



SAN GILJAN

San Giljan Local Council

Annual Report
and
Financial Statements

1 January – 31 December 2012

Prepared by JCA Limited

REGISTRY

30 APR 2013

NATIONAL AUDIT OFFICE

**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2012**

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Financial Statements for the year ended 31 December 2012

Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's Statement of Comprehensive Income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on 26th March 2013 by:



Peter Bonello
Mayor



Helen Walker
Executive Secretary


STATEMENT OF FINANCIAL POSITION

As at 31 December 2012


	Notes	2012 €	2011 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	<u>251,348</u>	<u>216,899</u>
		<u>251,348</u>	<u>216,899</u>
Current Assets			
Receivables	4	67,060	60,778
Cash and Cash Equivalents	5	<u>602,729</u>	<u>625,822</u>
		<u>669,789</u>	<u>686,600</u>
Total Assets		<u><u>921,137</u></u>	<u><u>903,499</u></u>
RESERVES AND LIABILITIES			
Capital and reserves			
Retained Fund		585,071	613,009
Non-current Liabilities			
Long term borrowings	6	76,217	77,201
Deferred Income	7	115,223	106,590
Liabilities			
Payables	8	139,497	99,143
Current portion of long term borrowings	6	5,129	7,556
TOTAL RESERVES AND LIABILITIES		<u><u>921,137</u></u>	<u><u>903,499</u></u>

The notes on pages 8 to 21 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on 26th March 2013 and signed on its behalf by:



Peter Bonello
Mayor



Helen Walker
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

		2012 €	2011 €
REVENUE	Notes		
Funds received from central government	9	692,306	582,608
Income raised under Local Council Bye-Laws	10	23,436	25,591
Income raised under Law Enforcement System	11	198,689	225,431
General Income	13	13,661	10,232
		<u>928,092</u>	<u>843,862</u>
 EXPENDITURE			
Personal emoluments	14	(134,642)	(124,155)
Operations and maintenance	15	(684,388)	(535,290)
Administration and other expenditure	16	(134,458)	(150,271)
		<u>(953,488)</u>	<u>(809,716)</u>
 Operating (Loss)/Income for the year		 (25,396)	 34,146
 Investment income	12	 1,814	 1,864
Finance costs	17	(4,356)	(3,612)
Total Comprehensive (Loss)/Income for the year		<u>(27,938)</u>	<u>32,398</u>

The notes on pages 8 to 21 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Retained Funds 2012 €	Retained Funds 2011 €
At 1 January	613,009	580,611
Total Comprehensive (Loss)/Income for the year	(27,938)	32,398
At 31 December	<u>585,071</u>	<u>613,009</u>

The notes on pages 8 to 21 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	2012 €	2011 €
Note		
Cash Flows from Operating Activities		
Total Comprehensive (Loss)/Income for the year	(27,938)	32,398
Adjustments for:		
Depreciation	9,203	8,562
Increase in grants	(55,914)	-
Interest receivable	(1,814)	(1,864)
Interest payable	4,356	3,612
Operating Profit before Working Capital Changes	(72,107)	42,708
(Increase)/Decrease in receivables	(11,281)	71,377
Increase in payables	39,688	6,558
Net Cash (outflow)/inflow from operating Activities	(43,700)	120,643
	<u>(43,700)</u>	<u>120,643</u>
Cash flows from Investing Activities		
Purchase of Property, Plant and Equipment	(38,652)	22
Interest receivable	1,814	1,864
Cash Flow used in Investing Activities	(36,838)	1,886
Cash flows from financing activities		
Repayment of bank loans	(3,410)	(3,944)
Grants received	65,000	19,455
Interest paid	(4,145)	(3,612)
Cash and cash equivalents	(23,093)	134,428
Cash and Cash Equivalents at the Beginning of year	625,822	491,394
Cash and Cash Equivalents at the End of year	5 <u>602,729</u>	<u>625,822</u>

The notes on pages 8 to 21 are an integral part of the financial statements.

Notes to the Financial Statements for the period ended 31 December 2012

1. General Information

San Giljan Local Council is the local authority of San Giljan setup in accordance with the Local Councils Act.

The office of the Local Council is situated at Triq Forrest, San Giljan.

2. Accounting Policies and Reporting Procedures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Accounting convention

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap 363).

The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

b. Standards, amendments and interpretations to existing standards

Annual Improvements: 2012 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the council

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the council.

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that are expected to be relevant to the Council's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant and therefore are not expected to have a material impact on the council's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Council members have yet to assess the impact that this amendment is likely to have on the financial statements of the council. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

Notes to the Financial Statements for the period ended 31 December 2012 – continued

c. Revenue recognition

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the income statement as it accrues.

d. Local Enforcement System

San Giljan Local Council formed part Group H Joint Committee until 2011. During 2012 the amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses as well as the administrative fee of 10% that is now chargeable to the respective Regional Committees for contraventions paid at the Council.

e. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement basis
Playground furniture	100
Traffic and Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each financial reporting date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Notes to the Financial Statements for the period ended 31 December 2012 – continued

f. Government Grants

Government grants are accounted for on the Income Approach according to IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

g. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

h. Amounts Receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amounts of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

i. Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro which is the Council's functional and presentation currency.

j. Surplus and deficits

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

k. Cash and Equivalents

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

Notes to the Financial Statements for the year ended 31 December 2012 - continued

l. Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24.

During the year under review, the Local Council's related party that exercises a significant control was the Department for Local Government. The parties that exercise no control were Water Services Corporation and Malta Environment and Planning Authority whereas there was joint control with the Gozo Joint Committee.

m. Payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

n. Financial Instruments

Financial assets and financial liabilities are recognised when the council becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets of the council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Notes to the Financial Statements for the year ended 31 December 2012 - continued

Financial liabilities

The council's financial liabilities include other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

All interest-related charges are included within 'finance costs'.

o. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the council members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

p. Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowing.

Subsequent to initial recognition, all interest-bearing borrowings, other than liabilities held for trading, are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement. Liabilities which are held for trading are subsequently measured at fair value.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements for the period ended 31 December 2012 - continued**3a Property, Plant and Equipment**

Tangible Assets	Property	Office Furniture /fittings	Computer Equipment	Urban Improvements	Assets Not yet Capitalised	New Street Signs	Construction	Special Programmes	Total
Cost	€	€	€	€	€	€	€	€	€
At 1 January 2012	185,798	63,363	37,984	23,214	-	9,707	216,686	1,422,908	1,959,660
Additions	-	4,280	-	-	-	-	-	34,372	38,652
At 31 December 2012	185,798	67,643	37,984	23,214	-	9,707	216,686	1,457,280	1,998,312
Grants									
At 1 January 2012	-	-	-	-	-	-	-	(1,139,777)	(1,139,777)
Adjustment	-	-	-	-	-	-	-	5,000	5,000
At 31 December 2012	-	-	-	-	-	-	-	(1,134,777)	(1,134,777)
Depreciation									
At 1 January 2012	(13,777)	(54,390)	(27,194)	(18,327)	-	(9,476)	(216,686)	(263,134)	(602,984)
Charge for the year	(1,712)	(848)	(2,409)	(893)	-	(22)	-	(3,319)	(9,203)
At 31 December 2012	(15,489)	(55,238)	(29,603)	(19,220)	-	(9,498)	(216,686)	(266,453)	(612,187)
Net Book Value									
At 31 December 2012	170,309	12,405	8,381	3,994	-	209	-	56,050	251,348

Notes to the Financial Statements for the period ended 31 December 2012 - continued

3b Property, Plant and Equipment

Tangible Assets	Property	Office Furniture / fittings	Computer Equipment	Urban Improvements	New Street Signs	Construction	Special Programmes	Total
Cost	€	€	€	€	€	€		€
At 1 January 2011	185,798	63,363	37,809	23,214	9,707	216,686	1,423,105	1,959,682
Additions	-	-	175	-	-	-	-	175
Adjustment							(197)	(197)
At 31 December 2011	185,798	63,363	37,984	23,214	9,707	216,686	1,422,908	1,959,660
Grants								
At 1 January 2011	-	-	-	-	-	-	(1,139,777)	(1,139,777)
Additions	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	-	-	(1,139,777)	(1,139,777)
Depreciation								
At 1 January 2011	(12,047)	(53,689)	(24,116)	(17,811)	(9,051)	(216,686)	(261,022)	(594,422)
Charge for the year	(1,730)	(701)	(3,078)	(516)	(425)	-	(2,112)	(8,562)
At 31 December 2011	(13,777)	(54,390)	(27,194)	(18,327)	(9,476)	(216,686)	(263,134)	(602,984)
Net Book Value								
At 31 December 2011	172,021	8,973	10,790	4,887	231	-	19,997	216,899

Notes to the Financial Statements for the period ended 31 December 2012 – continued

	2012	2011
	€	€
4 Receivables		
Receivables	28,244	55,064
Prepayments and accrued income	38,816	5,714
	<u>67,060</u>	<u>60,778</u>

Receivables

Within the credit period	67,060	60,778
Exceeded credit period but not yet impaired	-	-
	<u>67,060</u>	<u>60,778</u>

5 Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the Local Council's Statement of Financial Position:

	2012	2011
	€	€
Bank Balances:		
Operating bank Accounts	600,174	625,589
Cash in hand	<u>2,555</u>	<u>233</u>
Cash at bank and in hand	<u>602,729</u>	<u>625,822</u>

6 Long term and short term borrowings

	2012	2011
	€	€
Long term portion of bank loan	76,217	77,201
Short term portion of bank loan	<u>5,129</u>	<u>7,556</u>
	<u>81,346</u>	<u>84,757</u>

These borrowings relate to the loan taken to acquire the Council's premises

	2012	2011
	€	€
Interest rate exposure		
At fixed rates	81,346	84,757
	<u>81,346</u>	<u>84,757</u>

Effective interest rates at the date of the statement of financial position

	2012	2011
	%	%
At fixed rates	<u>3.9</u>	<u>3.9</u>

San Giljan Local Council

Notes to the Financial Statements for the period ended 31 December 2012 – continued

Long term and short term borrowings	2012	2011
	€	€
Between 1 and 2 years	15,112	15,112
Between 2 and 5 years	22,668	22,668
Over 5 years	43,566	46,977
	<u>81,346</u>	<u>84,757</u>

7 Deferred Income

	2012	2011
	€	€
Between 1 and 2 years	11,009	19,394
Between 2 and 5 years	27,107	22,681
Over 5 years	77,107	64,515
	<u>115,223</u>	<u>106,590</u>

8 Payables

	2012	2011
	€	€
Accounts payable	80,509	34,701
Deferred Income	453	-
Accruals	58,535	64,442
	<u>139,497</u>	<u>99,143</u>

9 Funds received from Central Government

	2012	2011
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	622,753	577,370
Other Government Income	69,553	5,238
	<u>692,306</u>	<u>582,608</u>

10 Income raised under Local Council Bye-Laws

	2012	2011
	€	€
Income from contravention of Bye-Laws	<u>23,436</u>	<u>25,591</u>

11 Local Enforcement Income

Pre-Regional Committees	192,172	224,391
Regional Committees -		
Administrative Fees	6,517	1,040
	<u>198,689</u>	<u>225,431</u>

12 Investment income

	2012	2011
	€	€
Bank Interest Receivable	1,814	1,864
	<u>1,814</u>	<u>1,864</u>

Notes to the Financial Statements for the period ended 31 December 2012 – continued

	2012	2011
	€	€
13 General Income		
Income from tender documents	810	2,094
Other	11,201	7,188
Contributions and donations	1,650	950
	<u>13,661</u>	<u>10,232</u>
14 Personal Emoluments	2012	2011
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	9,808	5,706
Councillors' Allowance	10,700	8,586
Executive Secretary salary and allowances	30,199	30,245
Employees' Salaries	75,345	71,370
Social Security Contributions	8,590	8,248
	<u>134,642</u>	<u>124,155</u>
15 Operations and Maintenance	2012	2011
Operations and maintenance includes, inter alia:	€	€
<i>Repairs and Upkeep:</i>		
Road and Street Pavements (patching works)	181,466	113,142
Public property	56,476	-
Street signs	7,056	3,779
Road markings	16,118	11,833
Other	6,363	2,116
Total	<u>267,479</u>	<u>130,870</u>
<i>Contractual Services:</i>	2012	2011
	€	€
Refuse Collection	146,758	142,178
Bulky Refuse Collection	9,265	13,716
Road and Street Cleaning	175,353	165,411
Cleaning and Maintenance - Public Conveniences	17,528	17,528
Cleaning and Maintenance - Parks and gardens	18,049	17,801
Support Services	3,590	3,795
Street Lighting	41,846	27,344
Other	4,520	16,647
	<u>416,909</u>	<u>404,420</u>
Total Operations and Maintenance Expenses	<u>684,388</u>	<u>535,290</u>

Notes to the Financial Statements for the period ended 31 December 2012 – continued

16 Administration and other expenditure	2012	2011
	€	€
Utilities	10,545	8,070
Other repairs and upkeep	5,919	7,619
Rent	1,500	1,500
National and International Memberships	962	688
Office Services	11,631	12,767
Travel	9,073	4,401
Transport	818	567
Bank charges	172	199
Other contractual services	4,186	6,079
Professional Services	22,607	36,012
Community services and events	52,961	60,060
Training	550	1,668
Penalty	4,331	2,079
Depreciation	9,203	8,562
	<u>134,458</u>	<u>150,271</u>
17 Finance Cost	2012	2011
	€	€
Interest on bank loan	4,356	3,612
	<u>4,356</u>	<u>3,612</u>

18 Capital Commitments

Details of capital commitments at the accounting date are as follows:

	2012	2011
	€	€
Approved and contracted for:		
Bank loan repayment on Council Premises	<u>7,560</u>	<u>7,560</u>
Approved but not yet contracted for:	<u>172,877</u>	<u>99,411</u>
Approved but not yet contracted for:		
Construction	169,377	95,911
Office furniture and fittings	2,500	2,500
Office equipment	<u>1,000</u>	<u>1,000</u>
	<u>172,877</u>	<u>99,411</u>

19 Contingent Liability

The amount of €7,237 is being claimed by Wasteserve Malta Limited. The Council followed instructions received from LCA through circular 43/2010 dated 26 July 2010 wherein it was stated that the council is not to pay tipping fees in excess of the Government tipping fees allocated. During 2010 the council only recorded the amount payable; whereas the full invoice amount was recorded under creditors in the following years.

Notes to the Financial Statements for the period ended 31 December 2012 – continued

20 Related Parties Disclosures

During the year under review, the Council carried out transactions with the following related parties:

Name of entity	Nature of relationship
Department of Local Councils	Significant control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Regional Committee	No control

The following were the significant transactions carried out by the Council with related parties having:

	2012	2011
Significant control:	€	€
Annual financial allocation	<u>622,753</u>	<u>577,370</u>

The ultimate controlling party of the local is Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

The Council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works.

21. Risk management objectives and policies

The Council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flow by minimising exposure to financial risks.

The most significant financial risks to which the council is exposed are described below.

21.1 Credit risk

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

	2012	2011
Class of financial assets – carrying amounts	€	€
Trade and other receivables	60,988	55,064
Cash and Cash Equivalents	<u>602,729</u>	<u>625,822</u>
	<u>663,717</u>	<u>680,886</u>

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 4 for further information on impairment or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Notes to the Financial Statements for the period ended 31 December 2012 – continued

21.2 Liquidity risk

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities which comprise payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funds to meet the council's obligations when they become due.

The council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity is deemed to be sufficient in view of an excess of financial assets.

	2012	2011
	€	€
Payables	139,044	99,143
Current portion of long term borrowings	5,129	7,556
	<u>144,173</u>	<u>106,699</u>
Long term and short term borrowings	2012	2011
	€	€
Current within 1 year	5,129	7,556
Due in 1 to 5 years	30,224	30,224
Due after 5 years	45,993	46,977
	<u>81,346</u>	<u>84,757</u>

21.3 Interest rate risk

The Council has no significant interest-bearing assets other than cash and cash equivalents (Note 5), issued at variable rates. Cash and cash equivalents issued at variable rates expose the Council to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

21.4 Summary of the financial assets and liabilities by category

The carrying amounts of the Council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows:

	2012	2011
	€	€
Current Assets		
Loans and receivables:		
Trade and other receivables	60,988	55,064
Cash and Cash Equivalents	<u>602,729</u>	<u>625,822</u>
	<u>663,717</u>	<u>680,886</u>
Non-current Liabilities		
Financial liabilities measured at amortised costs:		
Borrowings	76,217	77,201
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	139,044	99,143
Borrowings	<u>5,129</u>	<u>7,556</u>
	<u>144,173</u>	<u>106,699</u>

21.5 Capital risk management

The Council's objectives when managing capital are to safeguard the Council's ability to continue as a going concern so that it can continue to provide a service to the residents of the Local Council by maintaining an optimal capital structure to reduce cost of capital.

The Council's equity, as disclosed in the statement of financial position, constitutes its capital. The Council's capital structure is monitored by the Executive Secretary and the Council with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Council's activities and the extent of borrowings, the capital level as at the end of the reporting period is deemed adequate by the Council.

At 31 December 2012, the carrying amounts of cash at bank, receivables and payables reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

Financial Statements for the year ended 31 December 2012

Report of the Local Government auditor to the Auditor General

We have audited the accompanying financial statements of San Giljan Local Council which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of the Local Council and Local Government auditors

As described in page 3, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

1. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Group H Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Group H Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. Included in LES income of € 198,689 is an amount of € 192,172 received during the year from Group H Joint Committee. We were unable to determine the amount of further income the Council is entitled to receive from Group H Joint Committee since its audited financial statements for the year ended 31 December 2011 were not made available to us.
2. The council has not provided for an amount of € 7,237 relating to amounts charged by a third party for waste tipping services. The council is not recognising this amount on the strength of a circular issued by the Local Councils Association which advised councils not to pay amounts for tipping services which exceed the amount allocated by Government to the council for this purpose. Since the council cannot presently determine the ultimate outcome of the matter, no provision for any liability that may result has been recognised in the financial statements.
3. Included with current liabilities under "Accounts Payable" in note 8 to the financial statements is an amount of €24,551 which is due to capital creditors. Of this amount, a total of € 13,749 is due to be paid after more than one year.
4. The quantitative disclosures required by IFRS 7, Financial Instruments: Disclosures relating to credit risk (refer to note 4) do not include the required disclosures about financial assets that are either past due or impaired.

San Giljan Local Council

Financial Statements for the year ended 31 December 2012

Report of the Local Government auditor to the Auditor General (continued)

5. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

Qualified Opinion

In our opinion, except for the effects of the matters described in paragraphs 1, 2, 3 and 4 above, the financial statements give a true and fair view of the financial position of San Giljan Local Council as of 31 December 2012, and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 8 to 12.

Because of the matter set out in paragraph 5 above, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraphs 2, 3 and 4 above these financial statements have not been prepared in accordance with International Financial Reporting Standards.



Mark Bugeja
f/Grant Thornton
Certified Public Accountants
Grant Thornton
Tower Business Centre, Suite 3
Tower Street
Swatar BKR 4013

26 March 2013

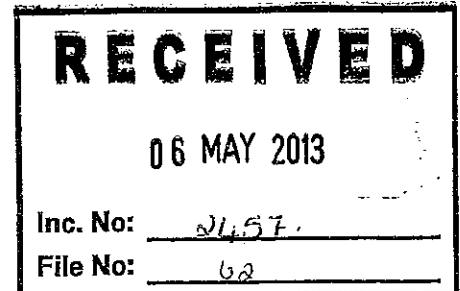
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Website: www.nao.gov.mt

Our Ref: NAO 107/2010/52
Your Ref:

2nd May 2013

The Mayor and Executive Secretary
St Julians Local Council
St Julian's



Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2012**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2012.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.

The Mayor
San Giljan Local Council
Triq Forrester
San Giljan

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Our ref ABC/scl/038913

26 March 2013

Dear Sir,

Financial statements for the year ended 31 December 2012

During the course of our audit for the year ended 31 December 2012 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We did not come across instances where income relating to prior year was recorded in the current year.

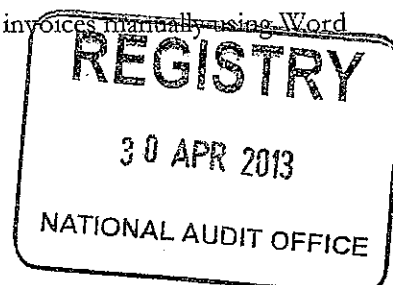
We did not encounter instances where general income was wrongly recorded. However, during the year under review, the council has withdrawn from the 'Balluta Accessibility Project' but incorrectly left € 5,000 recorded as accrued income in the book of accounts (refer to note 6.7).

From the sample chosen on income earned from regional committee we did not encounter instances where income from regional committees was not accrued for.

During the year under review the council has incorrectly released a portion of the grant to profit and loss. Consequently the apportionment of deferred income into its short term and long term was also incorrect (refer to notes 2.3 – 2.8).

Similarly to previous years we were not provided with the audited financial statements of the joint committee (refer to note 9).

The council continued with its policy of issuing invoices manually using Word (refer to note 2.9).



1.2 Fixed assets

A minimal difference was still identified in the depreciation charge (refer to note 3.1).

From the selections we made on fixed asset additions we did not come across instances where no quotations were issued when the amount exceeds € 1,165 as in accordance with memo 1/2010. However we came across four payments made to the same supplier within a month. The total amount of these payments exceeded € 4,658 and no tender was issued (refer to note 4.7).

1.3 Expenditure

The council has not updated its asset insurance policy in line with the replacement cost of assets (refer to note 4.9).

The council is still reimbursing the executive secretary with a fixed amount for making use of her personal mobile and car (refer to 4.12).

We still identified instances where petty cash expenditure exceeded the € 23.29 limit imposed by the Procedures (refer to note 4.1).

When reviewing tenders we noted that the schedule of offers for one of the calls for tenders was again not underlined (refer to 4.4).

We did not identify instances where the council did not allow at least one month between the date of publication of the tender and the closing date for the submission of offers.

We did not encounter instances where the contract period was more than allowed by the Procedures. However, one of the contracts was not provided to us. Hence we could not verify the duration of the contract (refer to 4.6).

Not all of the petty cash payments selected were supported by an invoice addressed to the council (refer to 4.1).

The net cost incurred on 'Lapsi Feast' amounted to € 5,615. No clarification was obtained as to whether this event should be considered as the locality day (refer to 4.14).

1.4 Payroll

We were not provided with a wages reconciliation. When preparing our own wages reconciliation, an un-reconciled discrepancy was identified between FSS forms and the book of accounts (refer to 5.1).

The council has resolved the matter and is now receiving refunds of the excess honorarium paid in prior years.

1.5 Receivables

We did not encounter instances where the council did not distinguish between debtors and accrued income in the book of accounts.

The council has still not resolved the matter with Schranz Limited and is still showing a balance receivable of € 1,623.15 (refer to note 6.3).

The council has correctly recorded for prepaid rent.

1.6 Creditors

The council did not obtain statements from all suppliers to confirm the year-end balances (refer to 7.1).

The council remained firm in its position not to account for the full invoices received in prior years from WasteServ Malta Limited (refer to note 8).

1.7 Meetings and minutes of meetings

The council is still not binding its minutes of meetings held (refer to note 13).

We were provided with the excuse letter in cases where councillors failed to attend meetings.

1.8 Financial statements

Some of the disclosures in the unaudited financial statements were not in accordance with IFRS's (refer to 11.6).

Some shortcomings were still identified in the cash flow statement (refer to note 11.3).

The bank has blocked € 5,000 from the council's account as a guarantee for the 'Balluta Accessibility Project'. The council failed to inform the bank that it has withdrawn from this project. Consequently, in their reply the bank is still showing a guarantee of € 5,000, which the council is not disclosing in the unaudited financial statements (refer to note 11.5).

1.9 Bank loan

When re-performing loan calculations we still did not agree with what is disclosed as short term in the unaudited financial statements (refer to note 10).

1.10 Posting/grouping of the accounts

We identified some instances where expenses were not being classified consistently from year to year (refer to note 11.8).

1.11 Chart of accounts

Although pointed out in previous years, the council is still using thirty two nominal accounts in relation to fixed assets (refer to note 11.8).

1.12 Reply to management letter

The council has improved its reply to our prior year management letter by providing specific and detailed responses.

1.13 Theft from premises

The council has resolved the matter and received the amount claimed from the insurance during the year under review.

2 Income

Custodial receipts

- 2.1 Although, the council has a cash collection service, we came across one instance where the council did not deposit its custodial receipt in accordance with the Procedures.
- 2.2 We recommend that the council ensures that the cash collection contractor deposits all receipts twice weekly to adhere to the Procedures.

Income from grants on capital project

- 2.3 During 2011, the council qualified for two grants of € 58,944.68 and € 30,911.26 relating to PPP scheme and UIF funds (Moll Kavallier Hotel) respectively. The UIF project is not completed and only one road was completed from the PPP scheme. The council incorrectly released a portion of the grant receivable on these projects amounting to € 8,584.99. An adjustment was proposed to reverse these entries in the book of accounts. The adjustment was incorporated in the final set of financial statements.
- 2.4 As already highlighted in point 2.3 above, only one road (Claire E. Engel Street) of the PPP Scheme was completed. This project involves the resurfacing of fifteen roads. We were informed that, apart from the fact that the contractor should have completed the works by the end of the year under review, it refused to continue the other roads claiming that the costs of materials used are much higher than the amount quoted on the tender, i.e., the contractor wants to revise the amount included in the tender. The council refused to revise the tender. The executive secretary also informed us that in the meeting held on the 26 February 2013, the council decided to reconsider whether the contract should be terminated in the following agenda. Therefore we have proposed an adjustment of € 197.14 to release a portion of the grant based on the proportion of the total cost of the project (€ 34,371.74/€ 428,215.30).
- 2.5 We remind the council that, in accordance with LAS 20, the release of grants from income should be in line with the depreciation charge. To this end, we recommend that the council compiles a schedule of deferred grants that appropriately apportions the grant over the useful life of the asset in accordance with the depreciation rate of the assets concerned.
- 2.6 Due to the omission mentioned in points 2.3 and 2.4 above, the council did not properly apportion deferred income into its short-term and long-term components and make these disclosures in the notes to the financial statements. The basis of apportionment should be based on the period within which the income from the grant is expected to be released. We have proposed an adjustment to reclassify deferred income into the correct short and long-term portions. The council has included the above mentioned reclassification in the audited financial statements.



Income from grants on Housing Estate Project

- 2.7 When testing income from grants we noted an amount of € 1,121 which is a portion of grant, relating to the Housing Estate Project, released to profit and loss. We brought to the council's attention that this grant does not relate to capital assets of the council. The council is simply acting as an intermediary between the Housing Authority and the owners of the housing estates. Hence, the income earned should be transferred to profit and loss against the respective total cost incurred. The total cost incurred during the year under review, amounted to € 55,716. We therefore proposed an adjustment to reverse the amount of € 1,121 as mentioned in this point above. A further adjustment was proposed to release € 55,716 of the grant to profit and loss. These adjustments were properly reflected in the audited financial statements.
- 2.8 Furthermore, when testing the expenses relating to the maintenance of the housing estate we noted that an amount of € 3,520 was incorrectly recorded with street pavements. We have proposed a reclassification and this was reflected in the audited financial statements.

Invoices

- 2.9 Although in the previous management reply the council stated that *'in 2012 invoices will be issued using the accounting software,'* we noted that invoices were still being issued manually through Word. We reiterate our recommendation and encourage the council to start using the accounting software. This will enhance controls on income and receivables.

3 Fixed assets

Depreciation charge

- 3.1 We tested the council's depreciation charge for reasonableness and identified a minor difference of € 293. The difference mainly relates to new street signs. The council is recognising depreciation of € 22 leading to a net book value of € 209. Prior to the introduction of the replacement basis policy the council used to depreciate new street signs at the rate of 100%. In this case the council had incorrectly depreciated street signs at 10%. Hence the NBV should be nil.
- 3.2 In its reply to the previous management letter, the council stated that *'the street signs that are still showing in the fixed assets register will be fully depreciated during 2012.'* This was not the case.
- 3.3 We recommend the council removes the remaining balance and subsequently adopts the replacement method for street signs.

4 Expenditure

Petty cash payments

4.1 When testing petty cash payments we identified the following:

7 March 2012	Scotts Ltd	€	Note
Two coca cola, sandwich ham, stuffed olives, four slice sandwich, four galletti and two dips		18.18	a
24 May 2012	Inspiration		
Consumables and cleaning supplies		12.10	a
6 July 2012	Spinola Paint Store		
Screws, three hasps and four padlocks for Dun Anton Garden		11.60	a
16 July 2012	Scotts Ltd		
One dettol disinfectant, one enka auto chamo, one parazone bleach, one svelto, three coffee, one Tetley tea bags, one paradior plus, one bagno rilassante, five packets of biscuits, one sugar, toilet paper.		37.43	a/b
1 August 2012	Busy Bee Ltd		
Two kannoli, one kinnie and one local beer		6.80	a
14 August 2012	Arena Laundry		
Cleaning of flags		23.07	a
7 September 2012	Scotts Ltd		
One toilet paper, four coffee, one sgrassatore, two parazone bleach, three garbage bags, six packets of biscuits, two Tetley tea bags, one camomilla, one bagno sensitive, one fair dish wash and one sugar		40.78	a/b
1 October 2012	CVA Technology Co Ltd		
Parking in Valletta regarding meeting at Auberge de Castille		4.10	a
4 October 2012	Ms Graziella Debono		
Cleaning of council premises		11.60	a
16 October 2012	Gozo Channel Co Ltd		
Meeting at Ghajnsielem regarding ANSEK		15.70	a
23 November 2012	Scotts Ltd		
Four packets of biscuits, one Tetley tea bags and one granulated sugar		7.72	a
1 December 2012	Hompesh Stationery/ Tonna Stationery		
Newspapers		14.15	a

- a These petty cash payments were supported by cash register chits and not invoices addressed to the council. We understand that, in some instances, only a cash register chit can be obtained for petty purchases. However, this is in contravention of the Local Councils (Financial) Procedures 1996, which specifically require that supplies are only made on the provision of an invoice which is addressed to the council.
- b These amounts exceeded the limit imposed by the procedures of € 23.29. The executive secretary informed us that it cannot waste the time of one of its employees to avoid exceeding the limit of € 23.29. However, we noted that these purchases were made after half past six in the evening. We remind you that the Local Councils (Financial) Procedures, 1996 limit petty cash expenditure to € 23.29 and payments in excess of this amount require the issue of a purchase order. It is important that petty cash expenses should only be incurred for the purposes of the council's duties. This does not include supply of food to staff.

Performance bond

- 4.2 When reviewing tenders, we noted that, in the case of tender 52/01/2012, construction of a ramp for ease of accessibility at Moll, the successful bidder failed to furnish the performance bond on time.
- 4.3 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within seven days from the date of the letter of acceptance.

Schedule of offers

- 4.4 Whilst testing tenders we noted that for tender mentioned in point 4.2 above, although a schedule of offers was completed and correctly witnessed when the tender box was opened, the list was not underlined to indicate cut-off after the last tenderer.
- 4.5 We recommend that this procedure is adopted to reflect good business practice and to obviate the possibility of the addition of further tenders at a later time.

Contract missing

- 4.6 For tender mentioned in point 4.2 above, the contract agreement with the supplier is missing. Thus we were unable to determine the date when the contract was entered into and its duration.

Call for tenders

- 4.7 Our audit tests on expenditures identified total payments of € 11,718 incurred during June, to Leon Promotions who organised the Lapsi Feast. The council did not make a tender call for this service but obtained a quotation in accordance with memo 1/2010. However, we were informed that a tender was issued in November 2012 for this service.
- 4.8 We draw your attention to the Local Councils (Financial) Procedures, 1996 which state that a similar purchase within four months is to be considered as one single purchase. We further refer to the Local Councils (Tendering) Procedures which require purchases in excess of € 4,658 to be duly supported by a call for tenders. This includes advertising the call on the Government Gazette and another local

newspaper as well as the preparation of a schedule of offers for all tender offers received.

Asset insurance

- 4.9 During our audit we noted the council has not updated the asset insurance policy in line with our recommendations in our previous management letter.

Asset	Sum insured €	Cost as per accounts €
Property	204,448	185,798
Office furniture, fittings and others	43,143	105,627
	<u>247,591</u>	<u>291,425</u>

- 4.10 The council in its reply to our previous management letter stated that “*asset insurance is usually calculated at replacement cost. The buildings for example are usually calculated at rebuild and finishing cost for insurance purposes, since in the case of a disaster, the council will still have title to the land on which the property is built.*” Although this is a valid point we still recommend that the council reviews its insurance policy every year to ensure that assets held are not over-or under-insured. In accordance with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 the executive secretary should carry out a periodic review to assess the adequacy of the insurance coverage.

- 4.11 On the other hand, due to the nature of certain assets such as urban improvements and street furniture the Department is encouraged by the NAO to issue clear and specific guidance, on the nature of insurance cover that every council is expected to have in place. Whilst eliminating any anomalies that may arise from time to time, this also ensures that councils are adequately insured so that in case of any accident, loss or damage, the cost of the assets will be recovered and subsequently replaced.

Reimbursement of expenses

- 4.12 The council remained firm to its decision relating to the payment of fixed amounts of € 186 and € 93 per quarter to the executive secretary for making use of her personal mobile and car for council purposes.
- 4.13 In its reply to our previous management letter the council stated that this relates to ‘*the council decision which was taken years ago*’. We recommend the council seeks the Department’s approval as the Procedures specifically dictate that fuel and mobile phone costs should be made on a mileage and call-by-call basis respectively.

Lapsi Feast

- 4.14 During the year under review the council incurred a net amount of € 5,615 for organising the ‘Lapsi Feast’. It is unclear whether this feast is organised instead of the locality day feast.
- 4.15 In the previous management letter we pointed out that the council should seek clarifications from the Department as to whether such event should be governed by memo 8/2011. If this is the case the council has contravened the memo. However, the council sought no clarification from the Department.
- 4.16 We reiterate our recommendation that the council should seek the Department’s advice as to whether this event should be governed by memo 8/2011 thus limiting

the cost of both the locality day and staff lunch to € 3,500 or 0.5% of the allocation, whichever is higher.

Donation

- 4.17 When reviewing the minutes, the council unanimously approved to allocate between € 500 and € 700 for the two band clubs and their committees. The money was given for refreshments to be offered to the two locality band clubs during the locality feast period.
- 4.18 This expense can be misleading and interpreted as a form of donation. Donations are contrary to Section 63A of the Local Council Act which prohibits the payment by local councils of any form of donation whether in cash or in kind. If there is any doubt, we recommend that the council seeks advice from the Department.

Travelling expenses

- 4.19 When reviewing the expenditure, we noted that both the mayor and the executive secretary went to Ireland for an 'ECAD' conference and Riccione and incurred approximately € 5,000 and € 3,000 respectively for these events. We have asked for the travelling reports to determine how costs were incurred and whether the subsistence allowances taken were in accordance with circular MF/5/2012.
- 4.20 May we remind the council that circular MF/5/2012 states that the provision of subsistence allowance include the following:
- 'a) when accommodation and breakfast is provided the subsistence allowance shall be reduced by 60%.*
- b) Instances may arise where the host organiser/s of the meeting give/s an allowance to cover the hotel, meals and all the other sundry expenses incurred during the meeting directly to the participating officer, despite the fact that such an officer has already been given the subsistence allowance by his/her department. Such allowance is to be reimbursed by the officer concerned to his/her department/entity ministry.'*
- 4.21 The circular further adds that a report on each visit is to be submitted by the delegate to the director responsible for corporate services by not later than one month after the visit. The report shall include a short explanation about the purpose of the visit, including the aims/goals of the visit, the delegate's personal remarks, the benefits achieved from such a visit, the officials to be alerted about the outcome of the visit and the issues to be followed up in Malta.
- 4.22 Since we were not provided with the information above we were unable to satisfy ourselves that the amount recorded as travelling expenses incurred is correct and in accordance to the travel guidelines issued by the Government.

5 Payroll

Wages reconciliation

- 5.1 The council did not prepare a reconciliation between wages in the accounts and those in the FSS forms submitted to the Commissioner of Inland Revenue. Furthermore, our reconciliation of payroll expenses to FS5's that are submitted to

the Inland Revenue Department on a monthly basis revealed a difference of € 462.59. We also noted a difference of € 1,195 between the FS5's and FS7.

- 5.2 We recommend that the council prepares a reconciliation at least on an annual basis and makes every effort to reconcile any differences between the wages and salaries expense in the accounts and the FSS forms submitted before finalisation of the accounts.
- 5.3 Furthermore, we recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue and that the necessary adjustments to FSS forms are made to ensure that the amount declared tallies with the balances recorded in the accounting records.

6 Trade and other receivables

Trade receivables

- 6.1 When performing the alternative procedures for one of the debtors (Green MT), we noted a difference of € 3,828. The council has incorrectly recorded a receipt against this debtor's balance of € 2,520. The executive secretary informed us that this receipt does not relate to this balance. Furthermore, we noted that one of the invoices amounting to € 1,308 was omitted by mistake from the book of accounts. We have proposed an audit adjustment to reflect these misstatements in the council's book of accounts. This was properly incorporated in the audited financial statements.
- 6.2 Our testing on trade debtors further revealed a discrepancy of € 245 between the invoices issued and accounts. This difference relates to the balance owed by the Central Regional Committee. We recommend that reconciliations of debtors' balances are carried out regularly, preferably monthly.

Overdue receivables

- 6.3 Included in trade receivables is a long-outstanding debtor of € 1,623.15 due from Schranz Limited. This has been due for over two years.
- 6.4 We acknowledge that the council is doing its utmost to collect all amounts receivable. Meanwhile, we recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for these amounts after obtaining the approval of the council in meetings.

Prepayments

- 6.5 When testing expenses we came across amounts paid of € 1,245 relating mainly to the cost of air tickets for the mayor to travel to China in January 2013. These expenses, even though paid in 2012, relate to 2013. Hence these should have been treated as prepayments. No adjustment has been proposed as the amount is deemed to be immaterial.
- 6.6 We recommend that the council's provision for prepaid expenditure is computed reasonably and is properly accounted for so as to reflect the expenditure based on the accrual concept.

Accrued income

- 6.7 In a council meeting the council approved to withdraw from the project regarding 'Balluta Accessibility Scheme' amounting to € 10,000. The council has correctly reversed the amount received (€ 5,000). However it failed to reverse the remaining balance of € 5,000 recorded as accrued income. We have proposed an audit adjustment and this was reflected in the final set of financial statements.

7 Trade and other payables**Trade payables**

- 7.1 When testing payables we noted that the council did not obtain statements from all suppliers.
- 7.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However we recommend the council continues chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.
- 7.3 When testing payments we noted that Velljo Services Limited and Polidano Brothers Limited did not issue a valid VAT invoice when providing refuse collection services and road resurfacing services respectively to the council.
- 7.4 We recommend that all suppliers are informed that the council will only accept invoices which are referenced, properly dated and prepared in accordance with VAT regulations.

8 WasteServ Malta Limited

- 8.1 We observed that the council has a balance of € 7,237 payable to WasteServ Malta Limited but not provided in the financial statements. This follows instructions received from LCA through circular 43/2010 dated 26 July 2010 wherein it was stated that the council is not to pay tipping fees in excess of the Government tipping fees allocated. The council is not recording the full invoices but only the amount equivalent to the sum allocated by Central Government (€ 59,413).
- 8.2 We recommend that the council continues to follow the matter with the LCA and DLG as to whether it should pay tipping fees in full or up to the annual Government allocation to ensure that the council follows the correct course of action. Meanwhile the council should disclose the amount in dispute as a contingent liability until the matter is resolved. After our notification, the council correctly disclosed the amount in dispute as a contingent liability note in the audited financial statements.

9 Local Enforcement System

Pre-regional debtors

- 9.1 The Group H Joint Committee of which St Julian's Local Council formed part up to 31 August 2011 has not provided the council with recent audited accounts.
- 9.2 In the absence of financial statements of the Group H Joint Committee, we were unable to determine the council's share of profit from the pooling system and debtors outstanding as at 31 December 2012. As a result, our auditors' report has been qualified.
- 9.3 We recommend that the council requests the Joint Committee to forward audited financial statements as soon as possible to show the council's surplus arising from the pooling system and to verify the balance due from the Committee.

10 Bank loan

- 10.1 When re-performing loan calculations to measure the loan into its short and long term portions we did not agree with the amounts shown as short term within payables (€ 7,556) and long term borrowings (€ 73,790) in the financial statements. We used the monthly instalments and interest rates as stated in the bank confirmation letter received to calculate the short and long term portions. Based on the bank confirmation, the loan is repayable in monthly instalments of € 750, inclusive of interest up to 31 December 2012, commencing from January 2012, and bearing an interest rate of 4.9%. The current portion is, in our calculation, € 5,129 and long term, € 76,217.
- 10.2 We advise the council to amend its calculation in line with the current bank loan agreement. The current portion should be based on the discounted value as at the year end and should not include interest. The present overstatement of the current position of the loan will reflect adversely on the council's liquidity position and FSI. The council has corrected the short-term and long-term position of bank loan in the audited financial statements, based on our proposed reclassification.

11 Financial statements

Capital commitments

- 11.1 When comparing the capital commitments disclosed in note 18 in the unaudited financial statements to the capital commitments disclosed in the approved budget, we noted a difference of € 7,560. This difference relates to the repayment of loan.
- 11.2 The council should not disclose loan repayments as capital commitments. The loan repayments to be made should be shown with contractual maturities in the liquidity risk note. The note on capital commitments should disclose contractual commitments for the acquisition of property, plant, and equipment or other assets.

Cash flow statement

- 11.3 We have identified some shortcomings in the cash flow statement including the adjustment for the non-cash release of income from grants and cash receipts of grants from Government. Furthermore, the format of the cash flow statements

presented in the unaudited financial statements were not in accordance with IAS 7, Cash Flow Statements.

- 11.4 We recommend that the cash flow statement is prepared correctly and reflects actual cash movements in accordance with IAS 7, Cash Flow Statements. The council has properly corrected the cash flow statement to abide by the standards, after our notifications, except for the movement in long-term PPP creditors which are incorrectly shown as movement in working capital.

Contingent liabilities

- 11.5 In reviewing the bank letter reply we still noted a bank guarantee amounting to € 5,000. This bank guarantee is in relation to the project mentioned in point 6.7 above. The council has withdrawn from this project. Hence this bank guarantee is no longer applicable and the bank should be informed that the guarantee should be cancelled.

Presentation of financial statements

- 11.6 In accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The presentation of the council's unaudited financial statements diverges from this requirement in the following instances:

- i) Capital management policies and procedures as stated in IAS 1, Presentation of Financial Statements, is omitted.
- ii) The qualitative and quantitative disclosures required by IFRS 7, Financial Instruments: Disclosures. No disclosures were given in respect of interest rate risk.

However, after our notifications the council has correctly amended the audited financial statements in accordance with IFRS's, except for the note on 'Financial assets that are either past due or impaired', which was not properly disclosed in accordance with IFRS 7.

- 11.7 When reviewing the unaudited financial statements, we noted the following:

- i) The description of LES income disclosed in note 11 is incorrect. The council should distinguish and clearly present income earned from pre- regional committees (€ 192,172) and income earned from administration fees invoiced to regional committees (€ 6,517). The council amended the audited financial statements after our notification. However, the council has restated the comparative figures not in accordance with IAS 1. IAS 1 specifically states that *'when an entity reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position and related notes. An entity presents statements of financial position as at: (a) the end of the current period, (b) the end of the previous period, and (c) the beginning of the earliest comparative period.'*
- ii) Capital creditors payable for more than one year, should be apportioned between long term and short term to avoid using the wrong figures when calculating liquidity and FSI ratios.

Composite figures

- 11.8 Expenses relating to other contractual services shown in the financial statements were not classified consistently from year to year.
- 11.9 The classification of expenses in the financial statements should be applied consistently to enhance the comparability of financial statements with previous years. Furthermore the composites (chart of accounts) used should be in accordance with those specified in the Financial Procedures. In particular, the council is still issuing an excessive number of accounts for fixed assets, thereby contravening the classifications as laid down in the Procedures.

12 Annual administrative report

- 12.1 We noted that the administrative report for 2012, which summarises the performance, operations and achievements of the council during the preceding year, was not prepared by the council by the time of our audit.
- 12.2 In accordance with P1.05 of the Local Councils (Financial) Procedures, 1996, an administrative report must be compiled under the direction of the mayor, councillors and the executive secretary after the end of each financial period. The minimum requirements to be included in this report are laid down in the same Procedures.

13 Minutes**Binding of minutes**

- 13.1 In our previous management letter we noted that the council did not bind the minutes of the preceding year. The same was noted this year.
- 13.2 We repeat our recommendation that the council adheres to the provisions in the Local Councils (Office) Procedures, 1996 and arranges for the previous year's minutes to be bound. The binding of minutes should be given due importance since these provide the only permanent, unchangeable record of council meetings and decisions.

14 Bank accounts

- 14.1 The council receives large amounts of funds relating to projects that the council has committed itself to implement. To avoid any misuse of these receipts and strengthen the council's controls we recommend that the council opens new bank accounts specifically for such funds.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon

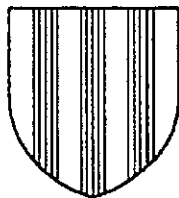


necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Helen Walker and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Grant Thornton



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28th May 2013

Our Ref: K0695/62/13-MC
Min.15/K7/13

Your Ref: NAO 107/2010/52

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Mayor's Report:- Management Letter – year ended 31 December 2012

We refer to the management letter dated 26th March 2013. Please find hereunder the Council's comments:

2. Income

2.1, 2.2 Custodial receipts – the Council ensures that the cash collection is done at least twice weekly and endeavours to adhere to Procedures at all times. The Council would appreciate if this one instance mentioned by the auditor would be identified to the Council.

Income from grants on capital projects

2.3 The adjustment proposed by the auditors in respect of the release of income from grants was carried out and was incorporated in the final set of the financial statements.

2.4 As in 2.3 above the proposed adjustment was made for the release of the portion of the grant relating to the completed road under the PPP scheme.

2.5 The schedule for the release of deferred income was prepared by the Council. The recommendation made by the auditor will be considered and the necessary action will be taken on this matter.

2.6 Please see reply to 2.3, 2.4 and 2.5 above.

Income for grants on Housing Estate Project

2.7 The necessary reversal, reclassifications and adjustments have been made in accordance with the audit adjustments and recommendations made by the auditors.

2.8 The necessary reclassification for the housing estate has been made.

Invoices

2.9 The invoices are being issued through the accounting system. The postings of such invoices are being made directly through the invoicing module within the accounting package.

3. Fixed Assets

Depreciation charge

3.1-3.3 The fixed asset register will be reviewed and the adjustment that is being highlighted by the auditors made so that the NBV of all street signs will be zero.

The council is aware that street signs are depreciated on the replacement method in fact no new street signs have been included in the fixed asset accounts or in the fixed asset register.

4. Expenditure

4.1 Petty cash expenditure

The reason for operating a petty cash account is to pay expenses incurred that do not exceed the limit of €23.29. If it were possible to have an invoice for such expenses the council will not require the use of petty cash.

The two instances identified where the petty cash payments exceeded the €23.29 limit were emergency circumstances; one on the eve that the new cleaner was starting work at the Council when the Executive Secretary bought the required

supplies after work and the other was just before a Council meeting when cleaning materials for the cleaner were also required.

The point made by the auditor regarding food bought for staff is unfounded. The Council only incurs hospitality expenses when there are meetings held at the Council such as Council meetings, locality meetings, and meetings with third parties.

Performance bond

4.2 – 4.3 The contractor did not provide the performance bond when requested because the architect had to resubmit plans to MEPA.

Schedule of offers

4.4 – 4.5 We do not agree as schedule is completed and the same schedule already indicates the number of tenders submitted. The schedule is always signed by the Executive Secretary and the Councillors present when opening the tender documents.

Contract missing

4.6 The contract was issued after MEPA issued the permit for the Accessibility of Moll. This was signed in March 2013.

Call for tenders

4.7 – 4.8 We do not agree with the auditors as a call for interest was published but only one out of the three interested parties submitted a quote. By this time it was too late to issue a call for tender. Therefore for the coming year we have issued a call for tender so that the procedures will surely be adhered to.

Asset Insurance

4.9 – 4.11 The recommendation by the auditors is valid and a periodic review of the fixed assets will be done in order to ensure adequate insurance coverage at all times.

Reimbursement of expenses

4.12 – 4.13 We do not agree with the amount stated of €93 per quarter as these were never received by the Executive Secretary as reimbursement. As stated in previous years the reimbursement of expenses to the executive secretary is approved by the Local Council.

Lapsi Feast

Festa Lapsi has nothing to do with the locality day. This was organised under the scheme of another memo 65/2011 "Skemi dwar inizjattivi ta' attivitajiet 2012" issued by the DLG. The Council was not given the full amount so it had to pay the difference. It should be noted that the Council did not exceed the 5% of the allocation for activities covered under memo 8/2011.

Donations

The expenses mentioned by the Auditors were not given as donations, but the Council premises was open for drinks for the band clubs during the local feast to give the council and the band members a chance to meet.

Travelling Expenses

The ECAD conferences documents requested by the auditors were forwarded by the executive secretary. The workings of travel expenses were also forwarded to the auditors; these were worked out as per Regulations relating to official travelling in line with MFEI circular 4/2012 and 5/2012.

5. Payroll

Wages reconciliation

5.1 The Council prepares a spreadsheet on a monthly basis with the workings of the monthly wages. These are entered into the accounting system, and these agree with the FS5's on a monthly basis. The FS3's and FS7's are based on these calculations.

The difference mentioned by the auditors was an amount that was paid extra to an employee who terminated her employment with the Council during her maternity leave. She then refunded the extra payment that was due to the Council before year end.

6. Trade and other receivables

Trade receivables

6.1 and 6.2 The audit adjustments recommended by the auditors was made in the financial statements. The Council will also carry out a reconciliation of debtors on a regular basis to ensure that these are recorded correctly.

Overdue receivables

6.3 and 6.4 The Council will look into the recoverability of the amount due by Schranz Limited. It will also decide whether this amount should be written off as a bad debt.

Prepayments

6.5 and 6.6 The recommendation made by the auditors has been noted and further attention to similar matters will be given in the future.

Accrued Income

6.7 The amount referred to by the auditors was accounted for before 2010 when the government grants were being treated on the Capital cost basis. The Executive

Secretary identified how this was recorded by the previous accountant and agreed immediately with the auditor that the adjustment was necessary.

7 Trade and other payables

7.1 – 7.4 The Council requests a statement of outstanding invoices and a VAT receipts from all suppliers with every payment issued. The council will continue to chase suppliers for monthly or periodic statements to enable the reconciliation of outstanding balances. The Council will inform the suppliers to issue proper tax invoices as recommended by the auditors.

8 Wasteserv Malta Ltd

As noted by the auditor the necessary action has been taken.

9 Local Enforcement System

This matter is beyond the control of the Council. The Joint Committee has in the meantime submitted the financial statements for 2012.

10 Bank Loan

The recommendation by the auditors was noted and necessary adjustments made.

11 Financial Statements

Capital commitments

11.1 – 11.2 The annual budget is prepared on a cash basis and since the loan relates to the property it was included with Capital Commitments. The recommendation made by the auditor has been noted and necessary adjustments made.

11.3 – 11.4 The cash flow statement was reviewed and the necessary adjustments made.

Contingent liabilities

11.5 The Council will make take the necessary action in order to release the bank guarantee.

Presentation of financial statements

11.6 – 11.7 The audited financial statements adjusted as per auditors recommendations.

Composite figures

11.8 – 11.9 The chart of accounts is structured in such a way that additional accounts can be increased under the main account. The accounts were created to better define projects undertaken by the Local Council; this is also useful when replying to parliamentary questions.

12 Annual Administrative Report

The Annual Administrative Report for 2012 summarising the performance, operations and achievements of the Council was ready and in fact communicated to the public during the AGM held on the 3rd and 4th December 2012. However the Annual Administrative Report is completed after the financial audit is ready as part of this report includes a copy Audited Financial Statements.

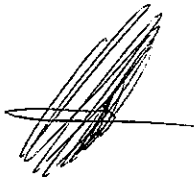
13 Minutes

The previous year's minutes will be bound as recommended by the auditors.

14 Bank accounts

The income received on the different projects is recorded as income in the respective deferred income accounts. If it is absolutely necessary to open new bank accounts for projects undertaken by the Council a new account can be opened incorporating all such projects.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping, diagonal strokes that form a stylized, somewhat abstract shape.

Peter Bonello
Mayor