

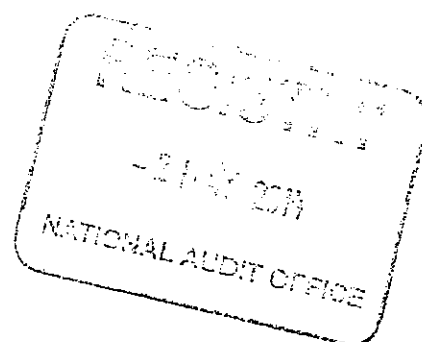


SAN GILJAN

San Giljan Local Council

**Annual Report
and
Financial Statements**

1 January – 31 December 2013



Prepared by JCA Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2013

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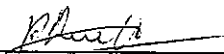
Financial Statements for the year ended 31 December 2013

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 10th April 2014 by:



Peter Bonello
Mayor



Helen Walker
Executive Secretary

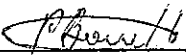
STATEMENT OF FINANCIAL POSITION

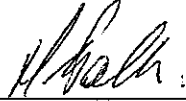
As at 31 December 2013

	Notes	2013 €	2012 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	329,770	251,348
		<u>329,770</u>	<u>251,348</u>
Current Assets			
Receivables	4	68,663	67,060
Cash and Cash Equivalents	5	444,885	602,729
		<u>513,548</u>	<u>669,789</u>
Total Assets		<u>843,318</u>	<u>921,137</u>
RESERVES AND LIABILITIES			
Capital and reserves			
Retained Fund		506,941	585,071
Non-current Liabilities			
Long term borrowings	6	72,317	76,217
Deferred Income	7	103,274	115,223
Long term creditors	8	11,294	-
Liabilities			
Payables	8	144,067	139,497
Current portion of long term borrowings	6	5,425	5,129
TOTAL RESERVES AND LIABILITIES		<u>843,318</u>	<u>921,137</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on 10th April 2014 and signed on its behalf by:


 Peter Bonello
 Mayor


 Helen Walker
 Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

		2013 €	2012 €
REVENUE	Notes		
Funds received from central government	9	725,847	692,306
Income raised under Local Council Bye-Laws	10	23,885	23,436
Income raised under Law Enforcement System	11	21,118	198,689
General Income	13	16,951	13,661
		<u>787,801</u>	<u>928,092</u>
 EXPENDITURE			
Personal emoluments	14	(137,672)	(134,642)
Operations and maintenance	15	(568,577)	(684,388)
Administration and other expenditure	16	(157,371)	(134,458)
		<u>(863,620)</u>	<u>(953,488)</u>
 Operating (Loss) for the year		(75,819)	(25,396)
 Investment income	12	1,431	1,814
Finance costs	17	(3,742)	(4,356)
Total Comprehensive (Loss) for the year		<u>(78,130)</u>	<u>(27,938)</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Retained Funds 2013 €	Retained Funds 2012 €
At 1 January	585,071	613,009
Total Comprehensive (Loss) for the year	(78,130)	(27,938)
At 31 December	<u>506,941</u>	<u>585,071</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	2013 €	2012 €
	Note	
Cash Flows from Operating Activities		
Total Comprehensive (Loss) for the year	(78,130)	(27,938)
Adjustments for:		
Depreciation	20,097	9,203
Increase in grants	(28,439)	(55,914)
Interest receivable	(1,431)	(1,814)
Interest payable	3,742	4,356
Operating Profit before Working Capital Changes	(84,161)	(72,107)
(Increase) in receivables	(1,603)	(11,281)
Increase in payables	1,653	39,688
Net Cash (outflow) from operating Activities	(84,111)	(43,700)
	(84,111)	(43,700)
Cash flows from Investing Activities		
Purchase of Property, Plant and Equipment	(98,519)	(38,652)
Interest receivable	1,431	1,814
Cash Flow used in Investing Activities	(97,088)	(36,838)
Cash flows from financing activities		
Repayment of bank loans	(3,814)	(3,410)
Grants received	30,911	65,000
Interest paid	(3,742)	(4,145)
Cash and cash equivalents	(157,844)	(23,093)
Cash and Cash Equivalents at the Beginning of year	602,729	625,822
Cash and Cash Equivalents at the End of year	5 444,885	602,729

The notes on pages 8 to 20 are an integral part of the financial statements.

Notes to the Financial Statements for the period ended 31 December 2013

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: 2013 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.

New and amended standards adopted by the council

Information on new standards, amendments and interpretations that are 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 any impact on the council's financial statements.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 Presentation of Financial Statements require entities to group together items within other comprehensive income that may be reclassified to the profit and loss section of the income statement. The amendments are effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information so that users of its financial statements are able to evaluate the effect or potential effect of netting arrangements and similar agreements on the entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. This standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs. The standard is applicable for annual periods beginning on or after 1 January 2013.

The IASB issued 'Annual Improvements 2009-2011 cycle', a collection of amendments to IFRSs, in response to issues addressed during the 2009-2011 cycle. Five standards are primarily affected by the amendments,

Notes to the Financial Statements for the period ended 31 December 2013 – continued

with consequential amendments to numerous others. The amendments are effective for annual periods beginning on or after 1 January 2013.

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. These include the following:

Amendments to IAS 32 Financial Instruments: Presentation – These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.

Amendment to IAS 36 Impairment of Assets – This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IFRS 9 Financial Instruments (not yet endorsed by the EU) – This standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39. This Standard addresses the classification and measurement of certain financial assets and financial liabilities.

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 and that they will have no material impact on the financial statements in the period of initial application.

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

During 2013 the amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the administrative fee of 10% that is 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

Notes to the Financial Statements for the period ended 31 December 2013 – continued

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 local council 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.

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 present 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 2013 - 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 exercised no control were Malta Environment and Planning Authority and the Regional Committees.

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 local council.

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 2013 - 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 2013 - 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 2013	185,798	67,643	37,984	23,214	-	9,707	216,686	1,457,280	1,998,312
Additions	-	-	2,114	-	-	-	-	96,405	98,519
At 31 December 2013	185,798	67,643	40,098	23,214	-	9,707	216,686	1,553,685	2,096,831
Grants									
At 1 January 2013	-	-	-	-	-	-	-	(1,134,777)	(1,134,777)
Additions	-	-	-	-	-	-	-	-	-
At 31 December 2013	-	-	-	-	-	-	-	(1,134,777)	(1,134,777)
Depreciation									
At 1 January 2013	(15,489)	(55,238)	(29,603)	(19,220)	-	(9,498)	(216,686)	(266,453)	(612,187)
Charge for the year	(1,695)	(899)	(1,702)	(3,994)	-	(209)	-	(11,598)	(20,097)
At 31 December 2013	(17,184)	(56,137)	(31,305)	(23,214)	-	(9,707)	(216,686)	(278,051)	(632,284)
Net Book Value									
At 31 December 2013	168,614	11,506	8,793	-	-	-	-	140,857	329,770

Notes to the Financial Statements for the period ended 31 December 2013 - continued

3b 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)
Additions	-	-	-	-	-	-	-	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 2013 – continued

4 Receivables	2013	2012
	€	€
Receivables	43,932	28,244
Prepayments and accrued income	24,731	38,816
	<u>68,663</u>	<u>67,060</u>

Receivables

Within the credit period	68,663	67,060
Exceeded credit period but not yet impaired	-	-
	<u>68,663</u>	<u>67,060</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:

	2013	2012
Bank Balances:	€	€
Operating bank Accounts	444,652	600,174
Cash in hand	<u>233</u>	<u>2,555</u>
Cash at bank and in hand	<u>444,885</u>	<u>602,729</u>

6 Long term and short term borrowings	2013	2012
	€	€
Long term portion of bank loan	72,317	76,217
Short term portion of bank loan	<u>5,425</u>	<u>5,129</u>
	<u>77,742</u>	<u>81,346</u>

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

Interest rate exposure	2013	2012
	€	€
At fixed rates	77,742	81,346
	<u>77,742</u>	<u>81,346</u>

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

	2013	2012
	%	%
At fixed rates	<u>4.75</u>	<u>3.9</u>

Notes to the Financial Statements for the period ended 31 December 2013 – continued

Long term and short term borrowings	2013	2012
	€	€
Between 1 and 2 years	15,112	15,112
Between 2 and 5 years	22,668	22,668
Over 5 years	39,962	43,566
	<u>77,742</u>	<u>81,346</u>

7 Deferred Income

	2013	2012
	€	€
Between 1 and 2 years	7,412	11,009
Between 2 and 5 years	5,763	27,107
Over 5 years	90,099	77,107
	<u>103,274</u>	<u>115,223</u>

8 Payables

	2013	2012
	€	€
Accounts payable	52,771	80,509
Deferred Income	3,370	453
Accruals	87,926	58,535
	<u>144,067</u>	<u>139,497</u>

Long term payables

	<u>11,294</u>	<u>-</u>
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9 Funds received from Central Government

	2013	2012
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	617,185	622,753
Other Government Income	108,662	69,553
	<u>725,847</u>	<u>692,306</u>

10 Income raised under Local Council Bye-Laws

	2013	2012
	€	€
Income from contravention of Bye-Laws	<u>23,885</u>	<u>23,436</u>

11 Local Enforcement Income

	2013	2012
	€	€
Pre-regional Committees	14,641	192,172
Regional Committees - Administrative Fees	6,477	6,517
	<u>21,118</u>	<u>198,689</u>

12 Investment income

	2013	2012
	€	€
Bank Interest Receivable	1,431	1,814
	<u>1,431</u>	<u>1,814</u>

San Giljan Local Council

Notes to the Financial Statements for the period ended 31 December 2013 – continued

13 General Income	2013	2012
	€	€
Income from MEPA		
Income from tender documents	3,785	810
Income from Sponsorships		
Other	11,666	11,201
Contributions and donations	1,500	1,650
	<u>16,951</u>	<u>13,661</u>
 14 Personal Emoluments	 2013	 2012
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	10,055	9,808
Councillors' Allowance	11,029	10,700
Executive Secretary salary and allowances	27,994	30,199
Employees' Salaries	80,134	75,345
Social Security Contributions	8,460	8,590
	<u>137,672</u>	<u>134,642</u>
 15 Operations and Maintenance	 2013	 2012
Operations and maintenance includes, inter alia:	€	€
<i>Repairs and Upkeep:</i>		
Road and Street Pavements (patching works)	103,041	181,466
Public property	61,478	56,476
Street signs	6,942	7,056
Road markings	16,489	16,118
Other	11,086	6,363
Total	<u>199,036</u>	<u>267,479</u>
<i>Contractual Services:</i>		
	2013	2012
	€	€
Refuse Collection	124,835	146,758
Bulky Refuse Collection	8,199	9,265
Road and Street Cleaning	165,285	175,353
Cleaning and Maintenance - Public Conveniences	15,877	17,528
Cleaning and Maintenance - Parks and gardens	18,049	18,049
Support Services	3,709	3,590
Street Lighting	22,405	41,846
Other	11,182	4,520
	<u>369,541</u>	<u>416,909</u>
Total Operations and Maintenance Expenses	<u>568,577</u>	<u>684,388</u>

Notes to the Financial Statements for the period ended 31 December 2013 – continued

16 Administration and other expenditure	2013	2012
	€	€
Utilities	14,798	10,545
Other repairs and upkeep	10,876	5,919
Rent	1,500	1,500
National and International Memberships	665	962
Office Services	11,808	11,631
Travel	6,839	9,073
Transport	773	818
Bank charges	103	172
Other contractual services	5,070	4,186
Professional Services	22,539	22,607
Community services and events	62,243	52,961
Training	60	550
Penalty	-	4,331
Depreciation	20,097	9,203
	<u>157,371</u>	<u>134,458</u>
	2013	2012
17 Finance Cost	€	€
Interest on bank loan	3,742	4,356
	<u>3,742</u>	<u>4,356</u>

18 Capital Commitments

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

	2013	2012
	€	€
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>255,744</u>	<u>172,877</u>
Approved but not yet contracted for:		
Construction	254,844	169,377
Office furniture and fittings	500	2,500
Office equipment	400	1,000
	<u>255,744</u>	<u>172,877</u>

Notes to the Financial Statements for the period ended 31 December 2013 – continued

19 Financial Instruments and 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:

	2013	2012
Significant control:	€	€
Annual financial allocation	<u>617,185</u>	<u>622,753</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.

20. 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.

20.1 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:

	2013	2012
Class of financial assets – carrying amounts	€	€
Trade and other receivables	67,450	60,988
Cash and Cash Equivalents	<u>444,885</u>	<u>602,729</u>
	<u>512,335</u>	<u>663,717</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.

Notes to the Financial Statements for the period ended 31 December 2013 – continued

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.

20.2 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.

	2013	2012
	€	€
Payables	146,862	125,295
Current portion of long term borrowings	5,425	5,129
	<u>152,287</u>	<u>130,424</u>
Long term and short term borrowings	2013	2012
	€	€
Current within 1 year	5,425	5,129
Due in 1 to 5 years	30,224	30,224
Due after 5 years	42,093	45,993
	<u>77,742</u>	<u>81,346</u>
Long term and short term PPP Payable	2013	2012
	€	€
Between 1 and 2 years	775	10,312
Between 2 and 5 years	896	6,874
Over 5 years	56,623	6,874
	<u>58,294</u>	<u>24,060</u>

20.3 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.

Notes to the Financial Statements for the period ended 31 December 2013 – continued

20.4 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:

	2013 €	2012 €
Current Assets		
Loans and receivables:		
Trade and other receivables	67,450	60,988
Cash and Cash Equivalents	444,885	602,729
	<u>512,335</u>	<u>663,717</u>
Non-current Liabilities		
Financial liabilities measured at amortised costs:		
Borrowings	72,613	76,217
Long term PPP Creditors	57,519	13,749
	<u>130,132</u>	<u>89,966</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	146,862	125,295
Borrowings	5,425	5,129
	<u>152,287</u>	<u>130,424</u>

20.5 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.

21 Fair value estimation

At 31 December 2013 and 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.

22 Comparative information

Certain figures have been reclassified to conform with current year's presentation.

Financial Statements for the year ended 31 December 2013

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 2013, 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 € 21,118 is an amount of € 14,641 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 amounts disclosed in note 4 do not satisfy the requirements of the quantitative disclosures relating to credit risk. Moreover excluded from contractual maturities of financial liabilities is interest payable on short and long term bank borrowings. These contravene the requirements of IFRS 7 *Financial Instruments: Disclosures*.
3. The cash flow statement does not reflect the correct cash outflows on the purchase of Property, Plant and Equipment as required by IAS 7 *Statement of Cash Flow*.
4. The financial statements do not disclose the fact that certain of the Council's fixed assets are hypothecated in favour of a bank as security for loans as required by IAS 16 *Property, Plant and Equipment*.
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.

Financial Statements for the year ended 31 December 2013

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

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 2013, 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.



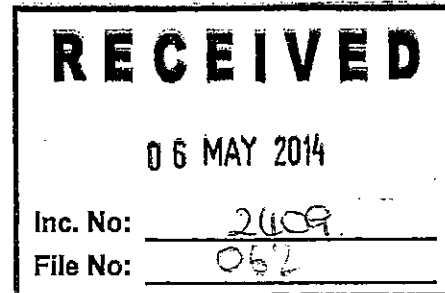
Mark Bugeja
Grant Thornton
Certified Public Accountants
Grant Thornton
Tower Business Centre, Suite 3
Tower Street
Swatar BKR 4013

10 April 2014

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

5th May 2014

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



Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2013**

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 2013.

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.



Grant Thornton

An instinct for growth™

The Mayor
San Giljan Local Council
Triq Forrest
San Giljan

Our ref ABC/scl/045614
10 April 2014

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Dear Sir,

Financial statements for the year ended 31 December 2013

During the course of our audit for the year ended 31 December 2013 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 again noted that the council's income was not always deposited within the prescribed time (refer to note 2.5).

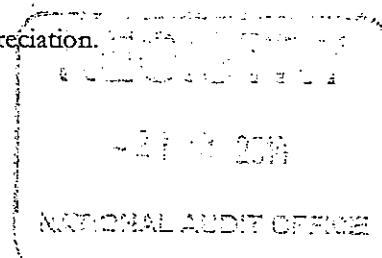
Similarly to previous years the council has incorrectly released a portion of the grant to profit and loss. Consequently the apportionment of deferred income into its short term and long term portion was also incorrect (refer to note 4).

As also noted last year, the council treated the grant on works performed in the Housing Estates as capital expenditure rather than as revenue expenditure. Hence the amount of grant released to profit and loss was incorrect (refer to notes 4.2 to 4.5).

Some invoices are still being issued using Word (refer to note 2.7)

1.2 Fixed assets

We did not identify differences when recalculating depreciation.



1.3 Expenditure

The council has not acted on our previous management letter with regards to purchases made from petty cash (refer to note 5.4).

From the tenders selected for testing, we did not identify instances where the performance bond was not furnished by the winning bidder.

From the tenders selected it transpired that all schedule of offers were not underlined to indicate cut-off (refer to note 5.1).

The council's contracts were all in place.

From our testing on the council's expenditure, we did not come across payments in excess of € 4,658 without being properly supported by a tender.

The council has still not amended the insurance policy in line with our previous recommendations (refer to note 5.11).

We regret to note that the council is still providing allowances to the executive secretary for making use of her car and mobile phone (refer to note 5.15).

The council has again failed to establish whether the 'Lapsi Feast' should be considered as a locality day (refer to note 5.14).

We still came across certain payments which are a form of donation (refer to note 5.9).

Following our previous year management letter point we regret to note that the council has again failed to provide us with the travelling report submitted to the respective Department with regards to foreign visits (refer to note 5.17).

1.4 Payroll

We did not encounter any differences in our wages reconciliation.

1.5 Trade and other receivables

We did not come across deficiencies when performing our alternatives procedures on trade receivables.

We still came across long overdue receivable balances (refer to note 6.1).

Following our previous management letter recommendation, the council failed to collect or provide for the receivable due from Schranz Limited which has been due for more than three years (refer to note 6.1).

We did not identify instances where prepaid expenses were either incorrectly recorded or omitted from the books of account.

No instances were identified where accrued income brought forward was incorrectly left in the list for the year even though the amount was received or eliminated.

1.6 Trade and other payables

We were again not provided with all supplier statements (refer to note 9.1).

We are pleased to note that Velljo Services Limited and Polidano Brother issued a valid VAT invoice.

1.7 WasteServ Malta Limited

The reconciliation of the WasteServ Malta Limited balance revealed differences (refer to note 9.7).

1.8 Local Enforcement System

Similarly to previous years we were not provided with audited financial statements of the Joint Committee of which the council formed part prior to the establishment of regional committees (refer to note 2.3).

1.9 Bank loan

The council has failed to implement our recommendations from our previous management letter (refer to note 8).

1.10 Financial statements

Significant differences were again noted between the note on capital commitments in the financial statements and the approved budget for 2014 (refer to note 11.7).

We again identified shortcomings in the preparation of the cash flow statement in the financial statements (refer to note 11.5).

There were no contingent liabilities to be disclosed during the year under review.

The council has correctly disclosed capital management policies and disclosures. However the council's liquidity analysis of financial liabilities has not been prepared in line with IFRS 7: *Financial Instruments: Disclosures* (refer to note 11.2).

We identified instances where other disclosures were not properly disclosed in accordance with International Financial Reporting Standards (refer to note 11.4).

Furthermore, when reviewing the unaudited financial statements we identified amounts which were not properly recorded due to misstatements identified during the audit (refer to notes 4.10 and 8).

We did not come across instances where the composite figures of expenses were not classified consistently.

1.11 Annual administrative report

The administrative report is still not prepared. However, this will be prepared once the audited financial statements are approved and submitted to the Department.

1.12 Minutes

Councils' minutes have not been bound (refer to note 12.5).

1.13 Bank accounts

The council did not follow our recommendation to open new bank accounts for grants received for capital projects (refer to note 4.11).

2 Income

Income from regional committees

2.1 When testing income from regional committees, we noted that invoices relating to the month of September were not issued on time to the regional committees.

2.2 In light of the above, we recommend that the council complies with memo 91/2011 and issues an invoice within one week from the end of the month in which the collections were made and remitted to the committees.

Income from pre-regional committees

2.3 The Sliema Joint Committee, of which St Julians Local Council formed part, has not yet provided the council with audited accounts for 2013.

2.4 We understand that the council has consistently requested the audited financial statements from the Joint Committee. However we necessarily had to qualify our audit opinion since, in the absence of the Committee's financial statements, we were unable to determine the council's share of profit from the pooling system and LES debtors outstanding as at 31 December 2013.

General income

2.5 During our audit, we noted that the council did not deposit its income twice weekly in some instances. Examples include:

Receipt date	Receipt no.	Deposit date	€
23.07.2013	NA	29.07.2013	93.16
06.08.2013	98814	12.08.2013	86.76
09.10.2013	18768	14.10.2013	4.06

2.6 We are aware that the council has the cash transit service and thus we recommend that this service is used more frequently so as to comply with the Procedures as well as to avoid any security issues.

Invoices

- 2.7 We are pleased to note that the council has started to issue computer generated invoices. However we came across some instances where the invoice was a Word document. We recommend that the council continues to implement this policy of issuing all invoices from the accounting software

3 Fixed assets

Fixed asset additions

- 3.1 From our sample of fixed asset additions selected for testing, we identified the following deficiencies:
- a) The council did not record the full cost of € 60,741 incurred on resurfacing works at Spinola Street but recorded only the amount of € 55,720 paid to the contractor and the contract manager respectively. Upon further investigation, we were informed that the council has expensed the contract management fee amounting to € 2,088. We have proposed an audit adjustment of € 5,020 to capitalise the full cost of the project (including the contract management fee of € 2,088) since all work was certified. A further adjustment was proposed to charge depreciation thereon of € 325. The council has properly reflected these adjustments in the audited financial statements.
 - b) In respect of the works carried out at Spinola Street, we also noted that an amount of € 40,000 was paid to the contractor before the architect certified the work. This contravenes the Local Councils (Tendering) Procedures, which state that councils should only pay the contractor once certified by the council's representative.

4 Grants

UIF funds - Construction of a ramp for better accessibility near 'Kavallieri' hotel

- 4.1 During our testing, we found that the grant on this project released to income is understated by € 577. The reason for this difference is that the council started releasing the grant as from October (that is, when the contractor was paid) rather than when the project was completed and certified in August. We have proposed an adjustment and the council correctly reflected this adjustment in the audited financial statements.

Maintenance and upgrading of Housing Estates

- 4.2 In 2011, the council qualified for a grant from the Housing Authority up to a maximum of € 70,000 for the maintenance of the common inside areas in the Housing Estates. Up to 31 December 2013, the council only received € 61,185, with the remaining balance of € 8,815 still pending to date.

- 4.3 During the year under review, the council incurred costs on Housing Estates of € 26,017. However, the council has incorrectly released a portion of the grant amounting to € 2,486 instead of the full amount of cost incurred (€ 26,017). Since the grant is of a revenue nature, the grant should be charged to income in accordance to the cost incurred. Hence, we proposed an audit adjustment of € 23,531 to release the full amount of the grant to income to be matched against the expenditure. The adjustment was incorporated in the final set of accounts.
- 4.4 Furthermore in 2012, the council entered into a new agreement with the Housing Authority for a further grant of € 75,000 for the outside maintenance and upgrading of Housing Estates. Up to 31 December 2013, the council incurred an expenditure of € 56,275 which was expensed in full in the financial statements and matched against an equivalent grant income. This leaves an unutilised grant of € 18,725 at year-end which has been deferred to next year (and is shown as accrued income in current assets and deferred income in current liabilities).
- 4.5 However, when testing debtors we noted that the council invoiced the Housing Authority € 2,000 in connection with the same works and recorded an equivalent amount as income. The council failed to reverse the amount of € 2,000 in accrued income when the invoice was issued, therefore overstating accrued income in the unaudited financial statements by € 2,000. We proposed an audit adjustment to reverse the amount from accrued income and income for the year leaving a balance of € 16,725 at the end of the year. The council approved this adjustment which has been properly recorded in the financial statements.

Repairs and maintenance of Saver Garden

- 4.6 During 2013, MEPA allocated a grant of € 4,299 to the council for the repairs and maintenance of Saver Garden. The actual cost incurred on these works was € 4,326 with the council submitting a claim for a grant of the same amount.
- 4.7 However, we were informed by the executive secretary that MEPA will only be reimbursing the amount of € 4,120 to the council in respect of the above works. The council should liaise with MEPA to resolve this disagreement. In the meantime, the council has shown a grant receivable of € 4,299 in its 2013 financial statements.
- 4.8 Apart from the matter identified in note 4.6 above, we also noted that the council recorded this transaction twice in the books of account. We have proposed an adjustment to reverse one of the entries which the council approved and passed in the financial statements. We recommend that the council marks the source document as posted when they are input into the system and codes them with the nominal ledger account to avoid the possibility of double posting.

PPP scheme

- 4.9 When testing the portion of grant released to income, relating to PPP scheme, we noted that it was overstated by € 2,831. We have proposed an adjustment and the council has correctly included it in the audited financial statements.

Current and non-current portion of deferred income

- 4.10 Due to the differences identified in notes 4.1 to 4.9, the current portion of deferred income was overstated by € 4,734. In this regard, we proposed an audit reclassification and the council approved so that deferred income is properly classified between the current and non-current portions.

Bank accounts

- 4.11 In our prior year's management letter we pointed out the importance of opening separate bank accounts for large projects for the purpose of administering project payments and grant receipts.
- 4.12 We would like to suggest our previous year's recommendation again. Separate accounts for project financing will give a clearer picture of what has been spent to date and more importantly, will distinguish capital funds from operating funds.

5 Expenditure

Schedule of offers

- 5.1 The schedule of offers of all of the tenders selected were not underlined to indicate cut-off. The reason given is that the schedule of offers were computer generated. We have been repeating this deficiency for the past four years and no action has yet been taken by the council. We would like to remind the council that all deficiencies identified in the management letter should be tackled and immediate action taken and implemented to strengthen the controls imposed for the running of the council.

Bid bond

- 5.2 Whilst reviewing tender document OAE 52-04/2012 relating to the 'Organisation of activities/events' we could not trace the bid bond of the winning bidder.
- 5.3 May we remind the council that the Local Council (Tendering) Procedures, 1996 state that it is the executive secretary's responsibility to ensure that all tenderers submit a bid bond issued by a Maltese bank, equivalent to 5% of the value of the tender submitted. The guarantee shall be valid for a period of sixty (60) calendar days from the closing date set for tenders.

Petty cash payments

- 5.4 We regret to note that the council is still supporting its petty cash expenditure with cash register chits and not invoices addressed to the council. The following were identified during our audit procedures:

Details	Suppliers	Date	€
Padlock	Spinola Paint Store	09.01.2013	12.34
Cleaning supplies and toiletries	Scotts Ltd	23.02.2013	22.27

Newspapers	Hompesh Stationery	01.04.2013-15.04.2013	17.60
Registered letter	Maltapost	29.05.2013	3.48
4 copies of Festa Lapsi 2013	Fotoclassic	04.07.2013	20.00
Binding of 4 documents	High Grades	21.08.2013	8.00
7 pkts biscuits, hand wash, coffee	Scotts Ltd	09.09.2013	14.06
Cleaning supplies, biscuits, coffee, tea	Scotts Ltd	24.10.2013	22.36
4 vanilla muffins	Maypole	03.12.2013	10.00

- 5.5 The Financial Procedures state that a valid tax invoice addressed to the council should be obtained for all purchases made by the council. Therefore, we recommend that the council ensures that all supplies and services are supported by valid receipts addressed to the council.
- 5.6 We have again traced constant purchases of the same items such as tea, coffee and biscuits. This is not immediately evident from the petty cash summaries since generic descriptions such as 'consumables' are entered as the description of most purchases. However, upon examining the source document we noted that these were often purchases of the same item.

Tax invoices

- 5.7 During our audit procedures we came across instances where the council accepted cash register chits instead of invoices addressed to the council:

Supplier	Details	€
Lilian Tanti	Food and drinks for band club	675.20
Lilian Tanti	Food and drinks for band club	641.80
The Avenue	Xmas meal	152.01
Buffalo Bill	Xmas meal	390.00

- 5.8 We recommend that the council obtains invoices addressed to the council so as to abide by the Financial Procedures.

Donations

- 5.9 When reviewing the minutes and schedules of payments we noted that the council made the following donations:

- Gift to parish priest amounting to € 115.70

- Food and drinks to St Julian's Band Club during feast (€1,317)

- 5.10 May we remind the council that donations are contrary to section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation whether in cash or in kind. The council should seek clarification from the Department if it is in doubt as to whether the provision of refreshments to the band club is considered a donation.

Asset insurance

- 5.11 We reviewed the council's insurance policies and noted the following discrepancies between the insurance cover and cost as per nominal ledger.

Asset	Sum insured	Cost as per accounts
	€	€
Property	204,448	185,798
Office furniture, fittings and others	43,143	107,741
	<u>247,591</u>	<u>293,539</u>

- 5.12 The above illustrates that some of the council's assets are not adequately insured. In this regard, the council should update its insurance policy to ensure that assets held are not under/over insured, as well as to include new assets bought by council during the year. The council must comply with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage.

Personal accident group insurance

- 5.13 Whilst reviewing the insurance policy we determined that the council has not updated this policy with employees presently working within the council since it includes a person that terminated employment with the council over a year ago. We recommend that the council updates its policy on a yearly basis stating any amendments if required.

Lapsi Feast

- 5.14 The council has again incurred costs amounting to € 18,500 for the 'Lapsi Fest'. According to the executive secretary, this is not deemed to be the locality day event. However the council failed to provide us with the clarifications from the Department. Hence we are unable to state whether the expenses incurred on this event are in conformity to memos 122/2010 and 29/2013.

Reimbursements of expenses

- 5.15 The council is still paying a fixed quarterly reimbursement of € 187 to the executive secretary for making use of her own car and mobile phone for council's purposes.

- 5.16 In its reply to our previous management letters, as well as confirmed by the executive secretary, the council stated that it was agreed a number of years ago to provide the executive secretary with a fixed reimbursement for making use of its personal car and mobile for council's purpose. We reiterate our recommendation that the council seeks proper guidance and approval from the Department.

Travelling expenses

- 5.17 During the year the executive secretary and the mayor travelled for an 'ECAD' conference held in Moscow. The total cost reimbursed to them was € 6,640 covering all the costs incurred being the subsistence allowance, flight and accommodation. Furthermore, the mayor also travelled to China. The total cost incurred amounted to € 1,964. The council has provided us with the workings of every cost spent and used the subsistence allowance rates as per circular MF/5/2012. However, the council has failed to provide us with the report submitted to the DLG.
- 5.18 This shortcoming has also been brought up in the previous management letter and therefore we remind the council that 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 when 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.*
- 5.19 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.
- 5.20 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 with the travel guidelines issued by the Government.

Refuse collection

- 5.21 When reviewing expenditure as disclosed in the financial statements, we noted that refuse collection decreased from € 146,758 in 2012 to € 124,835 in 2013, a decrease of more than € 21,000. We were unable to obtain an explanation for this significant decrease other than the possibility of the positive impact of diesel indexation. We recommend that the council reviews movements in contracted expenditure especially where amounts paid are fixed every year in accordance with the contract entered into between the council and the contractors. The council should investigate such excessive movements.

6 Receivables

Overdue receivables

- 6.1 Whilst reviewing trade debtors we noted a balance of € 24,931.03, which has been long overdue. This balance pertains to the following trade debtors: St. Julian's Police Station (€ 1,192.25), Department of Housing Maintenance (€8,815); Green MT (€ 10,943.87), Central Region (€ 2,356.76) and Schranz Limited (€ 1,623.15).
- 6.2 We recommend that the council follows up these amounts and carefully considers whether debts incurred a number of years ago can be recovered and hence, if such amounts are in doubt, provide for them accordingly.
- 6.3 The total balance due from Green MT is € 14,608. There have been no receipts from this debtor for the past few years and it is doubtful whether there will be any since this entity is in financial difficulties. During 2013, invoices issued to Green MT amounted to € 2,165 for administration fees, and a further € 1,500 were debited to the account for sponsorship of the Lapsi feast.
- 6.4 We have asked for correspondence to substantiate the debtor's approval of the sponsorship of € 1,500 but this was not provided to us.
- 6.5 We strongly recommend that the council considers the recoverability of the amount due. Meanwhile until such time as the situation is clarified we recommend that a provision for doubtful debts is raised against this balance.
- 6.6 From the reply received from the Department of Housing Authority confirming the balance due to the council, amounting to € 10,815, we noted that the Authority has actually paid the amount of € 2,000 on the 7 November 2013. However, the council received this amount after year end (22 January 2014).
- 6.7 May we remind the council the importance of following up all receivables to ensure that all debtor amounts are collected and within a reasonable credit period.

7 Bank reconciliation

- 7.1 Whilst reviewing the bank reconciliations we identified a discrepancy of €14,461 between the books of account and the bank statement for the BOV account 180-8370-015. We were informed that on 5 April 2013 the council received the sum of € 14,641 from Sliema Joint Committee. However, it failed to post this transaction. We have proposed an adjustment and the council correctly included it in the audited financial statements.
- 7.2 We recommend that bank reconciliations are prepared monthly in order to ensure that the balances in the ledger reconcile to those reported on the bank statements. Any discrepancies or irregularities which cannot be reconciled should be investigated. In the case above, we strongly recommend that this difference is thoroughly investigated to ascertain why the books of account are showing € 14,461 less than the bank confirmation.

- 7.3 Included in the council's bank reconciliations is the following 'stale' cheque:

Date	Cheque no.	€
04.01.2013	BOV 12353	380.96

It is important that the council investigates any 'stale' cheques to determine why they were not cashed. If the cheque is unlikely to be cashed or has been replaced, the amount should be reversed against the respective expense account.

8 Bank loan

- 8.1 When re-performing loan calculations to measure the loan into its short and long term portions, we did not agree to the amount shown in the financial statements by € 296. Upon further investigation we noted that the difference is due to the fact that the council is using a different interest rate from that stipulated in the bank confirmation letter. The letter indicates that interest rate should read 4.75% whilst the financial statements depict a rate of 3.9%.
- 8.2 We recommend that the council obtains a recent bank sanction letter to determine any changes made in the interest rate during the year and amend the calculation in line with the current bank loan agreement.
- 8.3 We further recommend that the council gives details of the terms and security of the bank loan in order to comply with IFRSs.

9 Trade and other payables

Creditors' statements

- 9.1 Although the council did request monthly statements from all suppliers it did not manage to obtain all of the suppliers' statements. Memos issued from time to time by the DLG specifically state that the council should obtain monthly statements.
- 9.2 We remind the council that these statements are important for a sound accounting system to ensure that creditors are correctly recorded in the accounts. Statements from suppliers will highlight any differences from recorded amounts. Any such differences should be promptly investigated.

Long outstanding creditor

- 9.3 At the end of the year under review, the council has a long outstanding balance of € 5,731.99 due to Velljo Services. This amount has been overdue since 2012 and relates to unpaid invoices for November to December 2012. However subsequent invoices were paid.
- 9.4 In respect of the above balance, we recommend that the council investigates why this has not been paid and considers if this amount is actually due and, if not the

case, adjusts this after due consideration and approval by the council in meeting. Any decision taken should be minuted.

Polidano Brothers

- 9.5 When performing alternatives procedures on this creditor, we noted the following shortcomings:
- The council has a balance of € 14,730.74. outstanding since August 2012.
 - The council is including an invoice amounting to € 744.48 due to Guards and Wardens, which should have been included within the respective supplier account and not that of Polidano Brothers.
- 9.6 The shortcomings noted above highlight the importance of reconciling creditor balances to statements such that discrepancies are identified and corrected on a timely basis

WasteServ Malta Limited

- 9.7 When reconciling WasteServ Malta Limited we also observed a number of differences. Upon further investigation we identified that the council has included the September 2013 invoice amounting to €4,583.43 twice in the books of account. We have proposed an adjustment to amend this error and this was properly reflected in the final accounts. However, once the proposed adjustment is passed, an unreconciled balance of € 982.27 remains for which we were not given an explanation.
- 9.8 The council is recording the full periodic invoices amounting to €4,583.43 due to WasteServ Malta Limited but pays up to the amount (€ 48,046) allocated to the council by Central Government.
- 9.9 During the current year, the DLG advanced the sum of € 14,330.18 to WasteServ Malta Limited on behalf of the council in settlement of pending invoices issued between 2009 and 2011 not covered by the allocation.
- 9.10 We understand that the DLG will make further payments on behalf of the council in 2014. Therefore the council's policy of recording the full invoice will enable the council to have its own record of amounts settled on its behalf.

Unrecorded invoices

- 9.11 During our audit testing we determined that the council did not accrue for two invoices from Ms Lilian Tanti amounting to €1,317. We have proposed an audit adjustment to accrue for the invoice and this was included in the audited financial statements.
- 9.12 We recommend that the council records expenditure when it is incurred such that liabilities are recorded in the correct financial year.

10 Long term creditors

PPP scheme

- 10.1 The balance of long term payables disclosed in the unaudited financial statements was incorrect. Based on our recommendation, the council showed an amount of € 11,294 as non-current in the audited financial statements since this is expected to be paid after more than one year.
- 10.2 Furthermore, when testing long term PPP creditors we noted that the council did not effect payments in accordance with memo 45/2010. We would like to remind the council that the memo states that the council is to pay the contractor over a span of nine years in the following manner:
- 40% of the cost during the year of completion;
 - 20% of the cost during the first year after completion;
 - 10% of the cost during the second year of completion;
 - 5% of the cost for the remaining six years.

11 Financial statements

Presentation of financial statements

- 11.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).
- 11.2 The council's financial statements are not compliant with IFRSs in the following instances:
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding disclosures of relevant new and amended IFRSs that have been adopted by the council were not complete in the unaudited financial statements. The council has amended these disclosures after our notifications.
 - IFRS 7 *Financial Instruments: Disclosures*: the maturity analysis of borrowings should reflect the contractual undiscounted cash flows. Therefore the council should also include the interest component of bank loans in the analysis. Furthermore, the quantitative disclosures relating to credit risk disclosed in note 4 to the financial statements do not include the correct required quantitative disclosures about financial assets that are either past due or impaired.
 - IAS 16 *Property, Plant and Equipment* regarding disclosures on any general and special hypothecs held against the bank loan.
 - IAS 7 (Statement of Cash Flow) relating to disclosures on capital creditors is not presented correctly.
- 11.3 Our audit opinion has been qualified in respect of the shortcomings mentioned above.

- 11.4 In addition to the above, the comparative figures relating to long term creditors on the face of the balance sheet to the financial statements were not correctly shown. This contravenes IAS 1 *Presentation of financial statements*.

Cash flow statement

- 11.5 We reviewed the cash flow statement of the council and noted that the amount disclosed as grant received is accruals based and does not reflect actual cash received. Following our recommendation, the council has amended the cash flow in its final set of financial statements.
- 11.6 We recommend that the cash flow statement represents the council's actual cash inflows and outflows in accordance with IAS 7, *Statement of Cash Flows*.

Capital commitments

- 11.7 The council's financial statements indicate that anticipated capital commitments over the next financial period amount to € 263,304. This contradicts the council's financial budget which estimates a capital expenditure of only € 900 in 2014.
- 11.8 Included in the amount (€263,304) disclosed in note 18 to the financial statements is an amount of €7,560 relating to the repayment of loan. The council should not disclose loan repayments as capital commitments. Instead loan repayments should be disclosed with contractual maturities in the liquidity risk note.
- 11.9 We recommend that the council properly discloses its future capital expenditure commitment in line with IAS 16, *Property, Plant and Equipment*. The council should also add a note explaining how this future capital expenditure is to be funded.

12 Council's meetings

Minutes of the meetings

- 12.1 When reviewing the minutes we noted that the council bought two iPads, for the benefit of the mayor and executive secretary, amounting to €1,459. During the course of the audit we asked to physically inspect the iPads but we were informed that the tablet of the mayor was not within the council's premises but with the mayor. We further asked the executive secretary whether a record is kept when these iPads leave the council's office. However, the executive secretary confirmed that no such record is kept.
- 12.2 This is in contravention of the Local Councils (Financial) Procedures and memo 120/2010 which specifically state that iPads (laptops) can be used out of office but only if the below two criteria are satisfied:
- i. The iPads (laptops) are to remain assets of the council at all time; and
 - ii. Registered with the executive secretary every time the iPads (laptops) are used outside the council's premises.
- 12.3 Furthermore, from the minutes we noted that the council approved to carry forward unused leave (192 hours) of the executive secretary to next year.

- 12.4 We would like to remind the council that executive secretaries, as public officers, have to apply to the Director of the DLG for approval after presenting the extract from approved council's minutes. The Director will not approve more than 50% of vacation leave entitlement not availed of, except for grave humanitarian reasons.

Binding of minutes

- 12.5 The minutes of the council are still not being bound at the end of the financial year. However these were properly filed and kept locked within the office.
- 12.6 The council is aware that this shortcoming has been in existence for a number of years and thus the council must ensure proper measures are taken to adhere to the provisions in the Local Councils (Office) Procedures, 1996 and arrange for the previous year's minutes to be bound. The binding of minutes are an important permanent source of documentation for the council and thus proper binding of the minutes will ensure that they remain intact and unchanged.

Attendance at meetings

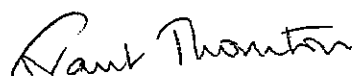
- 12.7 Whilst reviewing minutes of the council meetings it was noted that the vice mayor failed to attend more than one-third of the meetings called within a period of six months. The Local Councils Act stipulates that the Minister should be informed about this fact by the executive secretary.
- 12.8 Since the Minister was not informed in accordance with the Act, we recommend that, if the council resolves that the absence is due to a justifiable cause, it shall transmit the recommendation of the council to the Minister not to declare the seat vacant.

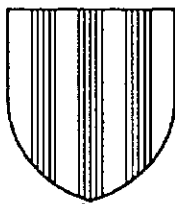
Conclusion

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,





Kunsill Lokali San Ġiljan

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30th May 2014

Our Ref: K0557/62/14-MC
Inc. 2409/14
Min. 28/K7/14

Your Ref: NAO 107/2010/52
ABC/scl/045614

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***Re: Audit Report and Financial Statements Year Ending 31 December 2013
Reply to Management Letter***

With reference to the above mentioned subject, please find hereunder the Council's comments:

2

Income

Income from Regional Committees

- 2.1 – 2.2 The reason why the invoice relating to the month of September was not issued in time was due to the fact that the Council had very urgent matters to attend to during that period.

Income from pre-regional committees

- 2.3 - 2.4 It is impossible for the Joint Committee to have their audited accounts for 2013 ready since their financial year coincides with that of the Local Council.

General Income

- 2.5 We could not trace the items listed by the auditors.
- 2.6 With regards to deposits of B.O.V these are deposited on a daily basis, unless there is a problem with the system.

With regards to deposits of HSBC, these are deposited twice weekly on a regular basis. However there could be an instance where it is not viable to deposit the amount collected as the charges of the cash in transit service is more expensive than the amount to be deposited. In such cases deposits of HSBC are always done on weekly basis.

Invoices

- 2.7 Point noted.

3 Fixed Assets

Fixed Asset Additions

- 3.1 (a) Point noted and adjustments were made accordingly.
- 3.1 (b) By oversight cheque was issued with the date prior the certification date. However this was not given to the contractor before the certification date.

4 Grants

Maintenance and upgrading of Housing Estates

- 4.3 The comment made by the auditor was noted and the recommended adjustments were reflected in the audited financial statements.

Repairs and maintenance of Saver Garden

- 4.8 Point noted.

Current and non-current portion of deferred income

- 4.10 Action taken accordingly.

Bank accounts

- 4.11 – 4.12 We have opened a project account and in this account there is a balance which covers the PPP project.

However, in this account amounts relating to short term projects of:-

- “Upgrading of Open areas within Housing Estate”,
- “The Construction of a ramp for the accessibility near Kavaillieri Hotel Quay” **and**
- “Various Maintenance and Repair Works at ‘Gnien Saver Zarb’ Triq Birkirkara San Giljan”

were also deposited and payments were issued immediately to the contractors.

Should there be another long term project a separate account will be opened.

5 Expenditure

Schedule of offers

- 5.1 With reference to schedule of offers, the Council is following the tendering procedures of 1996, L.C.P. 3/96 P. 3.04 (b) (refer to Appendix A) and unless amendments are made to the tendering procedures or instructed otherwise by the Department for Local Government, the Council will keep following these tendering procedures.

Bid Bond

- 5.2 - 5.3 We do not agree with your comment to Tender OAE 52-04/2012 relating to the "Organisation of activities/events". Attached please find copy of Bid Bond, Performance Bond and extract from Instructions to Tenderers with regards to Bid Bond Guarantee, for your perusal (refer to Appendix B).

Petty Cash Payments

- 5.4 – 5.6 With regards to Petty Cash Payments the Council is following the financial procedures accordingly. The financial procedures for petty cash, L.C.P 1/96 – P. 1.08 (a) states that the use of petty cash may not be avoided altogether (refer to Appendix C). In all circumstances a valid cash register receipt is requested by the Council. Petty cash purchases are kept within the limit of petty cash regulations.

Tax Invoices

5.7 – 5.8 Point noted.

Donations

5.9 – 5.10 With regards to items classified as donations by the auditors, we disagree with this classification since:-

- Item referring to parish priest – The Council was invited to attend an event to commemorate the 60th year anniversary of the Priest from celebrating Mass. The Council feels that in these occasions, the Councillors cannot attend without giving a memento.
- We object that a donation was given to the St. Julians Band Club. This for the reason that during the local feast, the two band clubs pass from in front the Council premises and it is part of the activities held by the Council during the local feast that these are greeted by the Council.

Assets Insurance

5.11 – 5.12 The building insurance also includes permanent fixtures and fittings and the air conditioning units. Regarding furniture, fixtures and fittings, the cost is €67,643 with a net book value of €11,506. Office equipment is covered under a separate policy. However we will do our utmost to review the following year.

Personal accident group insurance

5.13 We do not agree with the comment as the Insurance Brokers were informed prior renewal of policy. A credit note was issued and the payment effected does not include the person who terminated employment with the Council (refer to Appendix D). All documents were available for the auditors during audit.

Lapsi Feast

5.14 We do not agree, the Executive Secretary never gave such information. Had the auditors checked the files which were provided to them, they would have seen that Lapsi Feast is an activity which the Council applied for through a scheme issued by the Department for Local Government **Memo 38/2012 – Skema dwar Inizjattivi ta' Attivitajiet 2012/2013**. This activity was also approved by the Department for Local Government (refer to Appendix E) and all procedures were followed.

Reimbursements of expenses

- 5.15 – 5.16 As stated in the previous years, the reimbursement of expenses to the Executive Secretary is as a Council decision and is approved by the Council.

Travelling expenses

- 5.17 – 5.20 The Mayor and Executive Secretary travelled to Moscow as Council representatives and not as Government Delegates. To our knowledge, we have no obligation to submit any reports to the Director responsible for Corporate Services. As stated by the auditors, all the information required was provided and the subsistence allowance rates were in accordance with the "Per Diem Allowance for Duty Travel Overseas".

The Council has asked the Department for Local Government guidance to this issue (refer to Appendix F). However to date no reply was given.

Refuse collection

- 5.21 The difference in expenditure for refuse collection from the previous year is due to the fact that in 2012 the Council provided extra refuse collection service during the summer months.

6 Receivables

Overdue receivables

- 6.1 – 6.7 To our knowledge all debts mentioned by the auditors are recoverable by the Council.

7 Bank Reconciliation

- 7.1 – 7.2 Bank reconciliations are always done on a monthly basis. However the discrepancy was caused due to the fact that transactions entered in Sage Pastel can be reconciled although not yet posted.

- 7.3 Point noted and action has been taken.

8 Bank Loan

- 8.1 – 8.3 Point noted and the necessary action has been taken.

9 Trade and other payables

Creditors' statements

- 9.1 – 9.2 The Council request a statement to every supplier when issuing payment.

Long outstanding creditor

- 9.3 – 9.4 This amount relates to incorrect contractor invoices which were corrected by the Contracts Manager. The necessary adjustments were made.

Polidano Brothers

- 9.5 – 9.6 The amount of €744.48 was due to be paid by Polidano Brothers in the course of his works. The contractor failed to pay this amount to the Council. Hence this amount was set off against the amount due to the contractor by the Council.

WasteServ Malta Limited

- 9.7 – 9.8 The adjustment was made as recommended.

Unrecorded Invoices

- 9.11 – 9.12 The adjustment was made as recommended.

10 Long Term Creditors

PPP Scheme

- 10.1 – 10.2 With regards to Triq Claire E. Engel under the PPP Project, the Council was not completely satisfied with the result of works. Therefore the first two payments were made according to the Council's decision.

11 Financial Statements

Presentation of financial statements

- 11.1 – 11.4 The points raised by the auditors were reviewed and reflected in the audited financial statements.

Cash flow statement

- 11.5 – 11.6 The points raised by the auditors were reviewed and reflected in the audited financial statements.

Capital Commitments

- 11.7 – 11.9 The budget did not include the capital commitments of €254,844 as this relates to the previous year commitments. This amount was not included in the funds available and in the expenditure of the Budget.

12 Council's meetings

Minutes of the meetings

- 12.1 – 12.2 With regards to the Ipads bought for the benefit of the Mayor and Executive Secretary, the Council approved unanimously during the meeting held on 27/02/2014 that these two Ipads can be used by the Mayor and Executive Secretary at any time anywhere outside the premises of the Local Council.
- 12.3 – 12.4 This procedure had already been followed.

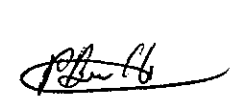
Binding of Minutes

- 12.5 – 12.6 The Council has already issued a call for quotation but no suppliers submitted a quote (refer to Appendix G).


Attendance at meetings

- 12.7 – 12.8 Point noted and action will be taken accordingly.

Yours sincerely


Peter Bonello
Mayor

29/5/14.


Helen Walker
Executive Secretary