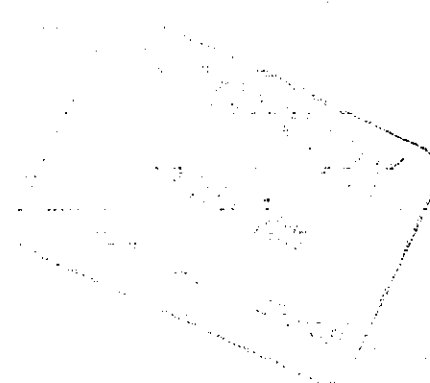


**Zurrieq Local Council**

**Financial Statements for the year  
ended 31 December 2010**




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## Statement of Local Council Member's and Executive Secretary's Responsibilities

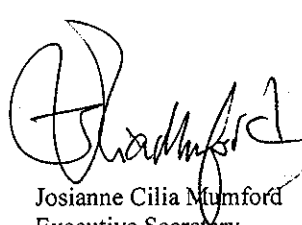
The Local Council's (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure for the year and of the Local Council's retained funds at the end of the year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the Financial Statements forming part of the report present fairly, in accordance with accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Local Councils Act, the Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Silvio Izzi Sayona  
Mayor

27<sup>th</sup> April, 2011



Josianne Cilia Mumford  
Executive Secretary

## **Zurrieq Local Council**

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### **Financial Statements for the period ended 31 December 2010**

#### **Report of the Local Government auditor to the Auditor General**

We have audited the accompanying financial statements of Zurrieq Local Council which comprise the statement of affairs as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### ***Respective responsibilities of the Local Council and Local Government auditors***

As described in page 2, these financial statements are the responsibility of the Executive Secretary and the Local Council members. Our responsibility is to express an opinion on these financial statements based on our audit.

#### ***Basis of opinion***

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the Local Council's Members and the Executive Secretary, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

- 1 Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.
- 2 The Local Councils (Audit) Procedures, 2006 contain a specimen of the financial statements which Local Councils should adhere to. It further stipulates that in the case where this specimen is not in conformity with International Financial Reporting Standards (IFRSs), the latter should prevail.

The Council's financial statements for the year under review have been prepared in accordance with the specimen referred to above but do not take into consideration the additional requirements that emerge from the applicable IFRSs including the following instances:

- i. Disclosures required by IAS 1, Presentation of Financial Statements regarding the type of entity, operations and capital management;
- ii. Quantitative and qualitative disclosures required by IFRS 7, Financial Instruments: Disclosures;
- iii. Details of contingent liabilities as required by IAS 37, Provisions, Contingent Liabilities and Contingent Assets;
- iv. Disclosures required by IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors: for the current year and each prior period presented the amount of the adjustment for each financial statement line item affected.

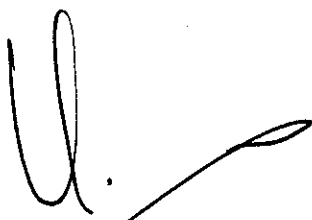
## Zurrieq Local Council

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### *Opinion*

The financial statements give a true and fair view of the financial position of Zurrieq Local Council as of 31 December 2010, and of the results of its operations, changes in equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 8 and 9.

Because of the matters set out in paragraphs 1 and 2 above, these financial statements do not comply fully with the Local Councils Act CAP 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996, and because of the matter set out in paragraph 2 above these financial statements have not been prepared in accordance with International Financial Reporting Standards.



Mark Bugeja  
f/Grant Thornton  
Certified Public Accountants

Grant Thornton  
Tower Business Centre, Suite 3  
Tower Street  
Swatar BKR 4013

27 April 2011

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

**Statement of Comprehensive Income**

	Notes	Year ended 31 December 2010	Restated Period from 1 April to 31 Dec 2009
		EUR	EUR
<b>Income</b>			
Funds received from central government	3	671,620	455,826
Income from Local Enforcement	4	63,607	36,911
Investment income	5	6,845	1,668
General Income	6	79,921	19,116
		<u>821,993</u>	<u>513,521</u>
<b>Expenditure</b>			
Personal Emoluments	7	99,734	49,888
Operations and Maintenance	8	375,535	289,445
Administration and other expenditure	9	235,493	369,100
		<u>710,762</u>	<u>708,433</u>
<b>Profit/(Loss) for the year/period</b>		<u>111,231</u>	<u>(194,912)</u>

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

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**Statement of Financial Position**

	Notes	31 December 2010 EUR	Restated 31 Dec 2009 EUR	Restated 31 March 2009 EUR
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, Plant and Equipment	10	<u>836,251</u>	<u>813,110</u>	857,185
<b>Current Assets</b>				
Receivables	11	426,179	115,065	224,586
Cash and cash equivalents	12	702,266	316,838	267,378
		<u>1,128,445</u>	<u>431,903</u>	<u>491,964</u>
<b>Total Assets</b>		<u>1,964,696</u>	<u>1,245,013</u>	<u>1,349,149</u>
<b>RESERVES AND LIABILITIES</b>				
<b>Reserves</b>				
Retained Funds		<u>1,116,135</u>	<u>1,004,904</u>	<u>1,199,816</u>
<b>Current Liabilities</b>				
Payables	13	<u>848,561</u>	<u>240,109</u>	<u>149,333</u>
<b>Total Reserves and Liabilities</b>		<u>1,964,696</u>	<u>1,245,013</u>	<u>1,349,149</u>

These Financial Statements were approved by the Local Council on the 24<sup>th</sup> April 2011 and signed on its behalf:

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Executive Secretary

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

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**Statement of Changes in Equity**

	<b>Retained Funds' EUR</b>
Balance at 31 March 2009	1,199,816
Loss for the period (nine months)	(194,912)
Balance at 31 December 2009	<u>1,004,904</u>
Profit for the year 2010	111,231
Balance at 31 <sup>st</sup> December 2010	<u>1,116,135</u>



Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

**Statement of Cash Flows**

	2010 EUR	Restated 2009 EUR
<b>Cash Flows from Operating Activities</b>		
Profit/(Loss) for the year/period	111,231	(194,912)
<b>Adjustments for:</b>		
Depreciation	88,579	64,893
Investment income receivable	(6,845)	(1,668)
Government grant release	(2,763)	-
Increase in provision of LES Debtors	17,426	180,549
<b>Operating Profit before Working Capital Changes</b>	<b>207,628</b>	<b>48,862</b>
Increase in Receivables	(36,774)	(71,029)
Increase in Payables	2,087	51,392
<b>Net cash from operating activities</b>	<b>172,941</b>	<b>29,225</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(111,956)	(20,818)
Grants	236	-
Investment income received	6,845	1,668
<b>Net Cash used in investing activities</b>	<b>(104,875)</b>	<b>(19,150)</b>
<b>Cash flows from financing activities</b>		
Special needs funds transferred during the year	291,040	29,716
<b>Net Cash from financing activities</b>	<b>291,040</b>	<b>29,716</b>
<b>Net movement in Cash and Cash Equivalents</b>	<b>359,106</b>	<b>39,791</b>
<b>Cash and cash equivalents at the beginning of the year/period</b>	<b>307,169</b>	<b>267,378</b>
<b>Cash and cash equivalents at the end of the year/period</b>	<b>666,275</b>	<b>307,169</b>

## Notes to the Financial Statements for the period ended 31 December 2010

### 1. General Information

Zurrieq Local Council is the local authority of Zurrieq setup in accordance with the Local Councils Act. The office of the Local Council is situated at Triq Pietru Pawl Saydon, Zurrieq.

### 2. Accounting Policies and Reporting Procedures

These financial statements have been drawn up applying IFRSs and in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap 363). The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. The principal accounting policies and reporting procedures used by the Local Councils are as follows:

#### a. New and amended standards adopted by the Local Council

These changes did not have a material effect on the Local Council's financial statements:

- IAS 1 (amendment) - Presentation of financial statements (effective from 1 January 2010).
- IAS 7 (amendment) - Statement of cash flows. Amendments to reflect changes in other standards.
- IAS 36 (Impairment of assets) - Amendments to reflect changes in other standards.
- IAS 38 (amendment) - Intangible Assets (effective from 1 July 2009).
- IAS 39 (amendment) - Financial instruments: Recognition and Measurement (effective from 1 Jan 2010).
- IFRS 3 (revised) - Business combinations (effective from 1 July 2009).

#### b. New important standards and early adopted

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Local Council's accounting periods beginning on or after 1 January 2011 or later periods and the Local Council has early adopted them:

- IAS 24 - Related party disclosures (effective 1 January 2011). Amendments simplified the definition of a related party, clarified its intended meaning and eliminating inconsistencies from the definition. It also provided for a partial exemption from the disclosure requirements for government-related entities.

#### c. Revenue recognition

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the income statement as it accrues.

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

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**Notes to the Financial Statements for the period ended 31 December 2010 (cont....)**

**d. Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0.00
Trees	0.00
Buildings	1.00
Office furniture and fittings	7.50
Construction works	10.00
Urban Improvements (street furniture)	10.00
Special Programmes (Projects)	10.00
Office Equipment	20.00
Motor Vehicles	20.00
Plant & Machinery	20.00
Computer Equipment	25.00
Plants	100.00
Litter bins	100.00
Playground Furniture	100.00
Traffic signs	100.00
Road Signs	100.00
Street Mirrors	100.00
Street Lights	100.00

**e. Government Grants**

Government grants are accounted for on a systematic basis in the Income and Expenditure Account over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

**f. Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Income and Expenditure.

**g. Amounts Receivable**

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Income and Expenditure.

In accordance with prevailing regulations any local enforcement dues which have exceeded two years since being issued have been provided for.

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

**Notes to the Financial Statements for the period ended 31 December 2010 (cont....)**

**h. Foreign Currencies**

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro, which is the Council's functional and present currency. Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro at the rates of exchange prevailing at the date of the Statement of Affairs.

**i. Surpluses and deficits**

Only profits that were realised at the date of the Statement of Affairs are recognised in these Financial Statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

**j. Cash and Equivalents**

Cash and Cash Equivalents are carried in the Statement of Affairs at face value. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash in hand and balances held with banks.

**3. Funds Received from Central Government**

	Year ended 31 Dec 2010	Restated Period from 1 Apr 09 to 31 Dec 09
	EUR	EUR
In terms of Sections 55 of the Local Councils Act (CAP 363)	658,593	439,745
Special needs Government Income	12,561	-
Other government income	466	16,081
	<u>671,620</u>	<u>455,826</u>

**4. Local Enforcement System Income**

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Sentenced cases/accrued income	63,607	36,911
	<u>63,607</u>	<u>36,911</u>

**5. Investment Income**

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Bank interest receivable	6,845	1,668
	<u>6,845</u>	<u>1,668</u>

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements ... continued

6. General Income

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Income from tender documents	5,470	6,398
Income from events, courses and activities	13,962	-
Income from permits	45,498	2,662
Income from insurance claims	13,018	-
Income from rent of premises	1,973	-
Sundry contributions & donations	-	10,056
Other government income	-	-
In terms of Local Councils (Financial) Procedures, 1996	<u>79,921</u>	<u>19,116</u>

7. Personal Emoluments

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Personal emoluments include, inter alia:		
Mayor's Allowance	9,546	4,500
Executive Secretary Salary	28,732	20,100
Employees' Salaries	46,479	22,705
Social Security Contributions	6,017	2,583
Other allowances	17 8,960	-
	<u>99,734</u>	<u>49,888</u>

8. Operations and Maintenance

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Repairs and Upkeep:		
Road Asphaltting	85,423	82,130
Public Property	-	-
Road Markings	10,893	7,141
Others	-	2,763
	<u>96,316</u>	<u>92,034</u>

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements ... continued

8. Operations and Maintenance (cont...)

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
<b>Contractual Services:</b>		
Refuse collection (including bins on wheels)	159,082	99,845
Bulky refuse collections (including open skips)	14,495	12,261
Road and Street Cleaning (mechanical and manual)	37,188	36,485
Cleaning and Maintenance of Public Conveniences	7,420	7,697
Cleaning and Maintenance of Parks and Gardens	12,794	13,764
Cleaning and Maintenance of Non-Urban areas	14,043	6,912
Cleaning and Maintenance of Soft Areas	7,302	1,217
Cleaning and Maintenance of Council Premises	200	214
Local Enforcement system expenses	16,894	12,816
Street lighting	9,801	6,200
	<u>279,219</u>	<u>197,411</u>
<b>Total Operations and Maintenance expenses</b>	<u>375,535</u>	<u>289,445</u>

9. Administration and other expenditure

	Year ended 31 Dec 2010	Period from 1 Apr to 31 December 2009
	EUR	EUR
Utilities	11,279	9,876
Uniforms	2,056	-
Other repairs and upkeep	26,017	26,799
Advertising and publications	7,192	-
Insurance coverage	3,748	-
Materials and Supplies	1,717	1,492
Office Services	6,259	4,518
Transport	2,004	2,938
Information Services	3,364	4,020
Rent	6,712	3,476
Sundry expenses	23	268
Professional Services	29,832	32,245
EU Projects	523	4,471
Donations	-	494
International relationships	1,624	-
Community services & events	23,168	29,248
Other contractual services	3,638	3,813
Increase in provision for doubtful debts	17,426	180,549
Bank charges	332	-
Depreciation	88,579	64,893
	<u>235,493</u>	<u>369,100</u>

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements for the period ended 31 December 2010 (cont...)

10. Property, Plant and Equipment

	Property	Office Furniture /Fittings	Plant & Machinery	Trees	Office Equipment	Urban Improvements	New Street Signs	Construction	Special Programmes	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost as at 1 January 2010	156,435	76,139	2,567	36,306	31,699	226,878	33,106	293,904	1,127,133	1,984,167
Additions during the period	18,862	2,422	884	-	1,694	32,802	3,963	-	51,329	111,956
Disposal										
Cost at 31 December 2010	175,297	78,561	3,451	36,306	33,393	259,680	37,069	293,904	1,178,462	2,096,123
Grants at 1 January 2010	-	-	-	-	-	-	-	-	360,045	360,045
Other reimbursements	-	-	-	-	-	-	-	-	236	236
Grants at 31 December 2010	-	-	-	-	-	-	-	-	360,281	360,281
Acc. Dep'n beginning of period	13,069	37,787	1,464	17,214	27,974	128,325	33,106	186,244	365,829	811,012
Charge for the period	1,718	3,536	239	-	1,709	11,385	3,963	3,743	62,286	88,579
Disposal										
Acc. Dep'n end of Period	14,787	41,323	1,703	17,214	29,683	139,710	37,069	189,987	428,115	899,591
Net Book Value 31 December 2010	160,510	37,238	1,748	19,092	3,710	119,970	-	103,917	390,066	836,251

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements for the period ended 31 December 2010\_(cont...)

10 b. Property, Plant and Equipment ... continued

	Property EUR	Office Furniture /Fittings EUR	Plant & Machinery EUR	Trees EUR	Office Equipment EUR	Urban Improvements EUR	New Street Signs EUR	Construction EUR	Special Programmes EUR	Total EUR
Cost as at 1 April 2009	156,435	74,875	1,753	35,349	30,240	226,878	23,648	293,904	1,120,267	1,963,349
Additions during the period	-	1,264	814	957	1,459	-	9,458	-	6,866	20,818
Disposal	-	-	-	-	-	-	-	-	-	-
Cost at 31 December 2009	156,435	76,139	2,567	36,306	31,699	226,878	33,106	293,904	1,127,133	1,984,167
Grants at 1 April 2009	-	-	-	-	-	-	-	-	-	-
Other reimbursements	-	-	-	-	-	-	-	-	360,045	360,045
Grants at 31 December 2009	-	-	-	-	-	-	-	-	360,045	360,045
Acc. Dep'n beginning of period	11,986	35,568	1,335	14,709	27,445	120,063	23,648	177,515	333,850	746,119
Charge for the period	1,083	2,219	129	2,505	529	8,262	9,458	8,729	31,979	64,893
Disposal	-	-	-	-	-	-	-	-	-	-
Acc. Dep'n end of Period	13,069	37,787	1,464	17,214	27,974	128,325	33,106	186,244	365,829	811,012
Net Book Value 31 December 2009	143,366	38,352	1,103	19,092	3,725	98,553	-	107,660	401,259	813,110



Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements for the period ended 31 December 2010\_(cont...)

11. Receivables

	2010	2009
	EUR	EUR
Other Receivables	16,864	1,460
LES Receivables	49,684	44,729
Prepayments	3,160	4,171
Garnishee order	64,705	64,705
Accrued Income Receivable	291,766	-
	<u>426,179</u>	<u>115,065</u>

State of trade receivables as at 31 Dec 2010

	EUR
Amounts receivable within credit period	66,548
Impaired and provided for	17,426
Provision for doubtful debts as per IFRS 7.37	<u>(17,426)</u>
	<u>66,548</u>

12. Cash and Cash Equivalents

	2010	2009
	EUR	EUR
Bank Balances:		
Bank Current Account	36,179	1,213
Savings Accounts	362,727	12,265
Fixed Account	303,000	303,000
Petty Cash	360	360
Cash at Bank and in Hand	<u>702,266</u>	<u>316,838</u>

13. Payables

	2010	2009
	EUR	EUR
Bank Current Account	35,991	9,669
Trade Payables	184,760	113,484
Other payables	63	63
Accruals	17,988	87,177
Deferred Income	609,759	29,716
	<u>848,561</u>	<u>240,109</u>

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements for the period ended 31 December 2010\_(cont...)

14. Deferred Income

	2010	2009
	EUR	EUR
Amounts deferred to between: One and two years	5,237	-
Two and five years	604,522	29,716
Five years or more	-	-
	<u>609,759</u>	<u>29,716</u>

15. Capital Commitments

	2010	2009
	EUR	EUR
(i) Details of Capital Commitments are as follows:		
Approved but not yet contracted for (ii)	-	239,750
Contracted for but not provided in the financial statements (iii)	<u>1,425,659</u>	<u>12,200</u>
	<u>1,425,659</u>	<u>251,950</u>
These could be analysed as follows:		
(ii) Approved but not yet contracted for:		
Improvements	-	1,250
Office Equipment	-	21,500
Special Programmes	-	217,000
	<u>-</u>	<u>239,750</u>
(iii) Contracted for but not provided for in the financial statements		
Public Private Partnership Scheme:		
- Road resurfacing (3 locations)	690,136	-
Road resurfacing (other – 1 location)	74,738	-
New public gardens:		
- Four locations	258,186	-
Hal-Millieri Project	402,599	-
Street light fittings	-	4,500
Solar Panels	-	7,700
	<u>1,425,659</u>	<u>12,200</u>

16. Contingent Liabilities

The Council has been drawn into a court case. The outcome and liability of the council is estimated to be EUR 60,947

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

Notes to the Financial Statements for the period ended 31 December 2010\_(cont...)

17. Other allowances

The Council has paid the following additional allowances during 2010. These amounts are shown net of statutory deductions.

	2010	2009
	EUR	EUR
Mayor	1,280	-
Vice Mayor	960	-
Councillors' allowances	6,720	-
Executive Secretary	641	-
Refund from Bubaqra Admin Committee	<u>(641)</u>	=
	<b><u>8,960</u></b>	=

18. Prior year adjustments

Expenses from 2009 which amount to Eur 58,935 were found included in the Council's ledgers for 2010. Comparatives for 2009 have therefore been revised in accordance with IFRS 8. The expenses which required adjustment were as follows

	2010	2009
	EUR	EUR
Telephone Charges	1,508	-
Refuse Collection	35,786	-
Road and Street Cleaning	10,435	-
Cleaning – Public Conveniences	1,703	-
Cleaning – Parks, Gardens	1,550	-
Cleaning – Soft Areas	1,217	-
Accountancy Services	250	-
Library Community Services	<u>137</u>	-
Xarolla Community Services	279	-
Local Enforcement Expenses	<u>6,070</u>	-
	<b><u>58,935</u></b>	=

Zurrieq Local Council  
Financial Statements for the year ended 31<sup>st</sup> December 2010

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Notes to the Financial Statements for the period ended 31 December 2010\_(cont...)

19. Related Parties

During the year under review, the Council entered into transactions with the following:

<u>Name of Entity</u>	<u>Relationship</u>
Department of Local Councils	Significant control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control

The following were the significant transactions carried out by the Council with related parties having significant control:

	Year ended 31 December 2010 EUR	Period from 1 April to 31 December 2009 EUR
Annual Government Allocation	654,408	436,983

20. Comparative figures

Where necessary the figures of the previous years have been reclassified for comparison purposes.

The Mayor  
Zurrieq Local Council  
Centru tal-Kommunita- Joe Cassar  
Triq Pietru Pawl Saydon  
Zurrieq

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Our ref: ABC/scl/035711

27 April 2011

Dear Sir

### **Financial statements for the year ended 31 December 2010**

During the course of our audit for the year ended 31 December 2010 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform with the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and with 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**

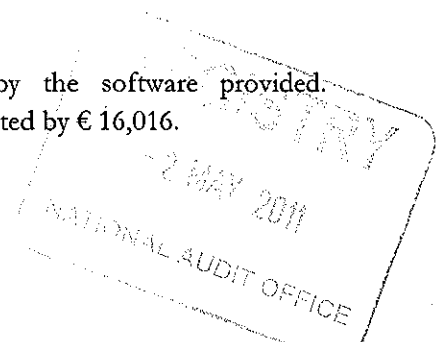
### **Bank accounts**

- 1.1 For the year ended 31 December 2010 there are two stale cheques amounting to € 121.23. Bank reconciliations reveal differences between amount as stated in the nominal ledger and amount as stated in the bank statements (refer to note 2). The council adopted our recommendation and cheque stubs are being dated to ensure that the date of input into Sage is correct.

### **Fixed assets**

- 1.2 The council supplied us with a fixed asset register. However, for each asset category there are discrepancies between cost and depreciation as stated in the nominal ledger and the cost and depreciation as stated in the fixed asset register. This matter is further discussed in note 3.

Depreciation is being calculated automatically by the software provided. However, as stated in note 3.3 depreciation is overstated by € 16,016.



**Grants**

- 1.3 Grants are still not being accounted for under the income approach as stated in memo 150/2010 (refer to note 5).

1.4 **Local enforcement system**

The council is still not preparing LES monthly reconciliations to reconcile amount receivable as stipulated in Datatrak report with the amount actually deposited in the council's bank.

The council has provided € 17,499 for Tribunal Pending Payments which have been outstanding for more than two years. However, this adjustment was only passed in the financial statements and not in the nominal ledger (refer to note 4).

**General income**

- 1.5 We again noted that Central Government allocation is recorded net of expenses (refer to note 5).

**Petty cash expenses**

- 1.6 Petty cash expenditure is still being supported by a cash register chit instead of a fiscal receipt addressed to the council (refer to note 6).

**Insurance**

- 1.7 Property, plant and equipment are still being under insured (refer to note 7).

**Donations**

- 1.8 We are pleased to note that no donations have been given during the year under review.

**Creditors**

- 1.9 The council is still not obtaining suppliers' statements to ensure that amounts recorded in the suppliers' accounts agree to the statements (refer to note 8).

Invoices were accounted for when received. Following instructions in the previous management letter, the council is appropriately using the accruals basis and has passed a prior year adjustment to reflect change to accrual accounting in the previous year (refer to note 17.6).

Accruals in the nominal ledger do not agree to accruals in the financial statements (refer to note 8).

**Long outstanding trade creditors**

- 1.10 An amount of € 8,754.79 was payable to Silvar Construction Limited as at 31 December 2009. The amount has been withheld because of a dispute on the actual work performed. The council paid this amount to Silvar Construction Limited following the court decision dated 16 June 2010.

The court hearings regarding Always Clean are still in process (refer to note 17.5).

**Trade debtors**

- 1.11 The council is still not chasing up old debtors (refer to note 9).

**Tendering process**

- 1.12 For some tenders adjudicated during 2010, the council is still not underlining the schedule of offers to indicate cut off (refer to note 10).

**Staff parties**

- 1.13 No irregularities were found with respect to the staff Christmas parties.

**Groupings**

- 1.14 Expenses and fixed assets are still not being classified consistently from year to year (refer to note 16).

**Council meetings**

- 1.15 A councillor failed to attend in aggregate more than one-third of the meetings within a period of six months (refer to note 12).

**Presentation of financial statements**

- 1.16 Financial statements are still not in conformity with International Financial Reporting Standards (IFRS) (refer to note 17).

**Journal entries**

- 1.17 Based on last year's recommendation, all supporting documentation was provided during the course of our audit.

**2 Bank accounts**

- 2.1 We noted that the HSBC current and savings account reconciliations for account numbers 78057692-001 and 78057692-050 dated 31 December 2010 did not reconcile to the bank balance as at period end by € 4,908 and € 109 respectively.
- 2.2 We recommend that all bank balances are regularly reconciled and that any differences found are promptly investigated and cleared.
- 2.3 Included in the list of unpresented cheques for HSBC current account were cheques to Cutajar Confectionery issued on 31.12.2009 amounting to € 81.23, and to the day centre attendant issued on 11.01.2010 amounting to € 40, respectively. These cheques are considered to be stale since they are more than six months old.
- 2.4 Since the above cheques are long outstanding, we recommend that the amounts should be reversed from the bank balance and included with creditors or expenses so as to ensure that the bank balance in the accounts reflects the correct balance.

- 2.5 We noted that interest received on BOV fixed account numbers 40018197567 and 40018197570 and BOV savings account numbers 40019290463 and 40019290476 was subjected to 15% withholding tax.
- 2.6 Since local councils are exempt from taxation, we recommend that the council informs the bank concerned not to withhold tax on bank accounts held.

### **3 Fixed assets**

#### **3.1 Plant register**

During the course of our audit we were presented with a fixed asset register which included asset description, purchase date, purchase price, asset tag code, depreciation charge for the year and accumulated depreciation. However, it failed to disclose supplier details, invoice number and the location of the asset.

- 3.2 We strongly recommend that the council includes this information to ensure that all assets are easily identified.
- 3.3 In addition, we identified differences between the plant register totals and the nominal ledger. The differences can be summarised as follows:

	As per fixed asset register €	As per books of account (unadjusted) €	Difference €
Cost	2,099,125	1,691,557	407,568
Accumulated depreciation	(813,105)	(899,592)	86,487
Net book value	1,286,020	791,965	494,055

These differences highlight the following failures:

- (a) For previous accounting periods, income from Government grants was accounted for using the capital approach. Therefore, the opening balance of grants amounting to € 360,045 should have been deducted from the purchase price in the fixed asset register to calculate the depreciation charge. However, we noted that the purchase price and the revalued price amount to the same figure, that is, € 2,099,125;
- (b) For the year under review, income received from Government grants was accounted for under the capital approach or recognised as income for the year albeit the instructions issued in memo 150/2010 which state that Government grants should be accounted for under the income approach, (refer to note 5.5);



- (c) When recalculating the depreciation charge for reasonableness we noted that it is overstated by €16,016. The depreciation charge in the financial statements amounts to € 88,580 and is calculated automatically by the software provided. However, as stated above, in the fixed assets register Government grants are not deducted from the purchase price to calculate the depreciation charge, resulting in depreciation being overstated;
- (d) When physically inspecting the assets, we noted that assets are not tagged (where applicable) to make them more easily identifiable.

3.4 The above matters should be looked into and resolved since the council is not adhering to the instructions issued in memo 150/2010.

#### **Classification of fixed assets**

- 3.5 Street paving is being classified with new street signs instead of construction or urban improvements. On the other hand street furniture and street lamps are being classified under special programmes instead of urban improvements.
- 3.6 We recommend that fixed assets are classified under appropriate categories so that depreciation is calculated using the correct depreciation rate.
- 3.7 We also noted that in the nominal ledger, street signs have a negative net book value of € 9,530.50. The council passed a reclassification to show a nil balance in the financial statements.
- 3.8 We recommend that the council revises its records accordingly and passes the necessary adjustments so as to abide by the applicable Procedures including those in memo 150/2010 which state that street signs are to be written off on the replacement basis (i.e written off to profit or loss when purchased).

#### **Additions of fixed assets**

- 3.9 When testing fixed assets purchased during the year, we identified differences between the financial statements and the nominal ledger. The differences can be summarised as follows:

	As per financial statements €	As per nominal ledger (unadjusted) €	Difference €
Property	18,863	20,278	(1,415)
Office, furniture and fittings	2,422	1,006	1,416
Special programmes	51,328	55,292	(3,964)
New street signs	3,964	-	3,964

- 3.10 It is important that the financial statements and the nominal ledger report the same figures to ensure that the council approves financial statements that are in agreement with the accounting records.

#### **Upkeep of fixed asset register**

- 3.11 We have identified the following items that are still included in the fixed asset register but are no longer in use by the council:

<b>Category</b>	<b>Details as per financial statements</b>	<b>€</b>
Office furniture and fittings	Laptop	1,118.10
Office equipment	UPS and fax	1,118.68

- 3.12 We recommend that if fixed assets are no longer in use, they should be disposed of and eliminated from the fixed assets register and the books of account. This is to ensure that fixed assets and depreciation are not misstated.

#### **4 Local Enforcement System**

- 4.1 Whilst testing LES income we noted that LES debtors disclosed in the financial statements include only tribunal pending payments amounting to € 307,230 for the year ended 31 December 2010. Moreover, when we asked for the Tribunal Pending Payments report, the total as at 31 December 2010 amounted to € 307,765. Hence Tribunal Pending Payments are understated by € 535 in the financial statements.
- 4.2 It is important to bear in mind that income from the Local Enforcement System for any particular year is the sum of income as stated in LES report 98 (where place of incident is Zurrieq) plus the movement in tribunal pending payments report for the year. When we prepared the year end LES income reconciliation, we found a difference of € 2,022.
- 4.3 We urge the council to start compiling regular reconciliations for traffic fines, including amongst others, contraventions paid at other councils, the Licensing and Testing Department (LTD) and the LCA (LES online payments) but not remitted to the council as at year end. Such an exercise, which needs to be carried out on a regular basis, would include determining whether paid contraventions included in Datatrak report 98 have been remitted to the council's bank at year end.
- 4.4 It is important to remind you that the LES debtors at a particular point in time are composed of paid contraventions not yet deposited by other local councils, by the LCA and by the LTD, plus tribunal pending payments, less any unidentified deposits and not just tribunal pending payments as accounted for in the financial statements.
- 4.5 It is also advisable that the council divides LES debtors in the financial statements into fines collected on your behalf but not remitted at year end by other councils, by the Local Councils Association (LES online payments) and by the Licensing and Testing Department (LTD). This procedure enables your council to exercise closer control over LES debtors, as well as to keep a more effective trail of LES income.
- 4.6 We reviewed the ageing of the LES debtors' list and observed that amounts outstanding for more than two years (from January 2000 to 31 December 2008) amounted to € 257,546.

- 4.7 LES debtors in the financial statements (net of provision for LES debtors) amounted to € 49,661. However, net LES debtors in the nominal ledger amounted to € 67,110. We ascertained that the council passed an increase in the provision for LES debtors of € 17,449 in the financial statements but not in the nominal ledger.
- 4.8 It is important that the amounts in the nominal ledger and those in the financial statements agree. Thus, any adjustments passed should be reflected also in the nominal ledger, not only in the financial statements.
- 4.9 Given that the existing provision amounted to € 240,121 we agreed with the adjustment passed by the council in the financial statements to provide for an increase in the provision for LES debtors of € 17,449 to reflect the amounts outstanding for more than two years.
- 4.10 We recommend that the council continues to monitor the situation and chase old outstanding contraventions so as to minimise provisions for doubtful debts.

## **5 Income**

### **Central Government income**

- 5.1 Whilst reviewing the financial statements we noted that the council's income from Central Government as per accounts did not agree to the stipulated annual allocation. This is consequent to the fact that fees for e-Government of € 279.52, penalty regarding call for tenders on waste collection of € 411.62 and expenses for the provision of bring in sites amounting to € 3,494 were not disclosed in the accounts and the allocation was recorded net of such expenses. The adjustment that we proposed has been correctly included in the financial statements.
- 5.2 We recommend that section 55 Government allocation is shown gross, that is before deductions. Any deductions should be shown as an expense. This is in line with instructions received from the NAO.

### **Banking procedures**

- 5.3 The following shortcomings were noted during the course of our audit work on the council's custodial receipts of the LES, Lands Department and warden services:

<b>Details</b>	<b>Receipt date</b>	<b>Deposit date</b>	<b>€</b>
Lands Department	03.08.2010	16.08.2010	4.71
LES	26.03.2010	03.04.2010	46.58
LES	17.12.2010	24.12.2010	69.87
Warden services	04.08.2010	16.08.2010	39.60
Warden services	01.11.2010	13.01.2011	15.84

- 5.4 We recommend that the council deposits cash from custodial receipts twice weekly, primarily to comply with the Procedures but also for security purposes.

### Income from grants

- 5.5 During 2009 and 2010, the council qualified for the following grants:

Grant category	Amount receivable €	Amount received €
Public Private Partnership	137,927	68,963
Measure 313- Encouragement of Tourism Activities	192,613	84,867
Measure 323- Conservation and Upgrading of the Rural Heritage Accessibility Scheme	192,198	94,494
	8,500	4,250

- 5.6 The council erroneously accounted for the income received for the above projects in terms of section 58 of the Local Councils Act, 1993, special needs Government income.

- 5.7 Income received from the following grants was accounted for using the capital approach:

Grant category	Amount receivable €	Amount received €
Embellishment of Wesgha Frangisk Bugeja	26,616	26,616
Scheme for Initiative Projects from Administrative Committees	20,000	10,000
Solar panel grant	7,669	7,669

- 5.8 In accordance with instructions received in memo 150/2010 and IAS 20, grants received should be recognised as income to match the costs which they are intended to compensate. Hence, grants to acquire items of property, plant and equipment should be treated as deferred income and income is recognised on a systematic and rational basis in accordance with the useful life of the asset (i.e. the depreciation charge) when the asset is completed. On the other hand, grants for the organisation of activities should be recognised in the period in which the related cost is incurred. Therefore, we proposed audit adjustments to correctly account for grants under the income approach. These adjustments have been correctly reflected in the final set of financial statements.

- 5.9 We recommend that the council adheres to the instructions received and no longer accounts for grants under the capital approach or classifies them as income when received.

- 5.10 Moreover, the council should apportion deferred income into its short-term and long-term components and make these disclosures in the notes to the financial statements. The basis of apportionment shall be based on the period within which the income from the grant is expected to be realised.

## 6 Petty cash expenses

6.1 During our tests on petty cash we noted that the petty cash float is not reconciled with the books of account. The difference amounts to € 52.51 and such a discrepancy denotes a failure in the system.

6.2 During our audit, we also identified payments out of petty cash which were not supported by a tax invoice addressed to the council but by a cash register chit. Examples are:

Details	Supplier	€	Date
Stamps	Maltapost	19.95	29.01.2010
Gifts SVDP visit	Sefora	23.00	22.05.2010
Pharmaceutical goods	Kristianne	16.58	30.12.2010
Fuel for grass cutter	G Camilleri	6.00	12.11.2010
CDs	Kristianne	1.20	05.11.2010

6.3 We understand that there are instances where it is more practical to obtain a cash register chit. However, this is in contravention of the Local Councils (Financial) Procedures, 1996 which specifically require that supplies are only made on the provision of a proper tax invoice which is addressed to the council. This ensures that only expenditure incurred in the furtherance of the council's operations is paid by the council.

6.4 We also noted that petty cash expenditure of € 23.76 purchased from Tower Ironmongery on 16.08.2010 exceeded the limit of € 23.29 imposed by the Local Councils (Financial) Procedures, 1996.

6.5 Moreover, petty cash expenditure for the months of January, February, May, November and December were not signed by the executive secretary to indicate authorisation and approval.

6.6 We recommend that petty cash expenditure is approved by the executive secretary to indicate that petty cash expenditure includes only expenses for the operations of the council.

### Cash in hand

6.7 Our audit procedures identified a difference of € 104 between the actual cash in hand at 31 December 2010 and the nominal ledger. The difference arises because cash in hand is not reconciled periodically to the books of account, and the same amount is left from year to year.

6.8 It is suggested that the council reconciles cash not yet deposited on a regular basis so that actual cash in hand agrees to the nominal ledger.

## 7 Insurance

- 7.1 We reviewed your insurance policies and noted the following discrepancies between the insurance cover and the cost of furniture, fixtures and office equipment, property and property in the open as per nominal ledger.

	Sum insured €	Cost as per records €
Furniture, fixtures and office equipment	41,928	66,972
Property	701,491	208,525
Property in the open	35,639	35,257

- 7.2 According to the above, property and property in the open are over-insured, whilst furniture, fixtures and office equipment are under-insured.
- 7.3 We recommend that the council ensures that assets held are not over or under insured in accordance with section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996, which states that the executive secretary should carry out a periodic review to assess the adequacy of the insurance cover in order to avoid any problems should the council need to make a claim.

## 8 Creditors and accruals

- 8.1 The council does not obtain suppliers' statements as required by memos 8/2002 and 7/2003.
- 8.2 We again recommend that the council adheres to directives issued by the Local Councils Department and requests statements from all suppliers, not only at year-end but also on a monthly basis. These should be reconciled on a regular basis to identify any differences between amounts claimed and the accounting records.
- 8.3 Moreover, we noted that no invoices were received by the council before year end from the following suppliers and yet they have been included with creditors as at year end:

Supplier	Invoice no	Invoice date	€
Ricky Caruana	n/a	02.01.2011	585.83
Ell's Urban Services	354	10.01.2011	9,741.19
Ell's Urban Services	n/a	10.01.2011	5,356.46
EuroClean Services	28	21.01.2011	718.59
MED Developers			
Designers and Consultants	n/a	11.01.2011	1,184.11

- 8.4 We advise the council to review these amounts and classify them properly as accruals so that when the invoice is actually received it can be posted to creditors. This method will ensure that there is no double counting of an invoice.

- 8.5 Accruals for the year under review are not posted in the nominal ledger as required by memo 150/2010. Furthermore, accruals in the nominal ledger amounted to € 28,243 (opening accruals) whereas accruals in the financial statements amounted to € 29,585. Upon further investigation we determined that the council has passed accruals for electricity and telephone expenses of € 1,000, cleaning expenses of € 200 and overtime of € 143 in the financial statements but not in the nominal ledger. We proposed adjustments to record these accruals in the nominal ledger. The adjustment has been appropriately included in the financial statements.
- 8.6 Moreover, opening accruals of € 28,243 were not reversed. This results in creditors being overstated in the statement of affairs and expenses being overstated in the statement of income and expenditure. We proposed an adjustment to reverse the opening accruals that were proposed by us for the previous accounting period. This adjustment was correctly reflected in the financial statements.

#### **Long outstanding trade creditors**

- 8.7 As part of our audit procedures, we reviewed the council's aged supplier analysis. We noted that the council has long overdue balances of € 78,369.28 with trade creditors. These balances have been carried forward from preceding accounting periods. The following are creditors that have been long overdue:

<b>Creditor</b>	<b>€</b>
Asfaltar Limited	16,296.90
Borg Andre	1,137.04
Department of Waste Management	19,700.19
Ell's Urban Services	1,213.87
Go	26.93
Joint Committee Local Councils	26,581.47
Med Consultants Limited	877.24
TCTC	10.00
Vodafone	229.84
Water Services Corporation	12,295.80

- 8.8 The council must investigate these amounts since they are significant, and either settle the amounts or write them off, after appropriate consideration, if not due.

#### **9 Trade debtors**

- 9.1 Whilst reviewing trade debtors we noted that, as last year, more than 94 % of trade debtors have been due for more than two years.
- 9.2 We recommend that the council contacts these debtors to recover the amounts due. Should there be any doubt regarding the collectability of these amounts, a provision for doubtful debts should be recorded.
- 9.3 Trade debtors include an amount due from Zurrieq Local Council of € 174.71. When asked, the executive secretary informed us that this amount represents fines paid but not yet deposited until December 2010. This amount was eventually deposited in January 2011.

- 9.4 We recommend that this amount is included with cash in hand as at year end. Moreover, as stated in 6.8, cash in hand should be physically counted at year end.

#### **Amounts owing from Water Services Corporation**

- 9.5 Whilst testing debtors we noted that an account was opened for Water Services Corporation (WSC), having a balance of € 15,516.56. In March 2010, notification was received from the LCA stating that the amounts due from WSC shall be received during the year 2010 onwards. In fact as from 20 April 2010 to 19 November 2010 the council received official documentation stating that the amounts owing to the council for periods 2007 to July 2010 is € 39,100.
- 9.6 On 24 September 2010, the council received € 15,900 for jobs executed by WSC during 2007 on tarmac roads. However, in the WSC control account, the council only credited the receipt of € 15,900 but did not record the invoice at transaction date. Moreover, the council recorded invoices for 2008 and 2009 in accordance with the records kept by the council on works performed by WSC and not as stated in WSC official lists.
- 9.7 We suggest that the council records invoices in the books of account in compliance with WSC official lists so as to be prudent and not overstate debtors.
- 9.8 We further suggest that the council closely monitors such receipts ensuring that total amounts due are received during the coming financial years.

### **10 Tendering process**

- 10.1 During the year under review, the council adjudicated the following tenders for which we identified some irregularities:

<b>Number</b>	<b>Nature</b>	<b>Date of publication</b>	<b>Date of opening</b>
WL 67/02/10	Installation of a hydraulic passenger wheelchair lift	16.02.2010	29.03.2010
RP 67/03/10	Maintenance of access roads and access only pedestrian streets-patching	12.03.2010	05.04.2010
SA 67/04/10	Upkeep and maintenance of soft areas	12.03.2010	05.04.2010
BR 67/15/10	Collection of bulky refuse	22.10.2010	10.11.2010

- a) For contract numbers RP 67/03/10, SA 67/04/10 and BR 67/15/10 the executive secretary did not allow at least 30 days of publicity from the date of publication of the tenders and the closing date for their submission. This breaches the requirements of the (Tendering) Procedures 1996.
- b) For contract number WL 67/02/10, we noted that the schedule of offers received is duly signed but it was not underlined to indicate the last tenderer on the date and time when tender box was opened. Underlining the schedule



will prevent the possibility that additional tenderers provide their bids once the tender box is opened.

## **11 Payroll**

### **Reconciliation of nominal ledger to statutory forms**

- 11.1 While testing the wages reconciliation of the council, we noted an unreconciled discrepancy of € 1,682 between the personnel emoluments in the accounting records and the amounts declared in the statutory forms that are submitted to the Inland Revenue Department.
- 11.2 We recommend that personnel emoluments are reconciled on a monthly basis. Any differences identified between the books of account and FSS returns should be investigated and adjustments passed as necessary to correct any errors.
- 11.3 When viewing the financial statements we found that the note regarding personnel emoluments is not presented fairly. The council should disclose separately the councillors' allowances from employees' salaries.
- 11.4 Therefore, the council should amend the financial statements and show councillors' allowances and employees' salaries separately.

## **12 Council meetings**

### **Attendance**

- 12.1 All councillors have been given the full allowance despite the fact that some councillors failed to attend meetings. Additionally, Mr Mauro Pace Parascandolo has failed to attend in aggregate more than one-third of the meetings called within a period of six months. In accordance with the Local Councils Act, the Minister had to be informed about this fact by the executive secretary.
- 12.2 We recommend that, if the council resolves that the absence is due to a justifiable cause, the executive secretary, in informing the Minister of the councillor's failure, shall also transmit the recommendation of the council to the Minister not to declare the seat vacant.
- 12.3 In accordance with memo 89/2009, the allowance given to the mayor and the councillors is allocated in proportion to the number of meetings they attend.  
  
However, if one of the above has a valid reason for not attending, he/she must submit a letter to the executive secretary justifying the reason for his/her absence. The reason behind the absence shall be discussed by the council and the executive secretary has to attach the letter to the minutes. Accordingly, the council had to deduct allowance where councillors failed to attend meetings and where the councillors did not present valid reasons for their absence.
- 12.4 Our review of the minutes did not identify a letter of excuse or circumstances which support councillors' absenteeism from the meetings.
- 12.5 From the minutes of the council, we noted that meetings 27 and 35, held on 7 May and 10 November respectively, lasted more than 3 hours.

- 12.6 We also noted that the minutes for meeting 22 did not indicate the time of the meeting's adjournment. In the absence of such information, we were unable to determine the duration of the meeting.
- 12.7 This is contrary to memo 68/2009 and section 43(3) of the Local Councils Act which state that the duration of council meetings shall not exceed 3 hours. They also state that meetings shall not start before 5.30 pm unless agreed by the whole council. In this regard, we advise the council to abide by these instructions.

### **13 Prepayments**

- 13.1 The council failed to post prepayments for the year under review in accordance with 150/2010. We noted that the council has prepaid insurance of € 1,039 and prepaid rent of € 103.
- 13.2 Moreover, opening prepayments of € 103 were not reversed. This results in receivables being overstated in the statement of affairs and expenses being understated in the statement of income and expenditure. Adjustments proposed were correctly reflected in the financial statements.

### **14 Capital commitments**

- 14.1 Whilst reviewing the council's budget for 2011, we noted that the council is anticipating capital expenditure of € 453,712 including improvements of € 6,750, equipment of € 23,000 and special programmes of € 423,962. However, these capital commitments do not correspond to the disclosures in the financial statements. The financial statements show an anticipated capital expenditure of € 1,425,659 comprising € 690,136 on Public Private Partnership Scheme, € 74,738 on the road resurfacings, € 258,186 on new public gardens and € 402,590 on Hal Millieri Project.

- 14.2 We understand that the financial statements disclose the total costs that are to be incurred on the respective projects over a number of years whereas the budget for 2011 only discloses the costs that are to be incurred on the projects during 2011.

However, we recommend that the council reconciles such variances so that the financial statements and the annual budget truly reflect the council's future capital commitments. Thus, the council will provide a more complete and consistent disclosure of its future capital expenditure plans in accordance with International Financial Reporting Standards.

- 14.3 In addition, we recommend that the council should give an explanation by way of a note of how it is to fund such expenditure in view of the fact that it is far in excess of the annual Government allocation and the provisions of section 61 of the Local Councils Act.

## 15 Opening balances

- 15.1 During our testing on opening balances we noted that some audit adjustments that we proposed last year have been posted in the wrong accounts. Thus whilst comparing the closing balances in the financial statements for the year ended 31 December 2009 with the opening balances in the nominal ledger we encountered the following differences:

Account no.	Account description	Closing balance as per '09 financial statements €	Opening balance as per nominal ledger €	Difference €
0260/000	Accrued income	2,050	1,102	948
0400/000	Retained earnings	1,063,840	1,063,838	2
5020/000	Cash in hand	267	294	(27)
5025/000	BOV Savings	67	40	27
4000/000	Creditors	113,484	113,169	315

- 15.2 We recommend that all adjustments are posted to the correct account.
- 15.3 The prior year adjustment amounting to € 58,935 was not included in the nominal ledger but was only passed in the financial statements.
- 15.4 We recommend that the prior year adjustment is passed in the nominal ledger so that the financial statements and the nominal ledger report the same figures.

## 16 Groupings

- 16.1 Expenses and fixed assets shown in the financial statements are not being classified consistently from year to year.
- 16.2 We again recommend that the classification of the expenses and fixed assets in the financial statements is applied consistently to enhance the comparability of financial statements with previous years.

## 17 Presentation of financial statements

- 17.1 We would like to point out that in accordance with the LCD's communications and instructions, as from 1 January 2010 all local councils' financial statements have to be prepared in conformity with International Financial Reporting Standards (IFRS). The council's financial statements are not IFRS compliant.
- 17.2 For example, certain disclosures required by IAS 1, Presentation of Financial Statements regarding the type of entity, operations and capital management policies have been omitted.
- 17.3 Moreover, the financial statements do not give the qualitative and quantitative disclosures required by IFRS 7, Financial Instruments: Disclosures.

- 17.4 In note 11, state of trade receivables should have included only trade receivables. Additionally the provision for LES debtors should be shown separately as a note.
- 17.5 The disclosures regarding the contingent liability are incorrect. The contingent liability should disclose € 7,000 which is the difference between the amount accrued for by the council and the amount being claimed by the supplier (Always Clean).
- 17.6 The treatment of the prior year adjustment is not in accordance with IAS 8. The reasons for such adjustments should be given together with an analysis of prior year and restated line items provided.
- 17.7 The council has not taken any steps to remedy the shortcomings in the preparation of the financial statements and therefore our audit opinion necessarily states that the financial statements are not fully compliant with IFRS's.

### **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 examination might develop.

We would like to take this opportunity to thank you and your staff for your co-operation and assistance during the course of the audit.

Yours faithfully,

