value of the disposed assets as per Property, Plant and Equipment schedule is €1,109 and €44, to a total of €1,153. The amount recognised in note 13, loss on disposal is however €1,146. Thus a variance of €7.
- Notes to the Financial Statements, Note 17 – It is stated that as at 31 December 2013, trade receivables of €9,295 were past due but not impaired. It should however be noted that in the debtors list provided, there were current receivables of €438.
- Notes to the Financial Statements, Note 25 – Disclosure of transactions with related parties is not complete. The council failed to indicate the level of control that each of the mentioned related party has on the Council. Furthermore, it failed to disclose as related parties, Water Services Corporation, Bank of Valletta, Cleansing Directorate, Department of Information, Enemalta, Malta Information Technology and the Police Department. Following our recommendation, the Council partly adjusted the disclosure of related parties.

## 9. FINANCIAL POSITION

### 9.1. Liquidity of the Council

#### Observations

As of 31 December 2013, the Council's minimum net current asset value should have amounted to at least €95,994 being 10% of the annual allocation. Nonetheless, the actual financial indicator (the ratio of the adjusted net current asset value to the annual allocation) at 31<sup>st</sup> December 2013 stood at -22.16%.

### Issues arising

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value (as adjusted in line with the guidelines) of not less than 10% of the annual financial allocation. The consequences of not abiding by these regulations are various. With an indicator of less than 10%, the Council is already obliged to:

- Present a financial report to the Department of Local Councils on how it will cut down on expenditure to strengthen the indicator.
- Convene its finance committee to seek guidance on whether the Council could commit for certain expenditure before sanctioning.
- If the targets to increase the indicator back to 10% fail, the Minister may withhold an equivalent sum topping up to 10% from the annual allocation and paid back only when the Council has recovered.

So given that the Council's Financial Situation Indicator is -21.40%, remedy to the situation would require further measures which include a restructuring plan over a maximum of 3 years.

The Council is also regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (which is usually based on the liquidity position and funds available).

### Recommendations

The Council should convene with urgency its finance committee and draw up a cash flow management plan to address the liquidity situation. Until then, the Council should postpone any projected capital expenditure and recurrent expenditure which is not entirely financed by additional funding schemes. Projects or programmes which are not funded by special schemes should not even be considered by the Council.

## 10. GENERAL

### 10.1. Actual expenditure exceeding budgeted expenditure

#### Observations

During our review of the annual budget 2013, it was noted that some expenditure incurred in 2013 exceeded the budgeted amount by more than 20% as follows:

- Operations and Maintenance – the Council in actual fact exceed the budgeted spending by 22%

#### Issues Arising

We bring to the attention of the Council the fact that the Council is regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (usually based on the liquidity position and funds available). Furthermore, it is envisaged that if any expenditure category requires materially more funds than budgeted, an adjustment is undertaken to the said budget and duly approved by the Council.

The Council should compile the annual budget with due care and diligence to use it as a guideline to control its expenditure during the year. 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 or increase in income received.

### 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. The Council should ensure that all expenditure is kept in line with the amounts originally budgeted for, and that in case of any essential over expenditure, the required procedure is undertaken to adjust the budget accordingly.

## 10.2. Prior year adjustment

### Observations

During the year under review a prior year adjustment was recognised in the financial statements amounting to €4,409 to reflect a grant received in 2013 with respect to Energy Saving Scheme 2010.

### Issues Arising

Please note that this prior year adjustment was not appropriately recognised in the Financial Statements in line with the requirements of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors. For example, no proper note to the financial statements has been included and the Statement of Financial Position does not include the previous year audited figures, before the prior year adjustment was done. Both the restated figures and the previous year's audited figures should be presented.

Furthermore, please note that the grant was received in respect of a capital asset, photovoltaic panels, which panels were installed and capitalised in the year under review. Therefore, the grant received should be of a capital nature and not of a revenue nature. Further to this, there was no need to reflect this grant through a prior year adjustment, given that the capital asset was only installed and capitalised in 2013.

Finally, during the year under review, part of the grant equal to the depreciation for the period on this asset, should have been released to the Statement of Comprehensive Income in line with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

### Recommendations

We recommend the Council to follow the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Correction of Errors and IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance. An audit adjustment was proposed to reverse the prior year adjustment done, and to appropriately recognise the capital grant received. The Council has adjusted the Financial Statements to reflect our proposed audit adjustments, however it failed to adjust the comparative figures accordingly, as stated in paragraph 8.3 of our report.

## 10.3. Council reports

### Observations

The Council had not yet approved the three year business plan 2014-2016.

### Issues Arising

We bring to the attention of the Council that the above mentioned report is required to be prepared within the established timeframe in line with the Local Councils Procedures (1996 – Finance) KLP 1/96, P1.05 (d.06)

### Recommendation

The Council must ensure that such document is prepared as required and submits it to the Department of Local Council within the stipulated timeframe.