

The Mayor  
SAN GWANN LOCAL COUNCIL  
55, Triq Caruana Dingli  
San Gwann SGN 1033

3 June 2016

### **Financial Statements for the year 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 Property, plant and equipment**

Once again we were not provided with the fixed asset register (refer to note 2.1) and we noted again errors in depreciation workings (refer to note 2.3).

During the year under review, differences were still identified between the fixed assets categories in the nominal ledger and those in the fixed asset schedule (refer to note 2.6).

We did not come across weaknesses on procurement procedures for PPE acquisitions.

##### **1.2 Income**

The issue with the Joint Committee has not yet been resolved (refer to note 3.1).

We did not identify any material errors in accounting for the 10% administration income from Regions/LESA.

Once again, the Council did not recognise tipping fees paid to WasteServ by the Department for Local Government (refer to note 3.3).

### **1.3 Expenditure**

We did not come across payments that were not supported by a fiscal invoice or fiscal receipt.

A contract between the Council and the Parish Church has still not been signed (refer to note 4.1).

The Council has still not amended the insurance policy (refer to note 4.2).

We did not come across any donations.

We again identified instances where petty cash payments are supported by cash register chits (refer to note 4.4) and we also noted a petty cash transaction in excess of EUR23.29 (refer to note 4.7). Petty cash account was up to date.

We again identified weaknesses in tendering procedures.

### **1.4 Payroll**

Payroll reconciliations were again not provided and unreconciled differences emerged (refer to note 5.1). We also noted errors in disclosure of payroll by category in the financial statements (refer to note 5.3).

We noted again that the Council did not provide for the Executive Secretary performance bonus (refer to note 5.5).

### **1.5 Trade and other receivables**

The Council has corrected the provision made on Green MT and it still has long overdue receivables (refer to note 6.1).

Once again, we noted errors in accounting for accrued income (refer to notes 6.5 -6.6).

### **1.6 Bank and cash**

The Council is still being charged tax on interest earned on the Banif Bank balance (refer to note 7.1).

We again noted weaknesses in the bank reconciliation process (refer to note 7.3). On the other hand, we did not identify any stale cheques in the bank reconciliations.

### **1.7 Trade and other payables**

The Council still did not manage to obtain monthly statements from all suppliers (refer to note 8.1).

We again noted differences between creditor statements and control account balances (refer to note 8.3).

Although the Council made amendments to deferred income, we identified errors in the workings (refer to note 9.1).

We again came across aged balances due to suppliers (refer to note 8.5).

### **1.8 Financial statements**

We again noted departures from IFRS and other disclosure requirements (refer to note 10).

### **1.9 Council claim for damages**

This issue is still unresolved (refer to note 11).

### **1.10 Forecasts**

We again noted issues with the forecasts presented to us (refer to note 12).

### **1.11 Financial Situation Indicator**

The Council's FSI is now in excess of the 10% minimum requirement.

### **1.12 Book-keeping**

Once again, we identified a number of shortcomings in the book-keeping process (refer to note 13.1).

#### **Current year issues**

## **2 Capital assets**

### **Fixed asset register**

- 2.1 In accordance with memo 1/2014 the Council is obliged to prepare the fixed asset register which reconciles with the nominal ledger. This, however, was not provided.

2.2 We recommend that every possible effort should be made to prepare the fixed asset register and include the following details as a bare minimum:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code
- Cost
- Depreciation method and rate
- Location of the asset

### Depreciation

2.3 Our audit procedures revealed that the Council's overall depreciation charge for the year was overstated by EUR418. The difference resulted since the Council did not apply the monthly reducing balance approach and applied a full year depreciation on assets acquired throughout the year. We also noted that the net book value used to calculate depreciation on office equipment and motor vehicles was incorrect. Differences per category were as follows:

Asset category	Charger per ledger EUR	Charge as recalculated EUR	Difference EUR
Property	2,122	2,112	10
Construction	27,793	23,349	4,444
Office furniture & fittings	1,323	1,183	140
Office equipment	698	3,928	(3,230)
Motor vehicles	369	3,433	(3,064)
Computer equipment	1,705	3,006	(1,301)
Urban improvements	6,152	2,733	3,419
<b>Total</b>	<b>40,162</b>	<b>39,744</b>	<b>418</b>



- 2.4 Furthermore, in the absence of a fixed asset register, the Council is computing the depreciation manually using Microsoft Excel. This is contrary to the procedures which state that depreciation is to be calculated using the accounting package.
- 2.5 We recommend that the Council complies with the Local Councils (Financial Procedures and depreciates assets using the monthly reducing balance method.

### Reconciliation of Financial Statements to Accounting Records

- 2.6 We identified a number of differences between the net book value of assets in the financial statements and the net book value in the nominal ledger. These are summarised below:

	As per Ledger					NBV as per FS	Difference
	Adjusted cost €	Accum Dep 2014 €	Adjusted depreciation €	Grant €	NBV as per Ledger €		
Property	246,865	-	34,708	-	210,046	210,043	3
Construction	902,065	-	388,782	-	173,692	221,038	- 47,346
Street Paving	224,303	-	137,079	-	78,502	-	78,502
New Street Signs	33,389	-	33,389	-	-	-	-
Computers	35,264	-	28,046	-	4,212	9,610	- 5,398
Office Equipment	38,653	-	35,165	-	440	18,698	- 19,138
Office Furniture and Fittings	41,437	-	24,901	-	15,353	15,140	213
Urban Improvement	166,885	-	104,611	-	27,892	31,648	- 6,837
Motor Vehicles	7,200	-	3,514	-	254	253	1
	1,696,061	-	790,195	-	352,855	513,267	513,267

- 2.7 The Council should investigate and reclassify accordingly the variances identified between asset categories in the financial statements and the nominal ledger.

## 3 Income

### Income from pre-regional committees

- 3.1 The Sliema Joint committee, of which San Gwann Local Council formed part, has not yet provided the Council with the audited accounts for 2015.
- 3.2 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 profits from the pooling system and LES debtors outstanding as at 31 December 2015.

### **Supplementary Government income**

- 3.3 During 2015, the Department also advanced the sum of EUR18,870 to WasteServ Malta Limited on behalf of the Council in settlement of tipping fees in excess of the Government's allocation to the Council. The payment was not recorded in the ledger hence, overstating the Council's payables and understating its revenue. We proposed an adjustment to recognise these amounts as income and reduce the liability. The Council approved our adjustment and reflected it in the audited financial statements.
- 3.4 We recommend that the Council monitors its balance with WasteServ to ensure that tipping fees paid by the Department are identified and accounted for as income.

### **Income from Government Allocation**

- 3.5 We noted that the government allocation was disclosed net of deduction of EUR120 for WIFI. We proposed an adjustment to gross up the Council's income and recognised the difference within administrative expenses. The Council approved our adjustment and reflected it in the audited financial statements.
- 3.6 We recommend that the Council recognises gross income prior to any deductions and in line with the budgeted allocation. Any deductions are to be traced to communications with the Department and recognised as expenses.

## **4 Expenditure**

### **Contract not signed**

- 4.1 Testing on expenses indicated that the Council has continued the agreement with San Gwann Parish Church for the hire of the hall as a Day Care Centre at EUR1,600 per annum. The Council did not call for quotations and we were not provided with any rental agreements.

### **Asset insurance**

- 4.2 We reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and cost as per nominal ledger. The Council's motor vehicle carried at a cost of EUR7,200 was insured at market value for EUR4,200.

Asset	Sum insured EUR	Cost EUR
Property & public	144,417	246,865
Furniture, fittings and fixtures and contents	11,679	139,676
Street Furniture – street mirrors, park benches, playing equipment and safer surfacing, street furniture and garden lights	34,939	33,389
Public convenience	34,940	(a)
Construction	-	1,095,210
Urban improvements	-	173,721
Total	225,975	1,688,861

(a) We regret to note that the Council has failed to provide us with the fixed asset register as recommended in our previous management letter. The cost of these assets could not be determined.

- 4.3 The above illustrates that the Council's assets are still not appropriately 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 (Financials) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the Council's insurance coverage.

#### Petty cash expenditure

- 4.4 The Council continued to support petty cash payments by cash register chits. Below are some instances which were encountered during the audit



Description	Supplier	Date	Amount
Vitamins for Trees	Il-Mincott	27/01/2015	14.66
Vitamins for Trees	Il-Mincott	27/01/2015	14.66
Water for wipers	Joem Auto Parts Ltd	25/02/2015	16.52
Keys	The Village Ironmongery	04/02/2015	12.50
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Gel for Worms	Central Flower Shop	27/03/2015	21.00
2 milk & other groceries	Coku Mini Market	23/03/2015	12.14
Stationery	Rocky Bazaar	04/04/2015	10.95
Gift for Bro Miguel	Metro Stationery	13/04/2015	20.00
Gift for Bro Miguel	Metro Stationery	13/04/2015	7.95
Pizza etc. C Mtg	Sphinx Pastizzeria	04/05/2015	10.95
Misc Material	The Village Ironmongery	11/05/2015	13.80
Misc Material	The Village Ironmongery	11/05/2015	13.80
Paint	The Village Ironmongery	05/05/2015	14.00
Paint	The Village Ironmongery	05/05/2015	14.00
Photocopy	Once Upon a Time	19/12/2014	4.35
Album	Once Upon a Time	19/12/2014	22.00
Album	Once Upon a Time	19/12/2014	4.00
Advert Photocopy	Once Upon a Time	19/12/2014	14.00
Photo - Patri Donat	Once Upon a Time	19/12/2014	4.00
Copy of Photobk for Council	Danika	12/06/2015	5.00
Copy of Photobk for Council	Danika	12/06/2015	23.00
Bows for xmas 3, Nxr Rd	Bargains	27/11/2015	15.00
Bows for xmas 3, Nxr Rd	Bargains	27/11/2015	15.00

- 4.5 We understand that, in some instances, only a cash register chit can be obtained for petty purchases. However, this is in contravention of the Local Councils (Financial) Procedures 1996, which specifically require that payments are only made on the provision of a tax invoice or fiscal receipt that is addressed to the Council.
- 4.6 Our review of the petty cash book also identified payments which were purchases that were made on the same day and at the same time but split on different receipts. The total of these receipts exceeds the limit of EUR23.29 applicable to petty cash purchases. These are tabulated below:



Description	Supplier	Date	Amount
Vitamins for Trees	Il-Mincott	27/01/2015	14.66
Vitamins for Trees	Il-Mincott	27/01/2015	14.66
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Vitamins for Trees	Il-Mincott	24/02/2015	14.66
Gift for Bro Miguel	Metro Stationery	13/04/2015	20.00
Gift for Bro Miguel	Metro Stationery	13/04/2015	7.95
Misc Material	The Village Ironmongery	11/05/2015	13.80
Misc Material	The Village Ironmongery	11/05/2015	13.80
Paint	The Village Ironmongery	05/05/2015	14.00
Paint	The Village Ironmongery	05/05/2015	14.00
Photocopy	Once Upon a Time	19/12/2014	4.35
Album	Once Upon a Time	19/12/2014	22.00
Album	Once Upon a Time	19/12/2014	4.00
Advert Photocopy	Once Upon a Time	19/12/2014	14.00
Photo - Patri Donat	Once Upon a Time	19/12/2014	4.00
Copy of Photobk for Council	Danika	12/06/2015	5.00
Copy of Photobk for Council	Danika	12/06/2015	23.00
Bows for xmas 3, Nxr Rd	Bargains	27/11/2015	15.00
Bows for xmas 3, Nxr Rd	Bargains	27/11/2015	15.00

- 4.7 We remind the Council that the Local Councils (Financial) Procedures, 1996 limit petty cash expenditure to € 23.29 and payments in excess of this amount requires the issue of a purchase order.

### Procurement

- 4.8 In January 2015, the Council issued a tender for street sweeping and cleaning in Kappara, San Gwann. The tenders received were discussed in a meeting held in March 2015 and the tender was awarded to Mr. Owen Borg for the annual sum of EUR14,415. The tenderer was informed by a letter and was asked to furnish a performance guarantee bond for 10% of the value of the contract. A contract with the supplier was signed on 29 April 2015 and the service was to commence from 1 May 2015. In our review of the tender documents, we did not trace a copy of the performance guarantee.
- 4.9 The Council should request a copy of the performance bond and ensure that all tender contracts are signed after the provision of a performance bond as required by the Local Councils (Tendering) Procedures.

## 5 Payroll

### Wages reconciliation

- 5.1 Our payroll reconciliation identified a difference of EUR680 between the personnel emoluments reported in the accounting records and the amounts declared in the statutory forms as tabulated below. The Council was not able to identify the nature of the difference. As noted in the reconciliation below,

the Council also effected maternity fund contribution that kicked in in 2015. The Council is exempt from such payments and took the necessary steps to reclaim the amount paid.

<b>Gross Emoluments:</b>	<b>EUR</b>
As per FS7	144,006
Maternity contribution	124
	<hr/> 144,130
As per Ledger	145,033
Add opening binus accrual	2,771
Less closing accrual	- 2,994
	<hr/> 144,810
Difference	- 680

- 5.2 We recommend that the Council prepares reconciliations on a regular basis to reconcile the balances as per accounts and FSS forms. This will ensure that any differences will be noted and dealt with immediately.

#### **Allocation of payroll cost in financial statements**

- 5.3 We noted also that payroll costs were not being allocated to the appropriate heading in the ledger and this was also reflected in the disclosure not in the financial statements. We proposed a reclassification of EUR10,846 from employee salaries and EUR48 from Social Security Contributions to Mayor allowance (EUR1,426), Executive Secretary salary (EUR7,696) and Councillor allowances (EUR1,772). The Council approved our adjustment and reflected it in the audited financial statements of the Council.

<b>Personnel</b>	<b>Records EUR</b>	<b>Financial statements EUR</b>	<b>Difference EUR</b>
Mayor's allowance	10,302	7,254	3,048
Executive Secretary	32,273	23,675	8,598
Employees	77,724	89,821	(12,097)
Councillor allowance	11,200	9,762	1,438
SS Contribution	9,033	9,032	1
	<hr/> 140,532	<hr/> 139,544	<hr/> 988

- 5.4 We remind the Council that separate disclosures is required as per specimen financial statements of the Local Councils (Financial) procedures, 1996. We again highlight the importance of payroll reconciliations to separate classifications in the ledger.

### **Performance bonus**

- 5.5 The Executive Secretary was awarded a 10% performance bonus which was duly approved and paid in 2016 however, the Council did not accrue for this bonus and hence expenses were understated by EUR2,842. We proposed an adjustment to accrue for this bonus. The Council approved our adjustment and reflected it in the audited financial statements.
- 5.6 We also noted that performance bonus paid to 2 Council employees was understated by EUR152 (EUR76 each employee) since it was worked on a scale 11 rather than a scale 10. This amount was paid in 2016. We proposed an adjustment to accrue for this amount. The Council approved our adjustment and reflected it in the audited financial statements.
- 5.7 We remind the Council that the financial statements are to be prepared under the accruals concept and that the bonus is to be included in accruals since it relates to 2015.

### **Vacation leave**

- 5.8 Our testing indicated that an employee has carried forward 46.5hrs from 2014 to 2015. Throughout 2015, the employee utilised all the leave brought forward and 50 hours from the 2015 allocation. As a result, the employee carried forward 142 hours to 2016.
- 5.9 We remind the Council that employees are expected to plan 75% of their vacation leave at the beginning of the calendar year and employees may not leave more than 5 working days leave for the months of November and December. Employees may, subject to a mutual agreement, carry forward up to 50% of their vacation leave entitlement, however, this may not be carried forward again. The above instances indicate that the employee carried forward more than 50% of their leave entitlement.

## **6 Trade and other receivables**

### **Trade receivables**

- 6.1 We noted that Green MT still owes the Council the sum of EUR7,936 at 31 December 2015. There have been no receipts from this debtor for the past few years and the Executive Secretary indicated that although a meeting was held with the debtor, the Council has not received any payments. In 2014, the Council had erroneously reversed the provision on this balance and in 2015, this was reinstated.
- 6.2 Whereas we recommend that the Council considers the recoverability of the amount due and considers writing off the debtor, the Council should do such a



write off after discussing it at Council level and minute the decision. Currently, the allocation is just a provision and hence, the debtor should be reinstated and the Council should continue to chase Green MT for payment.

- 6.3 The Council also has balances of EUR11,300 and EUR7,694 included in the accrued income list and debtors' list respectively, receivable from Water Service Corporation (WSC) for trenching works carried out in 2010. From our testing it was noted that the above mentioned balance of EUR7,694 is overstated by EUR240. The Council did not provide an explanation for such differences.
- 6.4 The Council should follow up the outstanding amounts with the WSC for payment and possibly refer the matter to the LGA for collection in line with the agreement made by WSC and the latter some years ago. We also recommend that the Council reviews the balances with WSC and assesses whether any adjustment is required to reconcile the balance per WSC to the debtors' list.

#### **Accrued income**

- 6.5 In January 2016, the Department for Local Government transferred the sum of EUR23,633 to WasteServ for tipping fees charged to the Council in 2014 and 2015. The Council did not accrue for these funds and we proposed an adjustment to include the amount in accrued income. The Council accepted our proposed adjustment and reflected it in the audited financial statements.
- 6.6 We were also informed that the Council has been allocated the sum of EUR133,207 under the Urban Improvement Funds scheme. These were not reported in the books of the Council and we proposed an adjustment to accrue for these balances and defer the amount to be used against future projects. The Council accepted our proposed adjustment and reflected it in the audited financial statements.
- 6.7 We repeat our recommendation that the Council should ensure that its financial statements are presented under the accruals basis and the necessary adjustments are carried out to reflect all transactions related to the year presented.

#### **7 Cash and cash equivalents**

##### **Final withholding tax on bank interest**

- 7.1 We noted that the interest received by the Council on its Banif bank account is still being charged a final withholding tax.



- 7.2 Although the amount is trivial, once again, we recommend that the Council instructs the bank not to withhold tax from interest on deposits held since the Council is exempt from income tax.

#### **Bank reconciliations**

- 7.3 We requested copies of bank reconciliations and the Council's accountant indicated that these are e-mailed to the Executive Secretary. The Executive Secretary informed us that these are mailed to him quarterly.
- 7.4 We would like to remind the Council that under Local Councils Regulations, monthly bank reconciliations must be carried out monthly by the 10<sup>th</sup> working day of the following month. We also recommend that monthly bank reconciliations are approved by the Executive Secretary and filed with the monthly statements in the bank files.

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

#### **Creditors' statements**

- 8.1 During the course of our audit we noted that the Council did not obtain monthly statements from all its suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.
- 8.2 We remind the Council that these statements are important for a sound accounting system to ensure that creditors are fairly recorded in the accounts. Statements from suppliers will highlight any differences from recorded accounts. Any differences should be promptly investigated.
- 8.3 A reconciliation of the amount due to WasteServ as per creditors' list (EUR19,802) and the supplier statement (EUR8,019) resulted in a difference of EUR11,784. We noted that the difference results from:
- Payment made by DLG on behalf of the Council for EUR18,870 (refer to note 3.3)
  - Omitted January 2015 invoices amounting to EUR7,087.
- We proposed an adjustment to account for the omitted invoices. The Council approved our proposed adjustment and reflected it in the audited financial statements.
- 8.4 The above differences highlight the importance of obtaining monthly supplier statements and reconciling it to the balance in the creditors' list.

#### **Long outstanding creditors**

- 8.5 The Council did not provide us with a list of creditors aged beyond 365 days. We identified the following from an over view of the supplier ledger :

<b>Creditor</b>	<b>Amount EUR</b>
ARMS	4,147
Banda San Gwann	1,200
Josef Borg	2,220
Margareth Fiott	185
Sammy Borg	459
Water Services Corporation	1,671
	<u><b>9,882</b></u>

- 8.6 We recommend that the Council reviews these balances and determines whether any payments/reversals are necessary.

## **9 Deferred Income**

- 9.1 We re-calculated the necessary adjustments required on deferred income and identified errors in the amount allocated to income and the allocation between current and non-current portion.

### **Central Regional Committee Surplus**

- 9.2 Throughout the year, the Council received that sum of EUR82,548 from the Central Regional Committee. The amount was recognised in income for the year although this is to be used to finance approved projects. We proposed an adjustment to reclassify the amount from income to deferred income. The Council approved our adjustment and reflected it in the audited financial statements.
- 9.3 We also noted that the Council used EUR24,856 from these funds to finance works on kerbs carried out in 2015. These works were capitalised by the Council and depreciated as from July onwards. We proposed an adjustment to recognise the amount of EUR1,217 as income for the year to match the provision for depreciated on these kerbs. The Council approved our adjustment and reflected it in the audited financial statements.
- 9.4 At 31 December 2015, the Council has unallocated funds of EUR95,692 which have already been received from the Central Regional Committee. We recommend that the Council should identify projects to be financed from these funds.

### **Other deferred income**

- 9.5 The Council allocated the amount of EUR6,855 to income from other deferred income balances. We re-calculated the amount to be recognised as income based on the monthly reducing balance and determined this to be EUR6,475. We proposed an adjustment of EUR380 to reduce the amount recognised as

income for the year. The Council approved our adjustment and reflected it in the audited financial statements.

- 9.6 The Council's total other deferred income at year end amounts to EUR327,360 of which EUR119,331 related to Central Regional Committee funds. The balance is allocated against the projects tabulated below. As evident from the table, EUR13,521 have not been allocated against a project by the Council and the Council is not aware of the source or the intended use of these funds.

Project	Deferred income at 31/12/15 EUR
Misrah Awrikarja	49,305
PV System	6,053
Misrah Lewza	5,942
UIF funds	133,207
Unallocated	13,522
Total	208,029

- 9.7 We also calculated the current and non-current portion of deferred income. The Council allocated EUR69,752 as current deferred income whereas our calculation determined that the current portion of deferred income should amount to EUR8,115. We proposed an adjustment to reclassify the difference of EUR61,637 from current to non-current. We also proposed an adjustment to reclassify part of the Regjun surplus (EUR81,711) and the unutilised UIF funds (EUR133,207 – refer to note 9.6) to non-current deferred income. The Council approved our adjustment and reflected it in the audited financial statements. We also proposed the disclosures to present the maturity analysis of deferred income. This was disclosed in the audited financial statements.
- 9.8 We recommend that the Council prepares a detailed analysis of the deferred income amounts, which identifies the amounts recognisable to income for each year to be able to present financial statements that present fairly the allocation of deferred income.

## 10 Financial statements

### Presentation of financial statements

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



10.2 The Council's financial statements are not compliant with IFRSs in the following instances:

- Note 22 on page 24 of the Council's financial statements states that the Council does not have any balances which are past due and not impaired whereas note 14A on page 21 indicates that these amount to EUR23,265. This indicates that the qualitative information required by IFRS 7, *Financial Instruments: Disclosures* is not met.
- IAS 16 *Property, Plant and Equipment* regarding disclosures on any general and special hypothecs held against the bank loan. The necessary disclosures were included upon our notification.
- IAS 7 *Statement of Cash Flows* relating to disclosure on capital creditors and grant movement were not presented correctly. The necessary corrections were made upon our notification.
- The Council was not disclosing its lease commitments in line with the requirements of IAS 17, *Leases*. Upon our notification, the Council made the necessary disclosures as 31 December 2015 however, it did not present comparative figures.

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

10.4 Apart from the uncorrected elements identified above, we noted that following in the audited financial statements :

- The comparative figure for training costs in note 11 of the financial statements should read EUR40 rather than EUR30.
- The current year cash flow figures do not include the sub-total of EUR140,460 (against the comparative of EUR97,277) within the cash flow operating activities.

## **11 Council's Claim for damages**

11.1 During 2013, the Council incurred considerable damage after a sizeable part of the ceiling collapsed which damaged various computer equipment and furniture. The Council architect's preliminary study condemned the premises as structurally unsafe. The insurance company refused to accept the Council's claim for damages, blaming the Council for failing to carry out the necessary repairs and maintenance to avoid the incident.



- 11.2 Currently, an investigation is underway to determine the cause of the incident. The Council is hoping that if the investigation does not find negligence on the part of the Council, the claim will be duly accepted by the insurance company. We recommend that the Council monitors the development closely and acts diligently to protect the interest of the Council.

## **12 Forecasts**

- 12.1 The Council provided copies of the 2016 budget and 2016 – 2018 business plan. However, the former was not prepared on the appropriate template and does not make reference to capital expenditure. The latter, on the other hand, is a report which is not backed up by forecasts. The reports were not uploaded on the Council website.
- 12.2 We recommend that the Council uses the necessary templates for its forecasts and that the documents are uploaded onto the Council's website.

## **13 Book-keeping**

- 13.1 We identified the following additional shortcomings in the book-keeping process:
- Cleaning of public convenience invoice for EUR2,050 allocated against road/street cleaning
  - Telephone costs amounting to EUR3,026 allocated against communication equipment rental
  - Opening prepayments amounting to EUR602 were not reversed against the realized cost of Insurance (EUR288) and repair and upkeep (EUR314).
  - EUR399 in computer equipment were included in expenses rather than Property, Plant and Equipment. The related depreciation impact is covered by note 2.3.
  - EUR746 in Architect fees for valuation of capitalized projects were included as expenses rather than capitalized. The related depreciation impact is covered by note 2.3.
- 13.2 All above were corrected and reflected in the audited financial statements. We recommend that proper review of records is carried out to ensure all invoices are booked in the appropriate account. We also recommend that regular reviews, reconciliations and monitoring of transactions are carried out to ensure that the Council records are presented fairly and adequate provisioning is made for cut-off issues.

13.3 We also noted that the Council does not have access to the accounting records since these are prepared on the software owned by the accountants. A copy or back up of the package is not available at the office of the Local Council and the Executive Secretary has no access to it.

13.4 We recommend that the Council acquires its own accounting software and updated accounting records are kept within the Council premises.

#### **14 Council meetings**

##### **Attendance at meetings**

14.1 We noted that one of the councillors was excused for 11 meetings and absent from another meeting out of 23 meetings throughout 2015. Another councillor was excused for 7 meetings, a third councillor was excused from 5 meetings and a fourth councillor was excused from 4 meetings.

14.2 The necessary deduction was made for the one meeting where the first councillor was declared as absent whereas the other instances were all excused from the meetings and a deduction from their allowance was not necessary. The Local Council Act, however, states that the Executive Secretary is to inform the Minister if a councillor fails to attend four meetings or, in aggregate, more than one third of the meetings called in a six month period. Prior to informing the Minister, the Executive Secretary is to inform the Mayor and the Council is to discuss whether such absence is justified or not and communicate the decision to the Minister.

14.3 From our review of the minutes we did not identify such items on the agenda. We remind the Council that such absences are to be reported to the Minister and hence, the seat is declared vacant if the Council does not deem that the absence is justified.

#### **15 Reply to the Management Letter**

15.1 The Council did not send its reply to the previous management letter. This contravenes section 2 of the Local Councils' (Audit) Regulations and instructions issued by the Department.

15.2 The above is in breach of the Local Councils (Audit) Regulations which oblige the Mayor and the Executive Secretary to submit the Council's reply to our management letter, after discussing it in a meeting. In their reply, the Mayor and the Executive Secretary must specifically indicate how the Council will remedy all the weaknesses and shortcomings identified by the auditor during the fieldwork.

## 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. Kurt Guillaumier 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