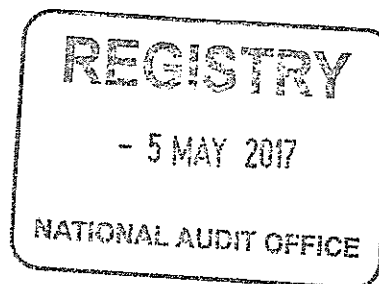


The Mayor,  
San Giljan Local Council,  
Triq Forreſt,  
San Giljan

24 April 2017



## Financial Statements for the period ended 31 December 2016

During the course of our audit for the year ended 31 December 2016, 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

Surplus income received from the Regional Committee was appropriately deferred and the amount recognised in the current year was representative of the expenses financed from these funds.

The situation with Joint Committee share of profits remains unchanged from previous periods.

The Council did not accrue for tipping fee shortages that will be covered by the Department for Local Government (refer to note 2.5).

#### 1.2 Fixed assets

Throughout 2016, the Council did not dispose of any assets.

At 31 December 2016, differences between the fixed asset register and the fixed asset schedule were limited to adjustments arising from audit adjustments.

Capital expenditure for the year was again different to the amount budgeted for 2016 (refer to note 5.5).

#### 1.3 Grants

The PPP grant position is also still not clear (refer to note 4.1).

#### 1.4 Expenditure

In view of the clarification made by Circular 28/2016, we have no comments to make on petty cash receipts.

The Council has not amended its insurance policy in line with previous recommendations (refer to note 3.1).

We did not come across instances in which the Council is paying fixed quarterly reimbursements to its Executive Secretary.

The Council was not required to accrue for an audit fee in the year under review.

#### 1.5 Payroll

We did not come across any material differences in the reconciliation between FSS reports and the ledger, however, we noted that the allocation of salaries between different categories of employees was not fairly reported (refer to note 5.7).

We did not come across any issues with preparation of FSS forms throughout 2016.

#### 1.6 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 2015 (refer to note 6.3).

The situation with Water Services Corporation is similar to that reported in 2015 (refer to note 6.4).

#### 1.7 Bank reconciliations

In the current year we again noted differences between the reconciled amount and the balance in the ledger however these were cleared after our management letter and no further instances were noted after May 2016.

Whereas all monthly bank reconciliations were available, we still noted that the reconciliation report date for a number of bank reconciliations was again beyond the 10<sup>th</sup> working day, however, this was limited to January and February 2016 and no further instances were noted after we reported the issue.

BOV cheques still do not include the Council Coat of Arms (refer to note 7.1).

#### 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 WasteServ were cleared.

#### 1.9 Financial Statements

We again noted instances in which the Financial Statements did not comply fully with IFRS requirements (refer to note 9).

The capital commitment note was in line with IFRS requirements and the Council budget.

#### 1.10 Council's meetings

Once again we identified instances in which the Council meetings were not held within a 5 week interval (refer to note 10.1).

#### 1.11 Mid-term audit

The mid-term audited Financial Statements were eventually approved and submitted to the National Audit Office.

### **Current year issues**

## **2 Income**

### **Income from donations**

2.1 We noted that the Council received a donation of EUR1,000 from a private contractor to be used to plant trees in replacement of trees up-rooted during excavation works. Although, these funds were not yet used, the donation was recognised as income in the current year. Hence, we proposed an adjustment to transfer this amount to deferred income. The Council approved our adjustment and reflected it in the audited Financial Statements.

2.2 Similar to other instances, we recommend that the Council allocates these funds to income in the year in which the related expenditure is recognised.

### **Income from pre-regional committees**

2.3 The Sliema Joint Committee, of which St. Julian's Council formed part, has not yet provided the Council with audited accounts for 2016. In the current year the Council recognised income amounting to EUR5,217 from pre-regional Committees.

- 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 2016.

#### Accrued income

- 2.5 From communication with the department for Local Government, it transpired that the Department will cover tipping fee shortages payable to WasteServ amounting to EUR14,729. We proposed an audit adjustment to recognise this amount as accrued income in the Statement of Financial Position and as income for the year. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.6 We recommend that the Council verifies the shortage amount that should be covered by the Department for Local Government and ensures that the balance is reconciled with their records.

### 3 Property, plant and equipment

#### Insurance cover

- 3.1 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover issued in September 2016 and cost as per last audited Financial Statements.

Asset Covered	Cost at 31.12.15 EUR	Amount Insured EUR	Difference EUR
Property	185,798		
Office Furniture/Fittings	66,860	259,143	(6,485)
Electronic Equipment	31,013	17,705	13,308
	283,671	222,153	61,518

- 3.2 The above illustrates that some of the Council's assets are not adequately insured. The insured cost of electronic equipment does not cover the full cost since the Council is in the process of changing its equipment. The insured cost will be updated after the changeover. The Council should adhere to circular 33/2016 that requires an insurance cover of its buildings and contents including fire, theft and damage. The circular also clarifies that community assets do not need to be insured.

#### Fixed asset additions

- 3.3 Upon testing the PPE additions, we noted that throughout 2016 the Council received an invoice from the PPP contractor for works on Trip Lapsi. The invoice was for EUR48,875 of which the Council only capitalised the amount of EUR23,779 and the difference was set-off against the non-current balance due to the same contractor. We proposed an adjustment for EUR25,096 to increased capital expenditure and the liability due to the contractor. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 3.4 We recommend that the Council should account for invoices in full and reconcile the balances due to the contractor as per separate schedules maintained by the Council to ensure that the liability is fairly reported.

#### **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, we noted that the following petty cash payments exceeded the limit of EUR23.29, whether taken individually or in conjunction:

<b>Date</b>	<b>Supplier</b>	<b>Amount EUR</b>	<b>Total EUR</b>
24/05/2016	Mangion Brothers	24.78	24.78
		14.35	
22/08/2016	Scotts	14.35	38.69
		9.20	
		0.79	

- 5.2 We remind the Council that petty cash payments cannot exceed EUR23.29.

- 5.3 We also noted that from the sample tested, the following payments were made directly to the Executive Secretary. It was also noted that no supporting documentation was made available in relation to these payments apart from a petty cash voucher:

<b>Date</b>	<b>Supplier</b>	<b>Details</b>	<b>Amount EUR</b>
26/04/2016	Paul Spiteri	Stationery	10
02/05/2016	Paul Spiteri	Waiter Tips	20

- 5.4 We remind the Council that it should keep supporting documentation for all payments made by the Council.

5.5

# Budgeted versus actual expenditure

5.6 We agreed the budgeted figures for 2016 with the actual recurrent and capital expenditure for the year as follows.

	Budget 2016 EUR	Actual 2016 EUR	Difference EUR
<b>Income</b>			
Funds from Central Gov	741,101	682,790	58,311
Income raised from by-laws	101,000	81,554	19,446
Income raised from LES	10,000	29,998	- 19,998
Investment income	400	210	190
Other income	6,000	15,507	- 9,507
	<u>858,501</u>	<u>810,059</u>	<u>48,442</u>
<b>Expenditure</b>			
Personal emoluments	156,314	146,602	9,712
Operations and maintenance	473,458	539,370	- 65,912
<b>Administration</b>			
Office utilities	12,050	10,066	1,984
Other repairs and upkeep	-	1,115	-
Office rent	2,000	1,750	250
Memberships	6,000	482	5,518
Office services	8,350	6,958	1,392
Transport	7,945	6,769	1,176
Travel	-	2,213	- 2,213
Information services	600	3,570	- 2,970
Other contractual services	-	14,949	- 14,949
Professional services	25,000	25,308	- 308
Hospitality	23,560	76,063	- 52,503
Incidental expenses	1,000	15,741	- 14,741
	<u>716,277</u>	<u>850,956</u>	<u>- 133,564</u>
Surplus/(deficit) before depreciation	<u>142,224</u>	<u>- 40,897</u>	<u>183,121</u>

	Budget 2016 EUR	Actual 2016 EUR	Difference EUR
<b>Capital Expenditure</b>			
Property loan	7,557	4,663	2,894
Improvements	1,500	2,616	- 1,116
Equipment	400	7,985	- 7,585
Special programs	69,010	27,518	41,492
Others	-	26,129	- 26,129
Project Garden Scicluna	100,000	-	100,000
	<u>178,467</u>	<u>68,911</u>	<u>159,113</u>

- 5.7 The Council should ensure that a fair budget is prepared and executed throughout the period. The expenditure incurred throughout the period should be in line with the estimated and approved expenditure.

### **Payroll**

- 5.8 We noted that the allocation of the Executive Secretary salary costs and bonus in the nominal was not always posted to the proper nominal code. We proposed a reclassification of EUR34,259 to reclassify payroll costs from employee salaries, bonuses and income supplements to Executive Secretary salary. We also reclassified EUR292 from allowances to Mayor salary. Minor adjustments were also required to the classification in the unaudited Financial Statements. The Council approved our adjustments and reflected them in the audited Financial Statements.
- 5.9 We also noted that the Council's share of social security contributions was overstated by EUR1,076. We proposed an adjustment to reclassify this amount. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 5.10 We recommend that the Council should carry out periodical payroll reconciliations to identify and correct any errors in the allocation in a timely manner.

### **Vacation leave**

- 5.11 At 31 December 2016 the Council approved to carry forward unutilised vacation leave of 3 employees as follows:

<b>Employee</b>	<b>B/fwd</b>	<b>For the year</b>	<b>Utilised</b>	<b>C/fwd</b>
	<b>Hrs</b>	<b>Hrs</b>	<b>Hrs</b>	<b>Hrs</b>
M. Cassar	69	192	(73)	188
C. Fenech	46	192	(130)	108
E. Borg	-26	192	(110)	56

- 5.12 We remind the Council that as required by the Local Council (Human Resources) Regulations, employees of the Council are only allowed to carry forward up to 48 hours of unused vacation leave to the following year.
- 5.13 We recommend that the Council ensures that its policy for planning, utilisation and carry forward of leave is in line with the applicable Regulations.

### **Tendering procedures**

- 5.14 In May 2016, the Council issued a request for quotations for the mini-van bus service (4/2016). The Council only received 1 quotation and awarded the contract to ALM Enterprises Ltd which was signed in June 2016. From a review of the supplier ledger,

we noted that during the 7 month period till year end, the Council was billed the sum of EUR5,208 which is in excess of EUR4,658.75, the threshold over which the issue of a tender rather than a call for quotation is required. The excess of EUR549 partly arose from an extra trip costing EUR248 and cost of trips for hire of minivan for other activities from the same contractor.

5.15 We recommend that the Council evaluates the services required to ensure that the appropriate procurement procedures are followed. The Council should also monitor the services provided to ensure that appropriate procedures are followed once the thresholds are exceeded.

5.16 We also reviewed the files for the following e-tenders issued in 2016:

- Collection of bulky refuse – BR 52 – 03/2016
- Street Cleaning Services – SGLC 52 04/2016
- Upkeep & Maintenance of Access Roads – SGLC 05/2016
- Cleaning & maintenance of Parks & Gardens – PAGAR 06/2016

From our review, we noted that:

- Minutes of the opening of tender documents indicated that the adjudication committee members signed the declaration of impartiality and confidentiality, however, these were not traced in the tender box.

5.17 We encourage the Council to adopt a system that ensures that it follows procedures emanating from Directive 1/2016 in relation to e-tendering.

#### **Classification of expenses**

5.18 Upon testing the Council's operations and maintenance costs, we noted that the expense amounting to EUR8,258 relating to public property was included in the other materials and supply ledger account whereas this was correctly reflected in the Financial Statements. We therefore proposed a reclassification in order to allocate this amount to its correct ledger account. The Council approved our adjustment and reflected it in the audited Financial Statements.

5.19 Furthermore, pavement works amounting to EUR9,041 were allocated to the signs ledger account. We therefore proposed an adjustment to reclassify this amount to road maintenance works. The Council approved our adjustment and reflected it in the audited Financial Statements.

5.20 We encourage the Council to introduce controls in place to ensure that expenses are allocated to the appropriate nominal ledger accounts.



### Payments made prior to approval

5.21 Our testing on payments made by the Council, indicated that the following payments were made prior to the approval of the Schedule of Payments on which they were disclosed:

Supplier	Invoice Date	Amount EUR	Date Paid	Date Approved
Aid Ltd	04/02/2016	2,183	11/05/2016	28/05/2016
Yes Services	21/07/2016	3,500	03/08/2016	30/08/2016
Raymond Borg	25/07/2016	850	22/08/2016	30/08/2016

5.22 We remind the Council that expenses should first be approved by the Council before payment is issued to the supplier/contractor.

### Street cleaning tender

5.23 As noted above, the Council issued a call for tenders for the provision of street cleaning services. The previous tender expired in August 2016 and a new tender was issued on 15 July 2016. The tender was awarded to Galea Cleaning Services on 26 September 2016 on the basis of the cheapest offer. However, Waste Collection Limited, which was the previous service provider disputed the award on the basis that Galea cleaning Services is not able to deliver the service. Due to the appeal, the Council has retained Waste Collection Services as its supplier for this service. The value of the services received under this agreement after the expiration of the agreement amounted to EUR42,464.

## 6 Receivables

### Overdue receivables

6.1 Whilst reviewing trade debtors we noted a balance of EUR 28,192 which has been due for over 365 days. The balance mainly pertains to the following trade debtors: Green MT EUR15,594, San Giljan Police Station EUR 4,230, Water Service Corporation EUR 6,831, Active Enterprises EUR1,328 and other Regional Committee receivables amounting to EUR209.

6.2 From discussion with the Executive Secretary, it transpired that the amount receivable from San Giljan Police Station will be very difficult to recover and hence we proposed an audit adjustment to provide for the amount of EUR4,230. The Council approved our adjustment and reflected it in the audited Financial Statements.

6.3 The total balance due from Green MT is EUR15,594. During 2016, no invoices were issued and the Council received payments amounting to EUR4,000. We understand that the Council has requested settlement of this balance however, payments received were sporadic. We recommend that the Council assess the recoverability of this balance and makes adequate provisions against it.

- 6.4 We also circularised a sample of debtors including Water Services Corporation. The amount recoverable per ledger, at 31 December 2016, amounted to EUR8,971 however, the amount confirmed by WSC was only EUR381. We strongly recommend that the Council consider the recoverability of the amount due and provide for any doubtful balances.
- 6.5 We recommend that the Council follows up the recoverability of these balances and provides for any unrecoverable amounts.

#### **Bad debts written off**

- 6.6 During the year under review, the amount recoverable from Schranz Limited amounting to EUR1,623 was written off. However, the Council had already provided for this balance in previous years and the provision was not reversed. We proposed an adjustment to reverse the provision. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 6.7 The Council should ensure that provision for bad debts are reversed once the debt is settled or written off.

### **7 Bank accounts**

- 7.1 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.
- 7.2 We also noted that whereas bank reconciliations are being prepared every month, these are not being signed as proof of approval by the Executive Secretary.
- 7.3 We recommend that all bank reconciliations are verified and signed by the Executive Secretary and filed within the bank file.

### **8 Trade and other payables**

#### **Creditors' statements**

- 8.1 As part of our procedures, we requested statements as at 31 December 2016 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 and correctness of records.

## **PPP Payables**

- 8.3 As a result of the adjustment reported in note 3.3 above, we noted that the classification of the PPP creditor between current and non-current element was not fairly reported. We reconciled the resulting balance due to the contractor with reports maintained by an employee of the Council and quantified the amount that needs to be reflected as non-current. The Council had recognised EUR23,285 as non-current element, however this was not reflected in the ledger. A reclassification was passed to reflect the classification in the ledger. As a result of the adjustment proposed in note 3.3, the non-current element was increased to EUR48,381, whereas this was determined to be EUR35,561. Hence a further reclassification of EUR12,820 was proposed. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 8.4 We recommend that the Council introduces procedures to reconcile the amount due to the PPP contractor per ledger with the reports maintained by the Council employee and ensure that the current – non-current elements are in line with this schedule.

## **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 EUR1,750, 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.
  - IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council was not updated from the previous year in the unaudited Financial Statements. The Council has amended these disclosures after our notification.
  - IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* regarding disclosures of contingent liabilities in relation to pending court, arbitration and

appeal cases as well as judicial cases against the Council. The Council has amended these disclosures after our notification.

9.3 Our 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 non-current deferred income balance presented in the Statement of Financial Position on page 5 should read EUR60,372 as per note 21 rather than EUR61,372.

## **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:

<b>Meeting Date</b>	<b>Meeting Date</b>	<b>Weeks</b>
27/11/2015 – 10	08/01/2016 – 11	6
08/01/2016 – 11	17/02/2016 – 12	5.71

10.2 We also noted that the minutes of the meetings uploaded on the Council website do not include the wording 'IFFIRMATA' as required by Memo 10/2016.

10.3 We recommend that the Council ensures that it meets at least once a month and the 5 weeks interval between meetings is not exceed. We also recommend that the Council follows the requirements of Memo 10/2016.

### **Councillor attendance**

10.4 We noted that two Councillors were excused from 3 meetings out of 7 held during the 6 month period between July and December 2016. Three meeting are in excess of one third of the meetings held in the 6 month period under review and hence, as per the Local Council Regulations and Circular 17/2016, the Council should discuss whether their absence was justified or not and inform the Minister of their absence and the Council's recommendation if necessary. We did not trace any instances in the minutes that these procedures were followed.

10.5 We remind the Council of its obligations as highlighted in Circular 17/2016 with respect to Councillor repeated absence from Council meetings.

## **11 Budget**

11.1 The Council has prepared its budget for 2017 on the appropriate templates however, the Council left the overview and summary section missing. The Council also failed to include the 2016 budget figures and the forecasted actual for 2016 in the appropriate columns.

## 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 Mr. Paul Spiteri and his 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