

LOCAL COUNCIL ZEJTUN

Report to Management  
for the financial year ended 31 December 2013





21<sup>st</sup> April 2014

The Mayor  
LOCAL COUNCIL ZEJTUN  
28, Dar iz-Zwieten  
St Angelo Street  
Zejtun

Dear Sir,

### **REPORT TO MANAGEMENT**

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. The controls will also be used by the National Audit Office to compile its own report on Local Councils.

For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2013, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank Mr. Anton Falzon and his Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

Clive Farrugia  
Partner

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## 1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2012

### 1.1. Local Enforcement System

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 2.1 of our management report.

### 1.2. Bye law for rental of public property

Such observation was not addressed during the period under review. Thus we refer you to paragraph 2.2.

### 1.3. Classification of income categories

Proper measures were taken by the Council.

### 1.4. Incorrect calculation of Councillors' allowance

This matter was addressed by the Council during the year under review.

### 1.5. Remittance of Final Settlement Tax and Social Security Contributions

During the period under review all payments were remitted within the stipulated dates.

### 1.6. Purchase orders

Such weakness still featured during the period under review, hence we draw your attention to paragraph 3.1.

### 1.7. Procurement procedures

The Council has partially addressed the matters with respect to the procurement procedures, hence we refer you to paragraph 3.2.

### 1.8. Upkeep of the Fixed Asset Register

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.1 of our management report.

### 1.9. Reconciliation of the Fixed Asset Register and Nominal Ledger

This matter was addressed by the Council during the period under review.

### 1.10. Insurance policy

The Council has not fully addressed this issue and we therefore refer you to paragraph 4.3.

### 1.11. Accrued income

This matter was addressed by the Council during the period under review.

### 1.12. Classification of deferred income –Housing Authority grants

This issue was not repeated during the period under review.

1.13. Balance payable to Water Services Corporation

This matter was addressed by the Council during the year under review.

1.14. Accruals & Deferred income

We still found cut-off weaknesses during 2013 and so we refer you to paragraph 6.2 of our management report.

1.15. Tipping fees

The issue was resolved during 2013.

1.16. Payable to supplier under Public Private Partnership – resurfacing scheme

The Council adopted the same approach as last year and thus we draw your attention to paragraph 6.3.

1.17. Council meetings

This matter was not addressed by the Council during the period under review and thus we refer you to paragraph 7.1.

1.18. Attendance for Council meetings

This matter was not addressed by the Council during the period under review and thus we refer you to paragraph 7.2.

1.19. Council's minutes and schedule of payments

Similar weaknesses were found during the period under review and we therefore draw your attention to paragraph 7.3.

1.20. Membership in Gal Xlokk Foundation

This matter was not addressed by the Council during the period under review and thus we refer you to paragraph 7.4.

1.21. Annual budget

This matter was addressed by the Council during the year under review.

1.22. Disclosures required in respect of certain International Financial Reporting Standards (IFRS)

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.1 of our management report.

1.23. Disclosures required in respect of financial procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.2 of our management report.

1.24. Financial statements presentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.3 of our management report.

## 2. INCOME

### 2.1. Local Enforcement System (LES)

#### Observations

By the date of conclusion of our audit work the Council had still not received the audited annual report of the Zejtun Joint Committee for the year ended 31 December 2013 and all the preceding years.

We were also told that the Joint Committee ceased to exist in July 2013 and as from August 2013 the pre-regional LES income is being received directly in the bank accounts of the Council. In this regard, it was found that the Council has failed to recognise income worth of €541 pre-regional LES fines paid by offenders till December 2013 at Licensing & Testing Department (LTD) or other Local Councils.

#### Issues Arising

During 2013 the Council has not received any amount for share of surplus from the Joint Committee. Nonetheless, in the absence of an audited annual report from the Zejtun Joint Committee for the year ended 31<sup>st</sup> December 2013, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the completeness of amounts being recorded in the financial statements as income or expenditure from the Local Enforcement System. We have qualified our audit report in this respect.

The pre-regional LES income should be recognised immediately when offenders pay their fines irrespective if the money is held by LTD and other Local Councils. Thus the income and receivables were understated by €541. In this respect, we have proposed an audit adjustment which the Council has taken up accordingly.

#### Recommendations

Although the responsibility of the LES as from 1<sup>st</sup> September 2011 is no longer on the Zejtun Joint Committee, the Council should have maintained its pressure on the Joint Committee to provide audited financial statements for every financial year in order to have a basis on which to draw the values attributable to LES income from fines given as at 31<sup>st</sup> August 2011 and which are due to the Council.

The Council should also prepare continuous pre-regional LES income reconciliation to determine the amount to book in the accounts and also monitor any dues from LTD and other Local Councils.

### 2.2. Income from rental of public property

#### Observations

Although no income was generated from use of property, the Council has still not addressed the issue of bye law as mentioned in the management letter of 2012.

#### Issues Arising

As provided by the Local Councils Act (Cap. 363), article 60 states that '*A Council shall have the power to raise funds by means of any scheme designed to provide additional funds to those allocated to it under article 55: Provided that such schemes shall be instituted by bye-laws.*' This clearly means that it is illegal to raise additional income without a proper bye law.

### Recommendations

Once again we urge the Council to convene its legal team and draft a set of bye-laws to ensure that these sources of income are legally protected. Needless to say, the Council has to follow all procedures in connection with the publication of new bye-laws and it should correspond with the Department for Local Councils on the matter accordingly.

### 2.3. Liabilities write offs income

#### Observations

In 2013 an exercise was done by the Council to write off any long outstanding creditors balances. A particular balance of €9,000 was written off by the Council without having supporting evidence or legal backing to justify such action.

In 2012 the Council has over accrued amount of €3,435 in relation to street sweeping expense and cleaning of public convenience expense. During 2013 the reversal of the over accrual was incorrectly classified under the income item 'liabilities write-offs'.

#### Issues Arising

Balances of payables should only be written off after proper legal advice has been obtained or after the supplier recognise that such balance is no longer due. This should be supported with the full and formal approval of the Council.

Additionally as a matter of consistency reversal of over accrual should be classified under the cost description where it was originally booked.

#### Recommendations

The Council should ensure that it has the legal right to write off any balances payable. In this regard we propose and the Council approved that the amount of €9,000 be reinstated as payable during the year 2013.

Reversals of accruals and prepayments should be booked consistently where the accrual or prepayment was classified in previous period. In this respect, we have proposed an audit adjustment which the Council has taken up accordingly.

## 3. EXPENDITURE

### 3.1. Purchase orders

#### Observations

As already highlighted in last year's management report, the Council is not regularly issuing purchase orders for expenditure undertaken through the "Direct Order" procedure. The following are a few examples:

<u>Supplier</u>	<u>Description</u>	<u>Invoice date</u>	<u>Amount €</u>
G4S Security System	Cash in transit	31/12/2013	70.80
Dar Nazzareth	Cleaning services	18/12/2013	357.00
Alfred Abela	Cleaning of trench	31/10/2013	300.00
C.Planet	IT services	29/04/2013	189.54
Mellieha Bay Hotel	Locality event	20/10/2013	3,732.75
Sierra Books	Books for library	22/03/2013	1,040.48

P.Micallef	Bandalori Zejt iz-Zejtun	19/04/2013	848.00
Ghaqda Muzikali			
Beland	Participation Folk Group	28/10/2013	500.00
Micheal Cutajar	Ghana Zejt iz-Zejtun	04/11/2013	1,000.00
Walter Micallef	Singer Zejt iz-Zejtun	14/03/2013	350.00
Best Print Ltd	A4 Books	31/12/2013	9,240.00
F.Carwana Brothers	Standfans	10/07/2013	202.91

#### Issues arising

Procurements not exceeding €1,165 must be always accompanied by a purchase request and purchase order. Besides statutory obligations in the Local Councils' procurement procedures, this system is also useful for internal control procedures over expenditure undertaken by the Council on a regular basis.

#### Recommendations

The Local Councils Procedures (1996 – Finance) K.L.P. 1/96, P1.09, f.01 & f.02. should be followed and implemented at all times and for every such like transaction.

### 3.2. Procurement procedures

#### Observations

The Council has procured or paid for expenditure amounting to more than €1,165 where no request for quotations or call for tenders has been issued. The observed short-comings comprise:

<u>Supplier</u>	<u>Description</u>	<u>Invoice date</u>	<u>Amount €</u>
Tramanja Heavy Plant Hire	Hiring of skips	31/03/2013	1,888.00
Vandan Confectionery	Christmas reception	19/12/2013	1,283.94
Best Print Ltd	A4 Books	31/12/2013	9,240.00
Anthony Spagnol	Restoration works	24/10/2013	1,500.00
Charlene Muscat	Restoration works	27/11/2013	1,500.00
Anton Zarb	Supply of bollards	01/02/2013	2,402.24
Anton Zarb	Supply of benches	09/10/2013	1,601.49
Anthony Spagnol	Restoration LC offices	24/10/2013	1,500.00
Charlene Muscat	Restoration LC offices	27/11/2013	1,500.00

In addition to this the Council has also procured or paid for expenses exceeding €1,165 in services of the same nature from the same supplier during four consecutive months without issued call for quotations or call for tenders. These include:

<u>Supplier</u>	<u>Description</u>	<u>Amount €</u>
Bitmac Works Ltd	Instant road repair Bags (Jan-Apr13)	3,663.90
C-Planet	IT services (Jun-Sep13)	1,812.27
Garden of Eden Ltd	Transport services (Aug-Nov13)	1,454.53
Manuel Fenech	Maintenance works (Aug-Nov13)	1,520.00

#### Issues Arising

The Council is in breach of the Financial Regulations Part VIII – Expenditure, which require that orders, contracts, agreements or items not exceeding €1,165 shall be authorised by the Council according to order 32(1) of the Standing Orders contained in the Sixth Schedule to the Act, provided also that items of the same nature are not purchased within a consecutive four-month period.

### Recommendations

The Council should issue calls for quotations or tender for the procurement of any good or for the provision of any service in value exceeding €1,165 in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996.

### 3.3. Inappropriate documentation

#### Observations

From testing on the expenditure undertaken by the Council, we have identified instances whereby the expenditure was not supported by a proper fiscal receipt in terms of the VAT Act 1998. Such instances include:

<u>Supplier</u>	<u>Description</u>	<u>Invoice date</u>	<u>Amount €</u>
Tramanja Heavy Plant Hire	Hiring of skips	31/03/2013	1,888.00
Dar Nazareth	Cleaning services	18/12/2013	357.00
Datanet Security Systems Ltd	Monitoring fee	18/12/2013	429.52
Vandan Confectionery	Christmas function	01/01/2013	263.00
Topaz Hotel	Locality event	10/05/2013	1,260.00
P.Micallef	Bandolori Zejt iz-Zejtun	10/04/2013	848.00
Walter Micallef	Singer Zejt iz-Zejtun	14/03/2013	350.00
F.Carwana Brothers	Standfans	10/07/2013	202.91

Furthermore no documentation such as invoice or receipt was provided by the Council for these payments:

<u>Supplier</u>	<u>Cheque number</u>	<u>Description</u>	<u>Amount €</u>
Joseph Zammit	9209	Services during Council's activities	623.70
Joseph Zammit	9080	Services during Council's activities	554.40
Vincent Gixti	9210	Services during Council's activities	623.70

#### Issues Arising

A fiscal receipt should also be obtained at all times unless the supplier submits a written declaration that his/her annual turnover is not in excess of €7,000. In such case Memo 77/2011 should be followed and the persons claiming this exemption should still provide documentation in addition to their declaration.

### Recommendations

Although it is acknowledged that the Council generally asked for a proper VAT fiscal receipt and other documentation against payment to its suppliers, it should take a proactive approach in this respect and avoids custom from suppliers not providing the referred appropriate documentation.

## 4. PROPERTY, PLANT & EQUIPMENT

### 4.1. The upkeep of the Fixed Asset Register (FAR)

#### Observations

We still found that the FAR composition is not in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

#### Issues Arising

From an analysis of the content of the FAR, we have identified items that in the past years have been capitalised as items of property, plant and equipment, whilst in actual fact they are revenue expenditure and thus should have been expensed. Such examples are:

<u>FAR Code</u>	<u>Description</u>	<u>Net book value in €</u>
ZLC00171	Patching	622.60
ZLC00140	Hot Tarmac	651.48

Moreover additions of bollards during 2013 with a cost value of €1,022 were classified under the category urban improvements 100%. These should have been categorised as urban improvements 10%.

#### Recommendations

The FAR should be reviewed in such a manner that the necessary adjustments and reclassifications are taken into consideration to account appropriately for all assets in line with the requirements of IAS 16-Property, Plant & Equipment and the Council's accounting policy on the subject.

### 4.2. Capital Expenditure vs Revenue Expenditure

#### Observations

Instances were identified where expenditure of a capital nature, was recorded as expenditure of a revenue nature. Such situation happened in the following two samples:

- Cost of €3,701 civil works Water Services Corporation done in 2003 was never accounted before by the Council but entered in full as revenue expense in 2013.
- Purchase of water pump amounting to €573.

#### Issues Arising

These items should have been more appropriately capitalised with the respective capital projects rather than expensed directly to the Statement of Comprehensive Income. This yields an element of inconsistency and departure from the requirements of IAS 16 - Property, Plant and Equipment.

#### Recommendations

Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process. In this respect, we have proposed audit adjustments which the Council has taken up accordingly.

#### 4.3. Insurance policy

##### Observations

Differences were found between the cost of the assets and the actual insurance coverage of the category – *Plant and Machinery, Office equipment*.

	<i>Plant &amp; Machinery</i>	<i>Office equipment</i>	<i>Urban Imp.</i>	<i>Total</i>
	€	€	€	€
<i>Cost as at 31/12/2013</i>	4,395	26,127	745,095	775,617
<i>Value insured as per Insurance Cover</i>	-	-	275,000	275,000
<i>Amount (under) insured</i>	(4,395)	(26,927)	(470,095)	(501,417)

##### Issues Arising

The Council's insurance policy in respect of assets insured needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment.

##### Recommendations

The Council is obliged to review its insurance cover and the policy, as well as detailing better those areas to be covered under each asset category. In this manner, it will be easier to open a claim in case of damage to any particular asset.

The Council should also perform a detailed exercise to identify which items of the urban improvements can be insured and amend its insurance policy in this regard

## 5. INVENTORIES

### 5.1. Inventories of goods not held for resale

#### Observation

The financial statements contain inventories amounting to €6,645. Upon inspection it transpired that the inventories consisted of books which the Council is giving away for free such as to Members of Parliament and as educational material during school prize days. It was also confirmed that the Council will adopt same approach during the coming years.

#### Issues Arising

In line with the requirements of IAS 2-Inventories, items classified as inventories should consist only of assets held for resale, assets in the production of such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

It is clear that the Council's intention does not fall within the scope of the definition as per IAS 2. Therefore the treatment adopted by the Council is incorrect and should classify the whole cost of the books immediately as an expense in the Statement of Comprehensive Income.

### Recommendations

The requirements of IAS 2 should be followed and items that do not fall within the definition of inventory should be expensed immediately through the Statement of Comprehensive Income. In this respect, we have proposed an audit adjustment which the Council has taken up accordingly.

## 6. PAYABLES

### 6.1. Reconciliation with supplier statements

#### Observations

The Council is not carrying out regular reconciliation exercises between its records in the supplier ledger and the actual supplier statements. This observation was supported by minor traces of omitted invoices (€680) in the transaction history supplier 'Kooperattiva Tabelli u Sinjali'; difference of €534 between the Council's books and the statement issued by 'Cleansing Services Department'.

#### Issues arising

While we understand that the Council clears supplier payments within 30 to 60 days and certain suppliers do not have the proper accounting set-up to provide statements on a regular basis, we still are of the opinion that periodically, formal checks with suppliers should be carried out in order to make sure that no payments or claims are outstanding or disputed.

For the variance of €680 we have proposed an audit adjustment which the Council has taken up accordingly.

#### Recommendations

Statements should be sought from those suppliers who have an appropriate accounting system and actual reconciliations should be carried out. For those suppliers who do not have a proper accounting set-up or they keep manual book-keeping records, the Council should seek confirmation in writing at least on a quarterly basis that the supplier in question is agreeing with the records of the Council.

### 6.2. Accruals and deferred income

#### Observations

The accrued street lighting expense December 2013 was understated by €902.

#### Issues Arising

The weakness mentioned above show that Council is not adhering to the fundamental concept of accrual accounting. As generally accepted accounting principles suggest, accounting estimates have to be factored in financial reporting so as to provide a true and fair view of the results being presented. In this respect, we have proposed an audit adjustment which the Council has taken up accordingly.

#### Recommendations

Periodically the Council must review amounts which will be invoiced in the subsequent financial period but for which the products/services have been provided to the Council in the current financial period. It should be also pointed out that the Council should regularly reconcile the

invoices received for payment with purchase orders issued – this is one of the most effective methods to trace expenditure not yet invoiced at the end of a particular reporting period.

### 6.3. Amount payable to supplier under the Public Private Partnership (PPP) - resurfacing scheme

#### Observations

The Council has availed itself of the PPP scheme launched through Memo 45 of 2010. Through this scheme, the Council has entered into a contract whereby the contractor has undertaken road resurfacing works. In 2013, the Council recognised a liability of €156,926 being the project cost which will be paid over a period of 7 years.

#### Issues Arising

IAS 39- Financial Instruments: Recognition & Measurement requires that such loans and receivables are accounted for at amortised cost. This entails that after initial recognition this liability is measured at amortised cost using the effective interest method, less provision for any impairment. In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital. Such adjustments were not included in the accounts.

#### Recommendations

The Council should correctly apply the requirements of IAS 39 in relation to any financial assets or liabilities and that these are recognised, measured and disclosed appropriately.

## **7. GENERAL**

### 7.1. Council meetings

#### Observations

More than five weeks have elapsed from meeting 08/13 held on 4<sup>th</sup> July 2013 to the next meeting 09/13 held on 29<sup>th</sup> August 2013.

We also noticed that meetings 04/13 (04/07/2013), 06/13 (09/05/13) and 12/13 (31/10/13) lasted more than three hours. The Executive Secretary confirmed that no approval was sought from the Councillors to exceed the duration of three hours.

#### Issues Arising

Article 43 (2) of the Local Councils Act (Cap. 363), specifies that: *"Council meetings shall be held at least once a month as long as this period does not exceed five consecutive weeks or at any other shorter intervals as the Council may decide."*

Article 43(3) states further that: *"Unless otherwise determined by the unanimous decision of the Councillors, meetings of the Local Councils shall not start before 5.30p.m. and later than 7.30p.m. and shall not last for more than three hours."*

#### Recommendations

The calling of, and procedures to be followed during Council meetings should be in accordance with the relevant provisions of the law.

## 7.2. Attendance for Council Meetings

### Observations

Councillor Claude Camilleri failed to attend to at least one third of the meetings called within a period of six months between July to December 2013. Similarly councillor Joseph Hales was not present to at least one third of the called meetings during the six months periods January to June 2013 and July to December 2013.

About this situation, no communication was issued by the Council to the Department of Local Councils.

### Issues Arising

The Executive Secretary, in terms of article 18 of the Local Councils Act (Cap. 363), should have informed the Mayor about this matter accordingly. The item had to be placed on the agenda of the first Council meeting following the event taking place. During such meeting, the Council should have recommended to the Minister whether the absence in question by the Councillor was justified or not.

### Recommendations

The Council should always abide with the requirements of the Local Council's Act in this regard.

## 7.3. Council minutes and Schedule of Payments

### Observations

During 2013, the Council's minutes and schedule of payments were not always being uploaded on the website [www.lc.gov.mt](http://www.lc.gov.mt) within two days of approval. For example meeting 13/13 held on 14<sup>th</sup> November 2013, the minutes of such meeting were approved on 18<sup>th</sup> December 2013 however the minutes were not published within two working days.

The schedule of payments published by the Council were not always complete as per the standard template circulated by the Local Councils Department.

### Issues Arising

Please note that Memo 89/2010 requires the executive secretary to publish the minutes and the schedule of payments within two days of approval.

Similar guidelines were published with respect to the schedule of payments in terms of Memo 102/2010. Details such as invoice number, purchase order number, purchase request number, nominal account and cheque number should be listed on each schedule of payments

### Recommendations

The Council should observe the requirements of the memos mentioned in the above paragraph.

## 7.4. Membership in GAL Xlokk Foundation

### Observations

The Council is a founding member of the GAL Xlokk Foundation. This foundation pools the efforts of its members to maximise the acquisition of EU funding on various potential projects. The Council paid €9,000 in membership fees to the Foundation for the period 2011 to 2015 in

advance. On the other hand, we were informed also that the Council has managed to secure some EU funding through the Foundation's work.

The Foundation is governed by a statute with which we were provided accordingly. We were also provided with a set of unaudited annual financial statements as at 30 June 2013.

#### Issues Arising

As remarked in the management letter of last year, the Council needs to ensure that it derives value from such investment and given the funding paid in advance by the Council in favour of the Gal Xlokk Foundation, as detailed above, irrespective of whether the Council is reaping any benefits or not, we are of the opinion that the annual financial statements of the Foundation are to be audited.

This would provide assurance to the Council that the financial statements currently being prepared are factual and provide a true and fair view. It would also enable the Council to rely on these financials to assess the cost/benefit of this membership.

#### Recommendations

The Council should propose in the next meeting of the Gal Xlokk Foundation that the foundation starts preparing the audited financial statements accordingly as well as it should undertake an annual cost/benefit analysis of its membership to assess the value of this investment.

## 8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

### 8.1. Disclosures required in respect of certain IFRS

#### Observations

The financial statements prepared and approved by the Council are not compliant in all respects with the requirements of the International Financial Reporting Standards. Disclosures emanating from certain accounting standards appear to be missing.

#### Issues Arising

The Council's financial statements lack certain disclosure requirements arising from IAS 7 – Statement of Cash Flows and IAS 24 - Related Party Disclosures as highlighted in paragraph 8.3 below. Other missing disclosures relate to the requirements of IFRS 7 – Financial Instruments: Disclosures. There are also issues with the implementation of IAS 39 – Financial Instruments: Recognition and Measurement, as highlighted in paragraph 6.3 of our report. We have qualified our audit report in this respect.

#### Recommendations

The financial statements should be prepared in accordance with International Financial Reporting Standards in all respects including all necessary disclosures.

### 8.2. Disclosures required in respect of Financial Procedures

#### Observations

The financial statements prepared and approved by the Council do not contain the corresponding budget figures for the year under review.

### Issues Arising

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. However, in line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements. In this respect, we have emphasised this matter in our audit report.

### Recommendations

Unless otherwise instructed from the Department of Local Councils, the Council should seek to insert the budget figures to be in line with the respective Financial Regulations.

## 8.3. Financial Statements Presentation

From the review of financial statements initially approved on 13<sup>th</sup> February 2014 and re-approved on 21 April 2014, we note the following areas which need attention:

- Page 2. The name should be 'Statement of Comprehensive Income' instead of 'Statement of Income'.
- Page 2. The information disclosed after line item 'Surplus for the year' is not required to be prepared by the Local Council.
- Page 5 'Statement of Changes in Equity'- The comparative column 'Total' is incorrect. Council corrected this error in the reapproved financial statements.
- Page 14 Note 2.8- word 'balance sheet' should be replaced by 'statement of financial position'
- Page 15 Note 2.9- word 'group' should be replaced by 'Council'.
- Page 20- the payables table contains various errors:
  - PPP Current year –
    - 1) Amount 3-12 months does not agree to amount of note 21;
    - 2) Column within 1 year should be removed since the amount due under one year was already disclosed in column between 3-12 months;
    - 3) Amount in column over 5 years does not agree with note 19.
  - General payables -  
Current year
    - 1) Total does not agree with note 21 'General payables';
    - 2) The amounts in columns less than 3 months, between 3-12 months and within one year does not agree with the aged creditors list.
  - PPP Comparative -  
year
    - 1) Column within 1 year should be removed since the amount due under one year was already disclosed in column between 3-12 months;
    - 2) Amounts in columns between 1-2 years, between 2-5 years and over 5 years does not agree to note 19;
    - 3) The amounts in columns less than 3 months, between 3-12 months and within one year does not agree with the aged creditors list.

- Page 21 Analysis of debtors- The amounts disclosed in both the current and comparative does not agree with the proper ageing analysis of the receivables. Moreover the totals are different from those in note 18.
- Page 26 Note 11- Comparative line item 'Council Members' Allowance' should read €11,029 (as per audited financial statements 2012).
- Page 29 Note 13- Total does agree with the 'statement of comprehensive income' as found in page 2.
- Page 30 Note 16- The amount of the depreciation charge is different from amount in note 10.
- Page 33 Note 17.1- Comparative of line items 'Within credit period' and 'Exceeded credit period but not impaired' does not agree with audited financial statements 2012.
- Page 33 Note 17.2- Line item 'Balance at the beginning of the year' current year is not the same as closing balance of comparative. Furthermore amounts in comparative line items 'Amount receivable within one year' and 'Amount receivable between one to two year' should be €116,036 and €381,880 respectively.
- Page 34 Note 17.2- the total of table 2012 should amount to €30,999 as disclosed in note 18. Council corrected this error in the reapproved financial statements.
- Page 34 Note 18- current year amount of line item 'Bank balances: Current account' does not agree to amount disclosed in note 21.
- Page 37 Note 22.1- In category 'Financial Assets' the Council should have also included 'Receivables' 'Other related Undertakings Receivables' & 'Accrued income'. Similarly 'Financial liabilities' should consist of 'Payables', 'General payables' & 'Accruals', while 'Contingent liabilities' are not considered as financial liabilities'.
- Note 25 - The disclosed amount of payables due to related parties should read €89,759 instead of €14,188.
- Page 41 Note 28- It would be more appropriate for presentation to rename line items 'Inventories' as 'Increase in inventories', 'Receivables' as 'Decrease/(increase) in receivables', 'Payables' as '(Decrease)/increase in payables', 'Deferred income' as 'Increase in deferred income' and 'Provision for doubtful debts' a '(Decrease)/increase in provision for doubtful debts'.

### Recommendations

It is important that the Council takes note of the above matters in order to be avoided in future preparation of financial reports. It should also keep abreast of changes taking place in the IFRS mandatory guidelines rather than scouting for such changes in financial statements of third party entities without evaluating their applicability to the Council's financial reports.