

The Mayor,  
Sliema Local Council,  
Depiro Street  
Sliema, SLM 2037

5 May 2016

## **Financial Statement 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 Creditors**

The situation with Polidano Brothers has not changed although the Council is trying to find a solution (refer to note 2.1).

Debit balances were again noted in the current year creditors' list (refer to note 2.3).

#### **1.2 Accruals**

The long outstanding accrual for legal and architect fees has not been settled, however, we acknowledge that the Council is chasing the service providers to resolve this (refer to note 3.1).

We also noted an over-accrual for electricity (refer to note 3.3)

#### **1.3 Fixed assets register**

The Council still has assets under construction that were brought forward from previous periods (refer to note 4.1).

#### **1.4 Insurance**

The Council is still under insuring its assets (refer to note 5.1).



### **1.5 Council meetings**

We did not come across any similar issues relating to the frequency of meetings in the current year, we did however identify issues with attendance at meetings.

Once again we noted that a Councillor was excused for a number of meetings and this was not reported to the Minister (refer to note 6.1).

### **1.6 Prepayments**

The amount due from the previous mayor is still included under receivables (refer to note 7.1).

### **1.7 Joint Committee Financial Statements**

The situation with the Joint Committee has not yet been resolved (refer to note 8.1).

### **1.8 Accrued income**

The Council has once again accrued for tipping fees that have not yet been settled by DLG (refer to note 9.1).

### **1.9 Green MT**

The Council has recovered EUR4,000 out of the balance of EUR4,080 recoverable from this debtor. No further movements were noted in 2015.

### **1.10 Payments**

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

### **1.11 Going concern**

The financial situation indicator (FSI) is still less than the minimum balance required by the regulations (refer to note 16).

## **2 Payables**

### **Polidano Brothers**

- 2.1 As highlighted in previous periods Polidano Brothers Limited is both a customer and a supplier of the Council and the aggregate balance at 31 December 2015 indicates that Polidano owes the council the amount of EUR

89,957 whereas the Council owes the supplier the sum of EUR67,230. The net balance due to from Polidano is EUR22,727, which is in line with the prior year balance. All balances due from and payable to Polidano were brought forward from previous periods. This balance was fully provided for.

- 2.2 These balances could not be confirmed with the contractors and we understand that the Council tried to do reconciliatory meetings but to no avail. We recommend that the Council continues with its efforts to resolve the situation.

#### **Debit balances in creditors**

- 2.3 The creditor's list of the Council indicated the following accounts in debit:

Supplier	Amount €
ARMS Ltd	1,105
LK Limited Construction Services	7,105
Other amounts	411
	<hr/>
	8,621
	<hr/>

- 2.4 As noted in previous periods, the Council indicated that balance with LK Limited arose since there was a delay in certification of works by the Architect. The Council was obliged to pay the supplier on account until the Architect provides the works certificate as required by the Financial Procedures.
- 2.5 We recommend that, the Council obtains the necessary certifications from the Architect to resolve the issue and ensure that the works are hence recorded in the books of the Council. We also understand that the ARMS balance is due to payments necessary to be able to obtain permits for activities in the locality and that other balances are monitored.
- 2.6 We proposed a reclassification of debit balances amounting to EUR8,621 to receivables. The Council accepted our recommendation and reflected it in the audited financial statements.

#### **Overdue payables**

- 2.7 The Council's creditors' list includes balances amounting to EUR189,581 which have been brought forward from previous periods after eliminating the balance due to Polidano (refer to note 2.1). These are analysed below:

Description	More than 365 days
	EUR
Cleansing Department	27,476
Savior Mifsud	5,352
Phillip Agius	33,600
Project Management Group	116,572
Works Dept	3,632
Others - not significant	2,949
	<hr/>
	189,581
	<hr/>

- 2.8 We recommend that the local Council reviews each individual balance, and, unless the Council has a legal basis, it should focus on settling these long overdue balances.

### 3 Accruals

- 3.1 Accruals include the amounts of EUR30,000 in Architect fees and EUR3,000 in legal fees which EUR26,000 and EUR3,000 respectively were brought forward from previous periods. The Council indicated that the suppliers in question have been contacted to issue their respective invoices but they seem to be dragging their feet. The accrual for architect fees was revised upwards by EUR4,000.
- 3.2 We reiterate the previous year recommendations to continue chasing the suppliers to finalise the issues and settle the amount dues.
- 3.3 We also noted that the Council has over accrued for electricity expenses by EUR 2,118 due to an error in the calculation based on bills received from ARMS Limited. We proposed an adjustment to reverse this over accrual. The Council accepted our adjustment and reflected it in the audited financial statements.

### 4 Fixed assets

- 4.1 The Council has brought forward EUR 507,510 in assets under construction. Throughout the current financial year, the Council incurred additional costs of EUR71,575 and transferred EUR 257,596 to other headings on finalisation of projects. These mainly include the resurfacing works at Sacro Cour (EUR143k) and Independence Garden Playing field (EUR113k). As a result, the Council has carried forward EUR321,489 in assets under construction. These include EUR74,759 in amounts incurred on a new car park project in 2015. The balance is made up of the following projects:

- Dingli Circus Shelter project amounting to EUR3,158. This project was initiated in 2009.
- Fairy Lights Project amounting to EUR243,572. The project was withheld following orders from the Director General since an extension to the project exceeded 20% of the original contract value and a new tender had to be issued.

4.2 We understand the Council is monitoring these projects and is sourcing funds to finalise the projects without inflicting unnecessary pressures on the Council finances. We recommend that the Council continues to monitor the state of these projects and source out the funds available under the different schemes to start closing off these projects.

## 5 Insurance

5.1 Whilst reviewing the Council's insurance policies, we noted discrepancies between the amounts insured and the cost per Council's ledger

	Cost per Ledger EUR	Insured value per Policy EUR	Difference EUR
Property	186,515	90,000	96,515
Furniture & Fittings	47,710	25,000	22,710
Electronic Equipment	61,106	20,000	41,106
Property in the open	3,059,050	50,000	3,009,050
	<u>3,354,381</u>	<u>185,000</u>	<u>3,169,381</u>

5.2 Cost included with the 'Property in the open' classification captures street signs, urban improvements and special programs. The Motor vehicle is insured under a separate policy. We recommend that the Council reviews the value of the assets and ensures that the insurance policy covers the cost included in the ledger as required by the Local Councils (Financial) Procedures.

## 6 Council meetings

### Attendance at meetings

6.1 We noted that one of the councillors failed to attend 5 out of 15 meetings throughout 2015 and another councillor failed to attend 3 Council meetings out of 7 held in the second half of 2015. Both councillors were excused from the meetings and a deduction from their allowance was not necessary. The Local Council Act 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.

- 6.2 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.

## **7 Prepayments**

- 7.1 In 2010, the Council recognised a prepayment of the Mayor's honoraria following an increase in an MP's salary and the subsequent reversal. As per memo 7/2011, the honoraria paid in excess could either be offset against the future revised honoraria or else, be refunded back at the option of the outgoing Mayor.
- 7.2 Since the outgoing Mayor has not yet refunded the prepayment, we recommend that the recoverability of the amount should be considered by the Council and take the necessary action to recover it.

## **8 Joint Committee**

- 8.1 As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Lvant Joint Committee and LES debtors as at that date were transferred to the Joint Committee as well. The Lvant Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. We were unable to determine the amount of further income the Council is entitled to receive since the audited financial statements of the Lvant Joint Committee for the year ended 31 December 2013 were not available.
- 8.2 We recommend that the Council does its utmost to obtain audited financial statements from the Joint Committees. Due to the fact that no audited financial statements were provided to us, our audit report is qualified.
- 8.3 We also noted that the Council has a receivable of EUR2,329 classified as Joint Committee Guarantees. The Council should also assess whether such funds are recoverable given the situation with these committees.

## 9 Accrued income

### Tipping fees

- 9.1 The Council accrued for additional income amounting to EUR34,499 (of which EUR8,726 was brought forward from previous period) in relation to tipping fees that were not covered by the Council's allocation. The Council is of the opinion that this will be settled by the Department for Local Government however, the payment effected by DLG on behalf of the Council in January 2016 amounted to EUR24,683. We recommended that such income is recognised in the books on receipt. We proposed an adjustment to reverse the difference between the amount in accrued income and the amount received in January 2016 (EUR9,816). The Council did not accept our adjustment since the Department was allocated with a budget to settle these balances.
- 9.2 Although the DLG has settled such differences in the past, there is no indication or assurance that the difference between the amount settled and the amount accrued will be settled by DLG. We recommend that the Council continues to record tipping fees in full and reflect any further receipts from DLG when these are confirmed and remitted.

## 10 Debtors

### Overdue receivables

- 10.1 The Council has provided a list of old outstanding receivables for which a provision is required. The sum of the list provided did not capture the first 2 on the list at EUR280 each whilst the provision included a debtor of EUR90 which had actually been recovered. We proposed an adjustment to increase the provision by EUR470. The Council accepted our recommendation and reflected the adjustment in the audited financial statements. The closing provision on receivable amounts to EUR24,876 of which EUR22,727 relates to Polidano (refer to note 2.1)
- 10.2 The Council's debtors include Water Services Corporation with an overdue balance of EUR41,468 of which EUR35,844 has been due for over 365 days . The Council believes that this balance is recoverable and it has not provided for this amount. We requested a balance confirmation from Water Services which indicated that the Corporation did not have any pending balances with the Sliema Local Council as at 31 December 2015.

- 10.3 Throughout our audit, we brought this difference to the attention of the Council who took immediate steps to identify the nature of the difference. We encourage the Council to clarify the issue and chase overdue amounts. If required, the Council should make the necessary provisions to ensure that receivables in the financial statements are fairly represented.

## **11 Bank Reconciliations**

- 11.1 Our testing on bank reconciliations was limited to year end reports since monthly reconciliations were not printed out. We recommend that monthly bank reconciliations for all bank accounts and prepared within 10 working days as required by the Local Council (Financial) Regulations and a copy of the report is printed, approved by the Executive Secretary and filed with the respective bank statement.

## **12 Inventory**

- 12.1 The Council's inventory comprises books intended for distribution. Throughout the year, the Council donated 5 books to different entities/person. The cost of books donated in 2015 amounted to EUR20.
- 12.2 Inventory is to be recorded at the lower of cost and net realisable value in the financial statements in accordance with IAS 2, *Inventories*. A write off or a provision on inventory may be considered by the Council since these are being given away.

## **13 Expired contracts**

- 13.1 The Council's tender for cleaning and maintenance of soft areas expired on 17 October 2015. The agreement with Environmental Landscapes Consortium Ltd was extended for another year with the same rates and the Executive Secretary indicated that a new tender is being prepared. The contract with ELC was signed in October 2012. The amount invoiced by the supplier under the extension period till 31 December 2015 amounted to EUR10,332.
- 13.2 The Council's tender for accountancy services expired on 30 November 2015. The agreement with 3A Accountants was extended for another year, at the same rates and the Executive Secretary indicated that a new tender is being prepared. The amount invoiced by the supplier under the extension period till 31 December 2015 amounted to EUR590.
- 13.3 We would like to remind the Council that the extension of expired contracts is strictly prohibited. Memo 10/2013 issued by the department of the government department states that the Council should start preparing for a



new call for tenders ahead of the expiry date of existing contracts unless otherwise instructed by the Department for Local Government.

## **14 Financial statements**

### **Cash flow statement**

- 14.1 We reviewed the cash flow statement of the Council and noted that the amount of grant received did not reflect the receipt of amounts included in accrued income in previous period. The disclosure adjustment of EUR34,635 was highlighted to the Council but it was not reflected in the audited financial statements.
- 14.2 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. Our audit report is qualified on this aspect.

### **Deferred income**

- 14.3 Note 17 to the financial statements discloses a maturity analysis of non-current deferred income. The note presented in the un-audited financial statements included also current deferred income. We recommended that this note includes only non-current deferred income and our recommendation was applied to current year figures. However, the comparative was not amended to exclude the 2014 current portion from the analysis.

## **15 Estimates and business plan**

- 15.1 We noted that the Council has still not prepared a 3 year period rolling business plan and the last plan available on the Council web-site covers the period 2012 to 2014.
- 15.2 We recommend that the Council prepares its annual estimates and business plan within the relevant time frames as required by the Local Council (Financial) Regulations. These should be scanned and uploaded on the Council's website

## **16 Going concern**

- 16.1 The Council's financial situation indicator (FSI) as the end of the financial year under review is less than the minimum balance of ten percent of the annual Government allocation.
- 16.2 The Executive Secretary is bound by section 4(1)9c) of the Local Council (Financial) Regulations, 1993 to maintain an FSI which is not less than 10

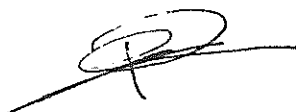
percent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also states that the Executive Secretary must immediately notify the Director when the FSI falls below ten per cent, and explain the actions that are to be taken by the Council to remedy the situation

## **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. Matthew Dimech 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