

The Mayor,
San Giljan Local Council,
Triq Forrest,
San Giljan

26 April 2016

Financial Statement for the period ended 31 December 2015

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

1 Previous management letter

1.1 Income

We did not come across any instance in which the regional committees' invoices were issued late.

The Council was not required to accrue for Regional Committee funds received after year end.

The situation with Joint Committee share of profits remains unchanged from previous periods (refer to note 2.4).

We did not come across any instance in which deposits were not affected in time.

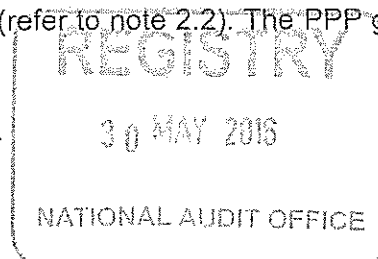
1.2 Fixed assets

Throughout the period, the council disposed of equipment. Such decision was traced to the minutes of the local council however not all disposals were removed from the ledger (refer to note 3.3).

Capital expenditure for the year was again different to the amount budgeted for 2015 (refer to note 3.8).

1.3 Grants

Our audit work indicated that the council did not reflect fairly the necessary allocations from deferred income to income statement (refer to note 2.2). The PPP grant position is also still not clear (refer to note 4.1).



1.4 Expenditure

Cash register chits were once again evident throughout our review of petty cash transactions (refer to note 5.1).

The council has not amended its insurance policy in line with previous recommendations (refer to note 5.3).

No issues were noted with the prepayments for insurance and rental cost

The council was still providing allowances to the Executive Secretary for making use of her car and mobile phone (refer to note 5.5).

We did not come across any similar issues with refuse collection and street lightning.

1.5 Receivables

Similar to last year, we identified long overdue balances in the debtors list (refer to note 6.1).

The situation with Green MT is similar to that reported for 2014 (refer to note 6.3).

The situation with Water Services Corporation is similar to that reported in 2014 (refer to note 6.4).

1.6 Bank reconciliations

In the current year we again noted differences between the reconciled amount and the balance in the ledger (refer to note 7.1).

We also noted that the reconciliation report date for a number of bank reconciliations was again beyond the 10th working day (refer to note 7.2) and some bank reconciliations were not traced (refer to note 7.3).

BOV cheques still do not include the Council Coat of Arms (refer to note 7.5).

1.7 Bank loan

The loan was fairly apportioned between the current and non-current element.

The terms and security of the bank loan were properly disclosed.

1.8 Trade and other payables

Monthly statements were once again not obtained by the council (refer to note 8.1).

The reconciling differences with Polidano was identified as retention monies on services provided whereas the difference on WasteServ supplier statement was again evident in



the current year (refer to note 8.3). The reconciling differences on Velljo services were also cleared.

Contractor deposits were fairly accounted for in the current year.

1.9 Long term creditors

The long term payable was recorded in the financial statements.

1.10 Financial statements

The financial statements did not comply fully with IFRS requirements (refer to note 9).

The capital commitment note does not agree to budget and still includes loan repayments (refer to note 9.5).

1.11 Council's meetings

Minutes are now being bound

In one instance, the Council did not meet within the required 5 week interval, and no meeting was held in December (refer to note 10.1).

Current year issues

2 Income

Income from Regional Committees

2.1 We noted that surplus income received from the Regional Committee was allocated to income in full. These funds are being used to for various projects such as pavements, additional refuse collections and community services. The cost of these projects is recognised as an expense and hence, the funds should be recognised as income in line with the recognised expenditure.

2.2 Our testing determined that the excess amount recognised in income amounted to EUR158,175 and we proposed an adjustment to transfer this to deferred income. The Council approved our adjustment and reflected it in the financial statements.

2.3 We recommend that the Council allocates these funds to income in line with the related expenditure which is continuously monitored by one of the employees of the Council.

Income from pre-regional committees

2.4 The Sliema Joint Committee, of which St. Julians Council formed part, has not yet provided the council with audited accounts for 2015. In 2015, the council recognised income amounting to EUR2,016 from pre-regional committees a joint committee surplus of EUR8,052.



- 2.5 We understand that the council has consistently requested the audited financial statement 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 2015

Accrued income

- 2.6 In January 2016, DLG paid EUR16,528 to WasteServ on behalf of the Council. This payment relates to invoices raised in the current and previous periods, however the Council did not include this amount as income for the year. We proposed an adjustment to recognise this income in the current year. The adjustment was accepted by the Council and reflected in the audited financial statements.
- 2.7 We recommend that the Council monitors such cut-off transactions to ensure that the accruals concept is applied throughout the financial statements.

3 Fixed assets

Fixed asset disposal

- 3.1 Our testing identified the disposal of 2 I-PADS which were previously used by the outgoing executive secretary and Mayor. The disposal of such assets was traced to approval in Council minutes. The Council agreed to dispose of these at EUR100 each, however the ledger indicates that the I-PAD to one of the parties was disposed at EUR88 rather than EUR100.
- 3.2 The Council should ensure that the disposal of assets is carried out at the agreed amounts unless this is justified and documented in the minutes of the Council.
- 3.3 Our testing also identified a list of disposed assets with a net book value as at 5th August 2015 of EUR1,900, and an original cost of EUR12,436. These disposals were approved by the Council, however, the assets on this list were not removed from the ledger and were depreciated up till the end of the year. We proposed an adjustment to remove the excess depreciation of EUR195 for the period from disposal till year end. We also proposed an adjustment to remove the cost and provision for depreciation from the ledger which amounted to EUR12,436 and EUR10,356 respectively. This resulted in an additional loss on disposal of EUR1,900. The Council approved our proposed adjustment and reflected it in the audited financial statements.
- 3.4 The Council should ensure that all approved disposals are hence reflected in the accounting system to ensure that the financial statements reflect the value of its fixed assets appropriately.

Fixed asset register

3.5 A reconciliation of fixed asset per fixed asset schedule to the fixed asset register identified the following differences:

	Cost as per FS			Depn as per			NBV as per		
	Note 14/15	FAR	Difference	FS Note 14/15	FAR	Difference	FS Note 14/15	FAR	Difference
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Construction	216,686	216,686	-	216,686	216,686	-	-	-	-
Property	185,798	185,797	1	20,524	20,523	1	165,274	165,274	-
Office Furniture	66,860	67,643	- 783	56,997	57,744	747	9,863	9,899	- 36
Office Equipment	31,013	42,666	- 11,653	23,906	33,891	9,985	7,107	8,775	- 1,668
Urban Improvements	23,214	23,215	- 1	23,214	23,215	1	-	-	-
Computer Software	260	260	-	11	11	-	249	249	-
Trees	1,584	1,584	-	-	-	-	1,584	1,584	-
New Street Signs	9,707	9,707	-	9,707	9,707	-	-	-	-
Special Programme	1,628,316	1,628,316	-	1,450,603	1,450,603	- 5	177,708	177,713	- 5
Assets Not Capitalised	41,086	-	41,086	-	-	-	41,086	-	41,086

3.6 We understand that the Assets Note Yet Capitalised are no meant to be part of the fixed asset register and hence the overall difference between cost per schedule and cost per register amounted to EUR12,436. A counter difference of EUR10,737 was evident in the provision for depreciation and a difference of EUR1,709 emerges from the net book value.

3.7 We encourage the Council to investigate the differences and correct as necessary to reconcile the two reports.

Capital expenditure

3.8 Capital expenditure for the year amounted to EUR45,664 divided between EUR1,500 on trees, EUR3,078 on computer equipment and EUR41,086 in assets not yet capitalised. The budgeted capital expenditure amounted to EUR1,500 on improvements, EUR400 on equipment and EUR93,423 on Special Programs for a total budgeted expenditure of EUR95,323.

3.9 The financial regulations require that capital expenditure corresponds to projects approved in the annual budgeted estimates and the business plan (unless otherwise authorised by the Council). The Council should ensure that the financial estimates and business plan reflect the estimated capital expenditure fairly.

4 Grants

PPP scheme

4.1 As noted in previous periods, the PPP project is still underway and additional grants are expected to be earned in due course over the additional works. From our work, it was not clear whether:

- The grant received to date covers all the projects carried out to date or whether this is in excess of such investments,

- Whether additional grant is to be recognised (as accrued income) in relation to the additional works carried out this year

Such considerations would have an impact on the amount of grant allocated to income in the current year and possible recognition of accrued income.

5 Expenditure

Petty cash payments

- 5.1 From our review of petty cash transactions, it was evident that the majority of transactions are supported by cash register chits and not valid tax invoices or receipts issued to the council. Our testing identified the following sample:

Description	Supplier	Date	Amount EUR	Petty Cash Month	Type of Supporting Documentation
Conference/Council Meeting	Scotts	29/01/2015	19.35	January	Cash Register Chit
Newspapers	Basic Food & Drinks, Hompesh Stationery & 8 Till Late	31/01/2015	20	January	Cash Register Chit
Hospitality Costs	Scotts	05/02/2015	7.46	February	Cash Register Chit
Registered Mail	Mallapost	20/02/2015	2.32	February	Cash Register Chit
Conference/Council Meeting	Scotts	26/03/2015	11.05	March	Cash Register Chit
Newspapers	Hompesh & Tonna Stationery	31/03/2015	18	March	Cash Register Chit
Bus Tickets	Malta Public Transport	13/04/2015	1.50	April	Cash Register Chit
Safe Deposit Bags	Bank of Valletta	23/04/2015	7.50	April	Cash Register Chit
Hospitality Costs	Scotts	21/05/2015	8.13	May	Cash Register Chit
Parking	MCP	22/05/2015	4.50	May	Cash Register Chit
Hospitality Costs	Scotts	09/06/2015	16.19	June	Cash Register Chit
Newspapers	Hompesh Stationery	29/06/2015	20.00	June	Cash Register Chit
Replacement of False Money Found in Bag	Bank of Valletta	13/07/2015	20.00	July	Cash Register Chit
Safe Deposit Bags	Bank of Valletta	23/07/2015	7.50	July	Cash Register Chit
Registered Mail	Mallapost	07/08/2015	3.48	August	Cash Register Chit
Petrol Fee	Joe Bugeja	28/08/2015	5.00	August	Cash Register Chit
Cleaning Materials	Scotts	15/09/2015	7.53	September	Cash Register Chit
Stationery - Batteries	Focal	15/09/2015	6.00	September	Cash Register Chit
Frame	Focal	05/10/2015	12.00	October	Cash Register Chit
Cash Box	Golden Gate Co Ltd	28/10/2015	14.28	October	Cash Register Chit
Operating Materials and Supplies	C & M Ironmongery	09/11/2015	7.74	November	Cash Register Chit
Hospitality Costs	Scotts	27/11/2015	6.51	November	Cash Register Chit
Red Fabric to Use for Jesus Statue	JB Stores	03/12/2015	17.46	December	Cash Register Chit
Piling of Christmas Decorations	Joseph Farrugia	04/12/2015	20.00	December	Cash Register Chit
Pickup of Undelivered Christmas Cards	Mallapost	24/12/2015	19.24	December	Cash Register Chit

- 5.2 The Financial Procedures state that a valid tax invoice of VAT receipt addressed to the council should be obtained for all purchases made by the council even if these are petty cash transactions. Therefore, we recommend that the council ensures that all supplies and services are supported by valid tax invoices addressed to the council.

Asset insurance

- 5.3 We noted the following discrepancies between the insurance cover and cost as per nominal ledger. We did not trace any insurance cover on other assets included under Urban Improvements, Street Signs, Construction and Special Programs.

Asset Covered	Cost as per Ledger EUR	Amount Insured EUR	Difference EUR
Property	185,798		
Office Furniture/Fittings	66,860	204,448	48,210
Electronic equipment	31,013	17,705	13,308

- 5.4 The above illustrates that some of the council's assets are not adequately insured. In this regards, 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.05 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the councils' insurance coverage.

Reimbursements of expenses

- 5.5 The council was still paying a fixed quarterly reimbursement of EUR187 to the outgoing executive secretary for making use of her own car and mobile phone for council's purposes. Total payment for the year amounted to EUR374. This procedure was stopped on the appointment of the new Executive Secretary.

Audit Fee

- 5.6 We noted that the council did not accrued for the interim audit fee amounting to EUR2,879. We proposed an adjustment to accrue for the fee. The adjustment was approved by the Council and reflected in the audited financial statements.
- 5.7 We recommend that the Council ensures that all expenses for the year under review are provided for.

Payroll – FSS reconciliation

- 5.8 Whereas the salary costs per ledger agreed to the cost per FS7, we noted a difference between the amounts reported in the FS5 and the amounts reported in the FS7 as follows:

Month	Gross Emoluments EUR
January	11,020
February	8,404
March	8,912
April	8,304
May	8,236
June	14,569
July	15,874
August	9,487
September	10,023
October	9,481
November	9,507
December	19,245
	<hr/> 133,062
SSC Payable by Employer	7,705
Cost per FS5	<hr/> 140,767
Gross emoluments per FS7	133,340
SSC cost per FS7	7,705
	<hr/> 141,045
Difference	<hr/> - 278

5.9 We also noted that the allocation of the Executive Secretary salary costs and bonus in the nominal was not always posted to proper nominal code. We proposed a ledger adjustment of EUR27,193 to reclassify payroll cost.

5.10 The financial statements did not reflect the figures in the ledger and as such, the remuneration paid to the Executive Secretary as reported in the financial statements was only understated by EUR1,254 which was included with Employee Salaries. We proposed a reclassification which was approved by the Council and reflected in the audited financial statements.

FS4

5.11 We also noted that an FS4 was not prepared for the 6 new Councillors elected in the 2015 election. The FS4 is an important document that provides a formal declaration by the Councillor to the Council on the tax rate to be applied on his/her allowance. The document should also be sent to Inland Revenue.

6 Receivables

Overdue receivables

6.1 Whilst reviewing trade debtors we noted a balance of EUR37,168 which has been due for over 120 days. The balance mainly pertains to the following trade debtors: Regjun Centru EUR3,452 (EUR86 brought forward from previous years), Green MT EUR19,594 (EUR18,354 brought forward from previous years), San Giljan Police Station EUR5,422

(all from previous years) and Water Service Corporation EUR6,216 (EUR4,578 brought forward from previous years).

6.2 We recommend that the council follows up the recoverability of these balances and provides for and unrecoverable amounts.

6.3 The total balance due from Green MT is EUR19,594. During 2015, the invoices issued to Green MT amounted to EUR1,240 and council did not receive any payments. We understand that the council has requested settlement of this balance however payments received were very limited in relation to the amount recoverable. We recommend that the council assess the recoverability of this balance and makes adequate provisions against it.

6.4 We circularised a sample of debtors including Water Services Corporation. The debtor per ledger, at 31 December 2015 amounted to EUR6,831 however, the amount confirmed by WSC was only EUR981. We strongly recommend that the council considers the recoverability of the amount due and provide for any doubtful balances.

7 Bank reconciliation

7.1 Whilst reviewing the bank reconciliations, we noted that in a number of instances, the reconciled balance per reconciliation did not tie in to the ledger balance as at the date of the reconciliation. The January HSBC savings account reconciliation indicated a ledger balance of EUR299,750 however the ledger balance was EUR299,769. A difference of EUR19. The April reconciliation for the same account indicated a ledger balance of EUR332,542 whereas the actual amount was EUR332,677, a difference of EUR135. The HSBC Current Account also showed a difference of EUR19 in the July, August and September reconciliations, which was cleared in October.

7.2 We also noted that the reconciliation report date printed for the following bank reconciliations exceeded the 10th working day of the following month as required by the Local Council (Financial) Regulations:

Bank account	Month	Reconciliation report date
HSBC current	January 2015	11 March 2015
HSBC current	April 2015	21 May 2015
HSBC current	June 2015	4 August 2015
HSBC current	July 2015	24 November 2015
HSBC current	August 2015	05 January 2016
HSBC current	September - December 2015	20 January 2016
HSBC Savings	January 2015	11 March 2015

HSBC Savings	April 2015	21 May 2015
HSBC Savings	June 2015	4 August 2015
HSBC Savings	July 2015	24 November 2015
HSBC Savings	August 2015	05 January 2016
HSBC Savings	September – November 2015	20 January 2016
HSBC Savings	December 2015	26 January 2016
BOV Regjun	Jan/Feb/May 2015	15 June 2015
BOV Regjun	June 2015	5 August 2015
BOV Savings (5003)	January 2015	9 April 2015
BOV Savings (5003)	January 2015	5 August 2015
BOV Savings (5021)	June 2015	5 August 2015
BOV current (5022)	June 2015	5 August 2015
BOV Projects	March 2015	15 June 2015
BOV Projects	May 2015	15 June 2015
BOV Projects	June 2015	7 August 2015
BOV Projects	July – November 2015	15 December 2015
BOV Projects	December 2015	26 January 2016
BOV LES	March 2015	15 June 2015
BOV LES	June 2015	7 August 2015

7.3 Furthermore, we noted that bank reconciliations for certain months for the following accounts were not traceable in the bank file:

Bank account	Missing months
BOV Savings (5003)	Feb – May 2015
BOV Savings (5021)	January – May 2015
BOV Current (5022)	January – May 2015
BOV projects	January, February & April 2015

BOV LES	January, February, April & May 2015
BOV Savings	January – August, October and November 2015

7.4 We recommend that bank reconciliations are prepared monthly for all bank accounts and within 10 working days as required by the Local Council (Financial) Regulations.

7.5 From our review on bank payments, we noted that the BOV cheques do not include the coat of arms of the council as required by the Local Council (Financial) Regulations.

8 Trade and other payables

Creditors' statements

8.1 As part of our procedures, we requested statements as at 30 June 15 (for interim review) and 31 December 2015 for the council's main creditors. It was evident that monthly statements were not readily available for all suppliers. Memos issued from time to time by the DLG specifically state that the council should obtain monthly statements.

8.2 Whereas we understand that the Council is in fact asking for all statements, we remind it that these statements are necessary to ensure completeness of records.

WasteServe Malta Limited

8.3 The reconciliation between the ledger and supplier statement provided by WasteServ Malta Limited. The ledger indicates a credit balance due of EUR18,427 however, the supplier statement indicates a credit balance of EUR21,703. The difference of EUR 3,276 is brought forward from the prior periods.

8.4 We recommend that the council investigates what brought about the difference between the supplier statement and the ledger and determine whether this amount is actually due. If it's due, the council should consider adjusting the ledger and minute such decision.

9 Financial statements

Presentation of financial statements

9.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).

9.2 The council's financial statements are not compliant with IFRSs in the following instances:

- IAS 7 *statement of cash flow* relating to disclosure on capital creditors and grants received was not presented correctly. This was amended after our notification.

- The council reported a rental cost of EUR2,000, however, the financial statements do not disclose the necessary disclosures required by IAS 17 *Leases*.
- The council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the council.

9.3 Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

9.4 We also noted the following shortcomings in the audited financial statements:

- The total liability line on the statement of financial position is actually total current liabilities. The total liability line should have been a separate line underneath the total current liabilities that represents total current and total non-current liabilities.
- Current year office services cost included under administration expenses in note 11 should read EUR9,775 rather than EUR9,975. The total administrative costs for the year is presented correctly at EUR163,772 and as a result, the administrative costs schedule does not cast by EUR200.
- The comparative figure for receivables as presented in note 16 does not agree with the figure on the statement of financial position.

Capital commitments

9.5 The capital commitment note as disclosed in note 22 includes the loan repayments. Loan repayments should be disclosed with contractual maturities in the liquidity risk note. We also noted that the capital commitments as presented on the financial statements do not agree with the budgeted capital expenditure for 2016. The Budget for 2016 includes an expenditure of EUR69,010 over and above the amount disclosed in the financial statements.

9.6 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.

10 Council's meetings

10.1 The Local Council Act requires that the council meets at least once a month and such meetings should not be in excess of 5 week intervals. The council met every month with the exception of the month of December and the 5 week interval was exceeded in the following instance:

Meeting date	Meeting date	Weeks
5 February	26 March	7

10.2 We recommend that the council should ensure that it meets at least once a month and the 5 weeks interval between meetings is not exceed.

11 Interim audit

11.1 The Council's executive secretary was replaced with effect from 1 July 2015 and an interim audit was requested for the period 1 January to 30 June 2015. Due to the resignation of the Council's accountant, the Council issued a fresh tender and in the meantime, appointed an interim firm to close off the accounts for the first 6 months. The accounts were provided for audit towards the end of November and the audit process was started in December. Due to a delay on the provision of requested information, the audit process was continued in January and eventually closed off. The Council has not yet approved the adjustments and the audited financial statements.

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

We would like to take this opportunity to thank Mr. Paul Spiteri and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo
Partner
for and on behalf of
Mazars Malta