

LOCAL COUNCIL RABAT

Report to Management  
for the financial year ended 31 December 2016





3a

25<sup>th</sup> April 2017

The Mayor  
LOCAL COUNCIL RABAT  
8, Triq I-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 2016, 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.

#### **3a Certified Public Accountants**

Level 2, Palazzo Ca' Brugnara  
Valley Road, B'Kara BKR 9024  
Malta, EU

Telephones: +356 2757 2757  
Facsimile: +356 2757 2758  
Email: [info@3amalta.com](mailto:info@3amalta.com)

Partners: Neville Cutajar, Christian Vella, Clive Farrugia  
3A is a civil partnership duly registered as an audit firm under  
the Accountancy Profession Act with warrant number AB/26/84/62

**3amalta.com**

Finally, we take this opportunity to thank Ms. Orietta 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



Neville Cutajar  
Partner

## TABLE OF CONTENTS

1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2015....	2
2. INCOME .....	5
3. PERSONAL EMOLUMENTS .....	6
4. EXPENDITURE .....	7
5. NON-CURRENT ASSETS .....	9
6. RECEIVABLES.....	12
7. CASH AND CASH EQUIVALENTS.....	14
8. PAYABLES.....	14
9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS .....	18
10. GENERAL.....	20

## 1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2015

### 1.1. Local Enforcement System (LES) Pre-Regional

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.1 of our management report.

### 1.2. Supplementary Government Income

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

### 1.3. Revenue Recognition

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

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

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

### 1.5. Other payroll shortcomings

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. Mayors' Honoraria refund

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

### 1.7. Inappropriate Expenditure Documentation

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

### 1.8. Rental agreement

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

### 1.9. Procurement for Street Lighting

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.

### 1.10. Membership in Majiistral Action Group

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.4 of our management report.

### 1.11. 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.

#### 1.12. 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.

#### 1.13. Computer software

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

#### 1.14. Capital Commitments

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.

#### 1.15. Insurance policy

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.

#### 1.16. Capital Expenditure vs Revenue Expenditure

The Council still classified incorrectly such assets and we therefore draw your attention to paragraph 5.5 of our management report.

#### 1.17. Trade Receivables

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.

#### 1.18. LES amount receivable

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.

#### 1.19. Trade creditors

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.

#### 1.20. Debit balances in trade creditors list

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.

#### 1.21. Contractor's deposit guarantee

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.

#### 1.22. Accrued expenditure

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.4 of our management report.

#### 1.23. Deferred Income

The Council has fully addressed the matter during the year under review and we therefore draw your attention to paragraph 8.5 of our management report.

#### 1.24. 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 9.1 of our management report.

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

As from 2016 the Council is no longer required to include the budget amounts within its financial statements

#### 1.26. 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 9.2 of our management report.

#### 1.27. Liquidity of the Council

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

## 2. INCOME

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

#### Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the Joint Committee for the year ended 31 December 2016. During the year under review, the Council has been correctly recording any cash receipts received by the Joint Committee, as well as making the distinction between LES pooling and pre-pooling receipts.

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

#### Issues Arising

In view of the absence of an audited annual report from the Joint Committee covering the period from the formation date to dissolution date, 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. If the administration officers of the Joint Committee fail to comply, the Council should consider reporting the matter to the Department of Local Councils.

### 2.2. Supplementary Government income

#### Observations

The Department of Local Councils (DLG) once again in 2016 has committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd. Logistically the DLG is making the payments directly to Wasteserv Malta Ltd on behalf of the Council.

The Council did not account for payments made by the DLG during the year of €4,149. Moreover, the Council failed to accrue for income still to be paid by DLG to WasteServ on behalf of the Council for the year 2016.

#### Issues Arising

During 2016, the DLG has effected payments of €4,149 to Wasteserv Malta Ltd covering part of the 2014 / 2015 tipping fees difference.

According to our workings, the outstanding payments by the DLG to Wasteserv Malta Ltd as at 31 December 2016 total to €2,636. This is made up of an amount of €30 relating to years prior 2016 and an amount of €2,606 relating to 2016. Given that the Council also failed to reverse the accrued income of 2015, an audit adjustment of €1,451 was proposed.



### Recommendations

The "accruals basis" of accounting should always be applied by the Council and ensure that all accrued income is appropriately recognized in the financial statements. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

### 2.3. Other income shortcomings

#### Observations

During our audit testing we noted that an amount of €564 being additional government allocation allocated to the Council in December 2016 was recorded as Supplementary Government Income. Such allocation should have been recorded as Annual Government Income.

#### Issues Arising

Annual Government Income should be separately recorded and distinguished from other income.

#### Recommendations

The Council should ensure that income received as part of the Annual Government Allocation should be recorded separately in the financial statements. In this respect, a re-classification adjustment has been proposed which the Council has reflected accordingly.

## 3. PERSONAL EMOLUMENTS

### 3.1. Payroll shortcomings

#### Observations

The following payroll shortcomings were noticed:

- A variance of €121 resulted between the actual mayor's honoraria paid and the amount that should have been paid. The Council explained that the mayor was by mistake paid the March bonus. For this matter, we have proposed an audit adjustment which the Council has taken up accordingly.
- The disclosed Executive Secretary's salary in the financial statements was calculated incorrectly. The salary disclosed agreed to the FS3, however the Council did not take into consideration the performance bonus of 2015 which was paid in 2016 and the performance bonus of 2016 which was paid in 2017.

#### Issues Arising

The remuneration of the Mayor, Executive Secretary and Councillors' allowance should be correctly and separately disclosed in line with the requirements of IAS 24 - Related Party Disclosures.

#### Recommendations

The Council should ensure that the Mayor's honoraria should be correctly calculated in line with the requirements of Memo 03/2010, as well as ensure that the Executive Secretary's salary should be reflect the necessary accrual adjustments to reflect the real expenditure incurred for that year.

## 4. EXPENDITURE

### 4.1. Approval of cheque payments

#### Observations

Throughout our audit testing on the cheque payments undertaken by the Council, we noted that several payments were issued by the Council prior to their approval:

Description	Amount	Date of	Cheque	Supplier
	€	cheque	number	
Legal services	150	01.10.16	8506	PL Daniel Aquilina
Christmas cards	472	19.12.16	8675	Gutenberg Press
Membership program leader fee	4,500	29.11.16	8608	Majjistrat Action Group
Distribution of Christmas cards	99	06.12.16	8609	Maltapost

#### Issues Arising

The Council should not issue any cheques before these payments are approved by the Council members. In case of statutory deadlines, the Council should make sure that payments related thereto are presented for approval well before the due date.

#### Recommendations

We therefore recommend that all payments by the Council should be approved at a Council meeting before being issued, as stipulated in the Local Council Procedures (1996 – Finance).

### 4.2. Expenditure for the organisation of social/cultural events

#### Observations

We noted that the Council incurred an expenditure of €25 in presenting an exhibit for a basket of flowers / fruit / vegetables for the Annual Flower Show at San Anton Gardens.

In the Council's minutes dated 27<sup>th</sup> September 2016, it was noted that the Council participated in an activity held by the voluntary organisation 'Natalis Notabilis' by providing the services of mobile toilets and emptying of litter bins. Such expenditure totalled €460.

We also noted that during the year the Council incurred an expenditure of €472 for the printing of Christmas cards to be distributed to the residents and €99 being their postage fee.

#### Issues Arising

We sympathise with the fact that a Local Council has to fulfil its social and cultural obligations. However, as the laws and regulations stand, with special reference to article 63A of the Local Councils Act, Memo 08/2005 and the Local Councils Procedures (Tenders) 1996, the Council should be more considerate in the manner of how it distributes its resources to persons/organisations within the locality.

#### Recommendations

We therefore recommend that the Council should be more considerate in spending its funds.

#### 4.3. Tendering procedures

##### Observations

We encountered the following shortcomings throughout our audit testing of the tendering procedures for the tender awarded in 2016 to Premier Business Limited in relation to the tender offer for 'Manual sweeping, emptying and cleaning of litter bins, dog bins and ashtrays using environmentally friendly measures:

- The contract date of the tender is 1<sup>st</sup> January 2017 however a copy of the third-party liability insurance is dated 19<sup>th</sup> April 2017.
- The Council requested the tenderer to include the minimum hourly workers cost. The minimum rate per hour included in the tender related to the minimum wage of 2016, not that of 2017, being the year when the supplier will commence operations.
- A copy of the performance guarantee was provided dated 12<sup>th</sup> January 2017. Such copy should have been provided by the tenderer to the Council by 11<sup>th</sup> January 2017.

Moreover, during our testing we noted that the tender in respect of Maintenance and Installation of Street Lighting is expired. No new tender was adjudicated as the Council is expecting that such service will be formally taken over by the Regional Committee.

##### Issues Arising

The Council is in breach of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 which regulate the tendering procedures in relation to the above matters. The current situation of the Council's street lighting contract is in breach of the procurement procedures. These clearly state that adjudicated contracts shall remain valid for the contract period stipulated by the tender/quote offer and once expired, it can either be renewed, or a new tender/quote offer is issued.

##### Recommendations

The Council should comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensures that all tender offers considered have their documentation fully in line with the tender offer requirements. In relation to the provision of street lightning, the Council should follow the guidance as per Memo 34/2013 which requires the issue of street lighting services tender for a full year with the possibility that such contract can be extended for a maximum of three years.

#### 4.4. Membership in Majjistrat Action Group

##### Observations

The Council is a member of the Majjistrat Local Action Group Foundation. This foundation pools the efforts of its members to maximise the acquisition of EU funding on various potential projects. The Council in 2016 had paid an amount of €4,500 as membership fee to the Foundation. Although the Council provided us with an approval from the DLG with regards to the membership, no copy of the audited financial statements has been provided. Moreover, the Council's financial statements do not include a note stating the benefits the Council will receive in this respect.

##### Issues Arising

The Council is in breach of circular 19/2016, in view that no audited financial statements of the Majjistrat Action Group were sent to the DLG and no benefits from this membership are listed in the Council's financial statements.

##### Recommendations

The Council should ensure that going forward the requirements of Circular 19/2016 is adhered to.

## 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 Fixed Asset Register on Sage Accounting software is limited since it does not provide the necessary details. For example, for various FAR cards, the description details were either left blank or listed as 'Opening balance' or listed only with name of the supplier.

In addition, we noted certain error of categorisation, such as in relation to litter bins, which should be treated on replacement basis, but which are included under the FAR category 'Special Programmes' with a cost value of €19,309.

#### 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.

Proper 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. It should also ensure that any assets which are maintained on a replacement basis such as street signs and litter bins are accounted for accordingly and excluded from the FAR.

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. Such analysis would be useful for insurance claims and asset disposal adjustments.

## 5.2. Depreciation charge for the year

### Observations

Further to our remarks in paragraph 5.1, a number of assets were recorded in an incorrect asset category, with the consequences that these are being depreciated with an incorrect depreciation rate. The following are some FAR items which have been wrongly classified:

<u>FAR Code</u>	<u>Description</u>	<u>Category classified</u>	<u>Appropriate category</u>	<u>Cost €</u>
I035	Doors	Premises	Furniture & Fittings	816.45
I036	Doors	Premises	Furniture & Fittings	277.20
I020	Door	Premises	Furniture & Fittings	1,048.22
F055	A C Unit	Furniture & fittings	Office equipment	1,090.00
F057	Electric Grill	Furniture & fittings	Office equipment	40.68
F058	Stand Fans	Furniture & fittings	Office equipment	92.00
OE079	Bollards	Office equipment	Urban Improvements	648.00
OE080	Table Round	Office equipment	Furniture & Fittings	490.00
OE081	Chair	Office equipment	Furniture & Fittings	52.00
OE082	Armchair	Office equipment	Furniture & Fittings	136.00
CR023	Sage line 50	Computer Equipment	Computer software	1,482.87

The Council's depreciation policy states that trees are not to be depreciated. However, we noted that the FAR contains trees with a cost value of €8,276 which are fully depreciated. Furthermore, we noted that property is recognised in the financial statements amounting to €272,535. Only €221,989 has been recognised in the FAR in this respect with the description 'Council Premises' and the Council was unable to provide us with information identifying what is the value of the land and the value of the buildings.

Such property is being fully depreciated at the rate 1% per annum when the requirement of IAS 16-Plant Property & Equipment is to only depreciate the buildings value.

### Issues Arising

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

Assets should be classified in the appropriate FAR asset category on the basis of the asset nature. The Council should adjust all assets in their proper asset category, and revise their depreciation charged accordingly in line with the appropriate depreciation rate of their respective asset category. The Council should also note that value of the land should not be depreciated.

### 5.3. Capital Commitments

#### Observations

In the financial statements approved on 16<sup>th</sup> February 2017, it was disclosed that the authorised but not contracted capital commitments for 2017 are nil. Eventually, in the revised financial statements approved on the 25<sup>th</sup> April, the Council disclosed €300,618 by way of capital commitments in note 24. However, the capital expenditure forecasted in the approved Annual Budget for 2017 amounts to €2,145,471.

#### Issues Arising

It is important that a proper reconciliation is provided, between the capital commitments as per financial statements for the year ended 2016 and the capital expenditure as per Annual Budget 2017. This facilitates the comparability of financial reports issued by the Council.

#### Recommendations

The Council should ensure that in the future capital commitments are properly assessed, 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 reported in the financial statements.

### 5.4. Insurance Policy

#### Observations

The Council is not properly insured in certain categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering the Council's furniture and fittings and office/computer equipment for the amount of € 84,855, "property in the open" for the amount of € 3,928,906 and Council's buildings for the amount of € 272,535.

The Council's total cost of tangible fixed assets, excluding special programmes and assets not yet capitalised, as disclosed in its financial statements, amount to €3,668,469 of which € 41,273 relates to furniture and fittings, € 6,911 relates to plant and machinery, € 75,833 relates to office and computer equipment, € 11,644 relating to motor vehicles, € 272,535 relating to Council's premises and €3,194,288 and €65,985 relates to urban improvements and street lights/signs respectively.

#### 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 actual value of all insurable and material non-current assets held and maintained by the Council are provided to the insurance company for an adequate cover. The Council has reviewed its insurance policy during the year under review. We suggest that this exercise is kept 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.

It would be appropriate that the insurance policy details better those assets to be covered under each asset category. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.

## 5.5. Capital Expenditure vs Revenue Expenditure

### Observations

We identified an instance where a new lantern acquired by the Council amounting to €677 was recognised as repairs. According to the Local Councils' depreciation policy, street lighting should be depreciated at 100%. Hence the proper accounting treatment should have been to recognise the lantern as a fixed asset and then to fully depreciate it.

### Issues Arising

The expenditure of €677 would have been more appropriately capitalised in the proper fixed asset category and then fully expensed in the Statement of Comprehensive Income. For this matter, we have proposed an audit adjustment which the Council has taken up accordingly.

### Recommendations

Throughout the bookkeeping process, appropriate distinction should be made between items of revenue and capital expenditure by following the provisions of IAS 16 - Property, Plant and Equipment. Moreover, the Council should adhere to its accounting policies in order to guarantee uniformity and consistency in the information presented in the financial statements.

## 5.6. Tangible Fixed Asset tagging

### Observations

We noticed that some of the Council's fixed assets have not been physically marked or labelled.

### Issues arising

The marking and labelling of Fixed Assets is stipulated by the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

### Recommendations

Parallel with recommendations of point 5.1, the Council should carry out an exercise to label all its fixed assets.

## 6. RECEIVABLES

### 6.1. Trade Receivables

#### Observations

During our audit fieldwork, we requested the Council to provide us with a reconciliation between the receivables balance as held in the Council's books of €2,474 and the balance held in the books of the North Region. No such reconciliation was provided by the Council.

#### Issues Arising

According to the 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.

### Recommendations

Regular checks and reconciliations should be prepared by the Council in its receivables. In the event that collection of dues is uncertain, an appropriate provision for doubtful debts should be recognised in the financial statements.

## 6.2. LES amount receivable

### Observation

In Note 14 to the financial statements the Council has disclosed a note that Receivables are stated net of a provision for doubtful debts of €223,808. No reference was made by the Council that these refer to LES receivables.

Moreover, we requested the Council to provide us with a copy of LES Report 622 titled 'Tribunal Pending Payments'. In this report, the LES debtors as at year were stated at €223,201, hence resulting in a difference of €607 from the amounts reported in the financial statements. No sufficient information was provided by the Council regarding the movement of the amount of €607.

### Issues Arising

The amounts recognised by the Council in respect to LES debtors are not in agreement with LES reports issued for the same period. In this respect, LES debtors are understated by €607.

### Recommendations

We recommend that the Council should always ensure that the balances recognised in the financial statements are always reconciled to the appropriate reports issued from the LES system.

## 6.3. Prepayments

### Observations

The Council has not accounted for the prepayment of the membership fees paid in the Majjistrat Action Group appropriately. The membership fees paid amounted to € 4,500 and related to the period 2014 – 2020. Hence a prepayment of €2,571 should have been accounted for. The Council has accounted for a prepayment of €3,600 in this regard.

### Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for prepayments correctly and completely. When accounting for prepayments, the Council also needs to ensure that benefits will actually be spread on the years for which the prepayment was paid for.

### Recommendations

It is important that the Council makes a proper assessment of its prepaid expenses at the end of every financial reporting period and ensures that such prepayments are correctly accounted for. An audit adjustment has been proposed in this respect which was reflected by the Council accordingly.



## 7. CASH AND CASH EQUIVALENTS

### 7.1. Petty Cash

#### Observations

We noted one instance where an expenditure amounting to €23.60 was incurred from Penuel Hardware. However, the receipt was manually adjusted to €23.

#### Issues Arising

It is also important to note that petty cash disbursements cannot exceed €23.29 as per Local Council Procedures 1996 (Finance) – KLP 1/96 – P1.07 (b).

#### Recommendations

We therefore suggest that the Council abides with these procedures for all petty cash payments.

### 7.2. Other cash and cash equivalents shortcomings

#### Observations

We were provided with a bank reconciliation for the BOV Current Account. The bank reconciliation shows unbanked deposits amounting to €38.43 which date back to 2012.

Moreover, we noted that the Council has not accrued for bank loan interest of €112.64.

#### Issues Arising

It is very important that bank reconciliations are prepared on a regular basis. Unbanked deposits relating to previous years should be investigated immediately. The Council should also ensure that any bank interest due but not paid should be accrued for. Due to the immateriality of the amounts stated above, no audit adjustment was proposed.

#### Recommendations

We recommend the Council that issues or errors arising from the bank reconciliations are tackled immediately. Furthermore, in line with the concept of accrual accounting, the accruals should be estimated and accounted for correctly and completely.

## 8. PAYABLES

### 8.1. Trade creditors

#### Observations

From an analysis of the trade creditors list as at 31<sup>st</sup> December 2016 it transpires that the Council is not carrying out regular reconciliations with supplier statements. We noted the following instances where variances have arisen between the amounts as per Council's books of accounts and the amounts as per supplier statements/confirmations:

- Amounts owed to WasteServ – We noted a variance of €855 between the amounts owed by the Council to WasteServ and the supplier statement provided by WasteServ. Upon further investigation, we noted that the Council did not account for an amount of €4,149, being an amount paid to WasteServ by DLG on behalf of the Council. It also transpired

that the Council did not account for invoice no 67640 amounting to €3,094. We also noticed that invoice no 68906, which amounted to €2,762 was accounted for by the Council at €2,561, creating a difference of €200.

- Amounts owed to Central Asphalt Limited – According to the books of the Council, amounts due to Central Asphalt Limited amount to €42,354. However, we noticed that the Council had an issue with the supplier dating back several years ago, and the amounts due and which eventually were agreed to be paid by the Council should be €50,072. In this respect, it transpired that the Council has a missing invoice which is not yet posted in its accounts.
- We were provided with a supplier statement from the Cleansing Directorate showing that an amount of €500 is due by the Council to the Directorate. Such amount is not recognised in the Council's books. The Council informed us that the invoice issued by the Directorate was never accepted by the Council and such invoice has not been accounted for.

#### Issues Arising

The Council should perform formal checks with the suppliers on a regular basis, in order to make sure that no payments or claims are outstanding or disputed. In case were invoices or amounts due are being disputed, the Council should assess whether disclosure of such amounts in required in line with the requirements of IAS 37-Provisions, Contingent Liabilities and Contingent Assets. Were relevant audit adjustments have been proposed which the Council has taken up accordingly.

#### Recommendations

The Council should intensify its thorough exercise of the reconciliation of its creditors after which, it should carry out the necessary adjustments, including prior period adjustments where necessary. Only such reconciliation process will provide to the Council a true and fair picture of its payables. Council should introduce procedure to obtain a statement at all times prior to issue of payments as this facilitates the reconciliation process.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets requires that when an entity has a present obligation as a result of a past event, and when it is probable that an outflow of economic resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation, a provision must be recognised. However, IAS 37 also states that when there is a possible obligation depending on whether an uncertain future event occurs, a disclosure, rather than recognition should be made.

### 8.2. Debit balances in trade creditors list

#### Observations

The trade creditors list as at 31<sup>st</sup> December 2016 includes an amount of €1,185 in debit balances. These debit balances in the financial statements were disclosed with the trade payables. Upon further investigation of this balance we discovered the following:

- €1,173 debit balance relating to 'Malta Information Technology Agency' is incorrectly accounted for by the Council. We noted that DLG has deducted an amount of €1158 from the Local Council's annual allocation and forwarded the amounts to MITA directly. The Council has correctly accounted for the transaction as income received, however rather than recording the amount as an expense, it recorded the amount as a creditor. This resulted in the negative balance in the list of creditors.
- €12 relates a supplier Schembri Barbros Limited. The amount is immaterial and no information was provided by the Council in this respect. We believe that such trivial balances should be written off.

### Issues Arising

The Council is not reviewing and reconciling the creditors balances on a periodic basis with the consequence that any required action is not being taken immediately. To avoid distortion in the disclosed balances, any justified debit balances should be disclosed as receivables rather than payables. Audit adjustments were proposed in this respect and these were reflected by the Council accordingly.

### Recommendation

We recommend that on a regular basis the Council should request the necessary statements and confirmations from its creditors to ensure that its balances are correct and adequately reconciled. Any identified errors should be adjusted accordingly.

## 8.3. Contractor's deposit guarantee

### Observations

As a general procedure, the Council obtains a deposit upon application for permits of construction/work by any individual or body corporate within the Rabat locality. The deposit is refunded back if the site has been left in a good condition after works have been finalised.

According to the nominal ledger at period end, the balance due by the Council to permit holders amounted to €8,843. This agrees with the detailed list of the pending deposits as maintained by the Council's administration.

The list includes deposits on permits covering period 2007-2015. The Council informed us that deposits are kept classified as pending until the permit holder claims back the deposit and is ensured that no damage was done on public property.

### Issues Arising

The fact that the pending deposits list contains transactions dating back to 2007 indicates that it might be inflated either by deposits which have been forfeited or by deposits that need to be refunded but which the permit holder has not yet claimed.

### Recommendations

We recommend that legal advice should be sought to check if any of the amounts included in the pending deposits list became time-barred and in such case these should be recognised as income. Such advice should also specify if the Council has any legal obligations over the unclaimed deposits.

## 8.4. Accrued expenditure

### Observations

The Council recognised an accrual of €1,564 in relation to IT Development Services. We noted that part of this amount totalling €1,158 related to fees deducted by the DLG during the financial year under review on behalf of the Council and passed on to MITA. Therefore, the Council has over-accrued for this amount.

We also noted that an amount of €300 due to Jaguar garage was recorded as a creditor. However, given that the invoice is dated 16<sup>th</sup> January 2017 the amount should have been recorded as an accrual rather than as a creditor.

Moreover, following cut-off tests on creditors and accruals recognised in the financial statements, the below shortcomings were noted:

- The recognition of the Council's Christmas dinner held on 16<sup>th</sup> December 2016 amounting to €571 was omitted.
- Street cleaning services expenditure incurred for a week in December amounting to €809 was omitted.
- Transport services expenditure incurred in the month of December amounting to €1,115 was omitted.
- Printing expenditure incurred for the month of December amounting to €113 was omitted.
- Expenditure incurred for refreshments for Jum ir-Rabat amounting to €135.90 was omitted.
- Reimbursement for damages to a citizen of €494 was omitted.

#### Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely in the period when the expense is incurred. These variances distort the amounts due by the Council at any point in time. It could also be a sign that creditors' balances and accruals are not being reviewed on a periodic basis with any variances or errors adjusted for accordingly.

#### Recommendations

The Council should prepare accounts in compliance with the "accruals concept" of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Invoices received and dated after year end should be checked carefully to determine if any amounts should be accrued for and included in the correct accounting period. Audit adjustments were proposed in this respect and these were reflected by the Council accordingly.

### 8.5. Deferred Income

#### Observations

We noted that opening balance of the deferred income liability according to the financial statements amounts to €778,825 however according to the workings provided the opening deferred income should amount to €778,106 leaving a variance of €719. The same variance also arose in the closing balance.

Moreover, we noted that during the year the Council received grants amounting to €4,863. The only supporting documentation provided by the Council in this respect were copies of the bank statements showing the amounts received.

Furthermore, we noted that in 2016 the Council received income from permits amounting to €3650, with an amount of €2460 relating to the financial year 2016 and an amount of €1190 relating to the year 2017. With respect to the portion relating to 2017 which was recognised as income in the financial year 2016, an audit adjustment was proposed.

#### Issues Arising

It is of utmost importance that all amounts recognised in the Financial Statements are appropriately supported by documentation and clear workings. Due care should be given to that amounts recognised as grant, released during the year and disclosed as Non-Current and Current Liability in the Financial Statements.

The lack of appropriate information in relation to the grants amounting to €4,863 received in 2016 makes it difficult to assess if the grants were accounted for in line with the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

### Recommendations

The Council should undertake a detailed exercise to reconstruct the grants/deferred income workings by going through available documents such as: grant agreements; grant claims; actual expenditure covered by each grant; certifications to determine the starting date to release grant; grants received and deposited in bank statements.

From such information, the Council will be able to provide appropriate workings showing essential information for each grant and the accounting treatment for grants can be prepared in accordance with the income approach method as per the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

## 8.6. Long outstanding creditors

### Observations

The Council has a number of payables that are long overdue, where some of the amounts payable have been pending for over four years.

### Issues Arising

Some of the amounts due in respect of certain creditors can now be considered statute-barred due to the long period that these have been pending. This could be creating a situation where the Council is recognising creditors which are actually not legally due.

### Recommendations

The requirements of IFRS should also be taken in consideration in order that the financial statements show a true and fair view of the financial position of the Council at year end. In our opinion, such balances should therefore be written off when the debts in question are to be considered to be statute-barred and disclosed as Contingent Liabilities. The Council should also obtain legal advice in this respect to substantiate the write off of these long outstanding creditors.

## 9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

### 9.1. 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 are missing or not in line with the relevant accounting standard.

#### Issues Arising

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

- Disclosure of new/revised accounting standards which became effective in the current financial year or which were issued but are not yet effective in the current financial year in line with the requirements of IAS 1-Presentation of Financial Statements.
- Disclosure of related parties and related party transactions in note 20 is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with.

- Improper disclosure of Capital Commitments in line with the requirements of IAS 16- Property, Plant & Equipment as noted in point 5.3 of this report;
- Improper disclosure of Contingent Liabilities in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets as noted in points 8.1 and 8.6 of this report;
- Improper disclosure of Capital Commitments in line with the requirements IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance as noted in point 8.5 of this report.

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

### Recommendations

The financial statements should be prepared in accordance with International Financial Reporting Standards and that all necessary disclosures are undertaken as required.

## 9.2. Financial Statements presentation and accounts.

### Observations

During our review of the financial statements approved on 16<sup>th</sup> February 2017, we noticed the following areas which needed attention:

- Note 2 to the financial statements – the disclosure of the policy is different from the standard Local Councils' depreciation policy. The depreciation policy of assets categories such as plants, litter bins, playground furniture, street mirrors, street lights should be disclosed individually. This matter was not properly addressed in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 2 to the financial statements – some of the mentioned updates in the accounting standards are not applicable for the Local Council or have been omitted. This matter was not properly addressed in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 13b to the financial statements – Additions under assets not yet capitalized should read '€691,395' rather than '€691,95'. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 14 to the financial statements – the total financial assets as per note reads €8,761 for 2016 and €11,018 for 2015. This amount should read €19,755 for 2016 and €20,692 for 2015. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 14 to the financial statements – the disclosure of the aged receivables is not appropriately disclosed. The aged receivables should read:-
  - 60 – 90 days - €59
  - More than 120 days - €5,319

Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.

- Note 15 to the financial statements – the bank loan security details included in the financial statements is not correct. The disclosure note should read 'The bank loan is secured by a general hypothec for €63,673 on the Council's assets and by a special hypothec and special privilege for €63,637 on a house and garage at Rabat. The loan is also secured by a pledge on accidental damage [property] Insurance policy issued by Middlesea Insurance plc covering property in Rabat for a value of €231,200. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.

- Note 18 to the financial statements – The total financial liabilities for the years 2016 and 2015 reads €68,707 and €77,769 respectively. These amounts for 2016 and 2015 should read €220,463 and €296,062 respectively. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 18 to the financial statements – The term 'deferred expense' should read 'Other amounts due by the Council'. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 20 to the financial statements – the Council failed to disclose as related party the Ministry for Justice, Culture and Local Government. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 21 to the financial statements – The accruals for the year 2016 should read €34,951 rather than €34,929. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- Note 22 to the financial statements – The accruals for the year 2016 should read €34,951 rather than €34,929. Following our observation, the Council addressed this matter in the audited financial statements approved on 25<sup>th</sup> April 2017.
- We noted that the Council effected changes in the comparative figures. No note in the financial statements was included stating that some of the comparatives were changed. This matter was not properly addressed in the audited financial statements approved on 25<sup>th</sup> April 2017.

### Recommendations

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

## 10. GENERAL

### 10.1. Opening Balances Reconciliation and Trial balance transposition into the Financial Statements

#### Observations

We noted that in relation to opening balances incorrect reclassifications amounting to €1,345 were found between the debtors and the creditors nominal accounts in the trial balance.

Moreover, when comparing the amounts as per trial balance as at year end and the amounts as per financial statements authorised and approved by the Council, we also noted some items in different expenses categories.

#### Issues Arising

The Financial Statements should reflect exactly the amounts as detailed in the Trial Balance and opening balances in the Council's accounting ledger should always agree to the previous year audited financial statements

### Recommendations

The Council should ensure that the Financial Statements reflect the amounts as per Trial Balance, and that the nominal codes are included in the appropriate section of the chart of accounts. Further it is advisable that opening balances are compared to the previous audited financial statements ensuring all audit adjustments have been duly reflected and any resulting variances / reclassifications should be investigated and adjusted immediately by the Council.

## 10.2. Comparison with the Annual Budget

### Observations

During our review of the annual budget 2016, it was noted that items of expenditure incurred in 2016 exceeded the budgeted amount. The variance identified is presented in the following table:

	Actual Amounts	Budgeted Amounts	Variance	Variance
	€	€	€	%
Capital expenditure	6304	124800	118,496	95%

### Issues Arising

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 scrutinized 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.

## 10.3. Council minutes and Schedule of Payments

### Observations

We noticed that some of the Council's minutes and Schedule of Payments uploaded on the website [www.lc.gov.mt](http://www.lc.gov.mt) are not signed. We also noticed that some of the Council's meeting agendas are not signed.

### Issues Arising

The Sixth Schedule of the Local Councils Act requires in paragraphs 14(A)(6) and 14(A)(7) that the minutes become public once they have been approved and signed by the Chairman and the Executive Secretary and that these should be initialled by the Chairperson. Paragraph 14(A)(8) of the same schedule also obliges the Executive Secretary to ensure the proper and safe custody of these Council's records.

Further to Memo 59/2011, Memo 2 /2014 requires that the agenda for Council's meetings is to be sent to all council members 5 working days before each Council meeting. This agenda needs to be uploaded on the website immediately.



### Recommendations

We therefore recommend the Council to adhere to the requirements of these memos and Local Councils Act accordingly.

#### 10.4. Councillors' Attendance

##### Observations

We noticed that in the Council's meeting minutes number 50, Councillor Peter Paul Azzopardi was noted as present for the Council's meeting however a letter of excuse was then provided by the Council in his regard. It was also noted that Councillor Ian Vassallo was excused from the same meeting. However, upon further enquiry, the Executive Secretary informed us that the Councillor was present for the Council's meeting.

The Councillor Doris Coleiro failed to attend at least one third of the Council meetings held between the months of July and December. We did not find any declaration in this respect in the Council's minutes and the Executive Secretary confirmed that no letter has been sent to the Ministry in this respect.

##### Issues Arising

###### A Issues Arising

In line with article 32(2) of the Local Councils' Act (Cap. 363), councillors' allowances are paid pro-rata with the attendance to Council meetings by same. Any absenteeism should be deducted from the allowance on a pro rata basis.

Memo 108/2010 states that it is not sufficient for a Councillor to verbally inform the Executive Secretary of his/her absence. This has to be made in writing and a copy of that e-mail or letter has to be attached to the minutes. It is essential that the Council's minutes reflect exactly who has attended or otherwise.

Article 18 of the Local Councils Act (Cap 363) states that: "*Councillors shall attend all meetings as provided under this Act and the Minister shall, after he has been informed by the Executive Secretary, by notice under his hand addressed to the Executive Secretary, declare a seat to be vacant on failure of the councillor to attend four meetings or in the aggregate more than one-third of the meetings called within a period of six months and in the opinion of the Minister such absence was not justified*".

Although the Council deemed this absence to be justified, the second proviso to article 18 states further that: "*Provided further that if the Council has resolved that the absence is due to a justifiable cause, the Executive Secretary in informing the Minister of the councillor's failure shall also transmit the recommendation of the Council for the Minister not to declare the seat vacant*".

##### Recommendations

The Council should ensure that the minutes properly reflect the Councillors who were present / absent or excused from the Council's meetings. With respect to the Councillor who failed to attend at least one third of the Council's meetings, we recommend the Council to immediately place this item on the Agenda, make the necessary resolutions and inform the Department of the outcome accordingly.