

Report by the Auditor General on the Workings of Local Government

2014





Report by the Auditor General on the Workings of Local Government

Public Accounts 2014

Table of Contents

List of Abbreviations	6
Foreword	7
Executive Summary	8
Background	10
Audit Scope and Methodology	10
Key Issues	10
Local Enforcement System not subject to Systems Audit	10
Joint Committees	11
No Audit Opinion expressed	12
Birgu Local Council	12
Hamrun Local Council	13
Kirkop Local Council	13
Qrendi Local Council	13
Siggiewi Local Council	14
Negative Working Capital	14
Improvement in Working Capital	19
Financial Situation Indicator	20
Statement of Comprehensive Income	24
Rectified Positive Balance between Income and Expenditure	31
Control Issues	32
Compliance Issues	32
Finalisation of Annual Financial Statements	32
Audit Report and Financial Statements	33
Concerns encountered in a Large Number of Local Councils	33
Liquidity Position	33
Incorrect Bookkeeping	33
Tipping Fees payable to WasteServ Malta Ltd in dispute	34
Membership Fees paid to Local Action Groups	34
Guidance provided by the Department not in line with the Procurement Regulations	35
Assets falling under the Councils' responsibility not properly insured	38
Non-submission of Fiscal Receipts	38
A Proper System of Purchase Order Forms not in place	39
Incorrect Treatment of Government Grants	39
Financial Statements not compliant with International Financial Reporting Standards	39
Disbursements of Central Regional Committee Reserves	40
Non-compliance with Pertinent Legislation	40
Provision of Donations in Money or in Kind	40
Meetings not held within the stipulated Timeframes	41
Councils' Minutes not uploaded on the Website	41
Councillors Full Share of Allowance paid despite their absence at Councils' Meetings	41
Amounts expensed on Christmas Lunch or Reception above the stipulated Threshold	42
Twinning Reports not drawn up	42
Personal Emoluments and Allowances	42
Unreconciled Payroll	42
Incorrect Personal Tax Deductions	42

Refund of Mayors' Honoraria	42
Leave Records	43
Local Councils' response following Management Letters	43
Repetitive Weaknesses reported in the Management Letter	43
Areas of Concern	44
Property, Plant and Equipment	44
Accounting	44
Local Enforcement System	45
Procurement	45
Salaries	46
Receivables	47
Payables	47
Cash and Cash Equivalents	47
Invoices and Receipts	48
Provisions outlined in the Subsidiary Legislation not complied with	48
Other Particular Concerns	48
Attard	48
Balzan	50
Birgu	52
Birkirkara	54
Birżebbuġa	56
Bormla	58
Dingli	61
Fgura	64
Floriana	67
Fontana	69
Gudja	70
Gżira	71
Għajnsielem	74
Għarb	76
Għargħur	78
Għasri	81
Hamrun	81
Iklin	82
Isla	84
Kalkara	85
Kerċem	88
Kirkop	90
Lija	91
Luqa	93
Marsa	95
Marsascala	96
Marsaxlokk	98
Mdina	100
Mellieħa	103
Mġarr	104
Mosta	106
Mqabba	109
Msida	111
Mtarfa	112
Munxar	116
Nadur	118
Naxxar	120

Paola	122
Pembroke	125
Pieta`	125
Qala	128
Qormi	130
Qrendi	131
Rabat (Malta)	132
Rabat (Gozo)	134
Safi	138
San Ġiljan	140
San Ġwann	141
Sannat	143
San Pawl il-Baħar	144
Santa Luċija	146
Santa Venera	147
Sigġiewi	149
Sliema	153
Swieqi	154
Ta' Xbiex	155
Tarxien	157
Xagħra	160
Xewkija	162
Xgħajra	164
Żabbar	167
Żebbuġ (Malta)	169
Żebbuġ (Gozo)	172
Żejtun	174
Zurrieq	176
Central Regional Committee	177
Gozo Regional Committee	181
Northern Regional Committee	182
South Eastern Regional Committee	183
Southern Regional Committee	186
Local Councils Association	187
Other Particular Concerns	190
Performance Indicators	190
Mid-term Audits	190
Fontana	191
Għajnsielem	191
Lija	192

Appendices

Appendix A – Financial Allocation	196
Appendix B – Reports that were either Qualified with an ‘Except for’ Audit Opinion or highlighting an ‘Emphasis of Matter’	200
Appendix C – Delayed Submission of Audited Financial Statements	203
Appendix D – Amounts in dispute with WasteServ Malta Ltd	204
Appendix E – Membership Fees paid in 2014 to Gozo Action Group	206
Appendix F – Assets falling under the Council’s responsibility not properly insured	207
Appendix G – Expenditure in respect of which a Proper Fiscal Receipt was not provided for Audit Purposes	215
Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations	218
Appendix I – Amounts expensed on Christmas Lunch or Reception exceeding the stipulated Threshold	220
Appendix J – Inconsistency in Payroll Reconciliation	221
Appendix K – Management Letter Weaknesses	222
Appendix L – Procurement not carried out in line with Pertinent Regulations	224
Appendix M – Change in Executive Secretary	228

List of Abbreviations

ARMS	Automated Revenue Management Services Ltd
CIES	Community Inclusive Employment Scheme
CIR	Commissioner of Inland Revenue
DLG	Department for Local Government
ELC	Environmental Landscapes Consortium Ltd
ERDF	European Regional Development Fund
ETC	Employment and Training Corporation
EU	European Union
FAR	Fixed Asset Register
FSI	Financial Situation Indicator
FSS	Final Settlement System
FS3	Payee Statement of Earnings
FS4	Payee Status Declaration
FS5	Payer's Monthly Payment Advice
FS7	Payer's Annual Reconciliation Statement
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IPSL	Industrial Projects and Services Ltd
IRD	Inland Revenue Department
IT	Information Technology
LCA	Local Councils Association
LES	Local Enforcement System
LGA	Local Government Auditor
LN	Legal Notice
LTD	Licensing and Testing Department
MEPA	Malta Environment and Planning Authority
NAO	National Audit Office
NBV	Net Book Value
NI	National Insurance
PPE	Property, Plant and Equipment
PPP	Public Private Partnership
SSC	Social Security Contributions
TM	Transport Malta
UIF	Urban Improvement Fund
VAT	Value Added Tax
WSC	Water Services Corporation

Foreword

Every year, Government allocates at least an aggregate of €31 million amongst 68 Local Councils, whilst the five Regional Committees generate income to the tune of another €10 million. By virtue of Article 65(1) of the Local Councils Act (Chapter 363 of the Laws of Malta), the Auditor General appoints duly qualified individuals to audit the Financial Statements of the Local Councils, together with those of the Regional Committees, as well as the Local Councils Association.

Following a call for tenders by the National Audit Office, Local Government Auditors are appointed for a period of one year, which appointment may be renewed for a total period of not more than five consecutive years.

In liaison with these Local Government Auditors, the National Audit Office reproduces the observations and recommendations arising from the respective audits, in an annual Report by the Auditor General. For the second year, a separate Report dedicated solely and exclusively to the workings of Local Government is being published.

Whilst appreciating the extremely useful contribution given by all Local Councils, acknowledging especially the work afforded by the elected Local Government representatives, it is felt that the outcome of the audits should be given due consideration by both the Administration as well as the citizens of Malta and Gozo. Thus, this Office hopes that the shortcomings identified in this Report will be duly addressed in the best interest of the national taxpayer.

Anthony C Mifsud
Auditor General

14th December 2015

Executive Summary

By the end of September 2015, being the ultimate deadline set by the National Audit Office, the audited Financial Statements of Ghaxaq, San Lawrenz and Valletta Local Councils were still not submitted, despite that these should have been received by 30 April 2015. Fifty Local Councils and two Regional Committees managed to deliver by the foregoing deadline. Another 10 audited Financial Statements reached the National Audit Office by mid-May 2015, whilst the other eight kept delaying their submission.

Following a review of the Financial Statements, as well as the relative Management Letters prepared by Local Government Auditors, a number of concerns and weaknesses prevailed from previous years. The following are the major concerns noted:

- a. Local Government Auditors could not express an opinion on the Financial Statements as presented by five of the Local Councils (2013: 2), namely Birgu, Hamrun, Kirkop, Qrendi and Siggiewi, due to the various shortcomings encountered.
- b. The Audit Reports of another 45 Local Councils (2013: 55), all the five Regional Committees (2013: 5) as well as the Local Councils Association were qualified with an 'except for' audit opinion.
- c. Twenty-two Local Councils (2013: 25) and a Regional Committee (2013: 1) recorded a negative Working Capital in the Statement of Financial Position.
- d. Thirty-one Local Councils (2013: 35) registered a Financial Situation Indicator below the established benchmark of 10%.
- e. Twenty-seven Local Councils (2013: 37) as well as two Regional Committees (2013: 1) have registered a deficit in the Statement of Comprehensive Income.
- f. Only 32 Local Councils (2013: 36) and two Regional Committees (2012: 1) sent their response to the Management Letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993.

The main common weaknesses that were encountered during the audits included:

- a. accounting records not properly updated, with the result that the Financial Statements drawn up do not reflect a true and fair view of the actual financial situation;
- b. substantial amount of expenditure incurred not supported by a valid fiscal receipt;
- c. budgeted amounts for certain categories of expenditure exceeded;
- d. proper receipts not issued by the Council in respect of income received and/or activities organised;

- e. Fixed Asset Register either lacks necessary details or not maintained at all; and
- f. procurement not carried out in line with pertinent regulations.

Notwithstanding that more than four years have elapsed since the responsibility for the administration of the Local Enforcement System was shifted on to the five Regional Committees on 1 September 2011, the liquidation process of the nine Joint Committees has still not yet initiated. These were expected to be wound up after one year following the set up of the Regional Committees. This Office was to be kept updated with the relative outcomes and developments, if any, on the subject matter; however, these were still not communicated to the latter up to the publication of this Report.

Moreover, as was the case for the two preceding years, none of the nine Joint Committees submitted the respective audited Financial Statements covering the year under review. Furthermore, the Central and the Northern Joint Committees also failed to file the Financial Statements for the year ended 31 December 2011, with the latter not even submitting those covering the preceding year. It is felt that such situation is unacceptable.

Local Councils

Background

The Executive Secretary is responsible to draw up the Financial Statements as at year-end of the respective Local Council. Once duly approved by the Council, and co-signed by the Mayor and the Executive Secretary, a copy of the accounts is then submitted to the Auditor General, in order to be audited in line with the Local Councils (Audit) Regulations.

In accordance with pertinent legislation, the audits of the Local Councils Financial Statements, the Regional Committees, as well as those of the Local Councils Association (LCA), are carried out by private audit firms, on behalf of the Auditor General.

During the year under review, these financial audits were carried out by five audit firms, which were appointed in October 2014, following the adjudication of a new tender. The appointment covers the audit of all the Local Councils, Regional Committees and LCA for financial year 2014. However, following satisfactory performance each appointment may be renewed at the discretion of the Auditor General for a total period of not more than five consecutive years.

In line with the preceding year, for the financial year ended 31 December 2014, Government allocated €31 million¹ to Local Councils. **Appendix A – Table 1** refers. A further €102,773 was allocated to LCA.

Unlike Local Councils, Regional Committees are not provided with a Government allocation. Their main source of income is the revenue generated from contraventions through the Local

Enforcement System (LES). **Appendix A – Table 2** refers.

Audit Scope and Methodology

The scope of the extensive reviews carried out by the National Audit Office (NAO) following the audit by the contracted Local Government Auditor (LGA) was to ascertain that the annual Financial Statements, were in accordance with the applicable accounting policies and that they give a true and fair view. These objectives were achieved by analysing the audit opinions given by LGA on the Financial Statements, as well as by examining the weaknesses and inefficiencies highlighted in the Management Letters drawn up thereon. Furthermore, response to the Management Letter submitted by each Local Council, Regional Committee and LCA was also scrutinised. Wherever deemed necessary, clarifications from private auditors were also sought by NAO.

Key Issues

Local Enforcement System not subject to Systems Audit

For the fourth consecutive year, no evidence was traced indicating that an Information Technology (IT) systems audit was carried out to provide comfort that the data generated from LES, which is operated by an external service provider, and on which the Financial Statements of Regional Committees are primarily based, is complete, accurate and free from material misstatement.

Notwithstanding that during a meeting held with the service provider in 2014, NAO was verbally

¹ As per information provided by the Department for Local Government (DLG).

informed that an audit of the financial aspect of the system is carried out annually by its Auditors, a year later the request for a copy of the related audit report was still not acceded to. Thus, for another year it was not possible to ensure that the reports generated to account for the income receivable are accurate and reliable.

The lack of such certification implies that through the audit procedures carried out, LGAs only verified that figures disclosed in the books of account tally with the reports generated. Consequently, this led to the qualification of the Regional Committees' audit reports.

Once again, instances were encountered whereby an increase to the amount of outstanding fines reported by certain Local Councils, relating to the pre-regional period (*i.e.* pre September 2011), was registered when compared to those reported in the preceding year. Though this might imply that certain contraventions issued before 31 August 2011 have been adjudicated guilty in 2014, (*i.e.* more than three years later), it still questions the integrity of the system and the reliability of the data generated there from, especially when such increases were not substantiated by plausible explanations or evidence.

In view of the above concerns, Regional Committees, in coordination with DLG, are urged to request a copy of the independent Auditor's report on the respective IT system, to put their minds at rest that the data extracted there from provides a reliable basis for the books of account and preparation of Financial Statements.

Joint Committees

As far as NAO is informed, notwithstanding that more than four years have elapsed since the responsibility for the administration of LES was shifted on to the five Regional Committees on 1 September 2011, the liquidation process of the then nine Joint Committees has still not yet initiated. These were expected to be wound up one year following the set up of the Regional Committees.

For another year, this issue was brought to the attention of DLG during a meeting held with the latter on 17 February 2015, whereby Director

(DLG) proposed for a meeting to be held with the Permanent Secretary to discuss the way forward, with the intention of appointing a liquidator. Though NAO was to be kept updated with the relative outcome, developments, if any, on the subject matter were still not communicated to the latter up to the publication of this Report.

It is pertinent that the Department immediately acknowledges the importance of such issue, especially when considering that while the Joint Committees were in operation, there was no monitoring whatsoever, on the responsibilities falling under the latter's remit. Moreover, the longer this issue is dragged on, the less money will be recoverable, as after two years amounts receivable will become statute-barred.

In addition, as was also the case for the two preceding periods, none of the nine Joint Committees submitted the respective audited Financial Statements covering the year under review. Furthermore, both the Central and the North Joint Committees also failed to file the Financial Statements for the year ended 31 December 2011, with the latter not even submitting those covering the preceding year. It is felt that such situation is unacceptable.

Despite that this concern has already been voiced by NAO in previous years, followed by various meetings held with the pertinent authorities responsible for Local Councils, the situation still prevails.

This matter also contributed to the qualification of the audit report of 27 Local Councils who are to be provided with the respective audited Financial Statements as per pooling agreement. In the circumstances, no alternative acceptable audit procedures could be performed to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the Financial Statements of the respective Local Council. **Appendix B** refers.

The audits of the Joint Committees' Financial Statements are carried out by private audit firms, which were directly appointed by the respective Joint Committees. During the preceding years, Fgura Joint Committee declared that it did not operate on a pooling system but on a hybrid one,

whereby income from fines was paid directly to the respective Council. It was also declared that the expenditure involved was apportioned according to a pre-established formula, based on the number of processed fines. As stated by the then Chairman of the foregoing Joint Committee, such costs are paid directly by the individual Councils. Furthermore, it was stated that since the respective Committee has never held or owned funds relating to its operations, it was not considered necessary to audit the accounts.

Meanwhile, Żurrieq and Valletta Joint Committees have in previous years declared that they do not prepare any Financial Statements at all.

In line with preceding years, by the time this year's audit was concluded, the Gozo Joint Committee did not provide any information as to whether there was going to be any distribution of profits from LES. This posed a high level of uncertainty on the amount of income that the Councils forming part of the pooling system² are entitled to receive. Consequently, such Councils could not account for any income receivable from the Joint Committee with respect to the pre-regional period.

The audited Financial Statements of the Gozo Regional Committee included the amount of €26,000 payable to the foregoing Joint Committee. This covered an advance that the latter had provided to the former to assist it in setting up. These funds in actual fact relate to profits that should eventually be distributed to the Gozitan Local Councils that formed part of the Joint Committee, *pro rata* on the basis of the number of fines given in each locality. The issue is whether the Gozo Regional Committee, due to its liquidity problem, will ever be in a position to pay back such an advance.

No audit opinion expressed

LGA could not express an opinion on the Financial Statements presented by five Local Councils, namely Birgu, Hamrun, Kirkop, Qrendi and Siggiewi, for the reasons highlighted hereafter.

Birgu Local Council

Fixed Assets

The Council's Property, Plant and Equipment (PPE) included an amount of €87,097, representing Assets under Construction. However, LGA was not provided with any details pertaining to such assets. Moreover, the Mayor informed LGA that there were no assets in the course of construction at year-end. In view of the above, LGA could not verify the completeness, existence and valuation of these assets, as well as the depreciation charged thereon.

Testing carried out on the depreciation charge for the year ended 31 December 2014 also resulted in an overstatement of €14,907. Since the Council did not provide LGA with its workings on depreciation, or satisfactory explanations for such variance, the correct audit adjustment could not be determined.

Receivables

Included with trade and other receivables were accrued income of €37,792, recoverable expenses of €14,994, other receivables of €3,623 and long outstanding debtors of €1,967 which were brought forward from prior years. LGA was not provided with any supporting documentary evidence or explanations in respect of such balances, thus no procedures could be performed to verify their validity, completeness, existence and recoverability.

Payables

In view of the lack of supporting documentation provided by the Council, LGA was also unable to perform any appropriate tests to determine whether long outstanding trade payables, accrued expenditure, other payables and statutory liabilities of €34,305, €5,906, €4,217 and €2,599 respectively, are materially misstated or not.

Further to the above, according to the statements issued by two of the Council's suppliers, the

² With the exception of Rabat (Gozo), all Gozitan Local Councils formed part of the pooling system.

balances due, as included in the books of account, are overstated by €18,175 and €14,972 respectively. Whilst no information was provided to LGA in respect of such discrepancies, the Council also failed to prepare the necessary reconciliations.

Deferred Income

In the absence of satisfactory workings and supporting documentation, concerning deferred income of €222,805 as disclosed in the Statement of Financial Position and the related release of €17,139 in the Statement of Comprehensive Income, correctness of these figures could not be ascertained.

Hamrun Local Council

Receivables

Included in the Council's books of account was a balance of €8,561 that has been brought forward since 2009, receivable for contraventions collected by LCA and the Licensing and Testing Department (LTD) on behalf of the Council. Since no substantiating documentation was provided in this respect, no audit procedures could be carried out to confirm the existence, completeness and recoverability of the aforementioned amount.

Furthermore, no confirmations were received to corroborate balances, aggregating to €22,395, due to the Council from related entities. As a result, LGA was unable to determine whether the correct amount was disclosed in the Financial Statements since there were no alternative procedures that could be carried out. The amount receivable from the Southern Regional Committee, as disclosed in the books of account, was also overstated by €1,764 when compared to the confirmation received from the latter.

Deferred Income

The Council did not correctly apportion deferred income of €224,093 into its short-term and long-term portions. Moreover, it also failed to provide the necessary documentation and workings supporting the said balance. Accordingly, LGA was unable to perform practical audit procedures to obtain reasonable assurance on the amount disclosed in the Financial Statements.

Non-compliance with International Financial Reporting Standards

In its Financial Statements, the Council failed to report all the quantitative and qualitative disclosure requirements under International Financial Reporting Standard (IFRS) 7. Additionally, the minimum lease payments payable under the non-cancellable lease were not disclosed in accordance with International Accounting Standard (IAS) 17.

Kirkop Local Council

Accrued Income

The Council's accrued income included a balance of €15,231, which was brought forward from the preceding year. However, due to the lack of supporting documentation provided, LGA was unable to test the accuracy, existence, valuation and completeness of this amount.

Deferred Income

Given that substantiating documentation was not provided for audit purposes, LGA was limited in the testing it could perform to verify the short-term and long-term deferred income, aggregating to €1,080,316.

Non-compliance with International Financial Reporting Standards

Financial Instruments as presented in the Financial Statements lacked both the quantitative and qualitative disclosures required by IFRS 7.

Qrendi Local Council

Assets and Liabilities

LGA was not provided with supporting documentation confirming the value of deferred income (€316,677), accrued income (€72,116), special needs funds unspent (€22,781) and prepayments (€2,980). No alternative procedures could be performed to confirm the existence, accuracy and completeness of these balances.

Further to the above, differences of €54,303 and €7,725 were noted between the amounts payable

to two creditors, as recorded in the books of account and the related balances as included in the suppliers' statements. In view that LGA was not provided with reconciliations explaining the resulting discrepancies, it could not be ascertained that the amounts recognised in the accounting records were free from material misstatements.

Non-compliance with International Financial Reporting Standards

The Council did not disclose any capital commitments in the Financial Statements as required by IAS 16. Disclosures required by IFRS 7 with respect to debtors that are past due, as well as contractual obligations, were also not presented.

Siggiewi Local Council

Fixed Assets

A net difference of €257,504 was identified between the Net Book Value (NBV) as disclosed in the Fixed Asset Register (FAR) (€1,538,826), which is maintained on a spreadsheet, and that recorded in the books of account (€1,796,330). It was also noted that the depreciation charge for the year, which is computed annually using the reducing balance method, was overstated by a net amount of €16,311. Moreover, although during the year under review FAR was updated with additional details, assets were still not tagged and referenced to FAR.

Previous audit reports were qualified on the basis that, in 2010, the Council wrote off fixed assets, with a book value of €271,887, from the accounting records. However, the Council has not yet provided LGA with a detailed list of assets written off. Consequently, the latter could not ascertain the valuation of assets recorded in the accounts and whether FAR is free from material misstatements.

For another year, no fixed assets disposals were traced in the Council's books of account, with respect to three air conditioners, a photocopier and a printer that were disposed of during 2013.

Related Party Transactions

The Council did not carry out reconciliations with respect to related party transactions. LGA's attempts to carry out alternative audit procedures rendered futile as no replies to circularisation letters were received, with the consequence that it could not be ascertained that the year-end balance of €30,731 was complete and accurate.

Non-compliance with International Financial Reporting Standards

The Council's Financial Statements did not disclose all the qualitative and quantitative disclosure requirements under IFRS 7. Furthermore, the Statement of Cash Flows is not in accordance with IAS 7.

Negative Working Capital

Twenty-two Local Councils and one Regional Committee (2013: 25 Local Councils and one Regional Committee) registered a negative Working Capital³ during the period under review. This could imply that they may encounter difficulties in meeting their obligations when due.

The issue regarding the high negative Working Capital, reported by a number of Local Councils year after year, was brought up during a meeting held between NAO and DLG on 17 February 2015. According to the latter, this situation is arising because Local Councils are undertaking various capital projects, exceeding by far the available funds, with the consequence that creditors' balances are increasing substantially. In order to finance such capital projects, Councils are striving to curtail their recurrent expenditure.

DLG also declared that, in January 2015, instructions have been issued to those Councils which recorded a negative Working Capital during 2013, to regularise their financial position. The latter were required to provide the Department with a detailed strategy, describing the immediate action that they intended to take to control and improve their negative financial position. Moreover, until the situation is regularised, the

³ Working Capital is defined as Current Assets less Current Liabilities.

respective Councils were instructed to limit their commitments, except for those required by law.

Whilst NAO conceives such actions as a step in the right direction, it still reiterates that unless the issue of accountability is properly addressed, the situation will continue to deteriorate and the *laissez-faire* attitude will prevail.

Table 1 lists these Councils, the Working Capital for the year, and the corresponding figures for the previous two years.

As evidenced in **Table 4**, further on in this Report (page 21 refers), most of these Councils also experienced a deficit in the Statement of Comprehensive Income for 2014.

Table 1: Negative Working Capital⁴

Local Council/ Regional Committee	31 December 2014	31 December 2013	31 December 2012
	€	€	€
Attard	(39,640)	(208,397)	(133,648)
Birgu	(136,025)	(189,812)	(192,858)
Birkirkara	(724,979)	(985,032)	(792,930)
Birżebbuġa	(357,200)	(176,421)	(29,980)
Bormla	(703)	(23,745)●	(59,401)
Kalkara	(149,523)	(45,290)	(5,047)
Kirkop	(12,803)	193,433	663,019
Lija	(62,105)	2,541	643
Mdina	(174,315)	(125,805)	(90,265)
Mosta	(352,310)	161,430	490,739
Mqabba	(149,886)	(134,232)	(166,284)
Msida	(132,154)	(157,376)	(17,502)
Nadur	(364,966)	(107,081)	(152,274)
Pieta`	(47,824)	(71,042)	(26,086)
Rabat (Gozo)	(85,345)	(82,231)	(13,226)
Sannat	(18,533)	(67,687)	(24,162)
San Pawl il-Baħar	(153,699)	(92,876)	316,400
Swieqi	(38,678)	159,486	232,858
Tarxien	(15,485)	(102,622)∞	49,512∞
Xaghra	(92,939)	(66,296)	(85,660)
Xgħajra	(34,334)	(11,934)	19,250
Żebbuġ (Malta)	(657,958)	(1,362,696)	(489,834)
Gozo Regional Committee	(180,425)	(85,284)	(447)

●Comparative figures have been restated to conform to the current year's presentation.

∞Comparative figures have been restated to reflect a change in accounting policy.

⁴ Figures disclosed in the table represent amounts reported on the face of the Statement of Financial Position, even though instances were encountered whereby these were either not correctly classified or did not tally to the balance recorded in the respective notes.

Attard

Although the Working Capital improved significantly by the end of the year, the Council's Current Liabilities still exceeded the Current Assets. The Council managed to increase its Current Assets by €41,492 whilst at the same time reducing Current Liabilities by €127,265. These movements were mainly the result of an increase in Cash and Cash Equivalents of €46,929 and declines of €111,745 and €16,729 in Payables and Accrued Expenditure respectively.

Birgu

Despite the improvement in Working Capital of €53,787 when compared to the preceding year, the Council still ended the current financial year with a negative liquidity position of €136,025. The overall growth in Current Assets (€34,864), mainly attributable to an increase of €31,838 in bank balances, was partly hampered by a net increase of €7,683 in Trade and Other Payables. The main contributor to such increase was the rise of 12% (€22,129) in Trade Payables, which was in part set-off by a reduction of 57% (€15,343) in Accruals and Deferred Income.

Birkirkara

Whilst Current Liabilities decreased by €115,785 and Current Assets increased by €144,268, the Council still ended the year with a net current liability position of €724,979. The main contributors for the decline in Current Liabilities were Payables and Deferred Income which decreased by €84,790 and €28,698 respectively. On the other hand, the Council's Current Assets increased due to a positive movement of €124,868 in Accrued Income. The Council is also disputing an amount of €35,000 and other unquantified balances claimed by different service providers. Should it result that part or all of the amounts currently in dispute would have to be paid, the Council's financial position will deteriorate even further.

Birżebbuġa

The difference between Current Assets and Current Liabilities more than doubled during the year under review, reaching €357,200 by the end

of December 2014. The main contributor to this adverse position was a decrease of €30,911 (26%) in Accrued Income, coupled up with an overall increase of €172,993 in Short-term Borrowings. The latter resulted from a substantial upward movement of €192,124 in the amounts payable to third parties under the Public Private Partnership (PPP) scheme, which was partly offset by a decrease of €13,727 and €5,434 in Related Party Balances as well as the Overdrawn Bank Balance respectively.

Bormla

While as at year-end, Current Liabilities still exceeded Current Assets, the difference of €703 is insignificant, when compared to that of €23,745 reported in the preceding period. The main contributor to this improvement was the increase of 47% in Cash at Bank and in Hand, from €50,185 in 2013, to €73,762 in the year under review. Meanwhile, whilst Trade Payables decreased by €19,865, an increase of €10,160 was registered in the Overdrawn Bank Balance over the preceding period.

Kalkara

The liquidity of the Council kept deteriorating from a negative Working Capital of €45,290 in 2013 to €149,523 during the year under review. This was mainly brought by an increase of €56,259 in Current Liabilities and an overall decrease of €47,974 in Current Assets. The increase of €10,701 in Cash and Cash Equivalents was not sufficient to sustain the decrease of €23,978 and €35,409 in LES Debtors and Accrued Income respectively. Meanwhile, whilst Accrued Expenditure decreased by €12,188, Creditors increased by €71,344 over the preceding year.

Kirkop

From a positive Working Capital of €193,433 recorded at the end of the previous year, the Council closed the current financial year in a negative position of €12,803. The increase of €96,346 in overall Receivables, coupled by the decrease of €28,751 in Payables was not sufficient to sustain the substantial decrease of €331,333 in Cash and Cash Equivalents. The main contributor for the significant decline was the decrease of

€357,764 in the Council's savings account, which was marginally outweighed by an increase of €26,431 in the current accounts.

Lija

During the year under review, the financial position of the Council was driven to a net liability position of €62,105. The increase of €5,864 and €4,025 in Receivables and Inventories respectively, was not enough to cover the significant decrease of €49,659 in Cash and Cash Equivalents. Moreover, an upward movement of €24,876 was also registered in the Council's overall Current Liabilities.

Mdina

During 2014, the gap between the Council's Current Assets and Current Liabilities widened further, resulting in a significant deterioration of the financial position. This negative Working Capital resulted from an increase of €29,049 in Current Liabilities, coupled with a decline of €19,461 in Current Assets. The latter decrease was mainly attributable to drops of 51% (€11,291) and 54% (€8,170) in Trade and Other Receivables as well as Cash and Cash Equivalents respectively. On the other hand, major movements in Current Liabilities were noted for Payables (€15,290) and Accrued Expenditure (€9,494).

Mosta

As at year-end, the Council registered a net current liability position of €352,310. Although Current Liabilities decreased by €120,907, such movement was not sufficient to offset the substantial decrease of €634,647 recorded in overall Current Assets. This was mainly brought about by downward movements in Receivables and Cash and Cash Equivalents of €339,189 and €295,056 respectively.

Mqabba

The Council's financial situation deteriorated further during the current period. Although a decrease of €33,081 was registered in overall Current Liabilities, this was not enough to make up for the downfall of €48,735 in overall Current Assets. In fact, whilst Payables, Deferred Income

and Accrued Expenditure decreased by €19,613, €7,669 and €5,799 respectively, Cash and Cash Equivalents and Receivables declined by an aggregate amount of €48,735.

Msida

Although a slight improvement was registered during the year under review, the negative position is still significant, with Current Liabilities exceeding Current Assets by €132,154 as at December 2014. Whilst the Council managed to reduce the Liabilities by €7,948, and at the same time increase Current Assets by €17,274, this was still not enough. Particularly impacting factors were the increase of €39,714 in Deferred Income, the decrease of €29,109 in Trade and Other Receivables as well as the rise in Cash and Cash Equivalents amounting to €46,383.

Nadur

The improvement registered in the prior year was reversed during the period under review, with the difference between Current Liabilities and Current Assets being more than three times that reported in 2013, closing 2014 in a net liability position of €364,966 (2013: €107,081). This deterioration was mainly brought about by the significant increase of €241,442 in Payables, coupled with a reduction in Cash and Cash Equivalents of €22,754, indicating possible liquidity problems.

Pieta`

Notwithstanding that during 2014, the Council's financial situation improved due to a decrease of €27,966 in overall Current Liabilities, coupled up with an increase of €6,564 in Cash at Bank and in Hand, the Council still ended the financial year with a negative Working Capital of €47,824. The decrease in the Council's Current Liabilities was mainly the result of reductions of €35,000 and €15,920 in Trade Payables and Other Payables respectively. On the other hand, Indirect Taxes and Social Security, Accrued Expenditure, as well as Deferred Income and Short-term Borrowings, increased by an aggregate amount of €22,954. Meanwhile, a downward movement of €11,313 was also noted in Trade and Other Receivables.

Rabat (Gozo)

In 2014, the Council's liquidity position continued to deteriorate further, resulting in Current Liabilities exceeding Current Assets by €85,345. Although an upward movement was registered in Cash and Cash Equivalents (€185,403) as well as Receivables (€62,278), this was not enough to sustain the overall increase of €249,859 in Current Liabilities. Despite that decreases were registered in Accounts Payable (€260,186) and the Overdrawn Bank Balance (€49,025), the main contributors to the rise in Current Liabilities were Accrued Expenditure and Other Payables, as well as Deferred Income which increased by €492,406 and €66,664 respectively.

Sannat

Although the Working Capital improved by €49,154 when compared to the prior year, the Council still registered a negative financial position of €18,533. A comparison of the amounts recorded during 2014 with those of the previous year, showed that although the Council managed to increase its total Current Assets by €101,683, this was mitigated by an upward movement of €52,529 in overall Current Liabilities.

San Pawl il-Baħar

As at year-end, the Council registered a negative Working Capital of €153,699, resulting from a substantial increase of €47,308 in overall Current Liabilities, coupled with a decrease of €13,515 in total Current Assets. Although Cash and Cash Equivalents increased by €116,911, downward movements of €129,159 and €1,267 were recorded in Trade and Other Receivables, and Inventories respectively. Moreover, despite that Accrued Expenditure and Deferred Income dropped by €46,948, sharp increases were noted in the Overdrawn Bank Balance (€75,045) and Trade Creditors (€36,322).

Swieqi

From a positive Working Capital of €159,486 recorded at the end of the previous year, the Council ended the current financial year with a

negative Working Capital of €38,678. This was brought about by a negative movement in overall Current Assets of €120,435, coupled with an increase of €77,729 in overall Current Liabilities. Whilst Cash and Cash Equivalents decreased by €117,826 over the preceding period, the Overdrawn Bank Balance increased by €6,649. Meanwhile increases of €15,924 and €43,753 were registered for Trade Payables and Other Creditors respectively.

Tarxien

Although the Working Capital improved by €87,137 when compared to the prior year, the Council still registered a negative financial position of €15,485 as at year-end. A comparison, between the amounts recorded during 2014 and those of the previous year, showed that although the Council managed to decrease Current Liabilities by €111,617, this was partly offset by reductions in Cash and Cash Equivalents, amounting to €36,589. Meanwhile, Trade and Other Receivables increased by €12,165, whilst Inventories decreased marginally when compared to the prior period.

Xagħra

During the year under review, the Council's Working Capital deteriorated further. Although overall Current Assets increased by €126,961, this was not sufficient to make up for the even higher increase of €153,604 in overall Current Liabilities. Furthermore, notwithstanding the negative liquidity position, the Council still bound itself to meet capital commitments of €389,918 over the coming year, of which €329,918 were already contracted for.

Xgħajra

The negative position of the Council worsened, with the difference between Current Assets and Current Liabilities almost tripling during the year under review when compared to the prior year. While the decrease in Current Assets was insignificant, Payables increased by €21,317, *i.e.* 35%. Although a reduction of €9,072 was

registered in Accrued Expenditure, this was not sufficient to sustain the increase of €24,688 in Creditors, as well as the additional amounts of €3,506 and €2,195 in Deferred Income and the Overdrawn Bank Balance respectively.

Zebbuġ (Malta)

During the year under review, the Council managed to increase Current Assets by €97,015, whilst at the same time, reducing Current Liabilities by €607,723. These movements were mainly due to an increase of €80,010 in Receivables, and a decrease of €619,997 in Payables. However, despite this significant improvement registered over the preceding year, the Council is still in a precarious financial situation, ending the year under review with a net current liability position of €657,958 (2013: €1,362,696). This indicates that the Council has assumed substantial amounts of debts during the past years, which will take several years to be repaid, considering that the Council has to meet annual fixed operating costs to maintain a minimum level of service.

Gozo Regional Committee

The Committee's financial situation deteriorated drastically when compared to the preceding year, with the negative Working Capital of €180,425, being more than double that registered in 2013 (€85,284). In view that contraventions were not being paid by defaulters, the former experienced cash flow problems with the consequence that it did not have sufficient funds to cover commitments as they fell due. In fact, the major movement recorded was the rise of €59,510 in Payables, closing the year with a total outstanding balance of €237,423. This was accompanied by a reduction of €38,366 in Receivables, attributable to a decrease of €44,756 in Prepayments and Accrued Income, partly set-off by the increase of €6,390 in Other Receivables.

Improvement in Working Capital

As indicated in **Table 2**, only seven Local Councils have improved their financial position, from a negative to a positive Working Capital by the end of the year under review.

Table 2: Improvement in Working Capital

Local Council	31 December 2014	31 December 2013	31 December 2012
	€	€	€
Dingli	22,742	(145,712) [•]	(61,224)
Ghasri	3,558	(25,830)	5,014
Qormi	42,304	(3,749)	(105,986)
Rabat (Malta)	139,491	(228,679)	(175,455)
San Ġwann	29,820	(30,791)	(54,166)
Siggiewi	26,089	(30,686)	(34,994)
Żurrieq	187,780	85,537 ⁵	(39,942)

[•]Comparative figures have been restated to reflect prior year adjustments passed during the current financial period.

⁵ During the preceding year, the Council registered a net current liability position of €626,364 since Deferred Income was fully recognised with Current Liabilities. However, during the year under review, both the current and the preceding years' Deferred Income was apportioned between Current and Non-Current Liabilities, thus resulting in a positive working capital for both financial years.

Financial Situation Indicator

The Local Councils (Financial) Regulations, 1993 Article 4(1) compel the Executive Secretary to maintain a positive balance between Income and Expenditure, and Accrued Income and Accrued Expenditure, of not less than 10% of the allocation approved in terms of Article 55 of the Act. In the event that the Financial Situation Indicator (FSI) is less than 10%, the Council is obliged to inform the Director about the situation, also explaining the actions that are intended to be taken to remedy the situation. Such onus was once again communicated to all Local Councils through the issue of Memo 4/2015, whereby the latter were not only reminded on the importance of maintaining the stipulated FSI, but also of appointing a Finance Committee, in the event that the respective target is not reached. This Committee, which is to include the Mayor, a Councillor, the Executive Secretary, as well as a qualified Accountant, is to assess the Council's expenditure *vis-à-vis* its financial situation. The Finance Committee will be responsible to prepare a financial plan to rectify the situation during that same year. DLG is to be provided with all the relevant documentation, including a copy of the minutes of the Committee's meetings.

The cited legislation, defines FSI as the difference between the total of all current assets and the total of all current and long-term liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.

However, in certain instances, major changes in the Councils' operating scenario renders the current computation rather meaningless. In such cases, Councils were reporting substantial bank balances despite that this money could not actually be used to settle outstanding debts, since these were committed for specific projects or schemes. Thus, these funds, as well as amounts representing Deferred Income, together with long-term balances payable under PPP scheme, are not expected to be included in FSI calculation. Upon unanimous agreement with relevant stakeholders, the formula for the computation of FSI was unofficially modified on such basis.

It is pertinent to note that way back in 2002, DLG exempted 37 Local Councils from maintaining a positive FSI of 10%. Although throughout the years, this decision was not officially revised, the Department has made it clear that if, at any point in time, a negative working capital is registered, such exemption will no longer be applicable. However, as reiterated in the preceding years, considering that now the Councils are operating in a financial environment which is quite different from that of 2002, on an annual basis, the Department is expected to officially identify Local Councils where such exemption is applicable.

By the end of 2014, 31 Local Councils (2013: 35) registered a FSI below the 10% benchmark required by law. These are shown in **Table 3**.

Table 3: Financial Situation Indicator

Local Council	FSI 1 January – 31 December 2014[^]	FSI 1 January – 31 December 2013[^]	Council's reply
	%	%	
Attard	(29.16)	(35.00)	The Council is taking the necessary action to rectify the situation.
Birgu	(45.97)	(71.01)	The Council failed to provide a reply to the Management Letter.
Birkirkara	(83.19)	(73.20)	The Council failed to provide a reply to the Management Letter.
Birżebbuġa	(50.05)	(22.87)	Aware of its financial position, the Council has embarked on a cost cutting programme which has already started to improve its financial situation.
Bormla	2.80	(6.67)	The Council is fully aware of the current financial situation and it did not engage in any new projects. During the year under review, FSI improved substantially.
Dingli	(18.48)	(45.63)	The Council is doing its utmost to control expenditure and it believes that FSI will improve in 2015 if the right controls are implemented.
Gzira	(5.90)	(7.98)	Point not addressed.
Ghasri	4.28	(16.34)	The Council is aware of the situation and is addressing it. In fact, progress has been recorded in FSI from the preceding year. In 2015, the Council will be doing its utmost to bring the figure up to the 10% threshold. For this reason, no new capital projects are being undertaken by the Council other than works that are to be addressed urgently, and routine tasks such as street cleaning and waste collection.
Isla	4.42	11.49	The Council failed to provide a reply to the Management Letter.
Kalkara	(64.35)	(49.88)	Point not addressed.
Lija	(24.27)	5.51	The Council is doing its utmost to improve the liquidity situation, as well as to reach the 10% FSI threshold.

Table 3: Financial Situation Indicator *cont./*

Local Council	FSI 1 January – 31 December 2014[^]	FSI 1 January – 31 December 2013[^]	Council's reply
	%	%	
Mdina	(94.55)	(67.82)	The Council will monitor further its expenditure and has embarked on a cost cutting exercise in an attempt to bring back its finances to a proper level of liquidity. However, it should be noted that each year the Council is being requested by DLG to enter in more obligations without being compensated for this expenditure in the annual budget.
Mġarr	4.17	29.51	The Council is currently honouring its commitments on PPP scheme, which is stressing the Council's finances.
Mosta	(46.18)	1.14	The Council had embarked on an ambitious project to improve the state of the roads through PPP scheme, which project will cost the Council in the region of €1.5 million. Furthermore, the Council is also honouring the payments for the first PPP scheme, covering a number of streets built by the previous administration. It is also to be noted that included with creditors there is a substantial amount for balances relating to the works at Mosta Parish Square and <i>Ta' Milliet</i> , about which there is a legal case in the Courts of Malta. Such amount is in the region of €250,000.
Mqabba	(31.73)	(23.79)	FSI and the liquidity position were not improved by year-end due to the closure of the playing field and the urgent need to refurbish the place for children safety. This capital expense was required urgently, as this is the only playground in the locality. This fact was reported to DLG through an email.
Msida	(17.31)	(21.73)	The Council failed to provide a reply to the Management Letter.
Nadur	(83.92)	(21.32)	The main cause of the negative FSI is the fact that the Council has embarked on PPP scheme some years ago without the adequate financing sources. Other causes include increases in various items of current expenditure. The lack of financing of both capital and current expenditure has had a very negative impact on the Council's finances.

Table 3: Financial Situation Indicator *cont./*

Local Council	FSI 1 January – 31 December 2014[^]	FSI 1 January – 31 December 2013[^]	Council's reply
	%	%	
Pieta`	(25.52)	(19.76)	The Council will continue to monitor its income and expenditure in order to improve its position.
Rabat (Gozo)	(58.62)	(34.44)	The Council will try to curtail its current expenditure as much as possible in order to improve the financial situation.
San Ġwann	6.54	(3.62)	The Council failed to provide a reply to the Management Letter.
Sannat	(27.59)	(33.49)	The Council will try to change the situation from a negative to a positive one and will try to maintain the 10% margin in order to be able to manage its cash flows properly.
San Pawl il-Baħar	(7.97)	(12.31)	Given that, as from the beginning of May 2015, there was a change in both the Council members and the Executive Secretary, the Council was unable to submit any comments to the Management Letter. Nevertheless, it should be pointed out that the present Acting Executive Secretary and the Mayor were not satisfied with the current state of affairs of the Council. In view of this, the present Council is committed to bring back the Council on a sound financial footing.
Santa Luċija	4.87	2.33	The Council will be discussing this matter with its Accountant.
Siggiewi	7.67	(0.01)	Point noted and recommendation accepted.
Sliema	0.68	41.64	The Council monitors its expenditure to be in line with the budget and seeks to have the necessary funds prior to any spending decisions.
Swieqi	6.95	33.49	The Council has already taken the necessary actions to improve its financial position by monitoring its costs and keeping them to a minimum. No further projects will be undertaken except for those already budgeted for.
Tarxien	6.55	(11.89)	The Council is doing its best to control its capital expenditure in order to come up with a better financial position according to law. DLG is constantly being informed before any expenditure is incurred.

Table 3: Financial Situation Indicator *cont./*

Local Council	FSI 1 January – 31 December 2014 [^]	FSI 1 January – 31 December 2013 [^]	Council's reply
	%	%	
Xaghra	(18.61)	(11.40)	The Council failed to provide a reply to the Management Letter.
Xewkija	0.09	(34.48)	The Council was aware of the negative FSI and during the year it has made all efforts in order to improve its situation. The Council has also curbed expenditure throughout the year, however it had to honour commitments made by the previous Council.
Xghajra	(18.83)	(7.28)	Both the Council and DLG are aware of this problem. In fact, the former is trying to reduce expenses as much as possible, although this will affect progress and development. Since 2012, the Council informed DLG that the allocation is not sufficient to cover the administration and contractual expenses.
Żebbug (Malta)	(213.51)	(182.08)	Action is being taken to improve FSI and remedy the current financial situation.

[^]Workings based on data provided by LGAs.

•Comparative figure has been restated to reflect a prior year adjustment passed during the year under review.

Statement of Comprehensive Income

Twenty-seven Local Councils (2013: 37) as well as the South Eastern and Gozo Regional Committees (2013: 1) registered a deficit⁶ in the Statement of Comprehensive Income for the year.

For a number of Councils, this also triggered a liquidity problem, as indicated under 'Negative Working Capital' earlier on. **Table 4** presents the locality, the deficit for the period under review, and the corresponding figures for the previous two financial periods.

⁶ A deficit in the Statement of Comprehensive Income results when the cost of expenditure is greater than revenue.

Table 4: Statement of Comprehensive Income⁷

Local Council/ Regional Committee	1 January – 31 December 2014	1 January – 31 December 2013	1 January – 31 December 2012
	€	€	€
Birkirkara	(25,986)	(46,601)	(95,543)
Floriana	(85,429)	(65,894)	(116,250)
Gżira	(17,705)	2,252	4,956
Isla	(5,370)	6,151	(18,944)
Kalkara	(114,425)	(18,724)	(20,166)
Kerċem	(4,424)	9,233	(57,718)
Lija	(57,145)	(14,056)	(26,323)
Luqa	(13,411)	13,383	(27,433)
Marsascalea	(107,656)	(60,437)	(98,845)
Marsaxlokk	(908)	13,294	3,391
Mdina	(54,202)	(40,864)	(41,796)
Mellieha	(3,963)	(15,850)	242,924
Mqabba	(6,792)	(12,041)	(5,575)
Nadur	(89,977)	(35,912)	2,790
Paola	(86,101)	114,506	28,930
Pieta`	(20,921)	(44,219)	(17,406)
Qala	(12,961)	41,034	50,365
Qrendi	(18,865)	(84,280)	679
Rabat (Gozo)	(19,464)	(120,896)	(87,087)
Safi	(19,677)	(68)	(20,798)
Sannat	(9,647)	(34,762)	(17,432)
San Pawl il-Baħar	(134,810)	(439,969)	(63,855)
Sliema	(142,074)	(214,180)	316,031
Swieqi	(95,801)	5,285	10,089
Xgħajra	(27,592)	(32,237)	(9,435)
Żebbuġ (Malta)	(84,283)	(265,191)	(219,178)
Żebbuġ (Gozo)	(48,592)	(20,935)	45,998
Gozo Regional Committee	(95,256)	(84,985)	(1,813)
South Eastern Regional Committee	(286,002)	414,746 [∞]	360,299

[∞] Comparative figures have been restated to reflect a change in accounting policy.

⁷ Figures disclosed in the table represent amounts reported on the face of the Statement of Comprehensive Income, even though instances were encountered whereby these were either not correctly classified or did not tally to the balances recorded in the respective notes.

Birkirkara

Notwithstanding that the Council managed to increase its overall revenue by €91,887, a deficit of €25,986 was still recorded in the 2014 Financial Statements. This was mainly brought about by increases of €78,461 and €2,587 in Operations and Maintenance Expenditure and Personal Emoluments respectively. The main upward movements were noted in Road and Street Cleaning (€49,144), Waste Disposal (€32,290), as well as Studies and Consultations (€17,055). On the other hand, whilst Administration and Other Expenditure was overall curtailed by €9,776 over the preceding year, increases were noted for Third Party Liability Damages (€18,000), Social Events (€8,906), Training (€7,610) and Transport (€6,715).

Floriana

The negative trend continued to persist even during the year under review, whereby the Council registered a loss of €85,429, being close to 30% more than that reported in the preceding year. This was due to the overall decrease of €5,769 in income earned by the Council, coupled up by an increase of €15,425 and €16,389 in Personal Emoluments and Administrative Expenses respectively. Whilst a substantial increase was noted in Provision for Bad Debts (€60,664) and Professional Services (€7,537), a decrease of €22,602 and €7,537 was registered in expenditure incurred for *GARDMED* project and Utilities respectively. On the other hand, Operations and Maintenance Expenditure was curtailed by €18,048.

Gżira

The change from a surplus to a deficit situation was brought about by an increase of €15,935 in overall expenditure, coupled with a decrease of €4,022 in total revenue. The main increases in expenditure were noted for Tipping Fees (€12,218), Employees' Salary and Allowances (€10,254), Road Markings (€7,017), Other Repairs and Upkeep (€4,267), Refuse Collection (€4,179), Community and Hospitality (€3,910), as well as Information Services (€3,824). On the other hand, whilst Other Government Income increased by €4,718, downward movements of €6,411 and €1,999 were registered in Other Supplementary Government Income and LES Income respectively.

Isla

From a profit of €6,151 registered in 2013, the Council ended the year under review with a deficit of €5,370. Whilst, Income received from Central Government and Income raised from Local Council bye-laws increased by €13,206 and €6,131 respectively, General Income decreased by €52,282. Despite the Local Council's notable effort to curtail overall expenditure by €21,892 (5%), as highlighted further down in the Report, the amount budgeted for operations, maintenance and administration was exceeded by €107,601. Furthermore, a significant increase of €24,993 was reported with respect to Community and Hospitality expenditure.

Kalkara

The overall increase of €91,487 in expenditure, coupled up with the marginal decrease of €4,214 in income, has led to a substantial deterioration in the financial situation of the Council. A marked increase of €61,622 in the Operations and Maintenance Expenditure was mainly the result of a rise in the amounts incurred for Refuse Collection (€43,121), Street Lighting (€4,361) and Other Expenditure (€15,993). An upward movement of €6,026 was also noted in Employees' Salaries, whilst the Provision for Doubtful Debts increased by €23,978.

Kerċem

From a surplus of €9,233 registered at the end of the previous year, the Council ended the current financial year with a loss of €4,424. Although overall expenditure slightly decreased by €1,524, this was not sufficient to offset the even higher reduction in overall income of €15,181. The main negative movements reported in the Council's revenue related to Other Government Income (€17,227), General Income (€3,513) and Income from Cultural Events (€2,170). Moreover, whilst the Council managed to curtail certain expenditure, such as Other Repairs and Upkeep (€5,574), Waste Disposal (€5,304), as well as Professional Services (€3,209), increases were noted in Repairs and Upkeep of Road and Street Pavements (€8,171), as well as Personal Emoluments (€5,382).

Lija

During the year under review, the financial situation of the Council continued to deteriorate, mainly due to the increase of €14,228 registered in overall income that was totally outweighed by an upward movement of €57,317 in total expenditure incurred during the year. The main increases in expenditure were noted for Depreciation (€24,574) Repairs and Upkeep of Road and Street Pavements (€12,788), Road and Street Cleaning (€19,062), Signs and Road Markings (€4,253) as well as Refuse Collection (€3,448).

Luqa

After managing to achieve better financial results in 2013, during the year under review the Council has reverted to a deficit position of €13,411. The increase of €62,303 in overall income was not enough to sustain the upward movement of €86,920 in expenditure and the decline of €2,177 in the fair value of available-for-sale-investment. The main line items contributing to the increase in expenditure are Other Repairs and Upkeep (€26,732), Street Lighting (€17,465), Professional Services (€13,998), Depreciation (€49,750), as well as the increase in the Provision for Doubtful Debts (€15,175).

Marsascala

The financial position of the Council continued to deteriorate, with the loss increasing by €47,219 over that registered in the prior period, closing the year under review with a deficit of €107,656. The marginal increase of €631 in overall income earned, coupled up with a cut back of €49,469 in Administration and Other Expenditure, was not enough to sustain the substantial aggregate increase of €97,319 in Personal Emoluments as well as Operations and Maintenance Expenses. The main line items contributing to this increase are Employees' Salaries (€12,134), Repairs and Upkeep of Road and Street Pavements (€34,820), as well as Waste Disposal (€47,908). As explained further down in the Report, during the year under review, the Council unanimously agreed to spend more money than budgeted to repair the roads since these were in a decrepit state, following heavy rainfall.

Marsaxlokk

From a surplus of €13,294 registered at the end of the previous year, the Council ended the current financial year with a loss of €908. The increase of €60,499 (16%) in the Council's overall income did not cover the even higher increase of €74,701 (21%) incurred on total expenditure. Main increases in expenditure were noted for Depreciation (€56,468), Utilities (€14,082), Employees' Salaries (€7,721), Patching of Road and Street Pavements (€4,344) and Refuse Collection (€3,990).

Mdina

The Council's financial position continued to deteriorate throughout the year under review, ending the period with a deficit of €54,202, an increase of 33% over the loss reported for the prior year. The slight improvement of €5,986 in overall revenue, together with a reduction of €11,514 in Depreciation, were not sufficient to make up for the increase in expenditure, mainly noted in respect of Professional Services (€10,954), Cultural Events (€9,409) and Road Markings (€4,036). As reported further on in the Report, actual income generated from certain services offered by the Council was less than that budgeted, whilst forecasted expenditure with respect to Professional Fees, as well as Community and Hospitality, was exceeded by €14,305 and €4,660 respectively.

Mellieħa

Although the financial position improved when compared to the previous period, the Council still reported a loss of €3,963 during the year under review. This improvement was mainly due to an increase of €85,216 in overall income. On the other hand, whilst the Council managed to marginally reduce Administration and Other Expenditure by €2,748, increases of €68,496 and €7,581 were registered in Operations and Maintenance Expenses, as well as Personal Emoluments respectively. Such increases mainly resulted from a rise in Repairs and Upkeep of Road and Street Pavements (€44,532), Refuse Collection (€37,391), Road and Street Cleaning (€12,979) and Cleaning and Maintenance of Parks and Gardens (€9,943).

Mqabba

Although still in the red, the Council reduced the deficit by €5,249, ending 2014 with an excess of expenditure over income of €6,792. This improvement was mainly due to an overall decrease of €12,701 in Administration and Other Expenditure, coupled up by an increase of €5,713 and €2,495 in Funds received from Central Government, as well as Income raised under LES respectively. Whilst Personal Emoluments remained at the same levels of 2013, a marginal increase of €1,895 was registered in the Operations and Maintenance Expenditure. On the other hand, a downfall of €11,355 was recorded in General Income, whereas Income raised under Local Council bye-laws decreased by €1,901.

Nadur

The negative trend persisted during the year under review, with the deficit of €89,977 registered being more than double that recorded for 2013 (€35,912). This adverse position was brought about by an increase of €42,744 (8%) in the Council's expenditure, coupled by a decrease of €11,321 (2%) in overall income. Although the Council managed to reduce expenditure related to Repairs and Upkeep by €9,899, this was not enough to sustain the increases of €34,793 and €16,183 in Administration and Other Expenditure, as well as Contractual Services respectively. Main contributors to these increases were Depreciation (€25,643), Information Services (€16,827) and Other Contractual Services (€13,330). On the other hand, the decrease in income was mainly the result of reductions in Contributions and Other Income (€5,576), as well as Income from European Union (EU) Project Funding (€12,869), coupled with upward movements of €4,772 and €1,717 in Other Government Income and Income from Permits respectively.

Paola

During the year under review, a substantial deterioration was noted in the Council's financial position. In fact, from a surplus of €114,506 reported in 2013, the Council suffered a loss of €86,101 in 2014. This situation was the result of an overall decrease of €111,863 in income earned

by the Council and an overall increase of €88,744 in expenditure incurred. This considerable increase in spending was mainly the result of higher Personal Emoluments (€18,319), Waste Disposal Fees (€24,133), Expenditure on EU Projects (€76,373), and Depreciation Charges (€7,198). On the other hand, the main decrease in income was brought by a reduction of €67,526 and €38,545 in EU Funding received from projects and Government Income respectively.

Pieta`

Though the Council managed to increase its overall revenue by €28,055, and curtail its Administrative and Other Expenditure, as well as Personal Emoluments, by €14,746 and €1,686 respectively, it still ended the financial year with a deficit of €20,921 (2013: €44,219). Meanwhile, Operations and Maintenance Expenses increased by €21,472, with such increase being mainly attributable to upward movements recorded in Refuse Collection (€7,426), Landfill Disposal Fees (€7,337), Repairs and Upkeep of Road and Street Pavements (€5,286), LES related Expenditure (€3,734) Cleaning and Maintenance of Parks and Gardens (€3,558), as well as Street Lighting Maintenance (€3,413). Upward movements were also noted with respect to Rents (€12,134), Social Events (€9,456) and Depreciation Charge for the year (€19,979). During the year under review, upon the receipt of the final payment from the then Central Joint Committee, the Council wrote off as bad debts the remaining LES Debtors (€282,650) and reversed the Provision for Doubtful Debts (€293,145) recognised thereon.

Qala

From a surplus of €41,034 registered at the end of the previous year, the Council ended the current financial year with a deficit of €12,961. The increase of €7,894 registered in overall income was completely outweighed by a substantial increase of €61,889 in total expenditure incurred during the year. The main contributors to the general increase in the Council's expenses were Community Services and Events (€23,591), Bulky Refuse Collection (€15,124) Sundry Material and Supplies (€12,111), Utilities (€6,264) and Depreciation (€4,737).

Qrendi

Notwithstanding that the deficit decreased by €65,415 (78%), when compared to the preceding year, the Council still ended the current financial year with an excess of expenditure over income of €18,865, partly due to the reduction of €22,786 in Funds received from Central Government. The financial improvement was the result of a decrease of 44% (€99,139) in Operations and Maintenance which was mainly brought about by reductions in Road Asphaltting (€77,793), Road and Street Cleaning (€15,108) and Refuse Collection (€6,715) when compared to the previous year.

Rabat (Gozo)

Although still in the negative, the Council managed to reduce its loss by €101,432, closing the year under review with a surplus of expenditure over income of €19,464. The increase of €14,120 in overall income was supplemented by a decrease of €87,681 in total expenditure. The main contributors to the reduction in expenditure were Repairs and Upkeep (€22,461), Refuse Collection (€16,057), Cultural Events (€8,297), as well as Road and Street Cleaning (€6,929).

Safi

From a near break-even position in 2013, the Council's financial position deteriorated to a deficit of €19,677 during 2014. The main contributors were the reduction of 39% (€6,837) in General Income, and a simultaneous increase of 20% (€13,870) in Administrative and Other Expenditure. An individual expense, which contributed significantly to the latter line item, was the reversal of Deferred Expenditure (€14,029), in relation to a project that, as explained further down in the Report, is highly unlikely to materialise.

Sannat

Despite that the financial position improved from the previous year, the Council still ended the financial year with an excess of expenditure over income of €9,647. This progress was mainly brought about by decreases of €65,742 and €5,167 in Administration and Other Expenditure, as well as Personal Emoluments respectively. Conversely,

the Council's overall income decreased by €34,101 when compared to the preceding year, mainly due to a reduction of €31,257 in Other Government Income. The major cut backs in expenditure were noted for Depreciation (€43,077), Community and Hospitality (€16,170), Employees' Salaries (€11,765), Cleaning and Maintenance of Soft Areas (€4,555), Materials and Supplies (€4,397), and Bring-in Sites and Tipping Fees (€4,213). On the other hand, increases of €9,165, €7,016, €5,722 and €4,920 were registered in Cleaning and Maintenance of Parks and Gardens, Executive Secretary Salary and Allowances, Street Lighting, and Other Repairs and Upkeep respectively.

San Pawl il-Bahar

Notwithstanding that the deficit decreased by 69% (€305,159) when compared to prior year, the Council still ended the current financial year with an excess of expenditure over income of €134,810. The improvement was mainly brought about by decreases of €129,207, €87,605 and €6,607 in Operations and Maintenance, Administration and Other Expenditure as well as Personal Emoluments respectively, coupled by an overall increase of €81,740 in income received by the Council. The major cut backs in expenditure were noted for Patching Works (€142,275), Road Signs and Markings (€80,765), Repairs to Public Property (€29,960), Depreciation (€19,804), Cleaning and Maintenance of Public Conveniences (€18,528), Water and Electricity (€14,697) and Community Services (€10,259).

Sliema

Although still in the red, the Council managed to reduce the deficit by 34% (€72,106), ending 2014, with an excess of expenditure over income of €142,074. This improvement was brought by an overall cut back of €68,366 in expenditure and a marginal increase of €3,702 in overall income. Whilst Personal Emoluments, as well as Administration and Other Expenditure, decreased by €13,920 and €63,179 respectively, Operations and Maintenance costs increased by €8,733. On the other hand, except for Funds received from Central Government, which increased by €50,224 during the year under review, a general decrease was noted in all the other income categories.

Swieqi

From a positive financial situation registered by the end of the previous year, the Council was driven to a negative position during the current period. The substantial increase of €108,316 in the Council's overall expenditure completely outweighed the slight improvement of €7,230 in total income. While Funds received from Central Government increased by €18,525, General Income decreased by €6,786. Moreover, considerable upward movements were reported in expenditure incurred with respect to Waste Disposal (€26,571), Court Settlement Expenses (€43,753), Street Lighting (€22,569), Repairs and Upkeep of Road Markings (€13,669), as well as Depreciation (€19,987).

Xgħajra

Although a slight improvement was registered when compared to prior year, the Council still closed the year with a deficit of €27,592. Additional income of €26,617, mainly due to Funds received from Government, was almost completely wiped-off by the increase of €21,972 in overall expenditure. Although a reduction of €5,648 was registered in Refuse Collection expenditure, costs related to WasteServ Malta Ltd, as well as the Provision for Doubtful Debtors, increased by €15,259 and €13,245 respectively.

Żebbuġ (Malta)

Notwithstanding that the deficit is not as high as that registered in the preceding year, the Council still ended the current financial year with an excess of expenditure over income of €84,283. This improvement was mainly due to a decrease of €119,068 in overall expenditure coupled with an increase of €61,840 in overall income. The main contributors to the increase in income were Other Government Income, Contributions, and Income from Permits, which increased by €52,131, €9,992 and €6,817 respectively. On the other hand, despite the sharp drop registered in the Council's overall expenditure, the total cost of €103,389 (2013: €106,123) incurred with respect to Social and Cultural Activities was relatively substantial. Such discretionary expenses were expected to be avoided or reduced to a bare minimum, to mitigate the adverse financial and liquidity position of the Council.

Żebbuġ (Gozo)

The cut back of €47,400 in Administration and Other Expenditure was not sufficient to sustain the overall decrease of €58,138 in income earned by the Council and the increase of €14,999 in Operations and Maintenance Expenses. In fact, the deficit of €48,592 reported for the year ended 31 December 2014 was more than twice that registered in the preceding year (€20,935). Whilst an increase of €3,425 was noted in General Income, the main contributors to the reduction in revenue were Funds received from Central Government and Investment Income which in aggregate decreased by €61,563. Meanwhile, substantial increases were noted in respect of expenditure relating to Cleaning and Maintenance of Non-Urban Roads (€36,264), Tipping Fees (€15,955), Cultural Events (€14,015), Street Lighting (€10,006), as well as Cleaning and Maintenance of Parks and Gardens (€4,878). On the other hand, the Council managed to curtail expenditure incurred with respect to the Repairs and Upkeep of Road and Street Pavements, as well as Public Property by €39,348 and €13,498 respectively. A decrease of €62,986 was also noted in the Depreciation Charge for the year.

Gozo Regional Committee

The deficit of €95,256 for the year under review is 12% more than that registered in the prior period (2013: €84,985). The 15% increase in income (€39,132), fully attributable to a rise in Funds raised under LES, was completely absorbed by an upward movement of €49,403 in expenditure. The main contributors to such increase in expenses were the Provision for Bad Debts and Other Contractual Services, which increased by €41,086 and €10,208 respectively over the prior year.

South Eastern Regional Committee

A substantial negative financial impact was noted at period-end, with a reported loss of €286,002, when compared to the restated surplus of €414,746 recorded in the prior year by the Regional Committee. This was brought about by a reduction of €97,255 (5%) in income, coupled with an increase in overall expenditure of €603,493 (43%). Considerable increases were registered for Warden Services (€173,106), as well as

Personal Emoluments (€72,943). An impairment loss of €497,030 was also registered on LES Receivables. On the other hand, it was noted that operational costs relating to Staff Recharges, as well as contractual services with respect to LES, decreased by €72,383 and €57,283 respectively during the year under review.

Rectified Positive Balance between Income and Expenditure

The 18 Local Councils listed in **Table 5** rectified their position to a surplus by the end of the year under review. During the preceding year, 10 Local Councils had rectified their position to a surplus by year-end.

Table 5: Rectified Positive balance between Income and Expenditure⁸

Local Council	1 January – 31 December 2014	1 January – 31 December 2013	1 January – 31 December 2012
	€	€	€
Attard	13,636	(24,714)	(22,289)
Birgu	34,619	(29,043)	(59,094)
Birżebbuġa	13,462	(72,029)	48,632
Dingli	772	(9,118)	(20,287)
Gudja	27,718	(5,112)	(15,074)
Gharb	9,585	(2,981)	16,475
Gharghur	5,524	(6,266)	13,495
Ghasri	12,994	(44,227)	7,996
Kirkop	64,019	(57,972)	(23,628)
Marsa	9,787	(21,657)▪	9,929
Mgarr	15,171	(15,331)	32,568
Msida	2,114	(89,500)	(49,087)
Mtarfa	33,163	(3,590)	17,379
Qormi	23,595	(96,939)	(227,104)
Rabat (Malta)	84,629	(46,409)	(68,300)
San Ġiljan	47,868	(78,130)	(27,938)
Tarxien	22,573	(6,402)	11,634
Xewkija	38,970	(43,861)	20,453

▪Comparative figures have been restated to reflect prior year adjustments passed during the current financial period.

⁸ Figures disclosed in the table represent amounts reported in the face of the Statement of Comprehensive Income, even though instances were encountered whereby these were either not correctly classified or did not tally to the balances recorded in the respective notes.

Control Issues

Similar to previous years, a number of control issues necessitating improvement were identified in a number of Councils:

- a. Payments issued prior to them being approved during a Council's meeting.
- b. Budgeted expenditure for certain expenses exceeded.
- c. Procurement carried out on an expired contract.
- d. The Council still proceeded with the implementation of the contract although tender documents, such as performance bond, was either not provided within the stipulated timeframe, or not provided at all.
- e. Outgoing Mayors and/or Executive Secretaries still officially registered as bank account representatives.
- f. Established limit for petty cash expenditure exceeded.
- g. Record of petty cash either not prepared, or did not include sufficient details of the expenditure.
- h. Cash held at the Council's premises higher than the maximum threshold stipulated by pertinent regulations.
- i. Cash from custodial receipts and from other general income not deposited on a twice-weekly basis, as required by the regulations.
- j. Official documentation, including quarterly reports, the approved Financial Statements, the budget, reports on travel abroad, reports on twinning arrangements, as well as the reply to the Management Letter, not prepared and approved on time, and sometimes not filed at all.
- k. Proper receipts were not always issued by the Council, in respect of income received and/or activities organised, especially when

the source was from a Government Entity, Department or another Local Council. Thus, the income-recording system in use did not entail proper audit trail.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued to Local Councils through Memos by DLG, the Executive Secretary is to draw up and submit to the Auditor General, the Financial Statements signed by the Mayor and the Secretary himself, by not later than 20 February following the end of the financial year.

Financial Statements are to consist of the:

- a. Statement of the Local Council Members' and Executive Secretary's responsibilities;
- b. Statement of Comprehensive Income;
- c. Statement of Financial Position;
- d. Statement of Changes in Equity;
- e. Statement of Cash Flows; and
- f. Notes to the Financial Statements.

With the exception of seven Local Councils and two Regional Committees, all Local Councils (2013: 57) and the other three Regional Committees (2013: 2) managed to submit the respective unaudited Financial Statements by the required deadline of 20 February 2015⁹. Meanwhile, whilst submission by another four Local Councils was effected within the following week, the Financial Statements of another two Local Councils were provided on 5 March and 11 March 2015 respectively. The Northern Regional Committee filed its set of Financial Statements on 6 March 2015, whilst the Gozo Regional Committee kept prolonging until 30 April 2015. In contrast, Valletta Local Council failed to furnish the Auditor General with a complete set of unaudited Financial Statements by the time this Report went for publication.

Audit Report and Financial Statements

The abolishment of penalties imposed on those Local Councils that did not adhere to the respective deadlines, resulted in a decline in the number of Councils that strived to deliver the audited Financial Statements and Management Letters on time, *i.e.* by 30 April 2015⁹. In fact, only 50 Local Councils (2013: 57), and two Regional Committees (2013: 2) abided with the pertinent target. Another 10 audited Financial Statements reached NAO by mid-May. Most of the other audited Financial Statements were received by early July but the Gozo Regional Committee delayed its submission till late September. Meanwhile, the Financial Statements of Ghaxaq, San Lawrenz and Valletta Local Councils were not submitted at all by end of September 2015, being the final deadline set by NAO for analysing the audited Financial Statements. **Appendix C** refers. Both Local Councils, as well as Regional Committees are expected to take all necessary actions to ensure the submission of proper and accurate Financial Statements within the established timeframes.

Concerns encountered in a Large Number of Local Councils

Liquidity Position

As can be evidenced from Tables portrayed in this Report, a significant number of Local Councils ended the financial year in a deficit position, whilst others are on the verge of facing liquidity problems if immediate corrective measures to curtail discretionary expenditure are not implemented. This was mainly triggered by the significant capital projects that the Councils entered into during the preceding years, especially with the introduction of PPP scheme¹⁰, which costs add up to millions of euro.

In addition, certain Councils are experiencing difficulties and, to a certain extent, have limited control over the collection process of their receivables. Whilst instances have been identified whereby amounts receivable are being carried

forward from one year to another, with the risk that these will become statute-barred, provisions against some of these debtors have also been accounted for. These issues are creating further cash flow problems to the respective Councils.

Furthermore, notwithstanding their precarious financial position, certain Councils still approved and contracted for additional capital commitments.

Incorrect Bookkeeping

The concern that in certain instances the Financial Statements presented for audit purposes are not up to standard, besides containing a number of errors, still prevails. Instances were again encountered whereby the Trial Balance provided to LGA did not agree to the Financial Statements approved by the Council and submitted for audit. The Council is to ensure that the Accountant properly updates the books of account, particularly ensuring that all approved audit adjustments are included before closing off the year-end. This is part of normal accounting procedures and is not to be considered as part of the audit tasks.

The preparation of reliable and timely accounting information is essential to the efficient operation of a Council. The various points highlighted in the Management Letters indicate that there are serious shortcomings in the updating of the Councils' accounting records. Deficiencies were noted when processing raw accounting data to finalise the accounts, whereby fundamental reconciliations were not properly undertaken. Moreover, at times, certain balances in the Financial Statements were not substantiated. Another cause of concern was the significant number of audit adjustments passed to correct the material misstatements noted by LGAs.

This implies that the unaudited Financial Statements approved by the Council did not present fairly the results and Statement of Financial Position as at year-end. If management accounts are prepared in the same way, the Council may be misguided and may consequently rely upon inaccurate information for decision-making purposes and the budgeting process. Thus, it is pertinent that

⁹ As per instructions provided by DLG through Memo 1/2015.

¹⁰ Under this scheme, Councils are to resurface those roads falling under their responsibility. A fixed percentage (30% in the case of Maltese Councils and 50% in respect of Gozitan Councils, however this might differ depending on the individual circumstances) of the cost as per tender, is financed by Government, with the resulting balance being paid by the Council over a period of eight years, in varying percentages.

both the Department and the Councils realise that it is useless to submit the required documentation by the stipulated deadlines, if such data is not properly compiled and reflects a true and fair view of the actual financial situation.

It is also worth mentioning that Councils are expending substantial amounts of money on the procurement of accountancy services. However, as explained above, in many cases such services are not yielding the desired results. Thus, also to be cost-effective, during the preceding years NAO recommended DLG to consider the recruitment of a number of qualified Accountants by the Department instead of outsourcing this service. This would bring about harmonisation in the preparation of accounts and it would be easier to monitor and control the work, also enhancing communication with the same Accountants. Yet, the Department's officials did not seem so keen to take up such recommendation, claiming that this would lead to resistance by the Councils.

Whilst greater attention is to be given to the bookkeeping function, Councils should not rely on the year-end audit to reveal errors in the preparation of their accounts. In line with Memo 59/2012, Councils are to ensure that the person in charge of the preparation of the accounts, apart from being in possession of the warrant of a Certified Public Accountant, should also be up to date with the applicable Accounting Standards and Regulations. On the other hand, as already reiterated in previous years, DLG is to take a stricter stance against those Councils which do not prepare adequate Financial Statements.

Tipping Fees payable to WasteServ Malta Ltd in dispute

Following the decisive action taken in 2013 to resolve the anomaly in existence since the end of 2009, between Councils and WasteServ Malta Ltd, in view that the amounts invoiced by the latter were in excess of the specific Government allocation provided to the former, by the end of financial year 2013, DLG had advanced the aggregate amount of €1.2 million to WasteServ Malta Ltd. An additional payment of €1.1 million to the said service provider was effected in 2014 and yet another disbursement of €1.3 million was

made in 2015. As at end of 2014, a number of Local Councils still reported amounts in dispute with WasteServ Malta Ltd. **Appendix D** refers.

To ensure a more transparent and smoother process, the funds were advanced directly to the service provider, with Councils being guided to record this entry in their books of account as Other Supplementary Government Income. However, from the audit testing carried out, it transpired that whilst a number of Councils disregarded such instructions, with the consequence that this transaction was left unaccounted for, thus resulting in the overstatement of payables and understatement of income, others recorded the respective income in the wrong nominal account.

Instances were also encountered whereby the amounts invoiced by the service provider were not recorded in full, either due to a genuine mistake or because the Council failed to account for balances in excess of the allocation provided for such purpose. Thus, upon reconciling balances due to WasteServ Malta Ltd as recorded in the Councils' books of account with the suppliers' statements, a number of differences emerged, which at times were not substantiated by adequate explanations. These errors were then rectified by means of audit adjustments as proposed by LGA.

Membership Fees paid to Local Action Groups

Set up in 2009, upon the implementation of the LEADER programme, the aim of the Local Action Groups, namely *Gal Xlokk*, *Majjistral* Action Group and *Gozo* Action Group, is to improve the development potential of rural areas, by bringing together the different public and private local actors. The main responsibility of such groups is to co-ordinate the design of the local development strategy, as well as its implementation.

During a press conference held on 17 September 2013, the new measures for the LEADER programme were announced. Under the new initiatives, these three Local Action Groups will benefit from a total of €7 million.

However, to take part in such schemes, Local Councils have to become a member of these Local Action Groups and are obliged to pay a

membership fee. Such fee, which is specifically determined by the latter and may vary from one Action Group to another, is used to cover costs, such as bank interest and charges, insurance, as well as legal and other professional fees, which are not refunded under the said programme.

Despite that Local Councils have no authorisation to pay membership fees to any of the three Local Action Groups, testing carried out revealed that a number of Gozitan Local Councils still effected payments in this respect in 2014. This related to LEADER programme (2014 - 2020). **Appendix E** refers.

It is a concern that to date, information provided, if any, in respect of the benefits derived by each particular Council from such initiatives was very limited. In addition, whilst it is understood that these Local Action Groups are preparing a set of Financial Statements, it is still unclear whether these are being audited on an annual basis.

Guidance provided by the Department not in line with the Procurement Regulations

Notwithstanding that over four years have elapsed since the inception of the Regional Committees, the delegation process of the street lighting function to the latter was still not yet concluded by end 2014. Thus, during the year under review, Councils were expected to follow Memo 34/2013 dated 30 December 2013, whereby they were instructed to issue a new call for tenders for such services, covering an introductory period of a year, which agreement could then be renewed on an annual basis for a maximum of three years. However, as depicted in **Table 6**, 31 Local Councils disregarded such guidelines and continued to procure the respective service through direct orders, from the same service providers, under the same conditions as outlined in the agreement entered into by the then Joint Committees, without issuing a new call for tenders, whilst others have extended the respective contract indefinitely.

Table 6: Procurement of Street Lighting Services under an expired Contract

Local Council	Amount incurred during 2014 €	Council's Reply
Birgu	3,027	The Council failed to provide a reply to the Management Letter.
Birkirkara	114,689	The Council failed to provide a reply to the Management Letter.
Bormla	7,192	A contract between Bormla Local Council and the contractor was signed on 15 May 2015.
Dingli	11,587	The Council shall comply with the tendering procedures.
Fgura	5,976	A call for tenders has been jointly issued with the Paola Local Council.
Floriana	5,120	The Council had instructed and showed interest to join the South Eastern Regional Committee in the issuing of a corporate tender as soon as DLG issues the necessary instructions. Nevertheless, the respective Regional Committee failed to complete the process on time, thus affecting adversely the Floriana Local Council. This was something beyond the Council's control.
Gzira	9,875	The Council was advised not to make a public call for the tender in question.
Gharghur	2,818	Point not addressed.
Isla	5,180	The Council failed to provide a reply to the Management Letter.

Table 6: Procurement of Street Lighting Services under an expired Contract *cont./*

Local Council	Amount incurred during 2014	Council's Reply
	€	
Kalkara	8,186	Point not addressed.
Lija	4,051	Point noted and a new contract will be issued shortly.
Marsa	16,919	The Council will adhere to LGA's recommendation, although it is important to point out that the Council opted to hold to DLG's advise given prior to 2013, to extend this contract on a quarterly basis, as ongoing discussions were being held on the possibility that such contract could be issued during the year under review by the Regional Committee, which Marsa Local Council forms part of. Failure by the South Eastern Regional Committee to issue this tender resulted in LGA remarking on such an irregularity from the Council's part.
Marsascala	17,784	During 2014, the Council along with other Local Councils, such as Żejtun and Żabbar, issued a call for tender as a Joint Committee. The tender will soon be adjudicated since one bidder submitted an offer. In the meantime the Council benefited from the same rates that were found in the expired contract as all other Local Councils did.
Marsaxlokk	9,224	The Council is aware that the contract for street lighting is expired. However, works were being carried out through the expired contract with DLG's approval, since the issue is common to all Councils. The situation has been rectified in 2015 with the same Department providing the template for a new call for tenders to be published. The Council together with a number of localities now has a valid contract for street lighting repairs and maintenance.
Mdina	12,495	LGA's comments and recommendations were noted.
Mellieħa	52,763	<p>The Regional Committee is tackling the tender for street lighting and the Council does not have any control on this issue, as the duty to provide for the proper upkeep and maintenance of street lighting in accordance with national and international standards, is vested on Regional Committees, as laid down in Article 19 of Legal Notice (LN) 320/2011.</p> <p>During a sitting held in January 2014, the Council decided to join forces with the Regional Committee to achieve economies of scale and call upon the latter to issue the tender for street lighting as a Region, provided that the day-to-day running of the contract remains under the control of the respective Councils. The Executive Secretary of the Regional Committee has held two meetings with his counterparts, to update the specific conditions of the tender document, however for some reason or other, no call for tenders has been issued.</p>
Mgarr	11,398	This is being taken care of by the Regional Committee, as is the practice for all Councils.

Table 6: Procurement of Street Lighting Services under an expired Contract *cont./*

Local Council	Amount incurred during 2014	Council's Reply
	€	
Mosta	14,952	Though the tender for street lighting maintenance was issued, this could not be adjudicated as other arrangements were made by the Northern Regional Committee to issue a group tender.
Mqabba	3,970	The re-issuing of the street lighting contract is to be published by the Southern Regional Committee. It does not make economic sense to issue the contract, solely for the obvious reason of economies of scales.
Msida	7,110	The Council failed to provide a reply to the Management Letter.
Mtarfa	8,334	LGA's recommendation was noted and the Council shall ensure that it complies fully with all tendering procedures.
Naxxar	25,861	Point noted for the future.
Paola	10,516	The Council has recently issued a new tender for the maintenance of street lighting, which tender has in fact already been adjudicated.
Pembroke	6,943	The Council unanimously approved to issue this tender jointly with other Councils falling within the Northern Region. In fact, the latter is taking care of such tender.
Rabat (Malta)	25,071	The Council resolved to issue a tender jointly with other Councils falling within the Northern Region. However, although such Committee was informed of the Council's decision, no call for tenders has yet been issued, despite the various meetings that were held on the matter.
Santa Venera	23,021 ¹¹	Point noted.
Siggiewi	20,312	The Council took note of the recommendation. The renewal letter has been sent to the respective contractor.
Swieqi	54,036	The Council was advised not to make a public call for tender and extend the existing contract.
Tarxien	3,398	A new tender has been recently issued by the South Eastern Regional Committee on behalf of its members and the Council is in the process of signing the contract.
Xghajra	1,719	The Council is working to have new contracts.
Żabbar	14,379	A joint call for tender will be issued and awarded by the Regional Committee in the coming days.

¹¹ This balance is made up of €8,538 contractual services and €14,483 capital expenditure.

In the case of Gozo, with the exception of Fontana Local Council, the lighting contract used by the other Councils was also entered into by the Joint Committee. It originally expired on 3 April 2008 but was then extended for another year until 3 April 2009. However, no proof of further formal extensions was ever traced. To date, the Local Councils are still using the services of the same supplier, with the same terms and conditions set out in the original contract practically a decade ago.

Due to its size, and the presumption that in some cases it can get better prices, the Fontana Local Council did not form part of this tender. The current practice is that this Council requests a quotation as and when necessary.

During a meeting held between NAO and DLG, the latter explained that intensive discussions were underway to initiate a pilot project on street lighting in Gozo, which project will fall under the remit of the respective Regional Committee. However, though originally the latter was given the impression that no extra funds were to be incurred for this project, it later transpired that the Gozo Regional Committee will be incurring additional expenditure of €250,000. As a result, it did not accept to take on the project. An amount of €50,000 has been made available from the Ministry for Finance to assist the Regional Committee to this effect, but related discussions are still ongoing.

Assets falling under the Councils' responsibility not properly insured

Notwithstanding that the Local Councils (Financial) Procedures vest the Executive Secretary with the responsibility to safeguard the Council's assets, property, interests and activities, against any loss or damage, by having a proper insurance cover in place, year after year, it is being reported that different categories of PPE held by certain Councils are not properly insured. This results in assets either being under insured or not insured at all. **Appendix F** refers. Furthermore, in certain instances the details provided in the respective policies are so limited, that it is difficult to clearly identify what the insurance in place actually covers.

On the other hand, due to their nature, certain assets such as Urban Improvements and Street Furniture impose a high level of risk. Consequently, the Councils are finding it difficult to insure these type of assets, since insurers are hesitant to issue such type of insurance cover. In addition, the premia charged in respect of resurfacing and construction works are so high, that these are not afforded by the Councils, and thus such assets are not being insured.

The Department is encouraged to consider issuing one insurance policy, covering all Local Councils. Meanwhile, as reiterated in the preceding years, DLG is encouraged to issue clear and specific guidance, on the nature of insurance cover that every Council is expected to have in place. Whilst eliminating any anomalies that may arise from time to time, this also ensures that Councils are adequately insured, so that in case of any accident, losses or damages, the cost of the assets will be recovered and subsequently replaced.

Non-submission of Fiscal Receipts

Activities carried out by Local Councils, whilst exercising the functions assigned to them by law, fall outside the scope of the Value Added Tax (VAT) Regulations, thus implying that such bodies are not registered for VAT purposes. In view of this, supplies provided to the former by VAT registered suppliers are to be covered by a fiscal receipt in line with the Thirteenth Schedule of the VAT Act.

However, irrespective of the continuous recommendations put forward by LGAs during the preceding years, instances were still noted whereby substantial amount of expenditure incurred for the Councils' operations was not supported by a valid fiscal receipt, even though the respective service provider did not qualify for the exemption under the pertinent LN. **Appendix G** refers.

At times, even the invoice submitted by the supplier lacked necessary details, such as details of the latter, and identification of the client, not to mention that in certain cases such procurement was only supported by a piece of paper. In view of this, it could not be ascertained that the respective expenditure was actually incurred for the running of the Council.

Local Councils are to ensure that an invoice, as well as a fiscal receipt, as required by the pertinent regulations, is obtained for all the expenditure incurred by the Council. In cases where the supplier lacks adherence to VAT regulations, the Council is to discontinue procuring from such defaulter until the situation is rectified.

A Proper System of Purchase Order Forms not in place

With the exception of petty cash expenses and utility services, Article P1.09(b) of the Local Councils (Financial) Procedures stipulates that all procurement is to be initiated through formal purchase orders, contracts or purchase agreements. Yet, the shortcomings highlighted by LGAs over the years reveal that not all Local Councils are adhering to this requirement, with the consequence that various items of expenditure, which at times were material, were not covered by a formal purchase order, officially confirming the Council's approval for the related procurement. The reason behind this is two-fold, either because a system of purchase order is not even in place, or due to the fact that orders are being placed verbally over the phone, without being confirmed in writing. Instances were also encountered whereby payments effected were in excess of the amounts disclosed in the purchase order raised.

Incorrect Treatment of Government Grants

Way back in 2008, following a consultation exercise held by NAO with LGAs in office at that time, it was decided that for consistency purposes, the income approach¹² as outlined in IAS 20, was to be applied when accounting for Government grants. Though such accounting treatment is also reiterated year after year in the year-end Memo¹³ issued by DLG, six years later, instances are still being encountered whereby an incorrect treatment for the recording of such grants is adopted by a number of Local Councils. The main concerns are highlighted hereunder:

- a. Certain Councils are still adopting the capital approach for the treatment of Government grants.

- b. Funds received are at times accounted for on a cash basis, implying that at year-end, no provision is made in respect of amounts which have not yet been received.
- c. Deferred Income is not always amortised in line with the depreciation charge. Sometimes, amortisation is recognised on a yearly basis, rather than on a monthly basis, as per depreciation policy. Very often, these are adjusted following the attention drawn by LGAs.
- d. Amounts are in certain cases fully recognised as income in the year funds are received, irrespective of whether the project was completed or not.
- e. The amortisation of Deferred Income did not always commence on the date when the related capital project was completed.
- f. Deferred Income was not apportioned properly between short-term and long-term components by a number of Councils.

On several occasions, LGAs have pointed out the importance of opening separate bank accounts for the purpose of administering payments and grants received in respect of large projects. Though this provides a clearer picture of what has been spent, and also distinguishes capital funds from those for operating purposes, such recommendation has not been taken on board by all Councils.

Financial Statements not compliant with International Financial Reporting Standards

The issue that Councils' Financial Statements are not fully compliant with the requirements of IFRSs, thus necessitating an 'except for' qualified audit opinion, is still on the agenda. Moreover, the respective specimen included in the Local Councils (Audit) Procedures is considered outdated *vis-à-vis* the applicable accounting standards.

In view of the fact that Local Councils are required to prepare their Financial Statements in accordance with IFRSs, during the previous years, on a number of occasions, NAO recommended

¹² Income received is to be subsequently recognised on a systematic and rational basis in accordance with the useful life of the asset.

¹³ This Memo provides guidelines to be followed by Local Councils in the preparation of Financial Statements for the upcoming year-end audit.

DLG to embark on an exercise to update the current template, which will then need to be revised on a yearly basis, so as to ensure that the latest amendments in the accounting standards are incorporated. However, despite that this will assist Local Councils in the preparation of their Financial Statements, whilst ensuring uniformity amongst them, such proposal has not yet been taken on board.

Disbursements of Central Regional Committee Reserves

Though Regional Committees were officially set up on 20 April 2011, by means of LN 207 of 2011, they actually became operational on 1 September of that year, when they were also entrusted with the management of LES. Being its only source of income, such money is to be used for the running of the respective Regional Committee, as well as new projects and initiatives, the latter will embark on.

From the last audit, it transpired that from the retained funds, which as at 1 January 2014 aggregated to €2,618,767, during the year under review, the Central Regional Committee disbursed the total amount of €700,000 amongst the 13 Local Councils that fall under its remit. Queries as to whether such distribution was backed by any formal decision, as well as the basis on which the disbursement was made, were addressed to DLG.

In its reply, the latter claimed that distribution of funds is made only if:

- a. the Regional Committee has generated enough income from fines which cover its operations and thus leaving a surplus; and
- b. only after it is decided by the Committee itself, which is made up of the Mayors of the Local Councils forming up that Region.

It further stated that since Regional Committees generate their own funds, they are free to decide how to dispose of them, as long as this is done in a legal way.

However, besides that no reference to the disbursement of surplus funds is made in the Regional Committees' Regulations, no documentation was traced in support of the

substantial amounts transferred to the Local Councils.

Non-compliance with Pertinent Legislation

Following the Local Councils' Reform and the revision of the Local Councils Act (Cap 363) in 2009, a number of legislative changes, focusing on diverse aspects of the Local Councils' operations, were enacted by Parliament. Amendments made, though not limited to the following, include changes in the functions of Local Councils, covering administrative procedures, as well as modifications to the Financial Regulations, which now include the introduction of allowances granted to Councillors, and the prohibition of any donation, whether in money or in kind, by Local Councils. These provisions were also sustained by other ancillary Memos which DLG published from time to time.

Notwithstanding that these amendments came into force as from December 2009, five years down the line, various instances highlighting non-adherence to the said provisions, as outlined hereafter, are still being encountered in a number of Local Councils.

Provision of Donations in Money or in Kind

In breach of Article 63A of the Local Councils Act, prohibiting the provision of any donations whether in money or in kind, a number of Local Councils continued to effect payments in the form of donations. This also implies that recommendations reiterated by LGAs year after year, for Councils to circumvent this course of action, whilst being more considerate in the manner of how they distribute their resources within their localities, have not yet been taken on board.

Local Councils refute these concerns, claiming that they have to fulfil their social and cultural obligations. A typical example is the fact that, from time to time, Councils are invited by the local school administration for the Prize Day, whereby the former will be requested to donate some sort of educational material, namely books, as a reward to those students who during the year have excelled in particular areas. In view that education is considered as one of the main pillars of the citizens' development in society,

DLG, through Memo 16/2013, allowed Local Councils to provide financial assistance, up to €200 per year, to schools, for the procurement of educational material. Thus, the latter does no longer fall within the definition of a donation.

However, as highlighted in **Appendix H**, during 2014, at least 14 Local Councils still incurred expenditure on items which constitutes a donation.

Meetings not held within the stipulated Timeframes

Article 43(2) of the Local Councils Act provides that Council meetings are to be held at least once a month or at any other shorter intervals as the Council may decide, as long as such period does not exceed five weeks.

However, in breach of the cited legislation, instances were encountered whereby no meetings were held within a five-week timeframe. At times, this was due to the fact that no quorum was reached.

Councils' Minutes not uploaded on the Website

In line with Article 52(2b) of the Local Councils Act, the Executive Secretary is vested with the responsibility to properly record the minutes, giving a detailed account of what was discussed and passed in Local Council's and Committee's meetings. Upon approval in the successive Council's meeting, these are then endorsed by both the Mayor and the Executive Secretary.

With the aim of increasing transparency within the same Councils, through Memo 35/2009, DLG instructed that, as from 8 June 2009, Councils' minutes were to be uploaded on the Council's website within two working days following their approval. Notwithstanding the continuous reminders issued by DLG, including additional Memos on the subject matter, with the latest one issued in 2014, a number of Councils still failed to publish the related minutes on their website in the specified timeframe. Even worse, cases were also encountered whereby minutes relating to certain meetings held during the year under review were still not uploaded on the website by the conclusion of the audit.

In addition to the above, LGAs also highlighted the fact that, at times, minutes were not formally endorsed by the Mayor, or the Executive Secretary, or by both. Other instances were noted whereby in breach of Memo 84/2011, meetings were not duly numbered with a distinct number. Moreover, other cases were encountered whereby the minutes were not properly maintained to the extent that these lacked additional details, such as the time when these were adjourned. Due to such omission, it could not be ensured that the respective meetings did not exceed three hours, thus complying with Memo 68/2009, as well as Article 43(3) of the Local Councils Act.

The aforementioned shortcomings were also noted *vis-à-vis* the schedule of payments, in respect of which the same administration procedure is to be followed, once these are endorsed by the Mayor, the Executive Secretary and at least two Councillors. In addition, LGAs encountered instances whereby certain approved payments were not disclosed in the related schedule of payments. At times, these also lacked detailed information, to the extent that not even the amount approved for payment, the purchase order number, and cheque number, were disclosed therein.

Councillors Full Share of Allowance paid despite their absence at Councils' Meetings

As part of the Local Council's reform, with effect from 1 January 2010, all Councillors were entitled to an annual allowance of €1,200. In accordance with Article 32(2) of the Local Councils Act, such allowance is to be paid proportionate to the number of meetings a Councillor has attended in any calendar year. However, instances were encountered, whereby Councillors, who failed to attend Councils' meetings, were still paid the full yearly allowance, even though a letter of excuse, justifying the reasons for absenteeism, was not provided.

In addition, in breach of Article 18 of the Local Councils Act, the Minister was not notified accordingly, of those cases whereby Councillors were absent for four meetings, or in aggregate more than one-third of the meetings, organised within a period of six months.

Amounts expensed on Christmas Lunch or Reception above the stipulated Threshold

Notwithstanding previous years' recommendations, instances were still encountered whereby the maximum threshold, set in respect of expenditure incurred for Christmas lunch or reception, was surpassed. **Appendix I** refers. This was either because:

- a. the respective Council invited individuals, such as service providers and partners of employees and/or members, who were not entitled to attend for such activity; or
- b. the total amount incurred *per capita* was higher than that specified in pertinent Memos issued by DLG, whereby it was stated that the Council could only spend €30 per person on a lunch or dinner, or €15 per head in the case of a reception.

Twinning Reports not drawn up

Article 10(1) of LN 144/2009 - Local Councils (Twinning) Regulations, 2009 states that Councils engaged in twinning arrangements, at the end of the financial year are to submit to the Department a report highlighting the results of each twinning programme, the benefits derived by virtue of such twinning relationship and a statement of all expenditure. Article 10(2) further specifies that such report is to be compiled even if no activities were held during a particular year, in which case, the reasons for such failure are to be outlined.

Nonetheless, from the audit verifications carried out, it transpired that the cited legislation was not adhered to at all times.

Personal Emoluments and Allowances

Unreconciled Payroll

As highlighted in preceding years, reconciliation of the books of account with the Final Settlement System (FSS) forms submitted to the Inland Revenue Department (IRD) was either not given the priority it deserves by the Councils, or was

not being performed at all. This is evident from the differences encountered, upon reconciling emoluments as disclosed in the Financial Statements¹⁴, with the monthly and annual documentation filed with IRD. Such variances are illustrated in **Appendix J**.

Incorrect Personal Tax Deductions

Memo 11/2013, issued on 14 June 2013, was intended to solve the issue of what tax rate is applicable on the Mayors' honoraria and Councillors' allowances, which has been the subject of a long debate for a number of years. However, during the year under review, instances were still encountered where such remuneration was still either being taxed at a different rate¹⁵, or was not taxed at all. By way of example, cases were noted whereby whilst the Mayor's honoraria was taxed at the rate of 20%, no deductions were applied to the allowance paid to the Mayor and *vice versa*.

Additionally, in certain cases, salary paid to the Executive Secretary was considered as part-time emoluments when declared in FSS documentation, thus taxed at the incorrect rate of 15%. Likewise, the Mayor's honoraria, as well as allowances paid to Councillors were at times also taxed at 15% when the normal tax rates should be applied according to each individual's total income.

Inconsistencies were also encountered in view of the tax deducted on personal emoluments earned by certain full-time employees. In such cases, FSS deductions were incorrectly calculated, with the result that these did not correspond to the relevant tax bracket as stipulated in the Income Tax Act. This resulted in over or underpayments of tax. Similar shortcomings were also noted in the calculation of National Insurance (NI) contributions and in the compilation of FSS forms.

Refund of Mayors' Honoraria

The upward revision in the honoraria paid to Mayors with effect from 1 January 2010, and the subsequent decision taken on 20 January 2011 to revoke such increase, resulted in Mayors being

¹⁴ Adjustments for opening and closing accruals and prepayments, as well as any audit adjustments passed, were taken into consideration.

¹⁵ At times, this was due to the fact that the Payee Status Declaration (FS4) forms were not filed.

overpaid and consequently having to refund these additional amounts. However, remedial action by the Department, to recoup these overpayments, was only taken in August 2012, after NAO drew the latter's attention that a number of Mayors were still dragging to refund the respective amounts. In a letter sent to each Council concerned, the Department explicitly specified that the respective Mayor is to enter into an agreement to start setting off the outstanding balances through monthly instalments. Furthermore, it was pronounced that, by the end of December 2013, all pending amounts have to be recovered. However, as evidenced by the information provided by the Department as at to date, two ex-Mayors disregarded the directives issued by DLG, and are still to refund the aggregate amount of €4,426.

Leave Records

An analysis of the Councils' minutes revealed that at year-end, a number of Councils approved to carry forward the unused leave of their employees and Executive Secretaries. However, instances were encountered whereby the accumulated leave carried forward from 2014 to 2015 was in excess of the 48 hours allowed by the pertinent regulations, without being substantiated by a written approval. As public officers, Executive Secretaries should apply to the Director (DLG) for approval, after presenting an extract from the approved Council's minutes. Moreover, except for grave humanitarian reasons, the Director is not expected to grant approval for the accumulation of more than 50% of unutilised vacation leave.

Additional shortcomings included the fact that at times, leave records were not endorsed by the officer responsible of approving such vacation leave. Instances were also encountered whereby proper leave records were not maintained, as vacation leave is requested and approved verbally.

Local Councils' response following Management Letters

Thirty-two out of 65¹⁶ Local Councils submitting their audited Financial Statements, as well two

Regional Committees, sent their response to the Management Letter on time, as required by Article 8(2) of the Local Councils (Audit) Regulations, 1993. Twenty-six¹⁷ other Councils, together with one Regional Committee as well as LCA, exceeded the stipulated deadline to submit their reply.

At times, the respective replies were only signed by either the Executive Secretary or the Mayor, when in line with the relevant regulations, these should have been signed by both.

Repetitive Weaknesses reported in the Management Letter

Even though the concern that the same irregularities are being highlighted year on year in the Management Letters has been voiced a number of times in the presence of DLG, no apparent remedial action has yet been taken. As also reported upon in the preceding years, this is not acceptable.

It is evident that whilst certain Management Letter points are simply ignored, others are just answered with a simple statement, indicating that the particular point was noted, not even bothering to indicate the concrete actions taken, or intended to be taken, to implement the proposed recommendations. This indicates a total lack of accountability on the part of the respective Councils. As also hinted in previous years, most Local Councils have common problems, mainly relating to the upkeep of FAR, unrecorded liabilities at year-end, non-compliance with the procurement procedures, and incorrect treatment of grants. Since, as also indicated earlier on, a number of Financial Statements presented for auditing were not up to standard, at times LGAs had to carry out accounting tasks themselves in order to be able to conclude the audits.

Towards the end of each financial year, DLG issues a Memo titled '*Għeluq tas-Sena Finanzjarja*', which provides guidelines on the process to be followed in the preparation of the Council's Financial Statements. However, certain Local Councils registered very little improvement, if any.

¹⁶ Local Councils that have submitted the Financial Statements by end September 2015.

¹⁷ Out of these, 11 have submitted their reply within four days after the deadline.

Ultimately, it is the Council's and Executive Secretary's responsibility to implement the Auditor's recommendations, as well as to correct in a timely manner any weaknesses in the Council's accounting and financial operations.

Areas of Concern

The following were the areas of concern, which were commonly encountered in the Management Letters:

- a. Property, Plant and Equipment
- b. Accounting
- c. Local Enforcement System
- d. Procurement
- e. Salaries
- f. Receivables
- g. Payables
- h. Cash and Cash Equivalents
- i. Invoices and Receipts
- j. Provisions outlined in the Subsidiary Legislation not complied with

Appendix K lists the Councils where the abovementioned weaknesses were encountered and the frequency of their occurrence. An indication of the most material weaknesses is also listed hereafter:

Property, Plant and Equipment

- a. FAR either not maintained or not provided to LGA, due to the fact that it is not updated and is not reconciled to the accounting records.
- b. FAR lacks a number of descriptive details, which limits its purpose.
- c. Assets not classified in their proper category and thus the wrong depreciation rate has been charged.
- d. Assets are either not tagged, or the respective FAR lacks important details, with the consequence that this could not be physically identified.
- e. Depreciation charge is not calculated by the software, but is being calculated manually. This is giving rise to discrepancies between

the depreciation reported in the books of account and that calculated by LGA.

- f. Depreciation is calculated on a yearly instead of monthly basis.
- g. Asset costs and depreciation charge as disclosed in FAR did not reconcile to the amounts recorded in the Financial Statements.
- h. Assets which are no longer in use by the Council were not written off from FAR, with the consequence that the respective cost is still disclosed in the books of account.

Accounting

- a. Opening balances in nominal ledger brought forward from prior period not in agreement with the closing balances of the preceding year's audited Financial Statements.
- b. Discrepancies between the Council's Trial Balance and the unaudited Financial Statements.
- c. Incorrect cut-off procedures, resulting in over and/or understated income and/or expenditure. In addition, instances were encountered whereby opening prepayments and/or accrued expenses were either not reversed, or were reversed against the wrong account.
- d. Income and/or expenditure not recorded in the correct nominal account. In addition, adequate documentation was not always provided to support amounts disclosed in the accounting records.
- e. Expenses incurred were netted off against the income received.
- f. A stock list, confirming the inventory items held at year-end, was either not provided at all, or included discrepancies when compared to the actual stock in hand. This resulted from the fact that at times, the Council did not recognise the respective stock movement in the books of account.

- g. Expenditure of a capital nature recorded as expenditure of a revenue nature and *vice versa*.
- h. Amounts in dispute not recognised as contingent liabilities.

Local Enforcement System

Outstanding fines should not take longer than one year to be settled, as these are usually payable upon the renewal of the respective motor vehicle license. However, for an unknown reason, this is not materialising, with the consequence that it has a negative impact on all Local Councils, since amounts due are still being recorded as outstanding. Guided by the principle of the prudence concept, a full provision is expected to be taken, at least for receivables older than two years. Notwithstanding this, in line with previous years, LGAs still encountered outstanding LES receivables due to the Councils, which were older than two years but which were not provided for by certain Councils. The respective amounts are likely to have become statute-barred and will never be recouped.

A number of Councils have already adequately reduced, by way of a provision, those outstanding receivables where recoverability is deemed remote. However, others failed to reflect this fact in their accounts, thus failing to show a true and fair view of the Financial Statements. In several cases, the situation was rectified through the adjustments proposed by LGAs, which were taken on board by the respective Local Councils.

Other common issues relating to such income, encountered during the audits, included the following:

- a. The annual audited Financial Statements of the Joint Committees for year ended December 2014 were not submitted to the respective Local Councils. Consequently, LGAs could not rely on independent audited information to provide reasonable assurance on such income being recorded by Local Councils in their Financial Statements.
- b. Discrepancies between amounts receivable from contraventions as reported in the

Financial Statements, and those recorded in LES reports made available to LGAs. The amount of provision for doubtful debts accounted for is also likely to be inaccurate.

- c. Variances were noted between income receivable from Regional Committees, for contraventions collected by the Councils, as disclosed in their accounting records, and that illustrated in reports generated from the system. This might be due to the fact that invoices issued by the Council to the respective Regional Committee are not accurate.
- d. Administration fees, receivable by Local Councils from the respective Regional Committee, were not recorded in the books of account. At times these were being accounted for on a cash basis, thus only invoices covering actual payments were accounted for.
- e. Invoices issued to Regional Committees were not being raised on time.
- f. Discrepancies were noted between the amount of contraventions paid during the year under review and the respective movement in LES debtors.

Procurement

Non-abidance with the Tendering Procedures

The Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 provide guidance on how purchasing of works, goods and services by Local Councils is to be conducted. Besides other conditions, purchase orders, agreements and contracts may be approved by the Council provided that:

- a. for purchases of value not greater than €1,165, items of the same nature are not purchased within a consecutive four month period;
- b. the procurement of goods, whose value falls between €1,165 and €4,659, is supported by at least three official signed quotations, together with a written justification for the

selected quotation or offer, as approved by the Council; and

- c. a public tender is issued according with the Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 with respect to purchases exceeding the cost of €4,659.

However, in their Management Letters, LGAs highlighted a number of weaknesses, indicating that the majority of Local Councils did not always adhere to the rules cited above. The main areas of non-compliance include:

- a. Procurement exceeding €1,165 not covered by a public call for quotation, thus procured through a direct order. **Appendix L – Table 1** refers.
- b. A number of payments were forwarded to the same service provider, for the provision of similar services within a period of four months, so as to by-pass the requirement of a public call for tenders or quotations. **Appendix L – Table 2** refers.
- c. Purchases exceeding the cost of €4,659 not substantiated by a public call for tenders.
- d. In breach of standing regulations, the Council failed to prepare and issue signed purchase orders and/or purchase request forms to suppliers, in order to officially confirm its approval for purchases of less than €1,165. Instances were also encountered whereby purchase orders lacked necessary details, such as the date and/or amount, besides that at times these were left unsigned. It was also noted that occasionally, purchase orders were dated after the issuing of the invoice.
- e. Contract agreements not in place, because either they were not drawn up or were misplaced.
- f. Contracts entered into by the Council either not signed by the Mayor, and/or by the Executive Secretary, or not signed by the contractor. At times, the signatures were also not clearly identifiable.

- g. The period between the date of publication of the tender and the closing date for the submission of tenders was less than the established period of one month. It was also noted that instructions issued by DLG to publish all calls for tenders and/or quotations on both the Government Gazette and another local newspaper, were not always adhered to.

- h. Tender documents, such as performance bonds and/or guarantees, schedule of offers, as well as the respective agreements, not all provided for audit purposes.

- i. Schedule of offers neither dated nor underlined, thus making it impossible to determine the date when the call for offers ended. Instances were also noted whereby this schedule was not signed by the Executive Secretary and at least two Councillors as required by pertinent regulations.

Salaries

- a. Employees do not all have a signed contract of employment in line with their present conditions of work.
- b. Instances were encountered whereby no payslips were issued to Council's employees or these lacked necessary details.
- c. Computations of personal emoluments, including performance bonuses, honoraria and allowances, were at times inaccurate, thus leading to under or overpayments.
- d. Salaries and allowances paid, as well as the applicable income tax and NI contributions, were not being posted in the correct nominal account.
- e. Income tax and NI contributions, as well as the related documentation, were not being remitted to IRD on a timely basis.
- f. The Council was applying different tax rates to different and/or same types of income.
- g. Statutory FSS documentation either incomplete, or not filled in properly, at times these were not even prepared at all.

- h. Council's personal accident policy was not limited to local basis but was extended to a worldwide basis.
- i. Performance bonus or part thereof was paid to the Executive Secretary prior to DLG's approval.

Receivables

- a. Council's receivables still included amounts which have been pending for several years, some of which are no longer recoverable.
- b. Amounts due from debtors and/or accrued income were over or understated. This issue was also noted with respect to the provision for doubtful debts.
- c. Balances, as disclosed in the debtors' list and/or accrued income list, do not tally to the amounts recognised in the nominal ledger.
- d. Discrepancies noted between the receivable amount as recorded in the books of account and confirmations received from the respective debtor.
- e. Negative balances in the Receivables Control Account.
- f. Amounts invoiced were still being disclosed under accrued income, rather than accounted for as receivables.
- g. No proper approval was sought from the Council prior to writing off bad debts.
- h. Customer receipts not allocated against outstanding invoices, thus making it difficult to reconcile Debtors' Accounts.

Payables

- a. Included with payables are overdue balances, as well as accrued costs, which have been brought forward from previous years and were never followed up.
- b. Creditors' list as at 31 December 2014 did not agree to Creditors Control Account and

the respective amount recognised in the Financial Statements.

- c. In view that suppliers' statements were not obtained, regular reconciliations were not carried out, with the consequence that amounts included in the Financial Statements were not accurate. This also implies that discrepancies were not investigated.
- d. Invoices, received during the year under review, and/or payments effected, were either not posted in the books of account, thus resulting in unrecorded liabilities, or posted twice.
- e. Disclosed within the creditors' list were debit balances, which in certain instances were brought forward from previous years, representing either overpaid amounts to suppliers or payments against which an invoice was not accounted for.
- f. Council is still unable to distinguish between creditors and accrued expenditure.
- g. Discrepancies were noted between the list of refundable deposits and the corresponding payable balance as recorded in the books of account.
- h. Incorrect disclosures of short-term and long-term portions of liabilities.

Cash and Cash Equivalents

- a. Bank reconciliations were not always carried out. When these were performed, at times they were either done manually or through spreadsheets, rather than through the accounting system.
- b. Unreconciled discrepancies between bank reconciliation prepared by the Council and the actual bank balance.
- c. Stale and/or cancelled cheques not written off and reversed accordingly from the accounting system.
- d. Despite that the Council is a non-taxable entity, a final withholding tax was at times charged on interest received.

- e. Instances were noted whereby bank accounts were not included in the books of account and the Trial Balance.
 - f. Current portion of bank loan, as disclosed in the Financial Statements, incorrectly calculated.
 - g. Bank statements not provided for audit purposes.
 - h. Differences identified between amounts as per physical cash count and amounts as per accounting records.
- c. Payment vouchers either not prepared at all, or not signed by the Mayor and/or Executive Secretary. Furthermore, instances were encountered whereby the respective payment vouchers did not include numerical sequence.
 - d. Councils' meetings commenced before the established time without obtaining the respective Councillors' approval. These lasted for more than three-hour maximum duration. At times, the minutes also failed to indicate the time of the meeting's adjournment.

Invoices and Receipts

- a. Income receipting system is manual and paper based, thus more prone to human error.
 - b. Multiple receipt books were used concurrently for various sources of income.
 - c. Instances were encountered whereby the respective invoices were not traced.
 - d. Invoices either not marked as approved or approved by an employee rather than the Executive Secretary as required by standing regulations. Furthermore, no reference was traced to the meeting in which the respective invoices were approved.
 - e. Invoices are sometimes recorded on a cash basis, as these are posted in the books of account when paid rather than upon receipt.
- e. Councils' meetings not held within five weeks from the immediately preceding meeting.
 - f. Minutes are not bound on an annual basis.
 - g. Procurement of litter bins and street signs not accounted for on replacement basis as specified in Memo 121/2011.
 - h. Income earned by the Council not covered by a bye-law.

Other Particular Concerns

A number of other concerns warranting separate mention, occurring at a number of Local Councils and Regional Committees, are highlighted hereafter together with the Council's comments¹⁸, if any, relative to each.

Attard

A review of the invoices received in respect of specific contractual agreements revealed that the amount invoiced to the Council was not in line with the fee quoted in the tender. The following shortcomings relate:

Provisions outlined in the Subsidiary Legislation not complied with

- a. Lack of organisation in the upkeep of documentation and updating of the Council's accounting records.
 - b. Schedule of payments lacked certain necessary details, such as cheque numbers, besides that at times this was not prepared in line with the template provided by DLG.
- a. A recalculation of the expenditure incurred with respect to waste collection over the period April 2012 to 31 December 2014 indicated that, whilst the sum of €336,122 should have been charged, the actual amount invoiced and paid totalled €313,934,

¹⁸ Council's comments are in italics format.

thus resulting in an understatement of €22,188. Following a discussion with the Executive Secretary in the presence of LGA, the contractor informed the Council that an invoice with the difference will be issued. Thus, the latter approved to provide for the aforementioned discrepancy and the Financial Statements were rectified accordingly.

- b. On the other hand, for the maintenance of public gardens and soft areas, as well as street sweeping and cleaning services, the Council was overcharged the total amount of €2,448 and €833 respectively within a three-year period. These discrepancies were once again discussed with the contractor who confirmed that the situation will be rectified during 2015. In line with LGA's recommendation, the Council adjusted its books of account to provide for this refund.

The amount understated has been corrected and inputted in the books of account, whilst the contractor has been informed and is being paid gradually each month. Meanwhile the amounts of €2,448 and €833 have been credited and funds are being deducted monthly.

Approval for the disposal of fixed assets, with a cost value of €6,563, was not included in the Council's minutes.

All disposals are signed and approved by the Mayor during a Council's meeting. This was a genuine mistake by the Executive Secretary, who failed to minute such disposals.

In breach of standing regulations, payments were effected prior to the preparation of the schedule of payments, as well as the respective Council's approval. By way of example, payments issued in December 2014, amounting to €60,739¹⁹, were approved on 13 January 2015.

In addition to the above, itemised petty cash expenditure incurred throughout 2014, totalling €939, was only approved in January 2015.

As from May 2015, cheques are being signed during the Council's meeting in which the respective payments are approved.

As already reported in the preceding year, disclosed within the Council's Statement of Financial Position are books held for resale, amounting to €10,122. However, these books are gradually being donated, and thus have no realisable value. Consequently, the Council is to consider writing off the value of the said inventories.

Point not addressed.

Tipping fees, amounting to €34,123, charged by the supplier beyond the budgeted allocation, were recorded as accrued income. However, though in the preceding years, DLG defrayed such differences, there is no indication or assurance that such settlement will be repeated in 2015. Consequently, LGA proposed for such income to be reversed, which adjustment was not approved by the Council.

The Council does not agree that such tipping fees should be reversed since it was assured by DLG that it will make good for the extra amounts invoiced by WasteServ Malta Ltd.

As highlighted in the prior year, included with other creditors is a PPP grant of €21,933, which is refundable to DLG, since the Council decided to abort the related project. However, it transpired that the money from this grant has already been utilised by the Council to finance day-to-day operations.

Point not addressed.

During the year under review, the Council was allocated the sum of €83,999 by the Central Regional Committee, of which €3,275 was assigned against a specific expenditure, whilst the balance of €80,724 was transferred to a separate bank account. Though these funds are to be used for particular projects rather than the day-to-day expenditure, the Council allocated the funds received as income for the year. Following LGA's recommendation, the Council approved the necessary adjustments to classify the amount of €80,724 as deferred income.

¹⁹ This figure is stated net of salaries, Social Security Contributions (SSC), as well as allowances, which aggregated to €28,616 and were cashed after 13 January 2015.

In 2015, a further amount of €30,787, relating to the period July till November 2014, was allocated to the Council. However, the latter failed to accrue for such income, which was then incorporated in the books of account through an audit adjustment.

Although the aforementioned funds were appropriately deposited in a separate bank account, on 30 December 2014, the Council transferred €20,000 to its operational account with the intention of settling approved payments due. An additional sum of €23,000 was also withdrawn on 9 January 2015 to pay pending amounts on projects (relating to *Triq il-Mingel* and Housing Estate works) finalised in March 2014. One of these projects was already partly financed by another grant.

The Council was misled into thinking that no approval was needed prior to the utilisation of these funds. However, from now on, the Council is seeking approval every time prior to placing payments from these funds. As regards the €20,000 transfer, the Executive Secretary will be paying future approved projects from this amount.

During the year under review, the Council incurred the sum of €2,831 in respect of a twinning agreement entered into with *Élancourt*, a commune in the *Yvelines* Department in north-central France. Given the Council's state of liquidity, this twinning process may not be entirely in line with the Local Councils (Twinning) Regulations, which state that Councils shall only engage in twinning processes if sufficient funds are available for this purpose.

Point not addressed.

Disclosed in the repayments' list was the amount of €3,840 refundable from an ex-Mayor who passed away in 2011. This outstanding balance related to the upward revision in the honoraria paid to Mayors with effect from 1 January 2010, and the subsequent decision taken on 20 January 2011 to revoke such increase, which resulted in Mayors being overpaid and consequently having to refund these additional amounts. During a Council's meeting held in July 2014, the Council approved to write-off this amount and an adjustment to this effect was reflected in the audited Financial Statements. However, such write-off was accounted for under the Mayor's honoraria rather than bad debts written-off. Included with the

Council's receivables there are also two long outstanding amounts, totalling €349.

The Council abides that these should be provided for as bad debts. The Council received €100 from one of the respective debtors and is due to recover the remaining balance as well.

Despite that no capital expenditure was forecasted with respect to Motor Vehicles, Equipment and Trees in the annual budget estimates and business plan, an aggregate amount of €13,100 was actually incurred by the Council in 2014.

It is not always possible for the budget to be in line with the amounts incurred. However, the Council will try to carry out only works budgeted for.

Balzan

In breach of the Local Councils (Tendering) Procedures, no signed contract was available between the Council and a particular insurance broker to whom the insurance contract, bearing a total value of €1,055, was awarded.

Point not addressed.

The Council still reimbursed part of the Executive Secretary's personal mobile bill, amounting to €750 (2013: €632). This occurrence has been going on since 2013.

Point noted.

Payments to two contractors, amounting to €85,778 and €36,740 respectively, relating to Urban Improvement projects within the locality, were paid prior to the approval of the related schedule of payments.

Point noted.

A number of assets in FAR still do not include the location, making it difficult to identify and correctly account for the assets' existence, impairment or disposal. Furthermore, although the cost of assets as disclosed in FAR tallies to that reported in the nominal ledger, discrepancies between individual categories were still noted. By way of example, the difference of €19,329, relating to two individual categories, namely, Special Programmes and Construction Works, persists. In addition,

although not material, a variance noted between total NBV as recognised in the nominal ledger and that included in FAR implies that accumulated depreciation, as separately recognised in these two documents, does not reconcile.

As has already been noted in prior years, the inclusion of the assets' location is an impossible exercise unless the Council can get access to the data in the previous system. Upon the upgrading of the old accounting system, this information was left out and thus it is no longer accessible. As regards the reconciliation between the Financial Statements and FAR, this is done on an annual basis. The figures in the nominal ledger are the correct ones, and adjustments need to be carried out in FAR. However, unfortunately FAR does not allow these adjustments.

No expenditure was forecasted with respect to Assets under Construction and Furniture and Fittings, in contrast with the aggregate amount of €37,699 that was actually incurred by the Council in 2014.

Point noted. However, it has to be pointed out that the Financial Estimates are prepared and approved prior to the audited Financial Statements and as a result, any adjustments resulting from the audit will not be reflected in the estimates for the following year. The Council considers it inappropriate to change and reapprove the Financial Estimates that have already been approved, unless these had been materially misstated to the extent that it would impinge on the budget and planning for the year in question.

The capital commitments note, disclosed in the unaudited Financial Statements, omitted expenditure of €1,200 related to Office Equipment. The audited Financial Statements were adjusted accordingly to reflect such forecasted expenditure.

Point not addressed.

One of the account representatives for two bank accounts, namely xxx015 and xxx028, is still the former Executive Secretary. Moreover, no bank reconciliations were provided to LGA for the said bank accounts. According to the Executive Secretary in office, although the accounts in question are still open, these are not being used. An immaterial discrepancy was noted with

respect to the bank balance of account xxx015. In addition, the bank reconciliation of the Council's account number xxx002 included a stale cheque.

Points noted. The Council has taken the necessary action to update the respective signatories.

The Council did not obtain statements from all suppliers to confirm year-end balances. As a result, when reconciling the balance as per creditors' list with the statement received from WasteServ Malta Ltd, a discrepancy of €2,205 was encountered, with the supplier claiming the amount of €6,642 as opposed to the €4,437 reflected in the nominal ledger. It was also noted that overdue creditors, amounting to €12,335, were still pending as at year-end, of which €5,590 is subject to a warrant of seizure by the Court, and thus cannot be written back, while, the amount of €2,329, constituting court fees, is payable to the Courts.

Points noted. As regards the issue of suppliers' statements, the Council will comply accordingly.

Audit verifications carried out revealed that the Council was not adhering to the concept of accrual accounting. For example, a grant of €1,000 awarded under the Activities Initiative scheme during 2014, but which the Council eventually received in 2015, was completely omitted from the books of account. Similarly, no provision was made for 2014 performance bonus of €1,311, which was then remunerated in 2015. Accrued expenditure with respect to waste disposal was understated by €714. Meanwhile, an invoice of €399 for legal services rendered, remained unaccounted for by year-end. These shortcomings were rectified through the audit adjustments proposed by LGA.

The Council will be more diligent in recording accrued income.

The Council received €7,000 in surplus funds from the Regional Committee throughout 2014, and an additional amount of €8,107 in January 2015 relating to the period July to November 2014. While the former was recognised as income for the year, the latter was omitted from the financial records for the year under review. An audit adjustment to record accrued income of €8,107 was proposed by LGA, and approved by the Council.

Moreover, since the Regional Committee's surplus is to be allocated against specific projects, the Local Council allocated the €7,000 against a project commencing in 2015. Thus, the said amount should have been deferred to future periods to be eventually set-off against the respective expenditure. In view of this, an audit adjustment was passed in the final set of accounts to defer this amount.

Points not addressed.

Income from LES administrative fees as recorded in the books of account was understated by €154 when compared to the respective report extracted from the computerised system.

Point noted.

Birgu

The amount of €9,498, deducted by DLG from the Council's financial allocation, to settle the outstanding balance due to WasteServ Malta Ltd, was erroneously recorded by the Council against Other Supplementary Government Income. Similarly, the Council wrongly classified Other Government Income of €23,952 as Supplementary Government Income. Moreover, a penalty of €647 and an e-Government fee of €120 were netted off against the Government allocation. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Income arising from the *Birgufest* activity held in 2013 (€6,000) was wrongly accounted for as income for the year under review, since no provision for accrued income was made in the prior year. Additionally, income from LES administration fees, as recorded in the books of account, was overstated when compared to the respective report extracted from the system.

Contrary to Article 53 of the Local Councils Act, which regulates the employment of personnel, the Council employed four clerical persons as at time of audit. Despite that LGA was informed by the Mayor that DLG's approval was obtained for the recruitment, no such written approval was provided for audit purposes.

A review of the minutes revealed that in some instances, the Council paid overtime to an

employee without confirming and approving the hours claimed. Furthermore, some of the said hours were worked from home. However, no formal approval for the payment of these amounts was provided to LGA.

In breach of Memo 1/2010, although the Council obtained the minimum required number of quotations, it failed to publish a call for offers, for expenditure amounting in total to €6,931. In addition, as highlighted in **Appendix L – Table 1**, the Council did not raise purchase orders and obtain quotations with respect to other expenditure aggregating to €6,314. Moreover, the amount of €2,190, paid to a third party tasked with raising and lowering a flag, was not covered by neither a quotation nor a contract.

The invoice covering accountancy services of €3,061 was not made available to LGA. The Council also failed to provide a contract in support of the amount of €4,853, incurred with respect to landscaping works carried out between February 2013 and January 2014.

A rental expense of €4,650, pertaining to the years 2011 to 2014, was fully recorded in the year under review. No prior year adjustment was proposed in view of the immaterial impact on the Financial Statements for the last three years. However, an adjustment of €1,800 was incorporated in the books, to account for the portion of 2014 which was not accrued for by the Council.

No travel report was prepared with respect to trips made to Bulgaria, Strasbourg, Estonia, Italy and Slovenia, costing €20,291 and undertaken during the year under review in connection with various EU projects. As a result, LGA could not ascertain the correctness of the amount recorded as travelling expenditure, and that such amount is in accordance with the travel guidelines issued by the Government. Moreover, LGA was not provided with documentary evidence to support travel expenses amounting to €5,001, most of which were reimbursements and a subsistence allowance relating to the Bulgaria visit.

Since the Council failed to provide information regarding the number of persons who attended the Christmas party, costing €1,908, LGA could not ensure whether the provisions of Memo 8/2011 were adhered to.

The Council's website was capitalised and recognised as an intangible asset in the unaudited Financial Statements, despite the fact that it does not fall within the scope of IAS 38. An audit adjustment was proposed and reflected in the books, thus writing down the value to nil.

A number of differences were noted between NBV of assets as recorded in the Financial Statements and the nominal ledger. The most significant discrepancies identified related to the Construction (€7,417) and Office Furniture and Fittings (€7,525) categories.

According to report extracted from LES, outstanding pre-regional contraventions decreased from €107,142 in 2013 to €99,173 as at 31 December 2014. However, this movement has not been reflected in the Council's books of account. Since no plausible explanations or evidence supporting the decrease was provided to LGA, no audit adjustment was proposed.

The creditors' list includes various debit balances, amounting in total to €3,313. Another debit balance in the aforementioned list produced by the Council is that of €7,000, which was paid by the latter as an initial deposit for a stair lift installed near the parish church. Subsequently, an agreement was reached with the Sovereign Military Order of Malta to finance the full cost of the lift, and the creditor reimbursed the deposit paid by the Council. However, this was erroneously accounted for as General Income. An audit adjustment was proposed to reverse the income and the debit balance in the creditor account.

A number of shortcomings were identified by LGA in the reconciliation of creditors' balances to suppliers' statements. Differences in aggregate amounting to €924 were noted between two suppliers' statements and their respective creditors' balances. No explanations were provided in respect of such differences and hence, no audit adjustments were proposed. Another creditor's balance of €6,300 was omitted from the books, while three invoices dated in 2014, amounting to €18,900 and relating to the same creditor, were accounted for as accruals. An audit adjustment of €25,200 was passed in the books to correct this creditor's balance in the audited Financial Statements.

Notwithstanding that it is a criminal offence to deduct NI contributions and income tax from salaries paid to employees, without remitting the said deductions to the Commissioner of Inland Revenue (CIR), the balance of €31,623 as recorded in the Council's books of account covers dues since the year 2011. Although the Council has a formal repayment agreement to settle the tax and NI contributions due for 2011 and 2012, the amounts relating to 2013 (€10,082) and 2014 (€5,102) are not covered by such repayment agreement. Furthermore, payroll tax liabilities of €5,208 were erroneously classified as trade and other payables.

Despite that both the Mayor and the contractor confirmed that there were no outstanding amounts in connection with the *Seatoland* project, the Council recorded the sum of €27,000 as due to the said contractor. An audit adjustment was thus proposed by LGA to reverse the liability.

Given that the list of accrued expenditure was not drawn up by the Council, this had to be extracted by LGA from the nominal ledger. It also transpired that an accrual of €2,405 for the printing of calendars was merely based on a quotation, with the actual invoice bearing a lower amount. Furthermore, accruals for performance bonuses, rent, and waste disposal fees, were understated by €900, €1,800 and €673 respectively, whilst the accrual for cleaning and maintenance of public gardens was overstated by €971. Moreover, the Council did not reverse opening accruals of €4,355. Such errors were rectified by means of audit adjustments proposed by LGA.

A machine which delivers life-saving defibrillation therapy, costing €3,702, was financed out of a sum of €5,300 received from third parties. Since this latter amount was recorded by the Council as income, adjustments were proposed to record the grant under the income approach, and to release a portion of it to the Statement of Comprehensive Income.

A bank confirmation letter indicated that the amount of €3,350 in a particular bank account has been blocked by the bank. No further explanation was provided by the Council in this respect. It also transpired that the Council did not disclose this restriction in line with IAS 7 and the contingent liability as required by IAS 37 in its Financial Statements.

The 2013 audit adjustments were not posted in the books of account because the year-end procedure was run in the accounting software before the finalisation of the previous year's audit, and the Accountant claimed that she did not know how to pass the adjustments. As a result, the Trial Balance provided by the Council did not tally with the approved Financial Statements submitted for audit purposes. Subsequently, the Accountant presented LGA with a fresh Trial Balance after posting the audit adjustments of the prior year. However, all adjustments affecting profit and loss were posted on 1 January 2014 against the income and expense accounts instead of retained earnings, creating a difference of €4,954 between the unaudited Financial Statements and the revised Trial Balance. The Council approved an audit adjustment to record those adjustments that had been proposed during the previous year's audit.

The Council's personal accident insurance policy is on a worldwide basis, with a consequential higher premium.

The extent of the audit adjustments, and the limited audit work due to poor bookkeeping practices as well as lack of proper listings and documentation in support of the books of account, indicate that the Council's accounting function is of concern and needs to be addressed promptly, and significantly improved.

The Council failed to provide a reply to the Management Letter.

Birkirkara

Following the expiration in 2003, the agreements with the Ministry for Social Policy, as well as that with the Welfare for the Elderly Department, and the Libraries and Archives Department for the lease of parts of the Civic Centre, were not formally renewed. However, during the year under review, the Council received an aggregate amount of €17,964 as rental income from such premises. This issue was already brought to the Council's attention during the preceding year.

Notwithstanding that the contract covering the services of mixed household waste collection expired on 30 June 2014, the Council also continued to procure such services from the same

service provider, thus incurring an amount of €114,689 under an expired contract. This goes against Memo 10/2013, which instructed Councils to start preparing for a new call for tenders ahead of the expiry date of existing contracts.

In January 2013, the Council received an invoice, amounting to €2,809, for the leasing of bins, which was still unpaid by year-end, on the basis that the agreement entered into in prior years was only signed by the Mayor, thus rendering it invalid. The new Council's administration decided to withhold such payment; however, it was notified that the respective company is seeking legal action to collect the amount due.

As also reported in the preceding year, albeit the tender agreement signed for refuse collection stipulates that skips are to be emptied on a daily basis, the Council instructed the service provider to empty skips twice daily. This resulted in additional expenditure on refuse collection of €57,600 in 2014. In such a situation, the Council should have issued a call for tenders to ensure that it receives the service at the most advantageous rate.

It also transpired that the tender for cleaning and maintenance of public convenience, which was reissued in 2014, was awarded to the same contractor that used to provide the service under the old agreement. Notwithstanding that the rates quoted by the latter under the new tender were lower than those in the previous tender, the contractor still continued to invoice the Council under the old rates thereby resulting in an approximate additional charge of €3,166.

The Council could not trace the tender file with respect to the provision of services provided by the handy man.

An immaterial discrepancy of €124 was noted between income from LES administration fees as recorded in the books of account and the amount disclosed in the report generated from the system.

Testing carried out on the opening balances of PPE revealed that, whilst the cost of the embellishment of St. Helen Gardens project is listed at €331,547 in the Council's books of account, the architect certification showed a final amount of €306,016. No explanations were provided by the Council to

LGA, with respect to the resulting difference of €25,531.

The Council's inventories of €3,772 comprise books intended for resale. However, it was noted that such stock is slow moving, in fact, eight books were given out as awards during school prize days and other ceremonies. In view of this, the Council should assess whether the books are being accounted for at the lower of cost and net realisable value in the Financial Statements. Write-offs or provisioning of inventories in accordance with IAS 2 might be necessary if the books remain slow moving or have no realisable value.

In addition to long outstanding receivables of €20,609 included in the debtors' list, the Council also recorded a provision against other doubtful receivables of €5,958. This indicates the Council's failure to collect the amounts due to it.

As highlighted in the preceding years, the Council occupies a building spread on three floors, which it intends to furnish into a Child Care Centre. This property is surrounded and adjoined with other property held by a developer. For safety and functional reasons, it was the desire of both parties that the said Child Care Centre is developed on one floor and be accessible from the adjoining public garden. In view of this, on 18 March 2007, the Council and the said developer entered into an agreement, whereby it was agreed that the Council would end up with the same area of *circa* 280 square meters. The adjacent premises, as well as the finishing of the said Care Centre, were to be provided by the developer to the Council. In return, the latter will transfer to the former the underlying and overlaying subsequent spaces without any consideration.

Furthermore, the developer will eventually be authorised to finish his property with a new façade overlooking the public garden when this is upgraded, with terraces rather than back yards, as approved by the Council. For this servitude, the developer is to pay the Council a consideration. During 2013, the Council received the sum of €45,161 in this respect, and at the end of the said year, it also recognised the amount of €85,285 as a balance receivable from this developer. Such balance was still outstanding as at 31 December 2014. Despite this, the Council is confident that the remaining grant is still receivable; however,

it cannot determine when it will actually be paid. In view of the lack of appropriate evidence, LGA could not obtain reasonable assurance on the recoverability of this balance, thereby leading to a qualification of the audit report.

As already reported in the previous year, the Council's accrued income includes grants of €22,174, receivable from DLG under two separate co-financing agreements that were completed and certified in 2012. In this respect, the Council is to seek explanations from DLG as to why such grants have not yet been advanced, and, if these are no longer receivable, the Financial Statements are to be adjusted accordingly.

During November 2009, a private limited company responsible for recycled waste, agreed in writing to forward on behalf of the Council, the sum of €30,821 to the Works Division within the then Ministry for Resources and Rural Affairs, in respect of restoration works carried out on the aqueducts. However, the latter informed the Council that no payments were received from the said company and thus it is seeking to recover the amount due from the Council in Court. In the light of these developments, the Council resolved to record the amount of €30,748 claimed by the Works Division in its legal letter. Conversely, the private entity later claimed that the amount was forwarded directly to the Council in previous years. During the year under review, the Council received a garnishee order, covering the amount of €30,821 due to the aforementioned Ministry. In view of this, to protect its interest, the Council is recommended to seek guidance from its legal adviser and DLG about this issue.

Furthermore, as at year-end, the private company in question still owed the Council the amount of €9,196, on account of a waste recycling agreement signed between the two parties, which expired on 30 June 2013. Although this debtor appears to be in financial distress, the Council failed to recognise a provision for doubtful debts.

Included in the Council's creditors' list are long outstanding substantial balances, amounting to €531,848.

A review of the creditors' list also revealed that included therein were debit balances of €14,179. However, the Council reclassified the amount

of €16,364 from the Creditors Control Account to the Debtors Control Account. Consequently, the discrepancy equivalent to the latter balance was shifted to the Debtors Control Account. It also transpired that one of the said debit balances was overstated by €1,038. In view of these shortcomings, the Council approved the adjustments proposed by LGA and amended the Financial Statements accordingly.

Accrued income of €42,937, receivable from the Northern Regional Committee for the period July to November 2014, was omitted from the Council's books of account. Such error was rectified by means of an audit adjustment proposed by LGA.

The sum of €65,061 was deducted from the annual Government allocation, in view that during the preceding years, the Council failed to pay for tipping fees which were covered by the respective allocation. Furthermore, during the year under review, the Council accounted for additional income of €67,352 in relation to tipping fees, on the assumption that this will eventually be paid by DLG. However, since such amount was not yet remitted to WasteServ Malta Ltd, LGA recommended the Council to reverse the transaction. Nevertheless, the Council refused to approve the proposed adjustment on the basis that the Department was allocated with a budget to settle these balances.

The Council failed to prepare the three-year rolling business plan; the last plan available on the Council's website covers the period 2012 to 2014.

The Council failed to provide a reply to the Management Letter.

Birżebbuġa

No petty cash reconciliations were carried out by the Council. The latter also failed to take on board previous year's recommendation with respect to the preparation of a petty cash sheet, including an analysis of the petty cash expenditure and the respective allocation in the nominal accounts.

Point not properly addressed.

Despite that year-end reconciliations were prepared correctly, it was noted that bank reconciliations were not carried out on a monthly basis.

All bank reconciliations are carried out on a monthly basis, however there were a couple of months when the respective reconciliations were not printed and attached to the statements. This issue was addressed later on during the same year.

Although the Council has a FAR in place, this was not updated. A net discrepancy of €6,032 was identified between the assets' cost as disclosed therein, and the amounts recognised in the accounts. Moreover, a balance of €600,357, relating to Special Programmes, was included as an addition with Assets under Construction. Such error was rectified by means of an audit adjustment. A further adjustment of €66,036 was posted to reflect the related depreciation charge. The Council also failed to tag assets as recommended in previous Management Letters.

LGA's recommendations have been noted and the Council shall check all assets included in FAR. With respect to tagging, the Council is aware of the situation and it intends to conduct a tagging exercise so that all assets will be labelled by 2015.

Included with the debtors is an amount of €69,980, which the Council is claiming from Żurriq Joint Committee, in connection with pre-regional contraventions, paid since December 2008 and remitted to the Committee by mistake. However, according to the confirmation letter obtained from the said Committee, the balance payable to the Council stood at of €60,799, thus resulting in a difference of €9,181. Although the Joint Committee was to investigate the Council's claim for payment, to date neither the results of the investigation, nor the acknowledgement to pay this amount, were communicated to the Council. Due to the fact that the Żurriq Joint Committee is in the process of winding down its role in LES, recoverability of this balance remains highly doubtful. A qualified audit opinion was issued in this respect.

This issue is still under investigation.

It was also noted that the amount due from the Committee was included with LES rather than shown as a related party. Similarly, no distinction was made between related parties and other debtors and creditors. The necessary reclassification adjustments were proposed by LGA and incorporated in the audited Financial Statements.

Table 7: Discrepancies between Amounts Receivable as per Books of Account and Confirmation Letters

Related Party	Balance as per Council's Books of Account	Balance as per Confirmation Letter	Difference
	€	€	€
<i>Kumitat Kongunt tal-Kunsilli Lokali</i>	69,980	60,799	9,181
Water Services Corporation (WSC)	2,406	536	1,870
Southern Regional Committee	949	465	484

No confirmation letters were received from three of the six related parties, owing a total balance of €1,973 to the Council. The remaining three confirmations revealed that the amount recorded as receivable in the books of account is overstated. Discrepancies are highlighted in **Table 7**.

Related party balances have been reclassified as proposed by LGA. Any discrepancies, which might occur during 2015, will be addressed immediately with the respective related party. Furthermore, as at year-end, all debtors and creditors were checked and reconciled for their correctness.

Similar shortcomings were also noted in the amounts payable by the Council. The amount due to WasteServ Malta Ltd as per Council's records and that indicated by the former in the confirmation letter differed by €7,686. No reconciliation was provided to LGA for such variance. Furthermore, no confirmations were received from another two related parties, owing an aggregate balance of €9,097.

LGA's comments have been noted and the Council shall re-assess any pending dues with WasteServ Malta Ltd.

Amounts aggregating to €1,125, payable to four service providers, have been long outstanding, whilst NI contributions and FSS payments for the month of November 2014, totalling €1,955, were still due to IRD as at year-end.

The issue of long outstanding creditors will be tackled and any necessary write-offs will be carried out accordingly.

Contractual services, amounting to €10,363, were not provided for, with the result that accrued expenditure was understated by the same amount. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

This issue arose since all the invoices making up the said amount were received in January 2015 and hence these could not be included in the Financial Statements.

As highlighted in **Table 8**, significant variances were noted between budgeted and actual income and expenditure.

Table 8: Variances between Budgeted and Actual Income and Expenditure

Item	Budget	Actual	Variance
	€	€	€
Income			
Central Government	833,758	778,874	(54,884)
Contraventions	50,000	-	(50,000)
Bye-laws and General	24,150	22,300	(1,850)
Expenditure			
Capital Expenditure	465,000	711,331	246,331
Operations and Administrative Expenses	486,568	676,489	189,921
Personal Emoluments	98,347	111,379	13,032

The Council has ensured that the budget prepared for 2015 reflects the actual needs of the Council. Hence, this situation should not repeat itself in the following year.

Although all Councillors were shown as excused for absenteeism during Local Council's meetings, these were not discussed to certify their validity. Moreover, some Councillors did not provide the Council with a signed letter to justify their absence.

The Council is aware of the Local Councils Act provisions with respect to Councillors' attendance to meetings. Such provisions were applied by the latter since November 2014.

The employment of Council's employees is not covered by a formal written agreement.

The Council shall rectify the situation during 2015.

Bormla

The Council continued to procure the provision of services pertaining to collection of bulky refuse and street sweeping from the same contractor, even though the related contracts expired on 30 November 2013. During the year under review, expenditure incurred in this regard amounted to €8,966 and €23,298 respectively. The same applies for the agreement covering the collection of mixed household waste, which expired on 1 June 2014. From the expiration of the contract up till year-end, the Council was invoiced an aggregate

amount of €54,433 for such service. According to the Council, these tenders are in dispute and currently undergoing legal procedures.

Notwithstanding prior recommendations, four purchases, amounting in total to €3,021, including two airline tickets, were again not supported by a purchase order in line with standing procedures.

Purchase orders are issued regularly, almost for every purchase between €23.29 and €1,165. However, the Council noted LGA's comment with regard to the four purchases indicated above, and will endeavour to avoid such mistakes in the future. On the other hand, all purchases in excess of €1,165 and up to €4,658 are made through a call for quotations published in the Government Gazette and another local newspaper.

Although LGA was provided with the original document for the group personal accident insurance policy, the identity of the insured persons could not be confirmed since only the officials' designations were included in the said record.

LGA's comments were noted and action has already been taken to include the names of the insured persons.

The amounts of €3,398 and €1,079 were reimbursed with respect to two visits to Chichester²⁰ and Belgium²¹ respectively. These covered all the costs incurred, namely subsistence allowance, flights and accommodation. Although the subsistence allowance rates as per MFEI

²⁰ The Mayor travelled to Chichester to participate in the 24th Symposium of the European Walls Association.

²¹ The Executive Secretary travelled to Belgium to attend the UDITE Congress in Antwerp.

Circular No. 5/2012 – ‘Travel on Official Duty’ were used to calculate the amount due, LGA was not in a position to determine whether the total amount paid was correct and in line with the said circular, since no travel report was provided.

Action has already been taken and all reports have been filed, including statement of expenses and post-travel reports. Effort shall be made to ensure compliance in future travel.

A review of FAR revealed that certain assets were allocated to the wrong categories whilst other assets were not tagged and referenced to FAR. It was also noted that, included in FAR, were a number of assets which are not in good working condition.

LGA’s comments with respect to the tagging of assets were taken immediately. In fact, all Computer and Office Equipment, as well as Office Furniture and Fittings were tagged and referenced to FAR. Moreover, in line with LGA’s suggestion, the photovoltaic system shall be reclassified as Plant and Machinery. With respect to the disposal of obsolete assets, action has already been taken to scrap such items. A list of these items was approved by the Council on 26 March 2015.

After several reminders by LGA, the latter was provided with a grant schedule that is not in line with the income approach treatment, as required by Memo 1/2015. Among the identified shortcomings are the following:

- a. The amount of €1,950, received from the Housing Authority with respect to expenditure incurred in 2013, was recorded as deferred income rather than income. The Council approved the necessary audit adjustments and corrected the Financial Statements accordingly.
- b. On the other hand, the grant of €2,300, received in respect of the live streaming system, was fully recognised as income for the year. An adjustment to reverse the transaction and show it as deferred income was carried out. A further adjustment was passed to amortise part of the same grant, equivalent to the depreciation charge.

- c. Another net adjustment of €5,173 was included in the final set of Financial Statements to rectify the incorrect release of deferred grants to income. Furthermore, the Council did not apportion deferred income between current and non-current portions. Thus, another adjustment of €12,315 was passed, ensuring that these are properly reflected in the audited accounts.

Points noted. The Council will do its best to ensure that during 2015, the grants schedule is updated in line with Memo 1/2015. Meanwhile, the necessary adjustments were approved and the Financial Statements were amended accordingly.

In breach of standing regulations, the Council did not deposit custodial receipts on a timely basis. For example, a receipt of €1,003 received from the Land Department on 23 June 2014, was only deposited a week later.

The Council’s officers were instructed to increase the number of deposits from twice a week to a minimum of three. If and where possible, deposits will be effected daily. The delay between receipt date and actual deposit is due to the system adopted by the bank, where bank deposit slips are sent by post the week after.

Included with accrued expenditure was a provision amounting to €12,208 for diesel indexation, covering years 2010 to 2014. However, in view that the respective invoice was issued prior to year-end, a reclassification audit adjustment was approved by the Council to recognise the aforementioned amount with payables.

LGA’s comments were noted and the Financial Statements were adjusted accordingly.

The Council did not obtain monthly suppliers’ statements from all its creditors. Furthermore, when comparing creditors’ balances in the books of account with the suppliers’ circularisation letters, an unreconciled difference of €3,205 was identified by LGA, relating to five of the 13 creditors selected. The respective discrepancies are highlighted in **Table 9**.

The debit note and invoice were not recorded by mistake and thus these will be disclosed accordingly during 2015. On the other hand, the

Table 9: Unreconciled Discrepancies between Payable Amounts as per Books of Account and Suppliers' Confirmations

Creditor	Variance	Remarks
	€	
1	1,015	The Council is contesting this amount and is refusing to pay it.
2	928	The Council did not record a debit note of €984 and an invoice amounting to €56. No adjustment was proposed in this regard.
3	548	LGA was informed by the Executive Secretary that there are no amounts due to this supplier.
4	543	The Council informed LGA that the said supplier was instructed to develop a website, which website was never done. Thus, the amount in question is deemed as not due to the supplier. No audit adjustment was proposed as LGA did not receive the creditor's reply to confirm that there is no outstanding balance.
5	171	The amount in question was not recorded in the books of account. No adjustment was proposed as this was deemed immaterial.

amount of €171 owing to WasteServ Malta Ltd was recorded in the Council's books of account. With respect to the amount of €548, an email was received from the supplier, confirming that the aforementioned balance is not due. This will be reversed during 2015. The amount of €543 with respect to the development of a website will also be written-off in the following year. Meanwhile, the Council shall strive to resolve the dispute with respect to the payable amount of €1,015.

Although the Council's trade creditors reduced significantly when compared to the prior year, these still include three balances, aggregating to €4,053, which have been outstanding for more than one year. On the other hand, long outstanding receivables, owed collectively by 45 debtors, amount to €21,691. Furthermore, similar to previous years, the provision for doubtful debts has not been updated. A discrepancy of €1,881 was still noted between the debtors' list and the provisions list. Moreover, debtors amounting to €7,205, which are considered as doubtful, have not been provided for.

During March 2015, the Council decided to reverse the aggregate amount of €3,420 due to two service providers, whilst the balance of €633 owed to Enemalta Corporation will be investigated and the necessary actions will be taken.

The long overdue debtors will be chased during 2015 and decisions will be taken to write off a number of outstanding balances which are deemed

as not recoverable. The provision for doubtful debtors list will be updated accordingly.

A number of accounting issues were also noted during the course of the audit. For example, expenses and fixed assets are not being classified consistently from year to year. A review of the Statement of Cash Flows revealed that the amount disclosed as grant received is accruals based and does not reflect actual cash received. Litter bins and street signs were still capitalised and depreciated at the rate of 100%, despite that these should be accounted for on replacement basis. In addition, accrued income brought forward was reversed against the wrong nominal account. Income received from sponsorships (€1,000) and community services (€242) was also incorrectly categorised as income from LES and Other Government Income respectively, instead of recorded under General Income. Other casting errors and shortcomings in the presentation of the Financial Statements were also noted. Disclosures required by IFRSs were not complied with. By way of example, no capital commitments note was disclosed in the Financial Statements.

With respect to the incorrect income classification, the Financial Statements were adjusted accordingly. As regards the presentation of the Financial Statements, the Council's Accountants were notified accordingly. Comments with respect to the Statement of Cash Flows were taken on board and the Financial Statements were amended accordingly.

A bank guarantee of €1,500 in favour of the Malta Environment and Planning Authority (MEPA) was not disclosed as a contingent liability in the unaudited Financial Statements. The Council also failed to state that the equivalent amount has been blocked in its bank account to cover the said guarantee. A contingent note was later included in the audited Financial Statements.

Financial Statements were amended accordingly and a full disclosure has been made.

The Trial Balance provided by the Council did not agree to the Financial Statements approved by the Council and submitted for audit. Moreover, the books of account were not updated.

A list of adjustments was provided by the Accountant and was meant to serve as an explanation for the difference in the dataset and the Financial Statements. The issue with respect to the updating of the books of account was noted and the Accountant was notified accordingly.

Similar to prior years, in breach of the requirements of the joint venture agreement relating to the football pitch, which is jointly administered with a third party, no audited annual report was prepared with respect to this venture. Moreover, the Council's Statement of Comprehensive Income does not include any amount representing the former's share of profit or loss for the year from this joint venture. Thus, since LGA was unable to determine whether the net profit for the year was misstated, a qualified opinion was issued in this respect.

The football pitch is no longer in use. Bank accounts were closed during 2014 and the bank balances were transferred to the Council's bank accounts and third party as agreed. No income was generated from this Joint Venture in 2014. Water and electricity bills and land rental bills are directly recorded in the Council's books of account. All transactions are therefore directly recorded in the Council's books and as such, feature in the audited Financial Statements. Nonetheless, during a joint management committee meeting held on 21 May 2015, it was decided that an income and expenditure report will be compiled for the last three years.

Dingli

No supporting documentation was provided by the Council with respect to accrued income aggregating to €12,750, thereby leading to a qualification of the audit report.

Point noted. The Council does its utmost to calculate accrued income appropriately.

Besides that income was not always categorised correctly, receipts relating to activities held during the preceding year were only recorded in the books of account during 2014, when the money was actually received. Moreover, Other Supplementary Government Income, as recorded in the books of account was understated by €4,953 since accrued income receivable from various schemes was not recorded. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

LGA's comments have been noted and the proposed audit adjustments were accordingly posted in the final set of Financial Statements.

Although the Council derived additional income, totalling €4,215, from the rental of telecommunication aerials, fitness courses, as well as rental of premises and vending machines, this was not covered by a bye-law.

LGA's comments have been noted and the Council shall act accordingly.

Despite previous year's recommendation, the Council still failed to prepare and sign a contract of employment with an individual who was employed as a full-time clerk as from August 2013.

Point noted and the Council shall rectify the situation.

A number of instances were noted whereby payment vouchers filed were not signed by both the Executive Secretary and the Mayor, and did not include any numerical sequence. It also transpired that no purchase request and purchase order forms were prepared for six items of expenditure, amounting to €2,216. The actual purchase orders for a further four items of expenditure, costing

€1,817, did not include an amount. Moreover, as highlighted in **Appendix G**, no VAT fiscal receipt was made available for disbursements of €33,250. On the other hand, expense items adding to €5,755 were not supported by an invoice.

The Council shall ensure that all payment vouchers are drawn up in accordance with the requirements of the Local Councils (Financial) Procedures. Moreover, the Council will strive to follow all procurement procedures and ensure that valid fiscal receipts and invoices are obtained for all expenditure incurred.

Following an argument with the contractor of street lighting installations and maintenance services in 2013, instead of issuing a new public offer, the Mayor replaced such contractor with the one who had offered the second best price when the call for tenders was originally issued in 2008. Total invoices issued by the latter during the year under review amounted to €11,587. Similarly, although the agreement pertaining to the collection of household waste had expired, the Council continued to procure such services until October 2014, incurring a total cost of €34,939 during the said year.

Comments noted and the Council will take LGA's advice and comply with the tendering procedures in all instances.

In breach of Memo 122/2010, the Council incurred a total of €5,334 in relation to the organisation of *Jum Had-Dingli*, when the expenditure for such event should not have exceeded €3,500 or 0.5% of the annual Government allocation (€1,497), whichever is the highest.

In the future, the Council will keep the set threshold in mind when organising such events.

For another year, the Council failed to provide a FAR to substantiate the amounts of fixed assets as recognised in the Financial Statements. Physical verification was also hindered since such assets are not tagged. It was also noted that certain fixed assets are not classified correctly and are thus being depreciated with the incorrect rates. Moreover, instead of being calculated and posted through FAR in the accounting system, as required by the Local Councils (Financial) Procedures, depreciation is being accounted for through a

journal entry. As a result, no practical procedures could be performed to obtain reasonable assurance on the existence and completeness of fixed assets, as well as on the correctness of depreciation charged thereon. A qualified audit opinion was issued in this respect.

The Council acknowledges that it currently does not maintain a FAR. As already discussed in the previous years' Management Letters, the Council had experienced a computer failure and the respective data was lost because no backup was kept. Attempts have been made in the past to compile a new FAR, but data was not available and thus these attempts were unsuccessful. Once FAR will be created, LGA's recommendations will be implemented. With respect to depreciation, since FAR is inexistent, this is being calculated on a spreadsheet and posted in the accounting system through a journal entry. Moreover, LGA's comment with respect to the depreciation rate has been noted and such issue will be rectified in 2015.

The Council did not provide LGA with adequate details and information on the opening balances of Assets not yet Capitalised, amounting to €477,192. The only information provided consisted of two schedules of expenses in relation to two projects, namely Measure 313/2010 and Measure 323/2010. According to such schedules, the total cost of these projects as at 1 January 2014 was of €441,282, thus resulting in a discrepancy of €35,910 when compared to the opening balance as per books of account.

It also transpired that, although Measure 323/2010 was completed during 2013, the Council did not capitalise the related cost of €61,176 and charge depreciation accordingly. Similarly, resurfacing works of €16,068, carried out on a rural road, which works were completed before year-end, were also not transferred from Assets not yet Capitalised, and consequently not depreciated. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

LGA's comments have been noted and the necessary adjustments posted accordingly in the final set of Financial Statements. During 2015, the Council shall undertake an exercise with the Architect to verify the assets that are still under construction.

Testing carried out on the Council's deferred income, revealed a number of shortcomings:

- a. Whilst a balance of €474,357 was recognised with respect to Measure 313, documentation provided by the Council indicated that the cost of such project is of €421,548, thus resulting in a discrepancy of €52,809. Moreover, the respective grant agreement was not made available for audit purposes.
- b. Although resurfacing works of €12,255 carried out on *Triq il-Qasam* were completed by year-end, the Council failed to release grants to the Statement of Comprehensive Income. Furthermore, the amount of €13,358, receivable in respect of resurfacing works carried out in *Triq l-Irdum* and *Triq Hal-Tartani*, was omitted from the books of account. It also transpired that deferred income, representing funds received for the upgrading and embellishment of Dingli Square, was understated by €117,605. Such errors were rectified by means of audit adjustments.
- c. Despite that deferred income of €67,414 was recognised for Measure 323, the related schedule of costs provided to LGA depicted an amount of €61,176, resulting in a difference of €6,238. No adequate explanation was provided by the Council in respect of such difference, hence no audit adjustment was proposed by LGA. Moreover, the respective grants were not released to the Statement of Comprehensive Income. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.
- d. No supporting documentation was provided to substantiate the balance of €6,985, representing funds received for photovoltaic panels in *Gnien il-Familja* and the Council's premises.

In view of the aforementioned shortcomings, LGA was limited in testing the deferred income balance of €853,673 recognised as at year-end. Consequently, a qualified audit opinion was issued.

LGA's comments have been noted and any proposed audit adjustments were incorporated in the Financial Statements. The Council would like

to point out that LGA was requesting information about projects which started and also finished a considerable number of years ago, during which the present administration of the Council was not involved.

Capital commitments, as disclosed in the Financial Statements and annual budget issued by the Council, amounted to €32,000 and €37,500 respectively, thus implying that disclosure in the Financial Statements was understated by €5,500.

The Council would like to point out that it is difficult to exactly predict future capital commitments since some projects would still be under discussion with the Project Managers.

The balance of tribunal pending payments and the respective provision for bad debts as included in the Council's Financial Statements (€1,467) was €13,755 less than that as per the respective LES report (€15,222). Such difference was accounted for by means of an audit adjustment.

LGA's comments have been noted, however, the Council would like to point out that the date range of the report covers the period during which contraventions were being handled by the North Joint Committee. Thus, contraventions issued during that period were not included under the Council's receivables.

Testing carried out on the Council's bank reconciliation revealed that five payments, totalling to €2,347 were posted twice in the books of account, thus resulting in the cash balance being understated and expenditure overstated. Such error was rectified by means of an audit adjustment.

Comments noted and Financial Statements updated accordingly.

Notwithstanding previous years' recommendations, the Council is still not obtaining monthly statements from its suppliers, as required by Memo 8/2002, thus the necessary reconciliations are not being carried out. Moreover, review of the Council's trade creditors as at year-end revealed that an invoice of €3,983 relating to engraving of aluminium material was left unaccounted for. Another invoice, dated in 2015, was recorded with creditors rather than accruals.

The Council does its utmost to request statements from suppliers and reconcile those received to the balances in the books of account. Moreover, whilst cut-off errors are regretted, the Council would like to note that only one issue occurred during the year under review. The necessary audit adjustments were accordingly incorporated in the Financial Statements.

As already highlighted in the preceding year, the Council made use of PPP scheme launched through Memo 45/2010. By virtue of this scheme, the Council entered into an agreement, whereby the contractor has undertaken road resurfacing works. However, during the said contract, the Council had to request work from another supplier, since the original service provider was defaulting. The terms agreed upon with the second supplier were different, although the amount due was still to be repaid over a number of years in line with the original contract. However, the Council incorrectly included total commitments of €99,888, due to both suppliers, as accrued expenditure under short-term liabilities rather than disclosing part of such payable as a long-term liability. The incorrect distinction between long-term and short-term obligations, coupled up by the fact that no workings were provided, led LGA to qualify the audit opinion.

Amounts shall be reclassified in the next financial year.

The Council does not maintain accounting data at its offices. In fact, upon requesting a copy of the nominal ledger from the Council, this was made available by the Accountant. Moreover, in view of the fact that the Council appointed a new Accountant during 2014, it does not have any backup of the previous years' accounting data.

Although any reports, which are requested from the Accountant, are forwarded by the latter at the earliest, the Council shall be installing the accounting software at its premises in due course.

Fgura

The Council's list of deferred income included a grant of €2,400 relating to the Youth project. However, from review of the respective agreement, it was established that the grant receivable actually

amounted to €1,200. Moreover, despite that the Council has received the latter amount during the year under review, this was not released to the Statement of Comprehensive Income. Following LGA's recommendation, the Council eliminated the deferred income and released the amount of €1,200.

The Council has erroneously accounted for the same transaction twice. The matter was discussed during the audit and the error was corrected in the final version of the Financial Statements.

During the year under review the Council entered into a grant agreement of €50,000 covering a pilot project of soft areas. This grant enabled the Council to purchase 40 concrete pots, 40 trees and the removal of old planters for €30,000, €3,400 and €1,520 respectively. The unspent balance of €15,080 was to be used for the maintenance of the project. From testing carried out, it transpired that the Council did not release the portion of the grant (€1,860) relating to the purchase of trees and removal of planters. Such shortcoming was rectified by means of an audit adjustment. It was also noted that, although the pots were purchased during December 2014, the Council released grants of €3,000 using the reducing balance method on an annual basis rather than on a monthly basis. However, given that the difference is immaterial, and since the release matches the depreciation charge in the Statement of Comprehensive Income, no audit adjustment was proposed. Due to these misstatements, the current portion of deferred income was overstated by €1,375, thus, a reclassification adjustment was proposed, which the Council correctly incorporated in its Financial Statements.

The matter relating to the depreciation of pots is technical and shall be discussed with the Council's Accountant and Auditors during 2015, with a view to propose corrective action. The other adjustments proposed by LGA were accordingly incorporated in the Financial Statements.

According to LES report, tribunal pending payments, representing pre-regional contraventions settled in 2014, and extracted from the computerised system, pre-regional LES debtors decreased by €3,555 from the previous year. However, another report, generated from the same system and provided to LGA during

audit fieldwork, showed that pre-regional contraventions paid and settled during the year under review amounted to €1,095, thus resulting in a discrepancy of €2,460. Although in its Financial Statements the Council recognised the amount of €1,095 as pre-regional contraventions collected, it was unable to provide an explanation for the variance. This casts doubt on the integrity of the data being generated from this IT system. Consequently, a qualified audit opinion was issued in this respect.

The Council cannot be held at fault when the IT system does not give a report for the explanation of movements. The Council can only record the payments received from pre-regional fines. The remaining movement in LES debtors is recorded as a decrease in the Statement of Financial Position and a decrease in the provision for doubtful debts.

Government grants of €235,087 were not allocated against the respective fixed assets, but were separately classified in the Council's books of account. As a result, LGA proposed a reclassification adjustment to account for such grants against each asset category, and the Council updated its Financial Statements accordingly.

The reclassification of the grants of €235,087 became known following the Council's exercise on FAR during 2014.

Although a FAR is maintained by the Council, it transpired that this is not in line with best practice and with the Local Councils (Financial) Procedures. In fact, LGA was provided with a register on a spreadsheet, which lacks a number of details, thus limiting its purpose. Furthermore, the Council continued to recognise street signs and litter bins in FAR as capital expenditure. It also transpired that, included in FAR are old purchases, such as, walkman and heaters, which by now are very likely to be obsolete.

FAR issues will be looked into during 2015.

Testing carried out on the Mayor's honorarium revealed that the amount of €1,600, pertaining to the Mayor's allowance, was incorrectly classified with the former. Such error was rectified by means of an audit reclassification proposed by LGA.

The error was rectified.

No public call for quotations was raised for expenditure of €2,090, incurred with respect to a garage rented for tribunal purposes. **Appendix L – Table 1** refers. Moreover, the Council did not issue a purchase order for such rent, as well as for a number of other instances, totalling €2,938.

This issue was not properly addressed.

A review of the accountancy services contract, which commenced in 2010, revealed that it does not stipulate the duration period. The amount incurred during 2014 by the Council in this respect was of €6,647.

A new tender was issued during May 2015.

Notwithstanding that Memo 122/2010 stipulates that expenses incurred in respect of *Jum il-Lokal* should not exceed €3,500 or 0.5% of the annual Government allocation (€2,567), whichever is the highest, expenditure paid by the Council in respect of this event totalled €3,743. Thus, marginally exceeding the maximum threshold.

The Council strives not to exceed the imposed limit, however, when organising such events, certain expenses turn out to be inevitable and that is why such limit was exceeded.

As already reported in the preceding years, the Council did not obtain statements from its suppliers, with the consequence that the related reconciliations were not carried out. From the statement of one of the Council's suppliers, it was noted that the amount payable differs from that disclosed in the books of account by €2,873. Although the Executive Secretary agreed with the amount recorded in the supplier's statement, no valid explanation was provided in respect of this variance. Similarly, a difference of €6,367 was identified between the invoices issued by another supplier and the respective balance as per the creditors' list. In this regard, the Council informed LGA that the invoices were revised by the supplier and amended in the books of account, however, no revised documentation was made available. Moreover, another invoice of €4,061, issued by the supplier, was not included in the accounting records. However, due to the lack of documentation, the final cost in question could not be established, hence no audit adjustment was proposed.

Not all suppliers send statements. The Council will perform checks on the difference of €2,873 since no discrepancies were encountered in the last reconciliation made. With respect to the difference of €6,367, the respective supplier was paid in full after year-end and there were no qualms with this supplier.

Included in the creditors' list were also two long outstanding balances, which were disputed as at time of audit. One of the said balances, amounting to €3,691, relates to works carried out at the new Council premises. This balance was not settled by the Council since the supplier requested payment of €8,969. Another disputed balance, of €2,396, related to patching works which, according to the Council's Architect, were not up to the required standard, resulting in a reduction in the final certificate of works. However, the Council did not eliminate the said amount from its books of account since the respective contractor never provided a credit note or other documentation to prove that the Council does not owe the balance in question.

The observation, as highlighted by LGA, with respect to the disputed balance relating to patching works is self-explanatory.

At the end of the year the Council's creditors' list included debit balances of €1,541, which have been reclassified by means of an audit adjustment proposed by LGA. Moreover, the closing balance of the said list as at year-end did not tally to the Creditors Control Account by €664; however, no audit adjustment was proposed since no explanations were provided by the Council in respect of this difference.

The error concerning debit balances in the creditors' list was rectified. As for the difference of €664 between the said list and the Creditors Control Account, the Council has never come across such a variance. However, checks will be carried out in this respect during 2015. Meanwhile, it would be helpful if the Auditors explain how such variance was computed.

During audit testing, carried out with the aim of detecting unrecorded liabilities, LGA could not trace the amount of €3,193 in the Council's books of account, relating to an invoice for the cleaning of gullies during the month of December 2014.

Point not properly addressed.

A number of shortcomings were also identified in trade receivable balances and accrued income. For example, included in the Council's list of debtors were five balances, aggregating to €2,290, which have been outstanding for more than one year. Moreover, an aggregate difference of €1,120 pertaining to LES Central and South Eastern Regions was noted between the Debtors Control Account and the invoices. No explanation was provided by the Executive Secretary in respect of such discrepancy. However, it was noted that such balances included invoices which, as confirmed by the latter, were already settled. It also transpired that the list of outstanding balances included an amount of €1,589, due from a previous Mayor, with respect to excess honorarium paid in 2010.

The Executive Secretary monitors the long outstanding debtors, however, although pressure is exerted on them, it is not always easy to reap fruit from such monitoring. As for the differences in the balances of LES Central Region and LES South Eastern Region, the Council will perform a reconciliation of the amounts in question. Moreover, the Council accepted LGA's recommendation to keep chasing the previous Mayor for the refund of the excess honorarium and to seek guidance from DLG in this respect.

Included within the Financial Statements were inventories of €875, representing books which the Council is giving away for free to school children, residents and anyone who requires more information about the Council. Furthermore, the stock list provided for audit purposes did not tally with the aforementioned amount by €1,005. No explanations were provided by the Executive Secretary with respect to such difference.

LGA's comments have been noted.

Testing performed on the Council's bank loans revealed that the current portion as disclosed in the unaudited Financial Statements (€21,937) was understated by €1,553 when compared to the calculations carried out by LGA. Consequently, long-term borrowings (€432,421) were overstated by the same amount. In addition, the interest rate of 3.65% on bank borrowings as reported in the Financial Statements did not tally with the

prevailing rates of 3.35% and 4.40% for the year under review, as set out in the bank statements.

The Auditor's recommendations have been taken on board for future accounts.

The Council could not provide LGA with an explanation for the increase or decrease in expenditure since accounts were not consistently grouped to enable comparison with last year's presentation. Moreover, it was also noted that the Trial Balance provided by the Council did not agree to the nominal ledger.

In the Council's opinion, the groupings are the same as in the previous years.

Whilst capital commitments, as recorded in the 2014 Financial Statements, stood at €426,750, those forecasted in the annual budget, prepared by the Council for the same year, amounted to €373,000.

The Council reduced the capital commitments with the aim of maintaining a positive FSI.

A difference of €1,117 was noted in the fair value of the Government Stocks as at year-end. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Point not properly addressed.

Floriana

Whilst acknowledging the Council's effort in compiling a FAR as required by Memo 1/2015, it was noted that the resulting difference of €5,372 between this register and the books of account was corrected by means of an adjustment. However, the Council's approval to write off both the cost (€20,609) and accumulated depreciation (€25,981) of the said assets, was not traced.

In addition, an overstatement of approximately €3,714 was noted in the Council's depreciation charge when compared to LGA's workings.

Comments have been noted and the Council is pleased that LGA acknowledged the efforts directed towards compiling a FAR. With respect to deprecation, the Council would like to point out that this is now being calculated through FAR.

A variance of €13,058 was noted between tribunal pending payments of €200,162 as disclosed in LES report generated from the system, and the amount of €213,220 recognised in the Financial Statements. No explanation was provided by the Council in this respect.

Furthermore, a report extracted from LES computerised system indicated that during the financial year under review, the Council received more cash than that shown by other reports generated from the same system. This casts doubt on the integrity of the data being generated from the IT system. A qualified audit opinion was issued in this respect.

Point noted, however, such issue occurs on a yearly basis and is beyond the Council's control.

No provision for doubtful debts was recognised with respect to LES debtors, amounting to €61,516, which have been outstanding for more than two years. This shortcoming was rectified through an audit adjustment.

LGA's recommendation has been noted and the Financial Statements adjusted accordingly.

Included with receivables are long outstanding balances of €2,000 and €1,175 due from a waste recycling company and CIR respectively. The latter balance represents an overpayment effected more than five years ago which has not yet been refunded.

The Council has taken appropriate action in respect of this matter.

Disclosed in the debtors' list is the amount of €9,440, which the Council is claiming back from the organiser of the New Year's activity held back in 2011, on the allegation that such organiser did not pay one of the main artists for his performance. The Council has no legal right to enforce payment by the contractor to the performer. This matter is to be discussed in a Council's meeting to assess the recoverability of this balance.

The Council took note of LGA's comments and intends to obtain legal advice and discuss the matter.

In reply to the debtors' confirmation letters circularised during the audit process, both WSC and the South Eastern Regional Committee confirmed that the amounts due to the Council were less than that quoted in the letter, by €3,300 and €230 respectively. Similarly, a non-reconciled discrepancy of €3,351 was noted between the amount due to WasteServ Malta Ltd as disclosed in the books of account and the respective supplier's statements. A qualified audit opinion was issued in this respect.

The Council believes that the balances receivable from WSC and the South Eastern Regional Committee as included in its books of account are correct and is thus unwilling to write them off. The discrepancy in the balance payable to WasteServ Malta Ltd has been rectified.

An analysis of the stock movement for the year revealed that the distribution of books and compact discs on a complimentary basis, amounting to 56, was relatively high when compared to the sale of 64 items. This implies that the value of stock held as recognised in the Financial Statements (€15,203), is higher than its realisable value.

The Council confirms that stock, comprising of books and other audio and visual material, is held for resale. However, on certain instances, the Council does distribute some of this stock as complimentary to distinguished guests.

Audit testing carried out on the recording of grants received by the Council revealed a number of inconsistencies. For example, funds received under three separate grants, aggregating to €9,459, were incorrectly recorded as income for the year. On the other hand, the grant of €105,445 received with respect to *GARDMED* project undertaken back in 2010, was fully accounted for as deferred income, notwithstanding that the granted amount was partly in respect of revenue expenditure. Similarly, funds received in relation to the *Silo* project were not released to income, despite that the related professional costs of €1,352 were expensed in the preceding year. All these errors were rectified through the audit adjustments proposed by LGA.

The Council took note of LGA's recommendations and adjusted its Financial Statements accordingly.

The group personal accident insurance policy financed by the Council, on behalf of the Councillors, Executive Secretary and clerical staff, is not limited only to Malta, but provides coverage on a worldwide basis.

In view of the fact that the Council has an international twinning and is involved in projects which comprise overseas travels, it is of the opinion that a worldwide insurance coverage is necessary.

In breach of MFEI Circular No. 5/2012, the Council did not prepare a report on the Mayor's official visit to Brussels and Ireland, with the consequence that LGA could not ascertain the travelling costs incurred, including the payment of a subsistence allowance.

LGA's comments have been noted, however, the Council would like to point out that the subsistence allowance was paid following DLG's approval.

Various accounting issues were noted during the course of the audit. Rent received in advance was erroneously accounted for as accrued income instead of deferred income, besides that at times transactions were recorded under the wrong nominal account, which errors were then rectified through an audit adjustment. Both the accrued income list and accruals list provided for audit purposes did not tally with the amounts recognised in the Trial Balance. Furthermore, the Council did not provide complete bank statements covering up to 31 December 2014, with respect to the two savings accounts it holds.

LGA's comments have been noted and the necessary adjustments were posted in the final set of Financial Statements. Moreover, the bank statements were actually obtained by the Council to perform the bank reconciliations.

The Council's capital commitments as disclosed in the unaudited Financial Statements, amounting to €105,221, did not agree to the budgeted capital expenditure of €136,471. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Point not properly addressed.

Fontana

The cost of assets in FAR was lower than that recorded in the nominal ledger by €194,632. Since this variance is approximately equal to additions acquired between 2010 and 2014, there is the possibility that new assets were not being included in FAR, as pointed out in previous years' Management Letters. Total accumulated depreciation in FAR, which stood at €128,099, also remained unchanged from previous years, with the consequence that this did not tally with the total depreciation plus grants in the nominal ledger, which amounted to €368,706. As a result, NBV as reported in FAR was higher than that disclosed in the Financial Statements by €45,975.

It also transpired that the depreciation charge for the year, which was calculated manually and on a monthly basis by the Council, was understated by €5,174. Moreover, the purchase and installation of decorative luminaries, amounting to €4,500, was accounted for as revenue expenditure rather than capital expenditure. These errors were rectified by means of audit adjustments.

In the preceding year's report it was highlighted that various Computer and Office Equipment, which were to be disposed of during 2013, were neither written-off from FAR, nor from the books of account. The then acting Executive Secretary was not able to identify these assets, and thus, they remained in the Council's records even though they are no longer in use. Since the said assets were still not identified as at time of audit, no audit adjustments could be proposed.

From testing carried out on the Council's additions for the year, it was also noted that no documentation was available to support architect fees of €1,097, incurred in connection with the extension of the Civic Centre. The Executive Secretary confirmed that some payment vouchers were missing as most probably they were misplaced.

LGA's comments have been noted and acknowledged by the Council. In fact, a new Accountant has been appointed and was specifically asked to tackle the issue with respect to FAR. Once FAR is updated, the Council shall ensure that it is maintained in line with the requirements of the Local Councils (Financial) Procedures.

Opening accrued income of €875, received during the year under review in connection with the Community Inclusive Employment Scheme (CIES), was not reversed by the Council. Moreover, CIES income of €528, pertaining to the month of December 2014, was omitted from the books of account. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Included within accrued income is an amount of €1,230 receivable from a waste recycling company, whose recoverability is questionable, given that it has been long outstanding.

The proposed audit adjustments were incorporated in the final set of Financial Statements. Moreover, LGA's comments about the long overdue amount of €1,230 have been noted and the issue of recoverability will be discussed with the Council members.

Whilst going through the list of un-presented cheques as at year-end, it was noted that a number of cheques, totalling €597, had become stale. In addition, a cheque of €721, issued by the Council during the year under review, was omitted from the books of account. The said shortcomings were rectified through audit adjustments.

LGA's comments have been noted.

The amortisation calculation pertaining to deferred grants received was incorrect, with the amount released to the Statement of Comprehensive Income being understated by €3,202. An audit adjustment was approved by the Council to recognise the correct amount in the Financial Statements. It also transpired that the Council did not apply proper cut-off procedures, since, invoices amounting to €1,156, relating to 2013, were recorded in the year under review.

Comments have been noted and any error is regretted.

In breach of the instructions given by DLG, during the period 2012 to mid-2014, the Council failed to issue invoices with respect to the administration fees charged to Regional Committees, with the consequence that these amounts remained unaccounted for, unless they had been paid. This

situation was rectified in the second half of the year under review.

LGA's comments have been noted. In this regard, the Council would like to point out that, for a considerable time, it only had an acting Executive Secretary. The new Executive Secretary has joined the Council halfway through 2014.

The contract for domestic waste collection expired in 2008, but since then, it was being renewed on a monthly basis, at the same rates. In 2010, the Council issued a call for tenders for the provision of this service. However, problems were encountered and the new contract was never entered into. Although the Council sought guidance on this issue from two different legal advisers, it has never received a formal response on the way forward. Finally, advice was sought from DLG, who recommended the issue of a fresh call, which the Council awarded in May 2014. During the first four months of the year under review, the amount of €4,046 was incurred by the Council under the expired contract.

The Council has exceeded the budgeted expenditure under a number of headings, mainly, Professional Services (€3,119), Utilities (€1,987), Office Expenses (€1,109), Miscellaneous Expenses (€1,030), Rent (€387) and Hospitality Services to the Community (€107).

Points not addressed.

Gudja

No employment contracts were drawn up by the Council, with the consequence that employees do not have a signed contract in line with their present conditions of work.

Although the Council believes that its employees are duly covered by indefinite contracts and collective agreements, it shall be seeking legal advice to comply with LGA's recommendations.

NBV as disclosed in FAR was overstated by €2,699 when compared to that recorded in the Financial Statements. Furthermore, for the third consecutive year, the Council failed to calculate the depreciation charge for the year through FAR. In addition, since certain assets were not physically

labelled, LGA could not obtain assurance on the physical existence of these assets.

LGA's comments have been noted and the Council intends to examine and update FAR to agree to the Financial Statements. Moreover, the Council shall endeavour to calculate depreciation through the software, thereby avoiding manual calculation. It will also be ensured that all assets are labelled to facilitate identification.

Included with receivables is an amount of €2,707 due from WSC, which has been outstanding for a number of years. In view that the Executive Secretary claimed that the recoverability of such balance is highly improbable, this was provided for through an audit adjustment. On the other hand, the trade creditors balance at year-end includes six long outstanding balances, aggregating to €8,462, which have been brought forward from previous years. The Council is again recommended to investigate these amounts and write them off in the event of unrecoverability.

Although a court case was filed in preceding years, no progress was registered by the Council, in resolving a dispute with a private company, which has been pending for a number of years. The contested amount, which totals €24,100, relates to work that the Council is claiming that was never performed by the contractor. Another amount of €4,074 due to another service provider is also in dispute, as a result of the discrepancies arising between the contractor's valuation and the contract manager's certification. Similarly, a balance of €2,094 is under contestation with another service provider, who is claiming payment for carrying out additional water services, in respect of which the Council has no evidence. In the last meeting held between the two parties at Ombudsman level, the service provider declared that since he was not paid from WSC, payment is requested from the Council. The three balances in question were still included in the creditors' list.

The Council shall strive to recover the amount of €2,707, however, failure of such recoverability will result in the balance being considered as irrecoverable and hence written-off from the books of account. With respect to trade creditors, included with the long outstanding balance of €8,462, are the amounts of €4,074 and €2,094, which, as mentioned by LGA, are currently in

dispute. In view of the said balances and the further disputed amount of €24,100, the Council believes that, unless proper judgement or an official order is given from competent authorities, it will continue to protect its financial interest. Nevertheless, the Council concurs with LGA's recommendation to reflect the outcome of any negotiations, judgements or rulings, in the books of account, as soon as there is a definite decision. The necessary investigations shall be carried out with respect to the remaining long outstanding balances.

A discrepancy of €5,531 was identified between the amount payable to WasteServ Malta Ltd, as recorded in the books of account and the respective supplier's statement. This error was rectified through an adjustment proposed by LGA. Meanwhile, audit sampling carried out on trade payables revealed that, besides the fact that the respective suppliers' statements were not available, no regular reconciliations were being carried out.

LGA's comments have been noted and the proposed adjustment posted accordingly. Moreover, the Council will direct efforts towards requesting periodic statements from suppliers and reconciling the balances reported therein to those included in the books of account.

Notwithstanding that a particular cleaning company was officially excluded from the award of public contracts for a period of two years with effect from 2 June 2014, the Council still carried out transactions with the said company, following the aforementioned date.

The Council concurs with LGA's recommendation and shall not perform any transactions with companies or individuals, who are not entitled to compete for Public Contracts. The Council believes that a list of unauthorised contractors should be made available to all Local Councils, to ensure full compliance.

Included in the 2015 budget is the amount of €200,000 for construction works on two roads, namely *Triq Hal-Saft* (€120,000) which was already approved by the end of 2013, and *Triq Birżebbuġa* (€80,000). Notwithstanding that the tender for this work was adjudicated during the year under review, the Financial Statements

incorrectly state that these works have not yet been contracted.

The Council agrees to LGA's comments and confirms that the said projects have been completed during 2014.

Gżira

Four contracts, which expired during the preceding years, covering bulky refuse and waste collection, architectural services, road markings and street sweeping, as well as grass cutting, were still in operation as at time of audit. Despite that this matter was already brought to the Council's attention in previous Management Letters, the latter is still making use of the same contractors' services, instead of issuing a fresh call for tenders. The Council incurred the amount of €108,703 during the year under review, under such expired agreements.

As already reported in the preceding year, a service provider signed an agreement to provide the collection and separation of household and commercial waste, as well as hiring of skips for one year, commencing on 1 April 2008. A new call for tenders was only issued in 2010, and was awarded to the same contractor. However, since one of the bidders filed an appeal to the Public Contracts Review Board, the Council was instructed to issue a new tender. The appellant disagreed with the Board's decision and decided to bring the case before the Court. No progress was registered with respect to this matter during 2014.

Points noted.

In breach of pertinent regulations, the procurement of a computer, as well as the related software bearing a total cost of €6,182, was not covered by a call for tenders. Meanwhile, as also highlighted in **Appendix L – Table 2**, instances were encountered whereby goods of the same nature were procured from the same supplier within a period of four consecutive months, without issuing a public call for quotations.

The Council was directly recommended by the Malta Information Technology Agency to procure the computer and related software from a particular supplier.

Certain invoices were not being approved and signed by the Executive Secretary prior to their presentation at the Council's meetings, as required in terms of the Local Councils (Financial) Procedures. In fact, whilst an invoice of €11,640 was left uncertified, a further four invoices, aggregating to €26,772, were approved by one of the Council's employees, rather than by the Executive Secretary.

Furthermore, during 2014, the full-time librarian changed her status to self-employed, with the Council being responsible for only 60% of her salary. However, such expenditure was only substantiated by a computer generated invoice, rather than a fiscal receipt. **Appendix G** refers. Testing carried out on a sample of transactions for 2014 revealed that other expenditure, aggregating to €6,778, was also not substantiated by a fiscal receipt.

LGA's observation has been noted and in the future, all invoices will be certified correct by the Executive Secretary prior to presentation at the Council's meeting. Moreover, the Council will request for a copy of the missing invoices.

Review of the Council's payroll records revealed instances, as highlighted in **Table 10**, whereby accumulated leave carried forward by two employees was significantly in excess of the 48 hours allowed by the pertinent regulations, and was not substantiated by written approval.

It also transpired that, whilst during 2013 one of the said employees benefited from 18 days of study leave, during 2014, the Council approved the same employee a further 285.75 hours of leave over and above his entitlement. However, no justification was provided to this effect.

It also transpired that the other employee was paid for 457 hours of overtime performed during

the four-month period, falling between July and October. Approval for such overtime was only sought from the agent Executive Secretary without any form of control over the amount of hours actually worked.

It was also noted that the Council is calculating payroll manually, despite that previously this was calculated electronically.

Since two of the Council's employees were hospitalised for a period of time, and there was no Executive Secretary, the Council had to stop its other employees from availing themselves of leave due to understaffing. This has also resulted in overtime as noted by LGA. Nonetheless, the Council has advised all employees not to carry forward hours of leave other than those stipulated by the regulations.

In May 2013, the Council signed a contract for the construction of pavements and kerbs to the value of €68,416, which project is financed through the Urban Improvement Fund (UIF). The respective amounts are forwarded to the Council upon certification by the latter's Architect, as well as that for Transport Malta (TM). In December 2013, the Council's Architect certified the works completed by the contractor on three streets, for a total amount of €62,721. However, the Council recorded this amount net of 10% retention money and 5% contract management fees, which were then accrued for by means of an audit adjustment. During the year under review, the Council also reversed the accrual of €9,094 in this respect, however, since the actual amount was not yet invoiced by year-end, it was reinstated by means of an audit adjustment.

LGA's recommendations have been noted and the Council ensures that management fees, retention fees and related provisions are properly accounted for.

Table 10: Leave carried forward in excess of the 48 Hours allowed by Pertinent Regulations

Leave carried forward as at	Employee 1	Employee 2
31 December 2012	326 hours	612.25 hours
31 December 2013	96 hours	96 hours
31 December 2014	225.5 hours	144 hours

Albeit prior year recommendations, FAR has not been updated and still lacks certain descriptive details, such as purchase date, supplier details and invoice number. Moreover, the respective assets are not tagged, thereby hindering physical verification.

The Council will ensure that FAR will include all the necessary details, such as purchase date and supplier details. With reference to the tagging of fixed assets, procedures will be implemented prospectively.

Widening of pavement works, amounting to €11,640, were incorrectly recorded as recurrent expenditure rather than capital expenditure. This error was rectified by means of an audit adjustment.

The recommendation put forward by LGA has been noted and the related adjustment was posted accordingly.

As already reported in the preceding year, following the adjudication of the tender for resurfacing of works in *Triq Sir Patrick Stuart* and *Triq Sir Fredrick Ponsomby* in 2010, the Council prepared a spreadsheet, calculating the amount payable and the method of payment in accordance with PPP payment scheme, which was discussed and agreed upon with the respective contractor. However, a discrepancy of €3,792 was noted between the balance disclosed in the accounting records (€46,904) and that recorded in the supplier's statement (€50,696). Notwithstanding prior year recommendations, by the time of audit, the Council had not yet discussed this difference with the supplier.

Moreover, in line with the agreement signed in April 2011, a portion of €37,646 of the above-mentioned project had to be partly financed by DLG. However, albeit such project was completed in 2012, the Council still had not received the sum of €25,098 until the end of 2014.

LGA's comments have been noted and the Council agrees to have a meeting with both the Architect and contractor. Furthermore, the Council will also communicate with the Department to enquire about the status of the payment of €25,098.

A discrepancy of €1,540 was noted between the amount payable to WasteServ Malta Ltd,

as recorded in the books of account, and the supplier's statement. From testing carried out, it transpired that such difference related to an unrecorded invoice, which was then incorporated in the accounting records by means of an audit adjustment.

The audit adjustment put forward by LGA was reflected in the audited Financial Statements.

Administrative fees of €1,517, pertaining to the last three months of 2014, were omitted from the Council's books of account. Moreover, the amount of €28,000 received from the Central Regional Committee for the funding of future projects, was erroneously recorded as income for the year rather than treated as deferred income. A further amount of €15,802, received in 2015 but relating to 2014, was not accrued for. Following LGA's proposed audit adjustments, the Financial Statements were amended accordingly.

LGA's recommendations have been noted and the Council has adjusted its Financial Statements accordingly.

Included in trade and other receivables is an aggregate amount of €4,411 that has been outstanding for more than one year. Out of this amount, a balance of €2,010 has been fully provided for by the Council, as it is due from a waste recycling company which is facing financial difficulties. The remaining balance of €2,401 is owed by Regional Committees.

Disclosed with other receivables is another long overdue amount of €2,776, receivable from a contractor. However, no evidence was traced substantiating such claim.

The Council will continue to chase the waste recycling company in order to settle the balance. Other amounts due to the Council will be followed up to ensure that these are recovered in a timely manner. On the other hand, with respect to the overdue balance of €2,776, the Council will discuss the matter with its Lawyer.

Capital commitments as disclosed in the Financial Statements and annual budget issued by the Council, amount to €80,800 and €70,800 respectively, thus implying that disclosure in the Financial Statements is overstated by €10,000.

Point noted.

LGA was not provided with the three-year business plan as required by the Local Councils (Financial) Regulations. The last plan prepared by the Council covered the period 2011 to 2013.

The Council will prepare the adequate three-year business plan as required by pertinent regulations.

Ghajnsielem

As already highlighted in the preceding year, the Council outsourced the exercise of reconstructing FAR from scratch. However, one of the problems encountered was the fact that the Council had no backups of the accounting system prior to 2008, as these were kept by the previous Accountant on his personal computer. The procedure adopted for the reconstruction task was to identify assets pertaining to the Council and gather all relevant documents about the items of PPE. As regards road resurfacing, the related expenses were extracted from the architect final certification. Furthermore, the Council listed all the assets present in the new Civic Centre and tallied them to the nominal ledger.

This approach created various discrepancies in the cost and accumulated depreciation of assets, as disclosed in Financial Statements of 2011. Whilst the closing cost of PPE as per audited Financial Statements for the year in question amounted to €1,046,654, the opening cost for the subsequent year was €889,317, thus implying a difference of €157,337, out of which €1,108 represented a reclassification of intangible assets. Likewise, a variance of €103,751 was noted between the closing accumulated depreciation (€464,800) and the opening balance in the subsequent year (€361,049), out of which €330 represented a reclassification of intangible assets. Consequently, to reconcile FAR with the nominal ledger, after eliminating the reclassification amounts, the net difference of €52,808 was accounted for as impairment through a prior year adjustment.

In addition, the new FAR lacked important details, particularly in respect of the new Civic Centre. For instance, total expenditure, including construction works, electrical works, as well as other expenses incurred in the building of the new Civic Centre, was grouped under one heading instead of being

disclosed separately. Thus, there is no assurance that the costs taken for the individual items of PPE are all correct and that the register is complete. Likewise, there is no assurance that the new calculation of the depreciation of the assets was carried out correctly. Sufficient details to ease the traceability of different assets are also lacking.

Due to the materiality of the amounts involved and the number of uncertainties in the valuation of PPE, there were no practical ways of obtaining reasonable assurance that such assets are not materially misstated. Thus, LGA had no other option than to issue a qualified audit opinion.

The Council has reconstructed its FAR from scratch, taking a proactive approach of compiling, categorising and taking photos of all assets held inside, as well as those found outside the Council's premises. Since the accounting software backups prior to 2008 were not provided by the previous Accountant, the only option of reconstructing FAR was to physically identify all assets and match them to the amounts recognised in the Financial Statements.

The variances of €157,337 and €103,751 noted in the opening cost and the accumulated depreciation, relate to differences between the value of the physical assets identified and the amounts recognised in the Financial Statements. The net variance of €52,808 relates to assets disposed of and impaired assets which were not written off during previous years. Since the Council was not provided with the accounting software backups, it could not separately identify the assets impaired or disposed. Depreciation calculation errors which were not adjusted by the previous Accountant, as has been noted in several previous Management Reports prepared by LGA, were also included in this variance.

As regards the grouping of expenditure in FAR, relating to the construction of the new Civic Centre, the Council has provided LGA with details on the amount of €236,750. It would be inappropriate to list for example architect fees, MEPA fees, aluminium works, plastering works and electrical works separately, since this would defeat the purpose of building a FAR. Moreover, the Council is in the process of coding its assets. However, it is surely understandable that electrical and plastering works would not be asset coded.

The proper reconstruction of FAR makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers. The new Civic Centre was inaugurated and used for the first time on 3 March 2012, and all assets relating to the Council's premises have been depreciated as from this date.

Assets which were still under construction were not included in the register, resulting in a variance of €141,848 between the cost of assets as disclosed in FAR (€1,020,282) and the amount recorded in the nominal ledger and Financial Statements (€1,162,130) presented for audit purposes. It was also noted that Government grants amounting to €45,612 were not disclosed in the register, implying that depreciation charge for the year was calculated on the total cost of assets, thus resulting in an approximate depreciation overcharge of €3,700. LGA was given to understand that these grants have never been included in the register, as the Council does not have the necessary details as to which particular assets the old grants relate to.

The grants were not included as part of FAR, as the Council could not reliably identify to which projects these relate and the year when these were received.

Despite various reminders, the Council failed to provide LGA with an architect report, proposing adjustments to works which were performed on the *Belvedere* project up till year-end, but which were not yet invoiced and accounted for. This implies that accruals and Assets under Construction are both understated. A qualified audit opinion was issued in this respect.

Point not addressed.

Through a circularisation letter, WSC confirmed that the balance due to the Council amounted to only €177. However, the amount receivable as per books of account totalled €2,054, thus resulting in a discrepancy of €1,877. It transpired that WSC was not receiving any invoices issued by the Council with respect to trenching permits.

However, the latter insisted that invoices were issued on a regular basis and that the full amount is due to the Council. In view of the immateriality of the amount involved, no audit adjustment was proposed to write-off such variance.

Such error resulted from an oversight by the Council's staff since they did not send the invoices in a timely manner. This situation has been brought to their attention and was rectified immediately.

A discrepancy of €1,074 was also noted in the balance receivable from the Ministry for the Family and Social Solidarity, with respect to the reimbursement of the salary of an Industrial Projects and Services Ltd (IPSL) employee. From verifications performed by LGA, it emerged that the Council accounted for both the gross salary and the employer's share of NI; however, only the gross element is receivable by the Council. Such error was rectified by means of an audit adjustment.

Point noted.

The Council did not apply proper cut-off procedures, with the result that expenditure amounting to €4,199, incurred during the year under review but which was not yet invoiced by year-end, was completely omitted from the books of account. On the other hand, accrued income in relation to bank interest receivable as accounted for by the Council was overstated by €1,684 when compared to the bank confirmation letter. The Council approved the necessary adjustments to increase accrued expenditure and reduce accrued income by €4,199 and €1,684 respectively.

The Council accepts the fact that some invoices relating to 2014 were not provided in a timely manner by its suppliers. LGA's recommendations have been noted and the audit adjustments were approved accordingly.

As highlighted in **Table 11**, instances were encountered whereby budget limits were not observed.

Table 11: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Professional Services	29,944
Contractual Services	21,347
Materials and Supplies	12,426
Travel	11,344
Street Lights	9,944
Transport	3,233
Office Services	1,614
Repair and Upkeep	1,054
Community and Hospitality	877
Utilities	140
Information Services	35
Training	30

For the year ended 31 December 2014, the Council forecasted a balanced budget. Utilities and office services have increased when compared to last year due to increased costs. Moreover, materials and supplies significantly increased due to a large number of materials used for maintenance of urban areas. Repairs and upkeep and street lighting increased due to lighting repairs, and signs and mirrors being replaced. Furthermore, contractual and professional services increased due to higher fees charged by contractors for new tenders issued during 2014. Whilst it should be ensured that the Council continuously monitors and compares the actual with the budgeted income and expenditure, LGA's recommendations are taken on board and, during the current financial year, funds within the budget will be reallocated and adjusted to reflect shifts emanating from decreases or increases in budgeted income or expenditure on a quarterly basis.

Gharb

The cost of assets in FAR is lower than that recorded in the nominal ledger by €38,846. Furthermore, total accumulated depreciation in FAR, which stood at €1,355,091, did not reconcile with the total depreciation plus grants in the nominal ledger, which amounted to €1,430,568. As a result, NBV as reported in FAR was higher than that disclosed in the Financial Statements by €36,631.

A review of the Council's FAR also revealed that two vehicles, purchased during the year under review, were recorded in the said register according to the payments made, rather than their actual cost. Moreover, although the payments recorded in FAR totalled €30,100, the actual cost of the vehicles could not be determined since this was not included in the invoice issued by the supplier. As a result of these shortcomings, despite that the depreciation charge for the year was calculated by the Council through FAR, it was understated by €24,533. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Despite instructions given to Local Councils stipulating that all new street signs should be fully written-off immediately to the Statement of Comprehensive Income when they are purchased, the Council has capitalised and fully depreciated new signs, amounting to €620. Following LGA's recommendation, the necessary audit adjustments were incorporated in the books to reverse the related amount and recognise such costs as recurrent expenditure for the year.

LGA's comments have been noted and the Council shall be implementing the recommendations put forward with respect to FAR. The Council shall also ensure that new street signs are expensed to the Statement of Comprehensive Income. The necessary adjustments have been incorporated in the final set of Financial Statements.

Whilst testing the Council's accruals and deferred income, a number of misstatements, arising from the lack of proper accounting, were encountered. For example, despite that the Council was uncertain whether it would receive funds of €22,207 in relation to Measure 125, this amount was still recorded in the books of account. Moreover, the Council's Accountant erroneously posted two entries, having a net amount of €52,343, in PPP scheme accrued income account, for which no explanation was provided to LGA. It also transpired that income of €12,957 and €12,000, which was already accrued for in preceding periods, was incorrectly accounted for as deferred income during the year under review, instead of being offset against opening accrued income.

A VAT refund of €2,521 received in relation to the Measure 323, as well as the amount of €2,300 received for the purchase of live streaming equipment, were erroneously disclosed as income for the year rather than deferred income. Moreover, income of €3,070, intended to cover sports activities undertaken in 2015, was also recorded as income for the year under review. These errors were rectified by means of audit adjustments.

Included with receivables is a long outstanding balance of €5,330 due from a waste recycling company. Despite LGA's request, no third party confirmation letter was received from this debtor. The former was merely provided with email correspondence indicating that the company in question shall settle the balance in 2015. From testing carried out on deposits after year-end, it transpired that the sum of €2,000 was actually settled. As a result, it was decided that no provision for doubtful debts is to be accounted for in respect of this long overdue balance.

LGA's comments have been noted and the adjustments proposed with respect to deferred and accrued income were reflected accordingly in the audited Financial Statements. The Council shall ensure that statements are requested regularly from debtors, and in the event of doubtful debts, a provision shall be immediately recognised.

Besides that bank reconciliations provided for audit purposes contained minor discrepancies, from a review of the bank letter, it also transpired that the Council did not record a bank account related to Measure 313, having a balance of

€57,487. The said account was incorporated in the Council's books through an audit adjustment proposed by LGA.

LGA's recommendations have been noted and the audit adjustment was reflected in the Financial Statements.

Instances were encountered whereby amortisation of deferred income for the year was incorrectly calculated. It transpired that on three occasions the respective amortisation was understated by a total of €3,524, while on another four occasions, this was overstated by an aggregate amount of €1,904.

The Council shall be adhering to the requirements of IAS 20. The audit adjustments proposed by LGA were accordingly recorded in the Financial Statements.

A discrepancy of €3,445 was noted between the amount payable to WasteServ Malta Ltd as recorded in the books of account, and the respective supplier's statement. It transpired that both the amount of €2,715, which was paid directly to the creditor by DLG, as well as invoices totalling €6,160, were completely omitted from the accounting records.

A review of the Council's aged payables list also revealed a difference of €3,600 when compared to the balance included in the Creditors Control Account. Further investigation revealed that the Council recorded a journal entry to reverse expenses relating to 2013, which expenses were never actually reflected in the books of account, thus resulting in the aforementioned discrepancy. In view that the amount involved was not considered material, it was not deemed necessary to account for a prior year adjustment. Hence, such error was reversed through a current year audit adjustment.

Three invoices, aggregating to €1,662, were omitted from the records, understating both the payables and the expenses. The Council also failed to accrue for another seven invoices, totalling €7,276, which were dated in 2015 but pertain to goods and services received in 2014. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

LGA's comments have been noted and the necessary adjustments posted. The Council shall do its utmost to abide with the accruals concept.

The Council recorded the amount of €1,300 as income. This was collected during a social activity held by the Council, to be donated to a charitable institution. Following LGA's recommendation, the Council approved to reverse such transaction.

The adjustment put forward by LGA has been incorporated in the final set of Financial Statements and the Council shall ensure that this error is not repeated.

The Council has exceeded the budgeted expenditure in certain categories as indicated in **Table 12**.

LGA's comments have been noted and the Council shall make sure that such situation is not repeated.

Gharghur

The tenders with respect to the collection of mixed household waste, as well as the collection of bulky refuse, expired on 31 March and 28 February 2014 respectively. However, the Council continued to procure such services from the same contractors, incurring the amount of €16,530 and €1,089²² respectively under the expired contract.

In order to ensure continuity of service, the Council unanimously agreed to extend the term of the collection of mixed household waste and the collection of bulky refuse from the same suppliers

until the new contract is in place. The arrangement carries also the approval of DLG.

Upon the termination of the agreements covering the maintenance of traffic signs and road markings, as well as the cleaning and maintenance of parks and gardens, which were both awarded subsequent to a call for tenders issued in 1995, the respective contracts also continued to be renewed automatically year after year. During 2014, the aggregate sum incurred in respect of such services totalled €4,475.

Guidance is being sought from DLG on this issue.

In breach of the Local Councils (Financial) Procedures, a purchase order was not issued in respect of various expenditure items totalling €764, of which €535 was also not covered by a proper invoice. Furthermore, as also highlighted in **Appendix G**, expenditure aggregating to €1,154 was not substantiated by a fiscal receipt.

Point noted, however the Council would like to point out that in most instances purchase orders are issued.

As also reported in the preceding year, regular reconciliations between the petty cash balance in the nominal ledger and the actual cash count were not carried out. As a result, the unaudited Financial Statements showed a negative petty cash balance of €246. A backdated cash count performed by LGA revealed that such balance should have actually been nil.

Table 12: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Community and Hospitality	12,563
Contractual Services	6,195
Repairs and Upkeep	3,690
Information Services	2,122
Transport	1,350
Utilities	785
Office Services	345

²² Amounts were computed on a *pro rata* basis, taking into account the full costs incurred in 2014 as quoted in the Management Letter, the expiry date of the respective contracts, and effective dates of newly awarded contracts.

The Council took note of the identified difference, however it is important to point out that this arose due to a double inclusion of one chit in two subsequent petty cash statements. Furthermore, the fact that the Council does not issue the reimbursement cheque dated at period-end leads to a timing difference, leaving the balance in the books temporarily in the negative.

It transpired that €2,149, i.e. 35% of the Council's total receivables pertain to amounts owed by various Regional Committees, of which €559 has been long outstanding. In addition, as at year-end, a waste recycling company, which appears to be in financial distress, still owed the Council the amount of €2,912.

Dues from debtors are being followed up on a regular basis.

Included in the Financial Statements was a prepaid balance of €37,472 brought forward, of which only the amount of €4,915 was reversed during the year under review. It was further noted that the sum of €24,893, relating to UIF was incorrectly reversed against deferred income, instead of the aforementioned prepaid amount. In view of this, a reclassification adjustment was approved by the Council to rectify this error.

The Council's Accountant noted that there was an error in the year-end procedures and upon being notified he has calculated the adjustments required to rectify this matter. These changes have been duly reflected in the audit adjustments and reclassifications presented to the Council by LGA.

Audit procedures carried out on fixed assets revealed that FAR maintained by the Council does not reconcile to the amounts recorded in the nominal ledger. Moreover, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balances of PPE, as well as on the depreciation charged thereon. Thus a qualified audit opinion was issued in this respect.

Observation noted. The acquisitions made in the last years will be duly updated in the software module.

The Council's assets were not tagged with the respective fixed asset code. Furthermore, the cost

of computer software and website, amounting to €825 and €1,143 respectively was incorrectly capitalised as Computer Equipment under PPE, rather than as an intangible asset in line with IAS 38. Hence an incorrect depreciation rate was charged. The depreciation charge of Plant and Machinery was also incorrectly classified with that of Office Equipment. Following LGA's recommendation, the Council approved the necessary adjustments and amended the Financial Statements accordingly.

Action has been taken to disclose computer software and website separately as an intangible asset, as well as to calculate the related depreciation charge in line with LGA's recommendation. Likewise, assets will be tagged as recommended.

For a one-year period starting 1 June, the Council maintained an insurance coverage of €171,890 against its assets, consisting of the Administrative Buildings, Office Furniture and Fittings, Office and Computer Equipment, as well as Plant and Machinery, which as per the unaudited Financial Statements, had an aggregate cost value of €191,455 as at year-end. This implies that overall assets were under-insured by the amount of €19,565. However, since LGA was not provided with an itemised detail of the coverage, the latter could not identify the under-insured assets.

The Council is convinced that the insured values adequately cover the assets' replacement value. However, these will be re-visited as the insurance policy is due for renewal.

Notwithstanding that the accounting records revealed the sale of a number of books during the year under review, no specific details were provided for audit purposes.

LGA's comments have been noted. However, the Council would like to clarify that the book entitled 'Aghraf Wirt ir-Raħal Tiegħek' is not a publication of the Council. The author has simply placed some books at the Council.

Two debit balances featured in the creditors' list. Audit verifications carried out revealed that invoices amounting to €3,151 were recorded as accrued expenditure, even though these were dated in 2014. This was rectified through the audit adjustments proposed by LGA.

The Council's Accountant opined that debit balances are only to be reclassified at year-end, as original entries are to remain in the respective ledger for set-off in the future.

Fuel costs of €3,162, due to a waste collection company for the years 2010 and 2011, were accrued for again during the year under review, thus resulting in double accounting. In the interim, the cost of fuel for 2014 was not recognised in the books of account. In view that LGA was not provided with the relevant substantiating documentation, the latter was not able to estimate the accrued expense for this year.

Recommendations put forward by LGA with respect to accrued expenditure were noted.

The Council is withholding a deposit from contractors applying for particular permits relating to construction, which deposit is refunded once the Council makes sure that upon completion of works, the site is clean and free of damages. However, although these temporary deposits should have been posted as other creditors, for another year, they do not feature anywhere in the nominal ledger.

The Council would like to point out that no refund applies on crane and scaffolding permits and therefore income from permits is recognised as income immediately without the use of any creditor account for refundable deposits.

The Council failed to accrue for grants receivable, amounting to €9,940, with respect to a wheelchair platform lift that was completed by June 2014. On the other hand, two grants received in respect of recurrent expenditure were erroneously capitalised. Furthermore, although the *Lanciritika* project was concluded by September 2014, the related grant was not amortised accordingly. It also transpired

that long-term and short-term deferred income as disclosed in the unaudited Financial Statements did not tally to the grant workings provided by the Council, besides that no reference to the years during which the non-current portion will be amortised was included. These shortcomings were rectified through audit adjustments.

Points raised were noted. The Council also requested a copy of the respective workings so that the necessary adjustments will be recorded properly both in the current and future years.

The various posting errors encountered during the audit process imply that regular scrutiny of the nominal ledger is not being carried out. It also transpired that the chart of accounts maintained by the Council is not in line with the provisions outlined in the Local Councils (Financial) Procedures. The Council maintains a long list of nominal codes for the bookkeeping of its accounting records, some of which also bear a description which is not related to what is being recorded therein. In addition, errors were also noted in the preparation and presentation of the Financial Statements.

The proposed changes in nominal codes or descriptions have been immediately implemented by the Council's Accountant. Note was also taken in respect of the shortcomings raised in view of the presentation of the Financial Statements. The template was adjusted accordingly. The necessary adjustments pertaining to posting errors were also carried out.

Besides that invoices are issued manually rather than through the accounting software, such invoices are not being kept in sequential order. It also transpired that administration fees and income from permits are being posted in batches.

Table 13: Variances between Budgeted and Actual Expenditure

Item	Budget	Actual	Variance
	€	€	€
Community and Hospitality	15,000	18,380	3,380
Cleaning and Maintenance of Parks and Gardens	1,500	3,178	1,678
Mayor's Allowance	6,868	8,468	1,600
Cleaning of Public Conveniences	2,500	2,841	341

The Council would like to point out that it started issuing invoices on credit via the accounting software and it has done so in the year under review. The first invoice was in fact issued on 13 January 2014. Invoices are issued only for credit sales, whilst manual receipts are provided for any other income paid immediately, such as income from permits. Cash receipts are being batched to save inputting time whilst not affecting internal controls.

As depicted in **Table 13**, various variances were noted between the budget for 2014, and the actual results obtained during the year under review.

Discrepancies arose due to changes in pricing or activity levels and could not be foreseen at budgeting stage.

By the conclusion of the audit, the Council's Lawyer had still not communicated to LGA the details on any litigation, pending claims against the Council, and any other material contingent liabilities.

The Council requested its Lawyer to respond to any queries raised by LGA.

Ghasri

Contract management fees of €1,528, incurred in relation to road works, were expensed instead of capitalised. A reallocation adjustment was proposed by LGA and the Council adjusted its Financial Statements accordingly.

No further comments received.

Testing on depreciation revealed that the charge for the year on the Construction assets category was incorrect. The variance of €1,874 was rectified by means of an audit adjustment. Additionally, as also reported during the preceding year, some Electronic Equipment listed in FAR could not be physically identified with the result that LGA could not confirm whether it was still in use. It also transpired that one of the Council's computer systems, which is no longer in use, is still listed in FAR.

The Council accepted the recommendation put forward by LGA and the necessary audit

adjustment was posted. FAR will be reviewed to remove any assets which are no longer in use.

Included in the debtors' list were three long outstanding balances, aggregating to €3,032. Whilst the amount of €2,070 was fully received in February 2015, the remaining balance of €962 was still pending by the time of audit. However, no provision for bad debts was recognised by the Council, even though the recoverability of the said amounts could not be verified.

Whilst the Council agrees that the amount of €962 should be considered doubtful, efforts will still be directed towards collecting the said balance.

The Council has exceeded the budgeted expenditure for community and hospitality by €5,549.

The Council will be more cautious, ensuring that this situation will not repeat itself.

The Council's employees do not have a signed contract of employment in line with their present conditions of work.

After the modifications made to the Local Councils Act in 2009, the Council's employees are no longer employed on a definite contract.

Hamrun

NBV of Construction Roads, as well as Office Equipment, as disclosed in the nominal ledger differed significantly by €85,301 and €9,541 respectively when compared to the Financial Statements. The variance was partly compensated by the Special Programmes category, which difference amounted to €88,101.

Discrepancies were encountered in the bank reconciliations provided for audit purposes with respect to three bank accounts. In aggregate, these amounted to €1,431 and related to unrecorded bank interest. No audit adjustments were proposed to this effect.

The current portion of the bank loan, as disclosed in the unaudited Financial Statements (€56,936), was understated by €3,652 when compared to the calculations carried out by LGA (€60,588). The

necessary adjustment was posted in the final set of Financial Statements.

This year again, on the basis that the rent could be extended indefinitely, the Council depreciated its premises and car park using the reducing balance method, over a period of 100 years, rather than over its 30-year lease term. This resulted in a variance of €44,407. However, no audit adjustment was proposed since the Council intends to renew the lease in perpetuity.

No further comments were received with respect to the above matters.

In breach of Memo 8/2002, the Council is not obtaining monthly statements from its suppliers, with the consequence that the related reconciliations are not being carried out. Moreover, amounts payable to three suppliers in respect of waste disposal, contracting works and professional services, were overstated by €8,951, €3,671 and €2,801 respectively. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Included within the Council's creditors' list are long outstanding balances aggregating to €10,174, payable to 11 service providers. Debit balances, totalling €587, were also noted. The latter amount was reclassified from payables to receivables in the Financial Statements through an adjustment proposed by LGA.

LGA's recommendations have been noted and the Council shall do its utmost to be provided with monthly suppliers' statements. The Council shall also investigate the debit balances included in the creditors' list and adjust accordingly.

A long outstanding balance of €11,326 due from WSC in respect of trenching works carried out during 2011 is disclosed with receivables.

By the conclusion of the audit, the Council's Lawyer failed to provide to LGA a legal letter outlining any ongoing litigation undertaken by the Council and the possible outcome of such cases.

Points not addressed.

Iklin

Despite previous years' recommendations, the Council is still making use of two expired contracts entered into in 1995 and 2006 respectively, covering the maintenance and cleaning of parks and gardens, for which the amount of €1,645²³ was incurred during the year under review and the rental of a garage at the quarterly rate of €453.

Note of LGA's recommendation has been taken. As for the contract pertaining to the maintenance and cleaning of parks and gardens, the Council managed to maintain this contract, which is highly efficient and cost-effective, to the benefit of the Council. Furthermore, the Council has a rental agreement covering the use of a garage to serve as a Council Hall to hold locality meetings and organise other activities.

NBV for Special Programmes reported in FAR is still understated by €15,614 when compared to that recorded in the Financial Statements, while that for Construction is overstated by €15,558. NBV for Special Programmes in the Financial Statements is also understated by €1,188 when compared to the nominal ledger. On the other hand, Street Lighting is overstated by the same amount. An audit adjustment was passed to rectify the nominal ledger accordingly.

The necessary amendments have been passed in the nominal ledger.

Estimated capital expenditure for 2014 amounted to €47,000. However, this was exceeded by a net amount of €9,273, with actual expenditure totalling €56,273. **Table 14** refers.

Upon the completion of a project, the actual expenditure may not be the same as the budget.

Notwithstanding prior recommendations, no action has been taken to date with respect to the football ground project. In line with prior years, long-term deferred income includes an amount of €18,670 relating to the construction of a car park and football ground. Although the grant was received over 10 years ago, the project was stopped in its initial phase and the only expenses

²³ An additional amount of €700 was incurred against *Triq il-Wied* and *Hwawar* project.

Table 14: Variance between Budgeted and Actual Expenditure

Item	Budget	Actual	Variance
	€	€	€
Special Programmes	24,500	41,872	(17,372)
Office Furniture	-	8,373	(8,373)
Equipment	2,500	4,236	(1,736)
Construction	-	360	(360)
Improvements	20,000	1,432	18,568

incurred to date, amounting to €11,800, relate to permits for the construction of a car park and football ground. According to the Executive Secretary, the Council is still waiting for the Land Department to issue a call for tenders. LGA was further informed that, if the project is approved, it will be under the responsibility of Central Government and not the Council. Thus, the latter is again advised to seek clarifications as to who will finance the project and whether the remaining funds are to be refunded back to Government, if the project is to be financed by the latter.

The Local Council will continue to follow up this issue with the Government Property Department.

An amount of €17,000, distributed in 2014 from the surplus of the Central Regional Committee, was recognised as income for the year. In view, that such income is to be allocated against specific projects, the Council had agreed to use these funds to carry out extensive patching works. However, since no related expenditure was traced in the books of account, LGA proposed an adjustment to defer such revenue to future periods. On the other hand, the Council did not accrue for an additional distribution of €16,207, effected in 2015, but which related to 2014. Following LGA's recommendation the Council approved the necessary audit adjustments.

This year the Local Council will utilise these surplus funds.

Tipping fees in excess of the Government allocation were reclassified incorrectly to prepayments instead of expenses. An audit adjustment of €11,475 was approved and the Financial Statements were adjusted accordingly.

The audit adjustment was passed as proposed by LGA.

The long-term portion of PPP payables was disclosed as €30,556 rather than €25,281. An adjustment to reclassify the difference from long-term to current payables was proposed, and accordingly incorporated in the accounts.

The audit adjustment proposed by LGA was duly passed in the books.

The Council did not manage to obtain monthly statements from all suppliers. On reconciling the balance of the payables relating to PPP, a difference of €3,779 was noted when compared to the suppliers' statements. LGA was informed that such difference relates to the contract management fee incurred on other projects carried out by the same contractor.

The amount of €3,779 has been written-off.

A grant of €2,300, awarded to the Council by DLG in respect of the live streaming project, was only incorporated in the books of account following LGA's recommendation. In view that the related expense was capitalised, a further adjustment was passed to amortise the respective grant over the useful life of the asset, as well as to apportion the related deferred income between current and non-current portions.

The grant of €2,300 was received on 16 January 2015. Audit adjustments were passed in the books as proposed by LGA.

Disclosed with receivables is a long outstanding balance of €1,745, owed by a waste recycling company.

The Council is still chasing the outstanding balance.

The Council's Financial Statements indicate that the anticipated capital commitments over the next financial period amount to €164,541. This contradicts the Council's budget, predicting a capital expenditure of €56,000.

The €56,000 figure is taken from the amended budget for 2015, which was concluded after the Financial Statements were completed. In the future, this note will tally exactly to the budget for the following year.

Bank reconciliations as at year-end were provided for audit purposes. However, although the Council claimed that these are prepared on a monthly basis, the respective report was not issued from the accounting system, and thus LGA could not ensure that timely reconciliations were being carried out.

The Council will ensure that bank reconciliations will be prepared on a monthly basis within the first 10 working days of the following month, as required by pertinent regulations.

Isla

Notwithstanding that the contract covering the upkeep of parks and gardens expired on 12 June 2013, the Council was still procuring the respective services from the same service provider. The amount of €6,000 was incurred during the year under review through this expired contract.

The annual rental expense of the football ground and the Council's offices, in aggregate amounting to €2,450 respectively, was only substantiated by an invoice, as no contractual agreement was in place.

No supporting invoice or appropriate documentary evidence was traced in respect of a payment of €250 forwarded to the Catholic Action Centre.

From the audit verifications carried out, it transpired that NBV of Urban Improvements and Special Programmes, as recorded in FAR, is overstated by €3,444 and €674 respectively when compared to that disclosed in the unaudited Financial Statements.

As evidenced in a letter sent by DLG, upon the signing of PPP agreement in 2010, the Council was entitled to receive grants amounting to €46,422. Out of this amount, the Council received €23,211, of which €10,213 was deposited in a fixed account, with the difference deposited in a savings account. However, from the verifications carried out, it transpired that only the amount of €25,414 was recognised in the books of account. Furthermore, notwithstanding that four years have elapsed, by year-end, the related project had still not commenced as the respective total costs received from the calls of offers were too expensive for the Council. In reply to queries raised by LGA on the subject matter, the Council stated that it is waiting for DLG's decision on whether additional funds could be obtained to cover the capital expenditure on this project.

Despite that according to the Executive Secretary, resurfacing works of €9,817, carried out on *Triq iz-Żewġ Mini*, were wholly financed by the Government, the foregoing amount was deducted from the aforementioned PPP grant of €25,414. Whilst the Council verbally claimed that such works fell outside the scope of PPP scheme, a letter dated 13 May 2010, received from Director (DLG) stated that *Triq iz-Żewġ Mini* forms part of the said scheme. However, additional documentation was not provided by the Council.

Included in the accrued income list are two balances brought forward from preceding years, concerning grants receivable in respect of works carried out in *Triq Kappillan Franġisk Azzopardi* (€13,800) and *Triq il-Miġja tal-Papa'* (€4,500). In view that, up till date of audit, such funds were not received by the Council, the latter is recommended to seek DLG's advice on the recoverability of the amounts in question.

Despite that in the Council's books, a net amount of €8,400 is recorded as receivable from WSC, the latter is claiming that it has no pending dues with the Council. On the other hand, the Council owes WSC the total amount of €7,051, out of which the former paid the amount of €3,545, thus leaving an outstanding payable of €3,506. According to the Executive Secretary, the Council is not willing to settle the said balance, as WSC performed only half of the agreed work.

No explanation was provided by the Council with respect to two differences of €5,476 and €1,394 encountered between the creditor's book balance and the respective supplier's statement. Similarly, a variance of €309 noted between the amount receivable from the South Eastern Regional Committee, as recorded in accounting records and the confirmation received from the latter through a circularisation letter, remained unreconciled. It also transpired that the Council did not record an invoice for €250, in relation to the hire of a hall for an activity organised for the elderly.

The bank reconciliation provided for audit purposes included cheques, aggregating to €750, that were already cashed before year-end, as well as two stale cheques totalling €211. A discrepancy of €96 was also noted between the actual cash in hand as at year-end and the amount recorded in books of account.

A discrepancy of €107,601 was noted between the amount budgeted (€203,591) and the actual costs incurred (€311,192) with respect to operations, maintenance and administration expenses. This contributed to the deficit of €5,370 registered for the year under review. On the other hand, capital expenditure was over budgeted by €8,131.

The Local Council is paying for the personal accident policy on a worldwide basis instead of a local basis, with a consequential higher premium.

The Council failed to provide a reply to the Management Letter.

Kalkara

The service of household waste collection, which costed €70,008 during the year under review, was still procured from the same supplier, notwithstanding that it was covered by an expired contract.

This was rectified accordingly during 2015.

The agreements for the provision of general architectural services and the collection of mixed household waste were only signed by the Executive Secretary and the contractor. On the other hand, the schedule of offers concerning the provision of general architectural services was

signed by the Mayor and two Councillors, instead of being signed by both the Executive Secretary and the Mayor.

Points not addressed.

Besides having worldwide coverage, rather than limited only to Malta, the personal accident insurance cover included persons who no longer worked for the Council.

This issue has been rectified accordingly.

The Council paid the Executive Secretary's mobile bills, which during the year under review amounted to €422. Additionally, instead of paying fuel reimbursements on a mileage basis, in breach of pertinent regulations, the Council paid a fixed fuel allowance of €1,017 to two IPSL workers for using their own motor vehicle.

Point not addressed.

The Council did not maintain a FAR. In addition, Furniture, Fittings, as well as Office and Computer Equipment were not tagged. Testing carried out on fixed asset additions also revealed that the public address system, digital versatile disc player and a defibrillator were incorrectly categorised as Urban Improvements. Following LGA's recommendation, the Council approved the necessary audit adjustments to reclassify these assets to the proper category and to correct the respective depreciation charge.

A note in the Financial Statements shows that at year-end, the Council had Assets under Construction amounting to €48,032 which, according to the Executive Secretary, had been completed and certified by the Council's Architect in 2012 and 2013. However, LGA was not provided with the respective invoices and certifications, and therefore could not propose any audit adjustments to transfer these assets to the respective fixed assets account and charge the applicable depreciation.

Upon recalculating the depreciation charge for the year, it transpired that the expense recorded by the Council was overstated by €11,504, when compared to LGA's workings. However, since the latter was not provided with the Council's

depreciation workings, no audit adjustments were proposed.

Whilst NBV of Urban Improvements as recorded in the nominal ledger was understated by €19,494, when compared to that recognised in the Financial Statements, that for Construction Works was overstated by the same amount. The Council agreed with LGA's proposed adjustments in order to correct these discrepancies.

The Council has taken note of the explanations and accepted LGA's recommendations.

The Council did not prepare a wages reconciliation. LGA's reconciliation of the Payer's Monthly Payment Advice (FS5) to payroll expenditure revealed a difference of €491. An additional discrepancy of €192 was also noted in gross emoluments between FS5s and the Payer's Annual Reconciliation Statement (FS7).

FSS tax and NI contributions due to CIR at year-end were understated by €1,069. Similarly, an understatement of €1,720 was also noted in the provision for accrued performance bonuses. These shortcomings were rectified through audit adjustments. Statutory liabilities, comprising FSS tax and NI contributions totalling €2,028, were wrongly accounted for as accruals, rather than disclosed as a separate line item in the Financial Statements.

Points not addressed.

The Council's carrying amount of pre-regional LES debtors, as included in the unaudited Financial Statements, stood at €23,978. In view of this, LGA proposed an adjustment to increase the provision for doubtful debts by the aforementioned amount, thus writing down the carrying amount to nil. The Financial Statements were adjusted accordingly.

A discrepancy of €19,681 was also noted between LES report showing tribunal pending payments for the pooling period up to 31 August 2011 (€63,096), and the respective amount recognised in the Financial Statements (€82,777). In view that a full provision was taken against these debtors, no audit adjustments were proposed by LGA in this respect.

Observation noted. The Council will check this difference and will accordingly make the necessary adjustments in the books of account.

Included with receivables are two overdue balances of €1,238 and €648, owing from a communications company and WSC respectively. Furthermore, no explanation was provided by the Council for an unreconciled discrepancy of €313 between the balance due from the Southern Regional Committee as confirmed by the latter and the amount recorded in the Council's books of account. It was also noted that the Council is not allocating customer receipts to invoices, thus making it very difficult to reconcile the debtor account.

The list of accrued income includes various amounts, totalling €31,827, which were brought forward from the preceding year and for which the Council has no information or supporting documentation. Likewise, although LGA was provided with a list of grants making up the year-end deferred income balance of €69,190, no satisfactory explanations, substantiating documentation, and/or agreements were made available in support of the said balance. In addition, the Council had no workings on deferred income. Consequently, LGA was unable to carry out the necessary tests or procedures to determine whether the aforementioned amounts are materially misstated. Thus, a qualified audit opinion was issued in this respect. Moreover, notwithstanding that LGA proposed an adjustment to reclassify deferred income into its current and non-current portion, the Council did not include this reclassification in the latest set of Financial Statements.

The Council did not account for a grant of €3,071 relating to the acquisition of equipment for the polyclinic and the reimbursement (€502) of an employee's salary for December 2014. Prepaid insurance was also overstated. These shortcomings were rectified through the audit adjustments proposed by LGA, together with an adjustment to amortise part of the grant on the equipment, in line with IAS 20.

Observation and LGA's recommendation were noted. The Council believes that there was no clear communication as to what LGA requested

vis-à-vis the list of accrued income. Due to this, the Council gave little information and supporting documentation to the Auditors, with the result that the latter qualified their audit opinion.

As regards deferred income, the Council had explained the problems it had in finding certain documentation and workings. The reason behind this was that these were done by someone else and the new Executive Secretary had little information of how these were computed.

Rather than carried out through the accounting software, the bank reconciliation for a current account was prepared on a spreadsheet. Moreover, two instances²⁴ were encountered whereby the cheque value as recorded in the reconciliation statement did not tally to the value recorded on the cheque image, with a discrepancy of €2,827. It also transpired that included with unrepresented cheques were five stale cheques, aggregating to €4,407, four of which date back to 2013. No information was provided for one of the said stale cheques for the amount of €2,904. In addition, while three cheques totalling €4,450, issued and cashed during 2014, were disclosed as unrepresented in the bank reconciliation, another cheque, issued in December 2014 and presented to bank in January 2015, was omitted from the list.

In addition, the Council did not provide the bank reconciliation of bank account xxx4049, with a year-end balance of €1,884. The bank statement provided with respect to the said account indicated a different balance of €1,997. A further difference of €508 was noted between the book balance for account xxx4010 and the respective bank statement.

Observations noted. The Council would like to point out that the bank reconciliation has always been done through the accounting software. However, during the financial year under review, the Council encountered various problems with its computer and the accounting software as this has corrupted. This led to the installation of a new accounting package. In the past, the Council never had similar remarks on bank reconciliation procedures. Thus, it is of the opinion that these discrepancies have resulted due to computer problems.

The Executive Secretary claimed that the Council keeps no cash in hand. However, as per Financial Statements, petty cash in hand as at year-end amounted to €163.

Point not addressed.

Balances due to 17 different suppliers, aggregating to €3,926, have been outstanding for more than one year. In addition, a variance of €1,170 was noted between the creditors' list and the Creditors Control Account. The Council also failed to address the issue of debit balances in the creditors' list, since once again debit balances, totalling €1,881, featured in the creditors' list. Although LGA proposed an adjustment to reclassify this debit balance to other debtors, the Council did not pass this reclassification in the audited Financial Statements.

As also reported in the preceding year, the Council did not carry out regular reconciliations with the actual suppliers' statements, resulting in discrepancies between book balances and those in the said statements. For example, an invoice for tipping fees amounting to €1,613 was completely omitted from the books of account. An invoice of €15,292, issued in 2013 for works carried out in the housing estate, remained unaccounted for. The Council also failed to record two invoices totalling €900 from the Environmental Landscapes Consortium Ltd (ELC) and Government Property Department respectively. On the other hand, an invoice amounting to €671 for street lighting repairs and maintenance was recorded twice. Moreover, for another year, the Council did not include in its accounting records the amount of €4,683 that was paid by DLG directly to WasteServ Malta Ltd as a settlement of outstanding disputed tipping fees. These errors were rectified through the audit adjustments proposed by LGA.

Differences totalling €1,824 were noted in the amount payable to two creditors. Meanwhile, provisions for accrued expenditure in connection with refuse collection, as well as street lighting repairs and maintenance, were understated by €3,557 and €1,054 respectively. These errors were adjusted following LGA's recommendation.

²⁴ Whilst the aggregate value of cheques as per reconciliation totalled €2,073, the cheque image showed that this was for the amount of €4,900, thus resulting in a discrepancy of €2,827.

The Council has taken note of LGA's recommendations. Furthermore, with respect to the debit balances in the creditors' list, the Council will be looking into the matter.

The loss of €70,596 reported in the unaudited Financial Statements, increased to €114,425 following the audit adjustments proposed by LGA, including the amount of €4,363, covering a revision to the opening balances. The highlighted shortcomings imply that the Council's accounting function needs to be improved significantly.

LES administration fees recognised in the books of account were overstated by €428 when compared to the amounts disclosed in the report extracted from the computerised system. It also transpired that income of €420, received from the Health Department as reimbursement for rent paid by the Council in 2013, was incorrectly recognised as income for the year, when it had to be reversed against accrued income. Accrued income of €600 in relation to rent due for 2014 was also unaccounted for. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Whilst acknowledging that LGA has to carry out its assignments in accordance to the terms of reference, in the Council's opinion, the number of tests and observations raised are in majority procedural and do not reflect material weaknesses.

Kerċem

The total cost of assets, as well as the related grants and accumulated depreciation as recorded in the unaudited Financial Statements, were overstated by €497,250 and €210,186 respectively, when compared to the figures disclosed in FAR. Furthermore, as was the case in the previous years, none of the additions procured during 2014, amounting to €83,100, were included in FAR, thus implying that the register is not being updated.

Again this year, FAR contained a number of adjustments without reference to any particular asset. The way these entries were made defeats the whole objective of maintaining a FAR, as these adjustments are just balancing figures which are unsubstantiated.

Consequently, depreciation was calculated manually rather than through FAR. Furthermore, due to a discrepancy of €70,391 between the closing NBV as per 2013 Financial Statements, and the 2014 opening NBV, the depreciation charge for Construction and Special Programmes was understated by €6,611. In addition, as a result of omitted invoices from the Council's books of account, the depreciation charge for Urban Improvements was also understated by €1,534. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

No explanation was provided for the reclassification adjustment of €28,837 passed by the Council from the asset category Construction of Civic Centre to Urban Improvements. Clinic Equipment, with a cost of €1,425, was incorrectly accounted for under Furniture and Fittings. These errors were rectified through the audit adjustments proposed by LGA.

PPE has been an issue to the Council for a number of years. The Council's intention is to tackle FAR problem and to compile, reconcile and update the latter. However, as discussed also in the Management Letter itself, this is not an easy and straight forward task, especially when it comes to identify the fixed assets which are showing as 'Adjustments'.

The concept of accrual accounting was not complied with at all times. For example, income of €2,300 receivable with respect to the live streaming project was not accrued for, despite that the related equipment was installed in 2014. Likewise, no provision was recognised to record expenditure, aggregating to €4,726, incurred during the year under review, but in respect of which no invoice was received by the end of the financial year. On the other hand, invoices dated in 2014, totalling €3,115 were recorded as accrued expenditure rather than amounts payable.

The provision recognised with respect to street lighting expenditure was overstated by €1,530, whilst payables of €2,095 were omitted from the books of account.

Additional costs of €28,837, relating to works carried out in three streets, were included in the books of account in the preceding year as accrued

expenditure. Despite that the Council did not receive the respective invoices by the end of the year under review, it still reversed the said accrual. This amount was reinstated in the books through an audit adjustment.

Similarly, accrued income of €1,000²⁵, brought forward from the preceding year, was reversed against the income account even though the respective funds were not received by the Council. Since the latter is of the opinion that the said amount will not be recovered, a reclassification adjustment was passed against bad debts. Meanwhile, included with debtors is the amount of €2,070 receivable from the same company. Although the Council requested confirmation of such balance from the respective debtor, this remained unconfirmed at audit stage. No provision for doubtful debts was recognised in this respect.

Whilst appreciating the requirements of the accruals concept when preparing the accounts, one has to keep in mind that these were prepared in the first week of 2015, to be approved by the Council in the second week of February and meet the deadline. Thus, it is very common that invoices relating to 2014 would have not yet been received by the cut-off date, and although every effort is made to accrue for any uninvoiced expenses, it is not always possible to calculate the amount of the accrual.

Audit adjustments concerning accrued income were posted in the accounts, and thus, their effect is reflected in the audited Financial Statements. In the future, any revenue not received by year-end will be accounted for using the accruals concept.

Moreover, by the end of each financial period, the Council will assess its debtors to identify whether a provision is necessary. However, it is important to note that this is a very subjective process since information, which can have a material effect on the recoverability of the said receivables, may be issued between the time that the Financial Statements are prepared and the audit.

A bank account relating to EU funds for *Triq Ghajn Ghabdun*, with a year-end balance of €17,257 was omitted from the accounts and was only included through an audit adjustment.

The Council opened this bank account specifically for the receipt of funds regarding an EU scheme, which funds were received at the end of the year. Thus, its non-inclusion was due to oversight.

Government grants of €125,546, received in relation to the family park project, were recorded in a new account rather than added to the deferred income already held for this project. Meanwhile, deferred income of €4,000, relating to the Civic Centre Equipment, was accounted for with funds relating to mechanical and engineering works. Moreover, grants in respect of the latter works (€1,433) were released to the Statement of Comprehensive Income prior to the completion of the project. On the other hand, the amortisation of grants related to PPP was understated by €2,836. Audit adjustments were proposed by LGA in respect of these errors and the Council adjusted its Financial Statements accordingly.

LGA's comments have been noted. Any requirements in relation to amortisation of Government grants, emanating from IAS 20 will be adhered to. Moreover, the reclassification between the short-term and long-term portions in the case of bank loans and deferred income was included in the Financial Statements.

Expenditure relating to FSS and NI contributions, as well as income supplements, was included in one nominal account. Various other transactions were not recorded in their appropriate account. These shortcomings were rectified by means of the audit adjustments.

The necessary reclassification adjustments concerning the incorrect allocation of FSS and NI contributions were carried out.

Budgeted expenditure for Repairs and Upkeep was exceeded by €18,817.

Point noted. The Council does its utmost to stick to the budget, however, one has to keep in mind that it is the priority of the Council to keep the locality well maintained. Moreover, although a sharp increase was experienced in the repairs and upkeep costs, the Council ended the year with a marginal loss of €4,400.

²⁵ Such accrued income was receivable from a waste recycling company which appears to be in financial distress.

Kirkop

Audit verifications carried out on the rent payable in relation to the Council's premises revealed that the only contract that the Council has at its disposal is dated 6 January 1997. Notwithstanding that the terms of such contract specify that the lease agreement is renewable on a yearly basis, no further renewals were traced upon the expiration of the said agreement. The annual rent payable under such contract amounts to €447.

This issue will be discussed with the Land Department and the necessary action will be taken accordingly.

For another year, LGA was not provided with a FAR, implying that no action was taken, despite prior recommendations. Moreover, the assets were not yet tagged. LGA's calculation of the depreciation charge revealed a discrepancy of €572 when compared to the amount presented in the Financial Statements. However, the workings of the Council, relating to such calculation were not provided for audit purposes.

This issue has not been tackled as yet, due to lack of human resources. However, the Council will do its best to start working on a FAR, which will include also the tagging of assets. Upon the implementation of FAR, depreciation will be calculated as suggested.

As per reports extracted from the computerised system, LES debtors decreased from €163,884 in the preceding period, to €147,872 during the year under review. Consequently, LGA proposed an adjustment to decrease both debtors and the respective provision by €16,012.

The outstanding balance of €6,010, owed to the Council by a waste recycling company is still pending. The full provision provided earlier was retained.

The Council is still chasing the respective company for payment and thus such balance is to be retained as a provision.

Although an amount of €3,231 was recorded as receivable from WSC, in reply to a circularisation letter, the Corporation confirmed that no balance

is due to the Council. Testing carried out revealed that €2,600 relates to an invoice which WSC has not yet confirmed but against which supporting documentation was provided by the Executive Secretary, while the remaining €631 should be written off. Given that the balance has now been outstanding for more than one year, the Council is recommended to settle this issue promptly.

WSC shall be chased in order to effect payment of the pending invoice.

Out of the five circularisation letters sent to the Regional Committees to confirm the year-end balance owed to the Council, only two were received, one of which highlighted minor discrepancies when compared to the balance recorded in the Council's books of account.

No supporting documentation was provided to substantiate the outstanding balance of €1,697 due from other related parties.

The balance of €1,697 will be investigated and the necessary action will be taken accordingly.

The Council was not adhering to the fundamental principles of accrual accounting and the matching concept. Through an agreement with DLG, the Council was awarded the aggregate amount of €142,000 with respect to road resurfacing works, receivable over a three-year period commencing in 2013. The balance of €42,000 was received on 25 October 2013. In view that the related works were all finalised by year-end 2014, LGA proposed an adjustment of €100,000 to account for the remaining accrued income. It also transpired that, due to a number of errors, accrued income was overstated by an aggregate amount of €1,289. Accrued expenditure relating to the new contract awarded to ELC on 10 November 2014 was also overlooked. Following LGA's recommendation the aforementioned shortcomings were rectified through audit adjustments.

Points noted and the necessary adjustments were approved accordingly.

For another year, the accruals' list included the amount of €8,651 brought forward from prior years, in respect of which, the Council gave no explanation or supporting documentation substantiating this amount. However, following

discussions with the Executive Secretary, the amount in question was reversed by means of an audit adjustment. Another adjustment was approved by the Council to reverse accrued expenditure of €1,770 with respect to waste disposal that was accounted for twice. Moreover, prepaid expenditure of €3,155, against which no explanation was provided in the preceding year, was erroneously reversed against accruals rather than expenditure. Such error was also rectified by means of an audit adjustment.

Despite prior recommendations, the amount of €7,779 receivable from a contractor, which has been due for more than six years, is still being netted off from trade payables. Since this amount is not shown in the contractor's statement, the Council is recommended to determine whether the balance is still due, and obtain creditors' statements on a regular basis to carry out necessary reconciliations.

The Council will investigate this balance and take the necessary remedial action.

The Council is still recognising in the books of account the amount of €629, relating to LES due to other Councils, which balance has been pending for more than eight years. Another aggregate amount of €905 is owed to the Southern Regional Committee and Joint Committees. The Council is recommended to investigate whether such balances are still due and if not, write them off accordingly after being approved at a Council's meeting.

The Council will investigate this amount and take the necessary action.

Besides that bank reconciliations are not being performed on a monthly basis, these are only carried out in respect of two out of the eight bank accounts maintained by the Council. A variance of €110 was also noted between the cash in hand, which at year-end amounted to nil and the amount recorded in the books of account.

The discrepancy encountered will be investigated. Furthermore, as from 2015, the Council commenced doing regular bank reconciliations.

On 24 August 2011, a court case was registered against the Council by an insurance company,

whereby it has been claimed that an insured person had an accident in Kirkop due to the negligence of the Council. The latter is arguing that since the accident happened on an arterial road, it falls under the responsibility of TM. The case was deferred for 16 June 2015. However, no contingent liability note was included in the unaudited Financial Statements. Following LGA's recommendation the necessary disclosure was included in the Financial Statements.

Recommendation noted.

An unsubstantiated transaction of €2,000, which during the preceding year was recorded as a debit balance in the creditors' list, was reversed against repairs and upkeep during the year under review. It also transpired that penalties and fines totalling €5,192, that were imposed on the Council upon the issuance of an irregularity report by the Planning and Priorities Co-ordination Division on the Opportunity Close to Home project, were erroneously capitalised. Following LGA's recommendation, the Council approved the necessary adjustments to rectify the aforementioned shortcomings.

The performance bonus of €522, paid to a former Executive Secretary in 2014, was not included in the latter's Payee Statement of Earnings (FS3).

Recommendations noted. The matter regarding the undeclared performance bonus will be brought up with IRD.

Lija

In spite of prior recommendations to issue a new call for tenders with respect to the landscaping of public gardens, the Council is still making use of a contract entered into with a third party in 1995, notwithstanding that the said agreement expired years ago. The amount of €9,706 was paid by the Council to the respective contractor during the year under review.

On the other hand, the agreement entered into between the Council and the supplier for collection of mixed household waste, bearing a total cost of €6,454, was not signed. It also transpired that no agreement is available to cover the monthly rent of €700, payable to the University of Malta in respect of office premises.

LGA's comments regarding the expired contracts have been noted and new contracts will be issued in due course. The Council has been doing its utmost to get the agreement for collection of mixed household waste signed. Such contract was for a period of two months and has now been terminated. However, the Council has managed to contact the contractor who will be visiting the office to sign the agreement. Meanwhile, the Council will try to get a signed agreement, so as to regularise its position with respect to rent payable to the University of Malta.

In the preceding year, the formal agreement covering the services of a contracts manager, which was awarded by tender during 2013, was not provided for audit purposes. A year later, the Council has still not managed to find the misplaced tender file.

The Council will continue to look further into the matter.

Funds of €7,905 relating to the year under review but received from the Regional Committee in January 2015 were only incorporated in the books of account following LGA's recommendation.

The Council has reflected the proposed audit adjustment in the Financial Statements.

Though the Council is preparing a schedule itemising petty cash expenditure, such expenses are not being approved during Council's meetings. Furthermore, six cheque payments, aggregating to €23,162 were dated before the date of approval of the respective schedules of payment. Review of the latter schedules also revealed that these lacked a number of necessary details, such as, cheque numbers. It also transpired that, five cheque payments, totalling €1,624, which have become stale, were still included in the bank reconciliation provided for audit purposes.

LGA's comments have been noted and action has already been taken so that the date of the cheques will correspond to that of the Council's meeting. More details will also be included in the schedule of payments. The Council will also implement the recommendation that the petty cash schedule is presented for Council's approval. The recommendation concerning stale cheques has

also been noted and such cheques will be written off.

Included in the Council's nominal ledger is a suspense account with a credit balance of €6,616, which is mainly composed of reversed stale cheques and similar differences brought forward from previous periods.

The amounts that were posted in the suspense account have been brought forward from previous years and remained unreconciled for various reasons.

The FAR that was presented for audit purposes was not updated during the year under review, besides that it was not maintained to the standard required by the procedures as it lacked certain necessary details. Moreover, depreciation was computed manually and recorded in the accounting records through a journal entry. An understatement of €8,798 was noted in the depreciation charge for the year, which error was rectified by means of an audit adjustment proposed by LGA. A discrepancy of €3,181 was also identified between NBV as recorded in FAR (€392,328) and that disclosed in the unaudited Financial Statements (€389,147).

The points raised by LGA have been noted and efforts will be made to update FAR. The depreciation charge is computed manually on a monthly basis using the stipulated rates.

As already reported in the preceding period, the Council failed to obtain statements from all the suppliers as instructed by DLG. Thus, the necessary reconciliations were not carried out. A discrepancy of €4,527, which was already reported upon during the preceding year, was still noted between a creditor's balance as recorded in the books of account, and the respective supplier's statement. Once again, the Council was unable to provide LGA with an explanation of the unreconciled amount. Similarly, a difference of €1,784 was also noted in the balance payable to WasteServ Malta Ltd. Whilst €1,029 of the said difference related to an invoice which was omitted from the Council's books of account, no justification was provided with respect to the remaining balance of €755.

The Council will take action and obtain monthly statements. Moreover, the necessary adjustments

with respect to discrepancies identified by LGA were posted in the Financial Statements. Any further differences will be looked into and resolved.

Long outstanding balances, aggregating to €80,430, are payable to six suppliers, of which €77,081 is due to a PPP creditor. However, no schedules or workings substantiating the amount due to the latter were provided for audit purposes, to ascertain that the respective balance was properly apportioned between short-term and long-term liabilities. Included in the creditors' list were also debit balances amounting to €1,596.

The creditors and debit balances mentioned by LGA will be looked into and the necessary action will be taken.

During the year under review, the Council incurred a total cost of €4,689 for the publication of 2,500 books, which expense was directly written off in the Statement of Comprehensive Income, instead of treated as inventory. From the verifications carried out it transpired that 260 books were given free of charge, whilst revenue was traced for another 93 books, thus leaving a year-end balance of 2,147 books. Consequently, LGA proposed an audit adjustment of €4,025 to reclassify the respective cost to inventories.

The recommendation put forward by the Auditors has been noted and the Council made the necessary adjustments to its Financial Statements.

Luqa

Instances were encountered whereby expenditure, aggregating to €15,527 was substantiated by a handwritten paper, rather than an invoice. Furthermore, the amount of €6,267 was not even covered by a fiscal receipt. **Appendix G** refers. In addition, in breach of pertinent regulations, procurement effected from the same service provider within a consecutive four-month period, was only covered by one quotation, which did not even include the necessary details and was not clearly showing that it was addressed to the Council. **Appendix L – Table 2** refers.

Letters were sent to suppliers requesting the provision of proper fiscal receipts. In relation to those suppliers who have not prepared the invoices

as required, the Council shall draw their attention as to the deficiencies in their invoices. No such invoices will be retained if these are not in relation to the requirements stipulated.

Upon its expiration on 26 December 2014, the insurance policy was not renewed, on the basis that the Council is in the process of changing the service provider. The Executive Secretary claimed that new insurance companies were short-listed but it is still to be adjudicated at a Council's meeting. Consequently, neither the Council's assets nor its employees were adequately insured.

By the time of audit, the offers submitted for the Local Council's insurance were still under review.

Notwithstanding previous years' recommendations, once again it was noted that no updated FAR is in place. In the absence of such record, the Council is computing depreciation manually. It also transpired that not all the assets are labelled, thus hindering identification.

Though the total cost of assets as recorded in the accounting system tallies to that disclosed in the Financial Statements, discrepancies were noted in individual assets categories. By way of example, whilst the cost of Urban Improvements and Construction as recognised in the books of account was understated by €258,430 and €748,781 respectively, that for Street Paving and Funds E1 – Resurfacing was overstated by €359,459 and €557,243 respectively, when compared to the amounts reported in the Financial Statements.

An exercise is going to be taken up whereby fixed assets that are obsolete will be disposed off following approval during a Council's meeting. FAR shall be redone from scratch and all the fixed assets properly located and documented. Once FAR is updated, depreciation charge will be calculated through the accounting software.

Once again discrepancies were noted between pre-regional LES debtors, as per reports generated from the computerised system, and the amounts recorded in the books of account. Whilst as per reports, pre-regional LES receivables amounted to €409,917, only the amount of €393,694 was recognised in the accounting records. In view of this, an audit adjustment was proposed to correctly

reflect LES debtors, as at year-end. A further adjustment of €16,223 was approved to fully provide for all LES debtors. These adjustments were correctly incorporated in the final set of Financial Statements.

LGA's recommendations were noted and pre-regional receivables will be constantly reviewed.

Circularisation letters sent to the five Regional Committees with the aim of confirming the related party balances, which as at year-end aggregated to €5,141, remained unanswered.

The Council does keep a record of what is receivable on a monthly basis through the copies of invoices, which are recorded in the books of account. An email was sent to the respective Committees requesting confirmation, but no reply was received.

Notwithstanding prior years' recommendations, the Mayor and Executive Secretary are still not endorsing the petty cash sheets, which documents are only being signed by one of the clerks. Similarly, no action was taken with regard to replenishment of petty cash, as staff are still topping up petty cash personally, once this is exhausted. Moreover, in breach of pertinent regulations, payments from petty cash are not authorised by the Executive Secretary but by the Assistant Principal.

A variance of €159 was also noted between the petty cash balance in the accounts and the amount recorded in the petty cash sheets. It transpired that the petty cash balance as per accounts is not complete as there were some transactions which were not included. Furthermore, besides that the petty cash balance is subject to incomplete records, this is in excess of the stipulated threshold.

The necessary steps shall be taken to authorise each payment made from the petty cash. Final endorsements and review of petty cash expenditure shall be made by the Mayor and the Executive Secretary. Arrangements will also be made to implement the imprest system. As regards the mentioned discrepancy, this resulted from the fact that some transactions were completely omitted from the books of account.

Included in the bank reconciliation is a cancelled cheque of €2,959 and a double payment of €2,040.

In addition, a discrepancy of €55 was noted in the reconciliation of one of the bank accounts. It was also noted that the Council is charged a final withholding tax on the interest received, notwithstanding that no tax is due by Local Councils.

The Council shall be making a monthly reconciliation of the bank statements on a routine basis to avoid any discrepancies. Local banks will also be informed not to withhold any tax on interest earned by the Council.

Audit verifications carried out revealed that the Council did not request monthly suppliers' statements. Furthermore, included in the creditors' list are balances aggregating to €47,177, payable to six service providers, which have been long overdue. Out of the aforementioned amount, the balance of €7,778, payable to a particular contractor, was not substantiated by adequate documentation. Moreover, €16,599 is due to a third party who, between 2003 and 2006, resurfaced some of the roads in the locality, for a total cost of €41,599. However, since the work was not carried out to the Council's satisfaction, the latter refused to pay the service provider until works were redone. In 2012, an agreement was reached with the supplier, whereby the contractor accepted to redo the work. LGA was informed that before the remaining payment could be effected, there are some pending works to be completed in *Triq il-Parroċċa*. The Council is still in communication with the supplier in order to be able to settle this issue.

The creditor has been contacted various times in order to settle the pending works and enable the Local Council to settle the balance. As soon as a reply is received from the creditor, the matter will be discussed and settled.

Upon reconciling the payable balance due to WasteServ Malta Ltd as recorded in the books of account, against the respective supplier's statement, a discrepancy of €6,714 was encountered.

The Council will look into the balances due to WasteServ Malta Ltd and make every attempt to reconcile the supplier's account in question.

Disclosed within the creditors' list was a negative balance of €61,856. This constituted

of amounts forwarded to the service provider for works performed on *Hal-Farruġ* Family Park project, which payments were based on the architect certification and were not substantiated by a supplier's invoice. In line with LGA's recommendation, the Council approved to accrue for the invoices not issued.

Payments were made after the Architect certified the respective works. The Council drawn the service provider's attention a couple of times, to present official invoices.

The Council does not prepare a wages reconciliation. Discrepancies between the amounts recorded in the books of account and those disclosed in statutory forms were encountered by LGA. **Appendix J** refers. Furthermore, no explanation was forthcoming from the Council in view of the variance of €1,040 noted between the salary paid to the Executive Secretary, as recognised in the accounting records, and that reported in the respective FS3.

The Council shall reconcile the wages with FSS forms on a monthly basis in order to avoid discrepancies arising at year-end.

Marsa

Despite that up to the preceding year, FAR was integrated within the accounting system, during the year under review, such register was maintained on a spreadsheet. Moreover, review of FAR revealed that this was not held in line with best practice and pertinent regulations, as it lacked certain relevant details. It also transpired that Computer and Office Equipment were wrongly classified in the books of account. A reclassification adjustment was passed to correctly allocate the assets to the appropriate asset category. It also transpired that most of the Council's assets are not tagged with the respective identification code.

The Council has already compiled a FAR and as planned, this is to be integrated within the accounting system in the following year.

With respect to the resurfacing works completed in March 2011 in *Triq Zerafa*, the Council was awarded a grant of €66,930, payable in three equal instalments. In view that upon the calculation of grants the Council failed to accrue for the

last payment which was received in June 2014, the release of grants to income was understated by €5,473. Following LGA's proposed audit adjustments, the Council rectified its Financial Statements accordingly.

The Financial Statements have been adjusted based on LGA's recommendations.

Over and above the maximum float allowed by pertinent regulations, the Council's petty cash float included a balance of Great Britain Pounds, equivalent to €277.

The Council was holding on this foreign cash for future use, in fact, such funds were utilised during 2015.

A discrepancy of €145,092 was encountered between capital commitments as disclosed in the Financial Statements (€48,550), and the annual budget (€193,642) respectively.

As already reported in the preceding year, the Council has disclosed the amount of €6,422 due from WSC as a contingent asset, despite that the recoverability of the said amount is doubtful.

All recommendations will be adhered to accordingly.

Significant variances were noted between the budgeted figures for 2014, and the actual results obtained. The Council exceeded budgeted expenditure for Operations, Maintenance and Administration expenses, by €118,519, whilst funds received from Central Government and income raised from Local Council bye-laws were in aggregate €89,531 less than anticipated.

The Council was diligent in administering its expenditure and in fact variances arising and noted by LGA in certain line items were compensated and offset by increases or decreases in other categories. The notable difference between the budgeted and actual income received from Central Government resulted from the fact that UIF funds were not received from MEPA. On the other hand, the significant variances in expenditure emanated from the incorrect classifications. By way of example, whilst expenditure incurred from embellishment projects funded by MEPA was budgeted under capital expenditure, this was then

included under the maintenance category in the Financial Statements. Thus, the issue was not a matter of underestimated expenditure but rather a reclassification judgement of expenses, which in monetary terms had no influence on the Council's financial position.

PPE and retained earnings as disclosed in the Council's unaudited Financial Statements were overstated by €16,896. To rectify such error, LGA proposed a prior year adjustment of €13,940, representing interest on periodic instalments erroneously capitalised in the preceding two years. However, besides that the Council has incorrectly accounted for the former adjustment as €13,840, it also failed to present three Statements of Financial Position, in line with the requirements of IAS 1 and IAS 8. A qualified audit opinion was issued in this respect.

LGA also proposed a further two adjustments of €4,324 and €1,368 to de-capitalise the interest element and record it as a finance expense, as well as to reverse the excess depreciation charge for the year respectively. The Council has correctly revised its Financial Statements in this regard.

Adjustments were made in accordance to previous audit recommendations.

Marsascala

Although the agreement covering the procurement of printer cartridges expired in February 2014, the Council continued to procure such items from the same supplier. The amount of €4,864 was expensed during the year under review.

Another call for quotations for printer cartridges was issued and adjudicated by the Council. A new supplier is working with the Council following the adjudication of the quotation.

Although no instances were noted where individual purchases exceeded the petty cash threshold, it transpired that there were instances where the Council obtained two or more separate chits from the same supplier, issued in sequence, with the aggregate amount exceeding the petty cash purchases limit.

The Council will seek to purchase from different shops so as not to exceed the €23.29 threshold.

Moreover, it will seek to split the expenditure throughout the whole month rather than waiting before the Council's meeting to make the necessary purchases.

Once again, whilst total NBV as disclosed in the nominal ledger tallies to that reported in the Financial Statements, discrepancies were noted in the individual categories. A net variance of €2,650 was also noted between NBV as disclosed in FAR (€1,129,845) and that recognised in the nominal accounts (€1,127,195). In addition, a number of assets in FAR have been assigned a general description, thus making it impossible to identify assets on an individual basis. It also transpired that the Council did not physically tag Office Furniture and Fittings, as well as Computer and Office Equipment.

This will be addressed during the year under review and the necessary reclassification will be carried out. FAR in total is reconciling, however the variances between categories will be investigated. Moreover, the Council will do its utmost to include additional information in FAR.

In view that the depreciation charge is being computed on an annual basis, an overstatement of €4,881 was encountered between the amount expensed by the Council and the workings carried out by LGA. It was further noted that the depreciation charge on Construction Works and Urban Improvements was properly recorded in the books of account but overstated by €20,403 in the Financial Statements. Following LGA's recommendation, the Council correctly amended the depreciation charge in the Fixed Assets Schedule to be in agreement with that recorded in the books.

It also transpired that the amortisation of intangible assets (€2,701) was disclosed in the accumulated depreciation account for Computer Equipment. Moreover, Government grants of €157,421 accounted for under the capital approach, were not classified under the respective fixed asset account but accounted for separately in the books of account. In respect of the last two shortcomings, the Council approved the necessary reclassification adjustments.

The depreciation is calculated by the accounting software on a reducing balance method.

As per agreement in place between the Council and a waste recycling company, the latter pays the former for excess tonnage of recycled waste deposited at the landfill. However, the compensation is not paid in cash but in kind. The company in question supplies the Council with benches which are classified as Urban Improvements. As at 31 December 2014, the Council had accrued income of €9,720 receivable from the respective company, of which €5,520 pertains to 2013 and the remaining amount of €4,200 relates to 2014. By the conclusion of the audit, €3,247 of the 2013 balance was still due by the waste recycling company. Moreover, the latter only confirmed the sum of €3,374 as payable with respect to 2014, thus resulting in a discrepancy of €826 when compared to the books of account. Given that this company is facing financial difficulties, the Council is recommended to consider the recoverability of these amounts and, if these become doubtful, it is to record a provision accordingly or write-off the respective balances.

The Council is doing its utmost by contacting the company on a regular basis to recover the due amounts. In fact, the outstanding balances pertaining to 2013 were settled by a purchase of 10 benches. The amount due for 2014 still needs to be confirmed, as the balance of €4,200 was an estimate. The Council does not agree with the amount of €3,247 declared by the company.

The Council failed to provide for diesel indexation, due to the contractor for refuse collection for the months July to December 2014, which as per invoice dated 15 January 2015 amounted to €1,546. Furthermore, the reclassification of non-current deferred income, amounting to €72,252 was reflected only in the Financial Statements. Following LGA's recommendation, the Council approved the necessary adjustments to the Financial Statements.

Points noted. The reclassification of deferred income was included in the Financial Statements and in the extended Trial Balance. Next year it will also be included in the accounting records.

In breach of standing regulations, the Council issued a cheque of €2,269 before such payment was approved in a meeting. Though LGA understood

that the cheque had to be issued urgently, it was also noted that this matter was not brought to the attention of the Council at the next meeting.

Since the project is covered by EU funds, and is being paid directly by the Paying Agency, the payment of €2,269 was carried out directly by the latter through direct transfer from the Measure 313 account. The scope of the schedule of payments is to approve payments of goods and/or services by the Council. In every schedule of payments, the Council clearly distinguishes between urgent payments paid before Council's meetings, and other payments, which are awaiting approval.

The cash held at the Council's premises was in excess of the stipulated threshold. Furthermore, the savings account bank statement provided to LGA covered only up to 24 December 2014. Although the Council provided a transaction history to substantiate the remaining dates, this was not deemed sufficient since there may be timing differences.

The Council is holding a cash float of more than €232.94 since there are four employees working at the customer care and they all have a separate cash till. The Council is very customer oriented and focuses on reducing the waiting time of citizens. Nevertheless, the cash float will be reduced by €34.06.

The bank issued the bank statement as at 24 December 2014. The Council would like to point out that, between the period 25 till 31 December 2014, there were no transactions and LGA was provided with a transaction history to substantiate this. Therefore, the Council, as at year-end, was sure that the correct balance was recorded in its Financial Statements.

From review of the Council's personal accident insurance policy it was noted that this was on a worldwide basis.

The Council will seek to review its insurance policy from a worldwide to a national basis. However, Councillors travelling abroad on Council work should be covered by this insurance policy.

In 2009, the Council joined Douzelage, which is a town twinning association composed of one town from each member state of the EU, with the

objective of enhancing cultural, educational and sporting exchanges by various projects. However, the Council did not prepare a travel report covering attendance to the annual meeting held by the association for the member towns as required by MFEI Circular No. 5/2012. Following LGA's notification, the said report was eventually drawn up on 9 April 2015.

The Council took immediate action and submitted the twinning report to DLG and Auditors in line with the related circular.

Disclosed in the Financial Statements is inventory at a cost of €3,838, comprising of books, badges and digital versatile discs. However, whilst no items were sold during the year, the Council distributed 14 books as complimentary to the Mayor of Latvia. This implies that, in breach of IAS 2, the stock maintained by the Council is recognised at an amount which is higher than its realisable value.

This will be addressed during year ending 2015.

Actual expenditure incurred with respect to administration, operations and maintenance, was €213,834 in excess of that budgeted, whilst actual capital expenditure was €101,252 less than that forecasted.

The Council strives and manages to keep the actual financial results in line with the budget. In view that various roads were badly damaged due to heavy rainfall, during the year under review, the Council unanimously decided to exceed the budgeted expenditure for road repairs. Meanwhile, fewer funds were expended on capital expenditure due to unforeseen delays in EU projects which took longer than expected, due to appeals submitted in tender adjudication.

Marsaxlokk

FAR is not being maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Moreover, assets are not tagged with the respective identification code, thereby hindering physical verification. It also transpired that a number of assets have been incorrectly categorised with the consequence that an incorrect depreciation rate was applied and recognised in the Financial Statements. Capital expenditure amounting to €5,657 was also incorrectly treated as revenue expenditure, thus written off immediately to the Statement of Comprehensive Income. Audit adjustments were proposed by LGA to capitalise the amount in question and to account for the respective depreciation charge.

LGA's recommendations were noted and the Council shall do its utmost to rectify the issue in 2015. Moreover, the Council is aware that FAR is not compliant with the Local Councils (Financial) Procedures and is currently carrying out an updating exercise through which depreciation will also be revised.

Upon comparing NBV of individual asset categories as recorded in the unaudited Financial Statements, nominal ledger and FAR, a number of differences were encountered. The main variances are highlighted in **Table 15**.

LGA's recommendations have been noted and the Council shall be doing its utmost to remedy the situation in the next year.

It also transpired that assets showing under construction costing €38,097, which were completed in 2014, were not reclassified under the

Table 15: Difference in Net Book Value of Individual Asset Categories

Asset Category	NBV as recorded in the unaudited Financial Statements	NBV as accounted for in the Nominal Ledger	NBV as disclosed in FAR
	€	€	€
Assets under Construction	1,148	39,245	-
Urban Improvements	48,636	47,791	48,640
Construction	294,015	256,763	297,017

proper category in the books of account. Thus, a reclassification adjustment was approved so that the nominal ledger is reconciled to the Financial Statements.

Only the cost was written off following disposal of fixed assets in 2013, leaving accumulated depreciation in the books. To rectify this error, the Council approved the audit adjustment proposed by LGA.

Following LGA's recommendation, the Council has carried out a reclassification of its assets and revised its accumulated depreciation.

Actual capital expenditure for the year amounted to €104,051, as against a budget of €39,475, thus resulting in a variance of €64,576.

The Council has incurred capital expenses due to unforeseen circumstances. Necessary action has been taken so that the situation will not be repeated in 2015.

During the year under review, the Council was awarded a grant of €2,675 to compensate for electricity bills addressed to the Fisheries Department but paid for by the Council. However, such amount was incorrectly recognised as deferred income rather than matched with the respective expenditure incurred. This error was rectified by means of an audit adjustment proposed by LGA.

The non-current and current portions of deferred income were also not properly accounted for. A reclassification adjustment of €85,849 was proposed in this respect and the Council adjusted its Financial Statements accordingly.

LGA's comments concerning grants have been observed and deferred income was correctly reflected in the Financial Statements.

In breach of pertinent regulations, the Council is not depositing its receipts on a regular basis. By way of example, the amount of €2,550 received from the Land Department on 30 January 2014 was deposited on 4 February 2014.

During 2015 the Council has rectified its position and is depositing on a regular basis and as legally obliged.

The Council's personal accident policy is extended to worldwide coverage instead of limited only to Malta.

Point not addressed.

Included within the Council's receivables are three long outstanding balances, aggregating to €2,691, of which €2,560 is due from a waste recycling company which appears to be in financial distress. While €2,000 of the said balance was collected in 2015, it is uncertain whether the remaining balance will be recouped. Moreover, no appropriate evidence was obtained to confirm the existence of such balance.

The Council sent regular reminders to the company in question and it will be doing its best to receive the amount still due during 2015.

As highlighted in the preceding years, included in the Council's other receivables is an amount of €2,808 in relation to a garnishee order. Whilst no proof of recoverability was provided to LGA, the amount in question was also not disclosed in the bank confirmation letter. Furthermore, a membership fee of €5,000 is included as a prepayment, which was paid by the Council to *Gal Xlokk* in 2011. However, the Financial Statements of the latter were not obtained by the former for it to be able to assess the costs and benefits arising from its membership.

The Council shall ensure that the issue concerning the garnishee order will be rectified in 2015. Moreover, the Financial Statements of the Gal Xlokk foundation were requested by the Council, however, these were not made available.

As at year-end, the Council's tribunal pending payments, for the pre-regional period up to 31 August 2011, increased by €49,857. This implies that, during the year under review, the Tribunal has adjudicated contraventions which are older than two years. While the Council has not taken into account these additional debtors, this casts doubt on the integrity of the data generated from the IT system. Furthermore, since explanations or documentary evidence justifying the increase in tribunal pending payments were not provided for audit purposes, LGA was not in a position to determine if this amount is correct.

Point not properly addressed.

The Council did not adhere to the fundamental principles of accrual accounting and the matching concept. In fact, accrued income aggregating to €3,853 and a prepayment of €1,150 remained unaccounted for. Similarly, whilst accruals were understated by a total of €2,412, three invoices, dated in 2014 and amounting to €2,489, were not recorded by the Council. These shortcomings were rectified through audit adjustments.

One of the three invoices which were not posted in the suppliers' ledger is being contested since the supplier has not delivered all contents. Following LGA's recommendation, the necessary adjustments were made to rectify the Financial Statements and the Council shall ensure that these issues will not be repeated in the next year.

The Council accounted for a cheque payment dated 14 October 2014, amounting to €1,024 even though the cheque was still not signed by the two signatories and thus not yet forwarded to the payee. Recorded in one of the Council's bank reconciliations is also a stale cheque of €279. Furthermore, it was noted that the interest received on a savings account was subject to a final withholding tax.

LGA's recommendations have been noted.

In breach of the standing procedures and Memos, the Council did not obtain monthly suppliers' statements from all of its suppliers. Moreover, included in the Council's creditors' list are 10 balances, totalling €4,530 which have been outstanding for more than one year. One of the said balances, amounting to €932, has been recorded since 2008, however, no invoice was ever received from the respective supplier. Although not material, debit balances were also noted in the creditors' list, some of which have been brought forward from the previous year.

During 2014, the Council regularly paid its suppliers within 30 days from receipt of invoice. Hence, monthly statements were not necessary. The issue with respect to long outstanding trade creditors is to be rectified during 2015. The debit balances in the creditors' list are immaterial.

Audit testing carried out revealed that the Council recorded the amount of €1,266 as refundable

deposits. The Executive Secretary explained that these deposits were received from tenderers for appeals and that the amount in question will not be refunded back since it was surrendered by those tenderers who lost their appeal before the Public Contracts Review Board. In view of this, LGA opines that, when appeals are adjudicated, such deposits are transferred to other income, otherwise liabilities will be overstated.

LGA's recommendations have been noted.

The Council's capital commitments, amounting to €41,000, as disclosed in the Financial Statements, do not agree to the budgeted capital expenditure for 2015, totalling €210,000.

The Council has noted LGA's comments.

Included in the Council's unaudited Financial Statements were two contingent liabilities of €12,854 and €932, representing balances due to an individual and a private company respectively. Following queries raised by LGA, the Executive Secretary confirmed that whilst the amount of €12,854 was settled in 2014 and thus the Financial Statements were adjusted accordingly, the other balance of €932 was not actually in dispute. However, this was not reflected as a proper liability in the accounts.

The Council rectified the issue in 2015.

Mdina

Notwithstanding that expenditure of €5,016 incurred with respect to the Medieval Festival merited a call for tenders, this was only covered by a call for quotations.

This was an exceptional case due to urgency matters.

The Council collects fees for the temporary rental of *it-Tomba*, which income is not covered by a bye-law in line with Article 61 of the Local Councils Act. As also reported in the preceding year, a bye-law for 'Use of Facilities' was submitted by the Council to DLG. However, two years later, such law has still not come into force.

The Council will continue to pressure DLG to legislate this bye-law.

Despite prior recommendations issued to the Council, to ensure that a lease agreement is signed with the Land Department, in respect of the property which the former has been leasing since 1994, no action has been taken. Thus, the Council is operating from a building which is not secured by a legal title of use, either in the form of a lease or ownership. Moreover, the rent payment commitment has never been honoured, and the Council is instead accruing for this expense, which as at year-end aggregated to €45,520. However, should the latter be requested to settle this obligation in full, it would create a burden on its cash flow.

The Council was given the premises by DLG in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Council and eventually Heritage Malta never insisted on this claim. During 2014, the Council received a contract from the Land Department. However, the Council's Lawyer advised not to sign such agreement as there is a clause which binds the Council to make good for any damages of the building, and since the property is not in optimal condition, this may trigger liabilities in the future. The Council submitted its concerns about such a clause to the Government Property Department and is still awaiting its reaction.

FAR provided by the Council for audit purposes is not yet in line with the terms of the Local Councils (Financial) Procedures. Descriptive details are still lacking, while there is no common reference in the description of the asset in FAR and the related transaction in the nominal ledger. Moreover, due to missing documentation and nominal ledger history, with respect to 13 financial years covering 1994 to 2007, the reconstruction of FAR could not be carried out properly.

Furthermore, depreciation charge for the year with respect to Urban Improvements was overstated. Based on the reducing balance method, the charge was calculated on the cost less the accumulated depreciation without taking into account grants of €4,726 received in the past that were accounted for under the capital approach. Following LGA's recommendation the Financial Statements were adjusted accordingly.

In view that LGA was limited in the procedures it could carry out to verify the physical existence and completeness of the items of PPE having a NBV of €128,380, a qualified audit opinion was issued in this respect.

The Council has addressed the issue of the upkeep of FAR in 2011. In fact the Council presented a FAR updated and reconciled within the nominal ledger. FAR was constructed as accurately as possible when considering that it is a highly time-consuming exercise that involves a certain cost. Moreover, upon purchases of a capital nature, FAR is updated accordingly and depreciation is being posted on a monthly basis in line with pertinent regulations. Notwithstanding this, the Council will follow LGA's recommendation to continue improving FAR. As regards depreciation charge on Urban Improvements, the necessary reclassifications were made in the Financial Statements.

The Council accrued for income receivable with respect to an insurance claim of €905, notwithstanding that there is no certainty that the claim will be availed of. Following LGA's recommendation, the Council revised the accounting records and Financial Statements accordingly. On the other hand, notwithstanding previous year's recommendation, the Council still failed to recognise a provision of €1,152 in respect of a court case, which has already been adjudicated against it, and for which a contingent liability was merely disclosed in the Financial Statements.

With respect to the contingent assets disclosure, the necessary adjustments were made in the Financial Statements.

Creditors' statements relating to two suppliers, with year-end balances amounting to €8,686 and €8,037 respectively, were missing. Moreover, no reply to the circularisation letter was received from these suppliers to confirm the aforementioned balances.

It is the Council's practice to reconcile the suppliers' balances with the respective statements, which in fact most balances were duly reconciled. Notwithstanding this, the very few variances identified will be followed up in the next financial year.

Two invoices amounting to €2,531, pertaining to the year under review, were recorded with accrued expenditure on the basis that the respective invoice was not deemed adequate, since it did not include an invoice number. It also transpired that an adjustment to an invoice received from another supplier was inadvertently accounted for twice. The Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

The Council would like to highlight the fact that the addition of such an expense as accrual was done in the preceding year through an audit adjustment, and to date the Council has not received an invoice for such an expense.

Incorrect classification of income was again highlighted in this year's Management Letter. Among the identified misclassifications was the amount of €5,673, classified as income from bye-laws, but which relates to Mdina entry permits, regularised by a LN. On the other hand, confetti income was incorrectly categorised under general income instead of income from bye-laws. Following LGA's recommendation, the Council approved the necessary reclassification adjustments.

LGA's comments were noted and the necessary reclassifications were made in the Financial Statements to outline a better presentation.

The Council uses a manual based system of official receipts for income flowing in its favour. However, this method does not produce a proper audit trail. Furthermore, an invoice is not always issued when income is received, particularly when the source is from a Government entity or department.

It is the Council's practice and policy to issue manual sequentially numbered receipts which are batched as necessary and reconciled when preparing a bank deposit. The Council acknowledges that, at times, deposits might not agree with the corresponding batched receipts separately, however, a reconciliation is done in aggregate. In spite of this, the Council is aiming to improve the cash reconciliation exercise and its receipting system. However, for the time being, an electronic system is not being considered due to budget constraints.

As highlighted in **Table 16**, relatively significant variances were noted between budgeted and actual income and expenditure.

The Council has noted LGA's comments and would like to clarify that the variances identified are due to reclassifications done in the Financial Statements. The only significant variance noticed was for professional fees, which include architect, legal, accountancy and IT support. Such expenses depend on specific circumstances and other ad hoc events.

Table 16: Variances between Budgeted and Actual Income and Expenditure

Item	Budget	Actual	Variance
	€	€	€
Income			
Permits	6,000	7	(5,993)
Sponsorships	5,000	-	(5,000)
Community Services	5,000	-	(5,000)
Contraventions	900	-	(900)
Expenditure			
Professional Services	10,000	24,305	14,305
Community and Hospitality	-	4,660	4,660

Mellieħa

Once again, upon reconciling FAR with the figures disclosed in both the unaudited Financial Statements and the nominal ledger, a number of discrepancies were noted in certain fixed asset categories. By way of example, whilst the cost of Urban Improvements and Construction recorded in FAR amounted to €280,752, that recognised in the unaudited Financial Statements and nominal ledger totalled €284,054 and €387,332 respectively. Variances were also identified in the accumulated depreciation reported in the aforementioned documents.

The Council does its utmost to keep FAR as updated and detailed as possible. Discrepancy noted in the depreciation reserves is the result of previous years' audit adjustments. However, such adjustments which are posted in the nominal ledger cannot be reflected in FAR, as depreciation is calculated and posted automatically through the software.

Although Memo 8/2011 stipulates that expenses in respect of *Jum il-Lokal* should not exceed €3,500 or 0.5% of the annual Government allocation (€5,050), whichever is the highest, the amount incurred by the Council in this respect was of €7,859, thereby exceeding the allowed threshold by €2,809.

Point not properly addressed.

The release of grant income has not been undertaken in line with the required accounting treatment, using the income approach as detailed in IAS 20. In fact, grants on two projects were not amortised in accordance with the depreciation charge. Consequently, whilst income for the year was understated by €43,622, deferred income was overstated by the same amount. Following LGA's recommendation, the Council approved the necessary adjustments and amended the Financial Statements accordingly.

LGA's recommendation has been noted, proposed audit adjustments were approved, and the Financial Statements were amended accordingly.

Notwithstanding that the respective bye-laws were not in place, during the year under review, the Council collected €4,426 from the sale

of books and other merchandise, as well as from cultural events and sponsorships. It also transpired that invoices issued by the Council to Regional Committees, in respect of commissions on post Regional LES fines, were understated when compared to LES computerised reports. Furthermore, as highlighted in **Appendix G**, a number of payments, collectively amounting to €2,200, were not substantiated by fiscal receipts.

The introduction of bye-laws is only called for when there would be a steady income on a permanent basis and not for one-off instances involving insignificant amounts. As regards the sale of publications issued by the Council, one is to mark that it is not practical to introduce bye-laws to regulate the price of books which vary in cost. The Council hardly ever recovers the expense involved, let alone make a profit. In addition, it is not practical to introduce a bye-law for every publication, which in recent years has become an annual initiative. This matter will be discussed with the Council's legal adviser for guidance on the way forward. Amounts in the nominal ledger were reconciled with the copies of invoices from LES and no inconsistencies were noted.

Two invoices with an aggregate value of €6,722, pertaining to the year under review, were accounted for as accrued expenditure rather than creditors. Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.

These amounts were included with accrued expenditure as the tax invoice was received after the Council closed off the financial year. It is also to be stated that there was no backlog in the posting of tax invoices, since a task is performed on a daily basis.

Further to the above, an analysis of trade creditors as at 31 December 2014 revealed that, in breach of Memo 8/2002, the Council is not obtaining monthly statements from its suppliers, with the consequence that regular reconciliations are not carried out. In view of this limitation, LGA attempted to carry out alternative procedures through the sending of circularisation letters to four creditors, covering 74% of total payables at year-end. However, no response was received from two suppliers, confirming outstanding balances at year-end of €32,267 and €30,070 respectively.

The issue of regular creditors' statements goes beyond the control of the Council. Notwithstanding that the creditors' balances referred to are material, some consist of one or two transactions, which were settled after year-end. The Council regularly requests and reconciles creditors' statements to ensure the correctness of data.

The Council recognised an amount of €203,401 as payable under PPP scheme. However, the discounted amount due under the agreement should have amounted to €124,937. An audit adjustment of €78,464 was proposed in this respect and the Council has updated its Financial Statements accordingly.

Matter has been discussed with LGA during the audit and questions raised were tackled. Amounts have been discounted in line with IAS 39. It is strongly suggested that an audit adjustment be proposed to amend the amount in the current liability, which discrepancy has been due to human error in the Council's workings for PPP.

A contingent liability in respect of a court case, concerning a claim for damages caused to a motor vehicle due to the decrepit state of a particular road, filed by an insurance company against TM and the Council, was only disclosed in the Financial Statements following LGA's recommendation.

LGA's comment has been noted, however it is to be pointed out that the amount is not material and thus no disclosure was included in the Financial Statements, which were then updated to incorporate such issue.

Whilst Supplementary Government Income and General Income received during the year under review were in aggregate €106,021 more than budgeted, income generated from EU funding as well as bye-laws was €73,829 and €21,023 respectively less than that forecasted. Expenditure incurred with respect to Community and Hospitality also exceeded the budget by €22,871. Meanwhile, a fall of €61,713 was noted in the expenditure incurred in relation to EU projects, when compared to the budgeted amount.

General Income exceeded the budget substantially since, in 2014, the Council received a one-off payment from the Joint Committee on the distribution of funds on its partial dissolution.

Supplementary Government Income was not included in the budget for 2014, since the Council does not have any control on the realisation of such income.

Mgarr

The service concerning the collection of bulky refuse was still being provided as at year-end, despite that the respective contract expired in June 2014. The cost incurred under the expired contract amounted to €2,055.

The new tender for bulky refuse collection has now been issued, adjudicated and awarded. Such tender was not issued before because the Council decided to issue all the tenders which were going to expire in one lot to reduce the cost of adjudication and give the possibility for contractors to offer a better price due to economies of scale. In fact, the new bulky refuse contract has cheaper rates than the previous one.

Only one rental agreement, for the amount of €233 payable to the Commissioner of Land with respect to the Council's premises, was provided to LGA during the audit fieldwork. Notwithstanding this, it transpired that the Council placed a further two payments of the said amount. However, an explanation for such payments was not provided to LGA.

An agreement to substantiate rent of €846, paid in connection with the leasing of a garage, was also not available. Similarly, review of the nominal ledger revealed further transactions relating to rent, aggregating to €2,667 which were not supported by an explanation to justify the expenditure.

In breach of the Local Councils (Financial) Procedures, the Council did not prepare purchase requests and purchase orders for five items of expenditure aggregating to €641. Moreover, expense items adding to €35,794 were not supported by a fiscal receipt. **Appendix G** refers. It also transpired that the invoices for cleaning of public convenience, aggregating to €3,539, were not dated, whilst no invoices were available to support other expenditure of €854. The Council also failed to provide documentation in relation to rental expenditure of €3,981. Moreover, instances were also encountered whereby payment vouchers

were neither signed by the Mayor nor by the Executive Secretary.

Whilst noting the Financial Procedures, one has to keep in mind that certain purchases would be required urgently and thus it would be practically impossible to issue purchase requests and orders, especially for repeat purchases from the same suppliers. However, it is important to note that the Council is doing its utmost to, whenever possible, issue purchase requests and orders, in fact, significant improvements have already been registered. LGA's comment with respect to fiscal receipts have been noted and the Council does its utmost to request such receipts for all payments issued, however, during 2014, a number of suppliers did not forward fiscal receipts despite the Council's efforts. The comment concerning payment vouchers was also noted and any human error is deeply regretted.

As also reported in the preceding years, the accounting system adopted by the Council is a hybrid one between cash and accrual accounting. In fact, all expenditure is being accounted for when the payment is actually effected rather than at invoice date. LGA also noted that, on certain occasions, the Council issued only one cheque to settle several invoices. A number of instances were also encountered whereby expenditure was posted in the wrong nominal account, which errors were then corrected through the reclassification adjustments proposed by LGA.

The majority of transactions are posted through the creditors control module, thus using the invoice date, however, there were some transactions with suppliers who did not have a creditor account in the accounting system and these were posted using the payment date. It is important to point out that these transactions did not affect the end of year cut-off; i.e. any expenses of 2014 were recorded in the said year and it was ensured that any unpaid invoices were included in the creditors' ledger.

Audit procedures carried out further revealed that certain cheque payments were issued prior to them being approved in a Council's meeting. It also transpired that a payment of €247 in relation to bulky refuse collection was incorrectly recorded as €47 in the schedule of payments.

The Council does its utmost to ensure that cheques are issued only after being approved in the Council's meeting, however, one has to appreciate that there may be urgent situations. Nevertheless, payments are still approved at the first Council's meeting after the cheque was issued.

As reported in the preceding period, included within trade receivables is a long overdue amount of €7,365, against which an equivalent provision for doubtful debts was also recorded. This balance is receivable from a waste recycling company, which appears to be in financial distress.

LGA's comments have been noted.

For another year, the Council failed to maintain a FAR in line with the requirements of the Local Councils (Financial) Procedures. As a result, depreciation is not being calculated and posted through this register on a monthly basis, using the reducing balance method, as required by the applicable regulations, but is being accounted for through a journal entry on an annual basis. In addition, the extension to the Local Council's office building is not being depreciated, even though a depreciation charge of 1% should be applied. In view of these shortcomings, no practical satisfactory audit procedures could be performed to obtain reasonable assurance on the existence and completeness of the opening balances of PPE and on the depreciation charged thereupon. A qualified audit opinion was issued in this respect.

The Council acknowledges that, at the moment, a FAR is not in place. In fact, the Council is currently working on a project to create a FAR which will eventually be maintained in line with the requirements of the Local Councils (Financial) Procedures. The Council also intends to record a detailed description of the assets in FAR. With respect to depreciation, this is being calculated through a spreadsheet and posted in the accounting system on a periodic basis.

The Council is not obtaining monthly statements from its suppliers, as required by Memo 8/2002, and is thus not carrying out regular reconciliations with such statements. For example, although the Council informed LGA that the difference of €12,287 between the amount payable as recorded in the Council's ledger and that as confirmed

by the respective supplier related to timing differences, the amount in question was not reconciled. Similarly, no satisfactory explanation was provided in respect of a variance of €1,192 between the balance payable to WasteServ Malta Ltd as per Council's books of account and the respective supplier's statement.

It is hereby declared that the mentioned differences were the result of timing differences resulting from payments issued by the Council but not yet processed by the creditor as at year-end. The respective cheques were included with the list of unrepresented cheques as at 31 December 2014.

It also transpired that accruals pertaining to waste disposal and maintenance services, in aggregate amounting to €2,065 have been completely omitted from the books of account. These transactions were then incorporated in the accounting records through the audit adjustments proposed by LGA.

LGA's comments have been noted and the proposed adjustments were accordingly posted in the Financial Statements.

Capital commitments as disclosed in the Financial Statements, with respect to Special Programmes, Construction Works, Motor Vehicles and Office Equipment, in aggregate amounted to €249,500. However, the budget document for 2015 showed a total amount of €215,000 for the said categories, thus resulting in a variance of €34,500.

Point not addressed.

The Council also exceeded budgeted expenditure in certain categories, namely Employee Salaries and Wages, Repairs and Upkeep, Transport, Information Services and Rental Expenditure, by an aggregate amount of €6,971.

LGA's comments have been noted. The Council compiles its budget with utmost care, however, it is to be noted that the expenses incurred may vary from the budget since the latter is compiled at the start of the financial year based on the information available at that time. Furthermore, the Council may incur additional expenses which would not have been budgeted, but which would be for the benefit of the locality.

Mosta

Upon the expiration of the contract for patching works, as well as that for the cleaning and maintenance of parks and garden, on 17 August 2009 and 31 May 2010 respectively, the Council continued to procure such services from the same service providers, without issuing a new tender offer. During 2014, expenditure incurred in relation to such provisions amounted to €72,194 and €39,795 respectively. Moreover, payments totalling €71,652, covering patching works rendered until November 2014, were not substantiated by proper invoices, since the supplier's VAT number was not included therein and the applicable 5% management fee was not deducted. The invoices were manually adjusted to remove the foregoing management charge.

The tender for the cleaning and maintenance of parks and garden was issued but it has not yet been adjudicated. The invoices concerning patching works were manually corrected to deduct the applicable management fee.

Instances were encountered whereby a number of payments aggregating to €9,653, some of which were not of an urgent matter, were issued to suppliers prior to being approved at the Council's meeting. Various misposted transactions, highlighting lack of uniformity in the accounting records, were also identified and were rectified through audit adjustments proposed by LGA.

As regards the issuance of payments prior to them being approved, the Council would like to point out that some creditors, such as companies providing communication and utility services, impose on Local Councils to settle their outstanding bills within a very short timeframe. Thus, to avoid extra charges and the risk of disruption of service, the Council remits payments to such creditors upon receipt of bill, once the amount due is verified. With respect to the misposted transactions, the Council accordingly posted the proposed reclassifications in its Financial Statements.

The Council uses a manual based system of official receipts to record income; however, this does not produce a proper audit trail. Furthermore, an invoice is not always issued when income is received.

It also transpired that no invoices or receipts were issued for administrative fees received from Regional Committees but only statements were distributed. Moreover, the nominal account where such income is being recorded lacked a detailed description, in fact, no reference was made to the month or Regions to which the transactions relate.

The Council believes that the present system has proven to be a good balance between practicality and traceability. Any income which was mentioned by the Auditor was income received from the Government and thus was definitely correctly accounted for. Any income not included would be noticed at bank reconciliation stage. Invoices for the administration fees on LES contraventions to the Regions will be processed through the debtors' ledger.

The current procedure is to issue invoices from LES computerised system at the end of the month. It is imperative to note that this is obligatory since LES requires that invoices are issued from this system. Upon receipt of funds, a receipt is issued and funds are deposited in the Council's bank account. Bank reconciliations are then performed on a monthly basis. Receipts for the money credited directly in the Council's bank account for pre-regional contraventions are posted directly in the accounting software. The Council will be updating its system to issue receipts also for the pre-regional contraventions.

Included in the Council's list of receivables are balances, aggregating to €15,523 which have been long overdue.

The Council does its utmost to collect the funds receivable from the debtors in a timely manner. Statements are sent and debtors are also chased through phone calls. It is also to be noted that the balances mentioned by LGA are mainly balances due from the Regional Committees for administration fees on the collection of LES contraventions. In line with the prudence concept, balances which were deemed doubtful were provided for.

A discrepancy of €346 was noted between income from LES administration fees as recorded in the books of account and the amount disclosed in the report extracted from the computerised system. No explanation was provided by the Council to

this effect. Due to the limited details provided, a reconciliation could not be carried out.

Following a thorough reconciliation the Council is of the opinion that there may be a system error in the report. The matter will be referred to the system administrator for verification.

An invoice amounting to €6,246, issued in January 2015 for street sweeping services carried out during December 2014, was erroneously recognised as a creditor rather than an accrual. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The differences identified by LGA have been noted and the Financial Statements were adjusted accordingly.

Nine out of the 13 circularisation letters sent by LGA to the Council's creditors remained unanswered, thus hindering confirmation of an aggregate outstanding balance of €218,212 as at year-end.

The five replies received to the circularisation letters confirmed that the year-end balances as disclosed in the books of account were correct.

Upon requesting a FAR from the Council, LGA was only provided with a Fixed Assets Consolidated Listing for the year 2014. Furthermore, the depreciation charge is being worked out on a spreadsheet and posted in the accounting records through a journal entry on an annual basis. Assets are not tagged with the respective identification code, thereby hindering physical verification. In view of these shortcomings, LGA could not perform practical procedures to obtain reasonable assurance on the existence and completeness of the fixed assets recorded in the Financial Statements, with a NBV of €2,939,569, as well as on the correctness of the deprecation charged thereon. A qualified audit opinion was issued in this respect.

FAR is being updated for new additions, however, it is important to note that there are some unreconciled differences between FAR and the nominal ledger. Such differences arise from the term of the previous Accountant. In this respect, the Council is to decide whether to reconcile the two documents and process the necessary adjustments in FAR. With regard to depreciation, since FAR

is not in agreement with the nominal ledger, depreciation is being calculated on a spreadsheet and posted in the accounting system through a journal entry. Depreciation is calculated monthly on the respective NBV.

The valuation method of inventories adopted by the Council is not in accordance with IAS 2. Stock of books and maps as recognised in the Financial Statements, amounting to €17,211, was valued at selling price rather than at the lower of cost or net realisable value. A qualified audit opinion was issued in this respect.

Moreover, review of the stock list provided for audit purposes revealed that the Council is not maintaining any stock movement records. It also transpired that, whilst the quantity of items decreased when compared to the previous year, no related income was recorded in the Council's books of account, implying that such decreases may be attributable to items of stock given on a complimentary basis. In addition, the Council does not hold an insurance policy in respect of such inventories.

It is to be pointed out that stock movements during the year are very few in number. Moreover, a number of books were donated as mementos during a Council's event. At the end of the year, a physical stock take of the books and maps was carried out and the resulting figure was recorded in the books of account. With respect to insurance, the Council believes that it is not feasible to insure stocks of books and maps since these are kept in a safe and adequate place thereby reducing the risk of damage, theft, fire or any other accident.

The balance of deposits, withheld by the Council upon application for Construction Works in the locality, as per the nominal ledger amounted to €43,245, whilst that as per list of deposits totalled €44,187, thus a variance of €942. Furthermore, €12,327 of the said deposits have been long outstanding, dating back to the period 2007 until 2009.

The difference identified by LGA mainly relates to bank transactions, such as bank charges or interests, which would not be reflected in the Council's register. The account will be analysed in 2015 and the necessary adjustments will be

posted accordingly. After obtaining the relevant advice from the Council's Lawyer, decisions will be taken on whether to write-off any unclaimed deposits which have been paid a number of years ago.

For another year, no substantiating documentation was provided to validate the amount of €212,929, relating to EU projects and grants, and the balance of €13,370 disclosed under other creditors in respect of rents due to the Land Department. A qualified audit opinion was issued in this respect.

Although the Council was involved in the EU projects, these were actively managed by other parties, such as Heritage Malta. In fact, the Council's involvement was merely limited to receiving funds from the Paying Agency and processing payments to suppliers. Nonetheless, any documentation is available at the Council's offices. Rents due to the Land Department are balances about which there is a legal case in the Courts of Malta.

The opening balance of deferred income disclosed in the unaudited Financial Statements amounted to €709,955, whilst the respective workings showed a balance of €1,088,396. Similarly, the amount of €920,644 recorded as closing deferred income in the unaudited Financial Statements is €219,834 less than that disclosed in the Council's workings. LGA was also unable to verify the increase of €308,606 in Government grants.

Variances were also noted in the deferred income of individual projects. For example, whilst no amount of deferred income was recorded in the Trial Balance with respect to Measure 323, that as per grant workings stood at €253,609. On the other hand, no amounts were disclosed in the grant workings for the *Archaetour* and Measure 313 projects, which had a balance of €108,561 and €49,416 respectively in the nominal ledger. Moreover, the amount recorded in the Trial Balance with respect to the grants received in relation to the *Blata l-Għolja* project was €158,402 more than that disclosed in the grant workings. The Council also failed to provide sufficient information about the asset allocation of these grants, thereby hindering verification of the depreciation rate being applied.

In view of the above, no satisfactory audit procedures could be performed to verify the

completeness and existence of the amounts disclosed in the Financial Statements, thus LGA had no other option but to qualify the audit opinion.

Albeit the aforementioned project of *Blata l-Għolja* was finalised during December 2013, the release of deferred income to the Statement of Comprehensive Income was accounted for as from January 2013. The amount of such release was of €6,995, however, this was deemed immaterial to warrant a prior year adjustment. Moreover, in view of the variances identified between grant balances as disclosed in the nominal ledger and the Council's workings, LGA could not validate the amount of €97,917, relating to grants released to the Statement of Comprehensive Income in respect of *Blata l-Għolja* and Measure 323.

Some projects have not been included in the grant workings since these were not yet concluded and will thus be included once they are completely finalised. Once included in the said workings, grants will start to be released to the Statement of Comprehensive Income.

Budgeted expenditure for various categories has been exceeded, as detailed in **Table 17**.

The variances identified by LGA have been noted. Refuse collection is in line with the respective agreement, and the Council has increased the number of collections. The variance in rent arose because the Council has been devolved with other properties and thus rental costs have increased.

A discrepancy of €709,953 was noted between NBV of fixed assets as per opening Trial Balance (€1,521,842) and the closing balance as reported in the audited Financial Statements for the year

ended 31 December 2013. It further transpired that comparatives disclosed in the 2014 Financial Statements were not in agreement to the amounts recorded in the previous year. By way of example, grants disclosed in the PPE note of the 2013 Financial Statements amounted to €3,268,062, however, the respective comparative in this stood at €2,558,107. In addition, whilst no deferred income was disclosed in the previous year's Statement of Financial Position, a balance of €709,955 was recorded as a comparative in the current year.

The audit adjustments for the financial year 2013 were posted as proposed by the previous Auditors. These same adjustments were forwarded to the 2014 Auditors as necessary and thus the Council believes that it has done its utmost to ensure the availability of data. Moreover, as discussed during the audit, the previous Accountant has recorded long-term deferred income with fixed assets rather than long-term liabilities. This accounting process was adjusted in the 2014 Financial Statements.

Mqabba

The balance of €4,696, representing part of an invoice issued by a contractor for the excavation of a trench in *Triq il-Paroċċa*, remained unrecorded, in view that the said amount was not certified by the Contracts Manager and therefore is in dispute. It is suggested that the Council makes an effort to settle this dispute and make corrective accounting entries accordingly.

The invoice referred to by LGA pertains to a trench dug for the purpose of eliminating overhead electricity lines. The dispute concerns concrete that the Architect did not approve of. The Council

Table 17: Variances between Budgeted and Actual Expenditure

Item	Budget	Actual as per unaudited Financial Statements	Variance
	€	€	€
Rent	15,100	34,297	19,197
Road and Street Cleaning	63,000	74,677	11,677
Refuse Collection	127,000	136,595	9,595
Employees' Salaries and Wages	112,248	121,822	9,574

is currently in discussions with the contractor to find a solution.

Notwithstanding that the Council maintains a FAR, this is not in line with standing regulations. Moreover, the Council continued to calculate the depreciation charge manually, through the use of a spreadsheet.

The Council's FAR is maintained on a spreadsheet which contains the description, date of purchase, supplier's details, invoice number, tag code, cost, depreciation method as well as rate, and the location of the assets. Moreover, depreciation is calculated manually on a quarterly basis for the purpose of the submission of quarterly reports.

For another year, a long outstanding balance of €3,450, due from WSC with respect to trenching works carried out in 2009 and 2010, was included with receivables. In view that the recoverability of such amount is very remote, the Council approved an audit adjustment to provide for such balance.

Although the Council has insisted with WSC to settle the outstanding amount on a number of instances, such balance has not yet been settled. The audit adjustment proposed by LGA has been incorporated in the Financial Statements.

Verifications carried out on LES debtors and the related provision for doubtful debts, revealed that the debtors' amount disclosed in the books of account was overstated by €1,100 when compared to the report generated from the IT system. Consequently, an audit adjustment was passed to decrease LES debtors and the respective income, as well as the amount provided thereon.

The amounts owed from Regional Committees included in a spreadsheet maintained by the Council (€1,310) deferred from that found in the books of account (€2,600) by €1,290. Though debtors' circularisation letters were sent, only two confirmations were received where both Regional Committees claimed that they did not agree with the respective balances. Meanwhile, another balance of €132, classified as 'Other' in the debtors' list was neither identified nor confirmed.

Points not addressed.

Upon comparing the bank balances as per bank confirmation letter with those recorded in the nominal ledger, a discrepancy of €3,108 was encountered for a particular bank account. No reconciliation was provided for this difference. Furthermore, the Council did not reverse stale and cancelled cheques of €648 and €661 respectively.

The difference of €3,108 has been brought forward from previous periods and arose upon the introduction of the new accounting system. With respect to the stale and cancelled cheques, the Council shall investigate and reverse such cheques.

LGA's reconciliation to supplier's statements revealed that a creditor balance was understated by €5,093. Additionally, included in the creditors' list was a debit balance of €286, resulting from a number of misstatements that were dumped in this account. The last two shortcomings were rectified through the audit adjustments.

The Council can only perform reconciliations to supplier's statements when these are available. Unfortunately, a number of the Council's suppliers are small contractors that do not produce such a statement. Nonetheless, the Council is willing to take on board LGA's recommendation and perform reconciliations on a monthly basis.

As underlined in previous years, the Council is maintaining an annual provision for accrued rent of €1,165 for its premises, despite that there is no contractual obligation to pay such rent. During the preceding years, the Executive Secretary claimed that the provision is only made for prudence purposes, since the Council does not foresee its eventual payment. As at 31 December 2014, the balance for accrued rent totalled €18,344. In view of previous Management Letter replies, wherein it was highlighted by the Council that, on instructions of the Attorney General, it was not making any rental payments to the owners of the premises, LGA reiterates that the Council is recommended to consider again whether it is appropriate to continue making these provisions.

Point not properly addressed.

As also reported in the preceding year, half of the performance bonus (€1,200), due to the Executive Secretary was paid prior to DLG's approval.

Point not properly addressed.

A discrepancy of €1,368 was noted between the closing balance as per previous year's audit, and the opening balance brought forward in the books of account, with respect to Retained Funds and Debtors Control Account respectively. This resulted from the fact that an audit adjustment was incorrectly recorded. New adjustments were proposed to rectify these errors. Another audit adjustment was passed to correct the deficit amount reported in the unaudited Financial Statements as this differed from that disclosed in the Trial Balance.

The difference between the Trial Balance and unaudited Financial Statements shall be investigated. LGA's recommendations have been noted and in the future, the Council will adjust its Financial Statements accordingly.

Msida

Notwithstanding previous year's recommendation, the procurement of contract management services and the collection of bulky refuse was still being effected under contracts that expired on 30 November 2013 and 31 August 2013 respectively. During the year under review, an aggregate amount of €21,526 was incurred in respect of such services. Though a new tender was issued in November 2014 for the collection of bulky refuse, this is under appeal proceedings.

Similarly, on 6 November 2014, the contracts for the maintenance and upkeep of the public convenience, as well as that for accountancy services, expired. However, the Council continued to procure such services from the same service providers. A new tender for the upkeep of public convenience was issued on 14 November 2014. This was still in the adjudication process during the course of the audit.

Although upon the expiration of the aforementioned contracts, the contract of the respective service providers was extended, this was not signed and returned to the Council. Notwithstanding prior recommendations, FAR still lacked a detailed description of the asset and other information, such as invoice number. Moreover, the Council has still not tagged the assets, rendering their traceability even more difficult.

Further to the above, depreciation for Buildings and Construction was overstated by €11,488 and €3,773 respectively. It also transpired that all assets, except Buildings, are being depreciated on an annual basis rather than monthly. On the other hand, Buildings are being depreciated over the term of the lease rather than at the fixed rate of 1%.

An addition of €946 to PPE was included in the ledger but not reflected in FAR.

Suppliers' statements were not obtained by the Council on a regular basis. In fact, requests for such statements were only sent out to suppliers following request from LGA. Despite that a sample of eight suppliers' statements, covering 89% of the amounts payable, was selected for testing, only three were provided for audit purposes. Upon reconciling the amounts disclosed in the books of account with the few statements provided, discrepancies were encountered in three suppliers' accounts. Whilst in two instances the payable balance recorded in the ledger was overstated by €1,998 and €759 respectively, in the other case this was understated by €1,180 when compared to the corresponding suppliers' statement.

Throughout the year, the Council received €28,000 from the Central Regional Committee and accrued for a further €14,385 that was received in January 2015. These funds, which are meant to be utilised for specific projects, were incorrectly recognised as income for the year. Thus, an audit adjustment to reclassify these amounts to deferred income was proposed and reflected in the audited Financial Statements.

The Council accrued for additional income amounting to €18,343, being the difference between tipping fees charged by WasteServ Malta Ltd and the allocation provided during the year for such expense. While in the last two years DLG settled these dues on behalf of the Council, no assurance was provided that such differences will continue to be settled in the future. As a result, an audit adjustment to reverse the accrued income was proposed and reflected in the final set of Financial Statements.

No supporting documentation was provided to substantiate income of €2,794 earned from TM.

Receivables totalling €15,049, due from four debtors, have been outstanding for more than 120 days, thus exceeding the credit terms of 30 days. Furthermore, the recoverability of the balances due from two of the debtors, amounting to €8,749 and €2,676 respectively, is doubtful. Since the provision for bad debts did not cover the full amount, an audit adjustment was proposed to increase the provision by €2,295.

Although LGA was informed that bank reconciliations are carried out regularly, these were not provided for audit purposes, as the Council did not retain such documentation.

Notwithstanding previous year's recommendations, the former Mayor and the Executive Secretary are still shown as the representatives of two bank accounts, which at year-end had a book balance of €102 and nil respectively.

The signed contract for the supply and installation of Christmas decorations, as well as the respective bid bond were not provided to LGA with the related tender.

Although the amount originally tendered by the Council's Accountant was inclusive of VAT, following the tender submission, the service provider lost his VAT exempt status and is now charging VAT over and above the tendered amounts, still passing the VAT element onto the Council.

An audit adjustment of €40,000 was passed in the Financial Statements, to incorporate capital expenditure that has been approved but not yet contracted for since initially the amount was nil.

While the Council indicated that it does not have any contingent liabilities, the bank reply shows that the Council has a guarantee facility of €1,100.

The Council did not provide a reply to the Management Letter.

Mtarfa

Up to 31 August 2014, the Council paid the amount of €19,622, covering the maintenance of soft areas, since the expiry of the respective contract on 24 September 2012. A new tender, issued in

May 2014, was awarded to a different contractor on 1 September 2014.

Notwithstanding that the procurement of online streaming services, for a period of four years amounting to €6,060, merited a call for tenders, this was only covered by a call for quotations.

LGA's recommendations were noted and the Council shall ensure that it complies fully with all tendering procedures. With regard to the quotation for online streaming, DLG gave a very limited timeframe for the Council to issue a call, adjudicate, get a confirmation from DLG and install this system, in order to be eligible for the scheme. Furthermore, DLG specified that the Council should issue a public quote.

The Council is still paying an IPSL employee a fixed monthly allowance of €90, in return for the usage of the employee's personal vehicle to carry out work on behalf of the Council. This allowance was established during a Council's meeting, and is not covered by any formal agreement. Moreover, payments are not substantiated by proper claim forms, indicating the actual mileage undertaken.

Instead of using petty cash, the respective employee is supplying a claim in the form of an invoice. Most of the expense is for petrol and wear and tear of his own vehicle, but also for the use of his personal workshop and utilities.

No FAR is maintained by the Council, keeping track of the latter's assets. Furthermore, in breach of the Local Councils (Financial) Procedures, depreciation is being calculated through a spreadsheet, and then posted in the accounting records annually, by means of a journal entry. Moreover, assets are not tagged with the respective fixed asset code, with the consequence that certain items were not readily identifiable during physical checks.

It was also noted, that assets which are no longer used by the Council have not yet been disposed of, and are still reflected in the Council's assets resulting in an overstatement in the Financial Statements. A qualified audit opinion was issued in this respect.

An exercise to re-compile FAR has started in the previous financial year but has not been completed

due to the difficulty in identifying certain assets acquired a long time ago whose documentation was not available. This exercise shall be finalised in the coming weeks and LGA's recommendation will be implemented in full with respect to descriptions and categorisation. The tagging exercise recommended by LGA shall also be carried out when FAR is completed and all assets are identified. Furthermore, FAR compilation and tagging exercise will ensure that only those assets still in use are accounted for. An asset disposal exercise will be carried out in due course, as recommended by LGA.

Notwithstanding that total NBV as disclosed in the Financial Statements tallied to that recorded in the nominal ledger, discrepancies were noted between individual asset categories. Whilst NBV of both Assets not yet Capitalised as well as Office Furniture and Fittings as recorded in the nominal ledger is overstated by €12,202 and €405 respectively, that for Construction and Special Programmes is understated by €12,610 when compared to the amount recognised in the Financial Statements.

The differences between PPE and the nominal ledger being reported by LGA relate to reclassifications and round differences. These have now been adjusted accordingly.

Despite that by year-end the *Bosk* project was still not finalised, related expenditure of €4,932 was incorrectly capitalised under Construction and depreciation was charged thereon. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The Council shall ensure that all capital projects are properly accounted for and classified.

A discrepancy of €33,684 was noted between LES debtors and the provision thereon as recorded in the books of account (€5,037) and the pending payments as per report extracted from the computerised system (€38,721). Thus, an audit adjustment was passed to increase both receivables and the respective provision accordingly.

The Council has asked the Accountant to ensure that LES debtors, recognised and fully provided for, will be equal to the tribunal pending amount as per LES report.

Disclosed with receivables was a long outstanding balance of €1,000 due from WSC, and another one of €4,600 owed by a waste recycling company. A provision for doubtful debts was recognised against the latter balance, of which the amount of €2,000 was then received after year-end. Following LGA's recommendation, the Council approved the necessary adjustments to recognise a provision against the amount due from WSC, as well as to decrease the provision for doubtful debts recorded against the other debtor by €2,000.

The Council shall do its utmost so that in future all receivables are checked and reconciled on a regular basis.

Various inconsistencies in the Council's bookkeeping function were again noted during the course of the audit. Supplementary Income totalling €16,001, relating to specific activities and refund schemes, was erroneously recorded and disclosed as General Income. Furthermore, the amount of €12,251, paid by DLG to WasteServ Malta Ltd on behalf of the Council, to set off previous years' tipping fees, was not recognised as income in the accounts. Similarly, expenditure of €1,011 in relation to street sweeping was incorrectly categorised under refuse collection. In addition, a cheque issued with respect to FSS and SSC was wrongly included in the list of unpresented cheques, with the consequence that cash and cash equivalents, as well as FSS contributions as recorded in the books of account, were understated. The necessary adjustments were incorporated in the final set of Financial Statements.

An adjustment to reflect LGA's observation has been made. The Council shall in the future comply with instructions issued through Memos and Notices.

It also transpired that income of €2,887 generated from aerobic courses, which should have been classified as Income raised under Local Council bye-laws, was incorrectly recorded with Income from Cultural Activities.

The Council has introduced a new procedure to ensure that the source of all income is properly identified and accounted for.

Notwithstanding previous year's recommendations, instances were still encountered whereby transactions were accounted for on a cash rather than accruals basis.

- a. Accrued income amounting to €10,838, with respect to grants from Housing Authority (€5,309), *Kunsill Malti għall-iSport* (€3,525) and Military Mtarfa 2014 (€2,000) was not accounted for. These transactions were then incorporated in the books of account by means of an audit adjustment.
- b. Whilst various expenditure, totalling €6,161, was not accrued for, two invoices, were recorded as accruals rather than creditors. The necessary adjustments were reflected in the Financial Statements.
- c. No supporting documentation was provided by the Council in respect of an accrual of €6,599, concerning an asset not yet completed as at year-end. A qualified audit opinion was issued in this regard.
- d. The Council posted invoices once they were paid and not when received. As a result, some invoices were only partly accounted for, reflecting the amount actually paid rather than that invoiced by the supplier. By way of example, a discrepancy of €9,421 was noted between the amount of €14,020 disclosed in the supplier's statement issued by WasteServ Malta Ltd, and the balance payable of €4,599 recorded in the Council's books of account. On the other hand, whilst according to the WasteServ Malta Ltd statement, the only invoice not yet issued before year-end related to December 2014, included with the Council's accrued expenditure was a balance of €16,705, which was brought forward from 2012. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly.

The Council noted LGA's observations regarding the recognition of income and has drawn the attention of the Executive Secretary and the Accountant to ensure that all income receivable by the Council is properly recognised and accounted for.

Furthermore, invoices are being posted immediately upon receipt rather than at the payment stage. Suppliers are being asked to provide statements to ensure that a reconciliation between the statements and the balances in the Council's books of account is performed on a monthly basis.

The Council acknowledges the fact that accrued expenses should have been handled better. The Executive Secretary and the Accountant have been asked to co-ordinate between them to ensure that all accrued expenses are accounted for and a distinction between creditors' balances and accruals is properly made.

Audit verifications carried out on accrued income, which as per unaudited Financial Statements, stood at €167,009, also revealed a number of shortcomings.

- a. The grant amount, representing funds receivable from Measure 313 – 'Encouragement of Tourism', was recorded at €235,295 rather than €277,648. As a result, both accrued and deferred income were understated by €42,353. An audit adjustment was passed in this respect.
- b. The Council recognised the amount of €3,434 as accrued income in respect of waste disposal, even though it is aware that the said amount shall not be received. Following LGA's recommendation, the Council approved an adjustment to reverse the respective amount.
- c. Disclosed with accrued income is the balance of €11,650, brought forward from previous years in relation to a grant that had been committed by the Housing Authority, but which was never received.
- d. The amount of €1,593 recognised as accrued income, with respect to CIES salary refund of an employee, does not agree with the information provided by the Council itself.
- e. No explanations or supporting documentation were provided by the Council, as to whether the amount of €1,209, representing LES balance and recognised as accrued income, is still receivable.

Due to the lack of substantiating documentation provided for audit purposes, as outlined in the last three points, a qualified audit opinion was issued.

The Council acknowledges the fact that the recognition of accrued income in its books of account was not done properly. The assistance of LGA in this regard was highly appreciated. The Council has asked the Executive Secretary and the Accountant to ensure that all accrued income is recognised and reconciled with adequate supporting documentation. All adjustments recommended by LGA have now been reflected in the Council's Financial Statements.

Since the information and evidence provided by the Council to substantiate deferred income of €410,382 was not sufficient as indicated hereafter, LGA had no option other than to qualify the audit opinion.

- a. In its books of account, the Council recognised as deferred income the amount of €60,600²⁶, received from DLG in connection with a PPP scheme. However, it transpired that the amount of €35,117 from the total project cost (€75,451) was financed by TM, resulting in a remaining balance of €40,334. Consequently, €20,266 must be refunded back to DLG, but such refund was not reflected in the Financial Statements. Moreover, the Council also failed to record the amount financed by TM, thus resulting in both deferred income and the release to the Statement of Comprehensive Income being understated by €35,117 and €2,819 respectively.
- b. Whilst deferred income released with respect to the regeneration and parking project and the playing field was understated by €5,637 and €2,838 respectively, that concerning the Mtarfa Woodland Recreational Area was overstated by €434. Such errors were rectified by means of audit adjustments.
- c. A discrepancy of €15,895 was noted between the balance recognised in the Financial Statements with respect to a Housing Authority grant, and the actual amount

received. Besides that, as explained further up in this Report, the Council did not record the last payment of €5,309 received on 25 February 2015 as accrued income, it also did not provide LGA with any explanation for the resultant variance of €10,586. It was further noted that although the project was finalised in September 2013, no deferred income was released in 2014 with respect to this grant.

The above shortcomings imply that the Council is not recognising Government grants in line with the income approach as outlined in IAS 20. Furthermore, no workings were provided to substantiate the categorisation of deferred income into its short and long-term portions, as disclosed in the Financial Statements.

During the year, the Council had some difficulty in establishing the exact amount of grants received and receivable, as well as to distinguish between one project and the other, due to the absence of proper correspondence and documentation. In this respect, the exercise carried out by LGA, to assist the Council to establish the correct amounts that are to be reflected in the Financial Statements, was greatly appreciated. The Council should ensure that the requirements of IAS 20, regarding the accounting for Government grants, will be followed in full.

During the preceding year, the Council recognised a provision of €1,563 in respect of a claim filed by a resident who suffered damages because of works carried out by the Council. On 27 January 2014, the claim was adjudicated against the Council, with the latter recognising the payment of €2,030 as an expense for the year. However, besides that the respective provision was not reversed from the Council's books, such issue was also disclosed as a contingent liability. Despite that following LGA's recommendation the Council approved the reversal of the said provision, the Financial Statements were not adjusted accordingly, as the contingent liability note was still included therein.

LGA's recommendation, to reverse the contingent liability following the conclusion of the court case, has been noted.

²⁶ The amount of €60,600 represented 50% of the original amount communicated to DLG (€100,000) with respect to *Triq il-Kavallier Vincenzo Bonello*, as well as the entire original amount communicated to DLG (€10,600) with respect to *Triq l-Anzjani*.

Notwithstanding prior years' recommendations, the Council's accounting system is still accessible only from the Accountant's office, without any backups kept at the Local Council.

The Council has asked its Accountant to update the accounting data on a more regular basis and to ensure that proper backups are taken on a periodic basis as recommended.

Upon reconciling the budgeted expenditure for 2014 and the actual amounts incurred, a number of variances, as highlighted in **Table 18** were encountered.

The Council shall strive to ensure that it keeps up in line with the set budget.

Munxar

The three-year agreements with the Director for Tourism and Economic Development, for the cleaning of public conveniences and the collection of bulky refuse, expired in 1997. However, the Council did not issue a new call for tenders and continued to use these services as stipulated in the expired contract. During the year under review, the amounts of €6,775 and €524 respectively were expensed in this respect.

Although the amount is not material, services for the up-keeping and maintenance of soft areas are also being procured from the Department of Agriculture through a contract entered into way back in 1996, which was only valid for three years.

The Council is aware that the abovementioned contracts have expired and shall discuss the matter further, taking into consideration LGA's recommendations.

Notwithstanding that in its reply to preceding year's Management Letter, the Council stated that it was to embark on an exercise to write off any assets no longer in use, such task was not carried out during the year under review. It is now planned to take place in 2015.

The Council intends to carry out an exercise in order to write off the fixed assets that are no longer in use.

Irrespective that *Tal-Kantra* project was fully completed by August 2014, the related costs of €20,070 were still categorised as Assets under Construction, with the consequence that no depreciation charge was provided for. Moreover, management fees of €5,470, paid in relation to this project, were expensed rather than capitalised.

The depreciation charge accounted for by the Council with respect to Urban Improvements was understated by €4,932.

The above shortcomings were rectified through the audit adjustments proposed by LGA.

Recommendations put forward by LGA have been noted. In the future, more attention will be given to assets' date of completion so that depreciation will be charged from this date. The necessary adjustments have been reflected in the audited Financial Statements.

Table 18: Variances between Budgeted and Actual Expenditure

Item	Budget	Actual	Variance
	€	€	€
Employee Salaries and Bonuses	46,200	52,603	6,403
Repairs and Upkeep	1,600	5,616	4,016
Mayor's and Councillor's Allowances	12,200	14,868	2,668
Materials and Supplies	4,000	6,447	2,447
Rent	6,200	7,431	1,231
Information Services	400	1,560	1,160
Professional Services	13,996	15,015	1,019

Several variances were encountered between FAR and the nominal ledger before the relevant audit adjustments were passed. Both the cost of assets and the accumulated depreciation in the books were understated by €66,530 and €16,382 respectively, implying that the resulting NBV was also understated by €50,148. It also transpired that an invoice of €26,839 was incorrectly recorded in FAR as €2,851. In addition, a credit note of €5,349 on the contract management fees of *Pjazza Munxar* project, an adjustment of €14,794 in relation to a VAT refund, as well as the 10% co-financing received during 2012, which were netted off against the cost of the assets, were not reflected in FAR. Adjustments passed during the preceding year's audit were also not reflected in the foregoing register.

The recommendations made by LGA regarding FAR have been noted and the necessary steps shall be taken by the Council in order to update FAR in line with the nominal ledger.

Accounting for grants was not carried out in line with IAS 20. For example, funds received to carry out maintenance works on *Passaġġ tax-Xlendi* were not released to the Statement of Comprehensive Income. Furthermore, instances were encountered whereby amortisation of deferred income was not started on the date when the related capital project was actually completed. Consequently, audit adjustments aggregating to €22,104 were approved to correct the aforementioned errors.

The points raised by LGA regarding deferred income and its amortisation have been noted. In the future, more attention will be directed towards this matter to avoid repeating the same mistakes.

Testing carried out revealed that transactions were being accounted for on a cash basis instead of the accrual basis, resulting in accrued income being understated by €145,852. This comprised of grants still due under PPP scheme (€130,036), outstanding balances with respect to several projects falling under Measure 313 and Measure 323 (€9,316), and funds receivable in relation to activities falling under Memo 25/2013 and Memo 27/2014 (€6,500). Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The necessary adjustments with respect to income receivable under various funding schemes were accounted for as recommended by the Auditors. The Council shall give further attention when it comes to the recording of accrued income.

Recording of liabilities was either incomplete or fully omitted from the books of account. Two invoices aggregating to €9,588, covering the cost of restoration works at the flour mill, as well as the production, design and printing of booklets, leaflets and maps, remained unaccounted for. Likewise, a credit note of €699 issued in 2015, against an invoice relating to works carried out during 2014, was not recorded in the books of account. Furthermore, a provision for accrued expenditure with respect to legal services and utility costs for the last period, totalling €2,720, was not accounted for, whilst rent charges for Council's premises were under-accrued by €2,096. Such errors were rectified by means of audit adjustments.

The Council would like to point out that certain invoices are received after the date when the unaudited Financial Statements have been prepared. Audit adjustments proposed by LGA were reflected in the final set of Financial Statements.

A balance of €1,498 receivable from MEPA, as well as an amount of €2,488 forming part of a total balance of €24,588 due from WSC, have been long outstanding. Following LGA's recommendation, the Council approved the necessary adjustment to provide for such balances. Moreover, in view that the remaining balance of €22,100 receivable from WSC relates to reinstatement works, which were not carried out in accordance with the agreed terms, and thus the latter is disregarding the amount due, this was set-off with the deferred income recognised in this respect.

The audit adjustments put forward by LGA have been accepted and accordingly incorporated in the audited Financial Statements.

For another year, invoices totalling €5,150 issued to WSC for road reinstatement works carried out during 2014 were included within the income nominal accounts. However, since the Council confirmed that such works had not yet been carried out, an adjustment was passed to defer this income.

Table 19: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Community Services	11,786
Office Expenses	1,005
International Memberships	980
Training	830

Point noted.

The Council has exceeded the budgeted expenditure in certain categories as indicated in **Table 19**.

The budget was exceeded due to activities held and other circumstances that arose during the year.

Nadur

Material divergences were noted between figures listed in FAR and those disclosed in the nominal ledger and Financial Statements prior to audit adjustments. Variances of €60,207, €19,322 and €40,885 were noted in the cost of fixed assets, accumulated depreciation and NBV respectively.

Cut-off procedures were once again not carried out properly. Despite the fact that the works on the embellishment and upgrading of the starting point for Nadur nature trails in an environmentally friendly manner were 85% completed as at December 2014, the respective costs, amounting to €73,903, were not recognised in the books of account. An audit adjustment was passed to accrue for this amount. Similarly, the Council only accounted for €48,071 out of the €88,120 incurred on the resurfacing works at *Triq Wied Bingemma*, notwithstanding that it was fully completed as at year-end. The difference of €40,049, for which the invoice was received in December 2014, was accounted for through an audit adjustment.

On the other hand, similar to the previous year, additions of €33,184, capitalised under the Construction category, represented amounts which were already accounted for in the preceding year by way of an accrual. Thus, an audit adjustment was approved by the Council to reverse this transaction.

A number of errors were noted in the depreciation charge expensed by the Council, necessitating several adjustments related to Construction (€20,517), Urban Improvements (€8,335) and Property (€958).

The recommendations made by LGA were noted and the necessary adjustments were made. Other adjustments with respect to other items related to PPE were also reflected in the audited Financial Statements.

Refundable VAT of €7,333 with respect to the Measure 125, received in April 2015, was not accounted for during the year under review, resulting in understated accrued income. This was corrected through an audit adjustment.

The adjustments recommended by the Auditors were reflected in the audited Financial Statements. The receivable amounts mentioned by LGA were not all evident at the preparation stage of unaudited Financial Statements.

No reconciliations were being carried out between the suppliers' statements and the creditors' nominal ledger in the books of account. Samples reviewed by LGA revealed that two suppliers' invoices, collectively amounting to €2,513, were not accounted for in 2014 but in the subsequent year, since these were received after the finalisation of the accounts. Moreover, in addition to a difference of €120 identified between the amount invoiced by a supplier and that posted in the accounts, the same supplier failed to record a payment of €654 effected by the Council, thus resulting in another variance.

The Council strives to obtain suppliers' statements, however if suppliers do not co-operate, this is not possible.

The reversal of a previous year audit adjustment left a distorting effect on the Creditors Control Account and PPP creditors. Hence, a further adjustment of €2,948 was required to reverse the entry.

Invoices for the services of open skips, amounting to €6,517 and covering several months, were omitted from the books of account given that these were issued late. An audit adjustment was incorporated in the final set of Financial Statements to accrue for such services.

Street lighting accruals were overstated since an amount of €5,185, which had already been accrued for in 2013, was again accounted for during the year under review. In contrast, an amount of €3,057 pertaining to new street lighting was not accrued for. Proposed audit adjustments were accepted by the Council and reflected in the books of account. Further adjustments were required in order to split the current (€5,468) and non-current portion (€26,001) in relation to PPP roads.

Two invoices, aggregating to €1,320, were inputted in the accounting system with a different date from that indicated on the invoice. Consequently, the said amount was classified in the books of account as accounts payable instead of accruals. On the other hand, additional invoices of €1,913 were accounted for in 2015, even though invoices were dated in 2014. Audit adjustments were proposed and passed in the records to rectify these inaccuracies.

While the accruals concept is fully embraced by the Council, in certain instances it is impossible to accrue for particular expenses. The recommendations made by LGA were noted and further attention will be given to year-end posting, invoice dates and categorisation of expenses.

Several items of income were posted in the wrong nominal account. As a result, reallocation adjustments were passed in the books, including a reclassification of €2,500 from Sponsorships to Income from Government Delegations, and €6,821 from Other Government Income to Supplementary Government Income. Furthermore, income of €1,125 with respect to the 2015 open market was accounted for as income for the year instead of being deferred. An audit adjustment was passed to rectify this error.

An invoice of €2,363 from WasteServ Malta Ltd was not accounted for. As a result, both tipping fees and income from Government, received in respect of the shortfall between the amounts invoiced by the service provider and the allocation from Government, were understated. A reallocation adjustment was recorded in the books to increase the income and tipping fees by €2,363.

The recommendations made by LGA have been noted. The reallocation adjustments between the income and tipping fees accounts were reflected in the Financial Statements.

The Council has exceeded the budgeted expenditure in certain categories as indicated in **Table 20**.

Table 20: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Contractual Services	40,462
Community and Hospitality	12,628
Information Services	12,487
Materials and Supplies	4,133
Transport	3,220
Travel	2,339
Rent	1,455
Utilities	1,297
International Memberships	509

The budget was not revised during the year. As a result, expenditure and income could not be measured against the original budget approved by the Council. The approved expenditure items in the annual budget will be adhered to so as to avoid over-expenditure. The Council shall also be making use of all the reporting tools if corrective action is necessary.

Naxxar

Instances were identified whereby during 2014 the Council procured services under expired contracts. These included refuse collection (€81,436), road and street cleaning (€66,185), cleaning of non-urban roads (€18,645), as well as the upkeep and maintenance of gardens and soft areas (€13,924).

Point noted.

The composition of FAR maintained by the Council is not in line with best practice and in terms of the Local Councils (Financial) Regulations. In addition, there is no common reference in the description of the asset in FAR and the related transaction in the nominal ledger. Since assets are not tagged with a fixed asset code, an attempt by LGA to physically reconcile the respective items with FAR was rendered futile. Consequently, the completeness of the amount of €139,758 pertaining to assets written-off during the year under review could not be confirmed.

It also transpired that the Council is not always classifying its items of PPE under their proper category. By way of example, air conditioners are categorised either as Plant and Machinery or Office Equipment. Similarly, in the Financial Statements, Computer Software, amounting to €6,617, was disclosed under PPE, rather than shown separately as an intangible asset. Various assets were depreciated at the wrong rate, for instance, the percentage rate applied in relation to the street lighting was of 10%, rather than 100%, thus resulting in a variance of €8,931, which was eventually rectified through an audit adjustment. Instances were also noted whereby a full year depreciation charge has been recorded, albeit the respective assets were acquired during the year.

FAR will be improved to be more in line with the requirements. Moreover, action will be taken to ensure that all fixed assets are labelled. The

necessary adjustment was posted to correct the depreciation charge in the Financial Statements.

The Council erroneously capitalised works costing €90,673, carried out on *Triq Castro*, and released grant income of €5,270 to the Statement of Comprehensive Income, despite that the said street was still under construction as at year-end. On the other hand, although the restoration of St. Paul's Statue was completed during 2014, the respective cost of €8,854 was not capitalised, and thus no depreciation charge was recognised thereon. The related portion of grant income was also unaccounted for. Following LGA's recommendations, the Council approved the necessary audit adjustments and amended its Financial Statements accordingly.

LGA's comments have been noted.

Architect fees totalling €23,301, incurred in relation to the planning of a number of projects, were recorded as expenditure of a revenue nature, rather than capitalised with the cost of the respective project. Moreover, despite that the related invoices were received in 2014, these were erroneously accounted for as accrued expenses rather than creditors. The Council adjusted the Financial Statements in line with the audit adjustments proposed by LGA.

As depicted in **Table 21**, substantial variances were noted between the deferred income workings provided for audit purposes and the amounts recognised in the unaudited Financial Statements.

Comments noted.

The Council is not honouring the fundamentals of accrual accounting and the matching concept. By way of example, during the year under review the Council issued an invoice of €8,000 in relation to a project titled *Kunsill Malti għall-iSport* carried out between 2012 and 2013. Whilst the amount of €4,000 was recognised as accrued income in 2013, the remaining balance of €4,000 was not accrued for in 2012. Similarly, no accrued income was recorded in relation to lighting works of €8,000 carried out by the Council in 2013. Instead, this amount was recorded as revenue upon receipt, in the year under review. Such amounts were not considered material, to warrant a prior year adjustment.

Table 21: Variances between the Deferred Income Workings and the Amounts recognised in the unaudited Financial Statements

Details	Amount as per Council's Workings	Amount recognised in the unaudited Financial Statements
	€	€
Opening deferred income	274,888	309,873
Deferred income released	27,379	27,316
Closing deferred income	308,732	363,293
Current deferred income	25,317	44,893
Non-current deferred income	283,415	318,400

Further to the above, the Council failed to recognise accrued income of €6,000 in relation to an award²⁷ for *Premju Appogg Intraprizi*. Prepaid travelling expenses of €2,640 were also omitted from the Council's books of account. Furthermore, the provision recognised with respect to electricity costs was overstated by €1,015. Following LGA's recommendation, the Financial Statements were rectified accordingly.

LGA's comments have been noted.

The outstanding balance of €51,859, receivable from MEPA with respect to phase 1 of *Ġnien fi Triq in-Nahal* project, against which a provision for doubtful debts was also recognised in the preceding years, was fully settled during the year under review. However, this was still disclosed in the debtors' list as at year-end. Accordingly, an audit adjustment was proposed to reverse the said debtor balance and the respective provision for bad debts. LGA also noted that included in the debtors' nominal ledger are other receivable balances, aggregating to €300, which were duly settled, either in 2014 or even in prior periods.

LGA's recommendation was noted and the necessary adjustments were approved.

A discrepancy of €3,260 was identified between the list of refundable deposits provided for audit purposes (€21,417) and the respective amount recorded in the Council's Financial Statements (€24,677).

The Council is looking into the matter to identify the nature of such discrepancy.

Included in the list of unrepresented cheques were three cancelled cheque payments, with an aggregate value of €10,443, addressed to the same supplier. This implies that unclaimed cheques are not reviewed and reconciled on a periodic basis with bank statements.

LGA's comments have been noted.

The Council did not disclose the amount of €32,000, claimed by a private company as payment for completed works, as contingent liability in its Financial Statements. In respect of such case, the Council filed a counterclaim of €103,600 against the same company, as a penalty for non-compliance with the contractual terms. This was also not reported in the Financial Statements. Following LGA's recommendation, the Financial Statements were amended accordingly.

LGA's comments have been noted.

As highlighted in **Table 22**, variances were noted between budgeted and actual income and expenditure.

LGA's comments have been noted and will be referred to in the future.

Despite that the respective bye-laws were not in place, during the year under review, the Council collected €4,367 from the hire of the Council's hall

²⁷ The Council was awarded the amount of €15,000, of which €9,000 was received on 9 May 2014, with the remaining balance received in January 2015.

and from the hosting of courses and community services.

Funds derived from the rental of the Council's hall are used to cover expenses incurred by the Council, thus no profit is actually made.

Paola

As reported in the preceding periods, back in January 2005, the Council entered into a pooling agreement with a number of other Local Councils. The main scope of the agreement was to pool the administration expenditure of the Żejtun Joint Committee. However, for another year a copy of the said agreement was not provided for audit purposes.

Point not properly addressed.

Once again, the Council failed to maintain a FAR to record the value, depreciation and location of its assets. This is in breach of Memo 1/2015. Consequently, depreciation charges were calculated manually using a spreadsheet. It was also noted that professional fees incurred on capital projects were expensed through the Statement of Comprehensive Income. Such error was rectified by means of an audit adjustment proposed by LGA, whereby the amount of €5,130 was capitalised and the respective depreciation charge recognised thereon.

The Council was established in 1995 and never maintained a FAR. It is now virtually impossible to trace the details of the fixed assets purchased over all the years. One also needs to understand that during the first few years of the Council, the accounts were being maintained on a hand-written ledger. It is therefore suggested that balances for the past years be entered in total, while henceforth all purchases of assets will be entered in detail in FAR. This has been suggested in previous replies to the Management Letter.

The Council adopts the manual method of including depreciation since sometimes, invoices are not received in the month in which these were issued and there are times when adjustments have to be included, especially after the receipt of the Management Letter. It is for these reasons that the manual method of accounting for depreciation is preferred to the one recommended.

LGA's comment with respect to capitalisation of professional fees incurred on capital projects has been noted and the necessary adjustments were incorporated in the Financial Statements.

Various inconsistencies were noted in the recording of grants. An amount of €2,300, awarded to the Council in the preceding year in relation to the live streaming project, was fully released to the Statement of Comprehensive Income during the year under review, upon the procurement of the related equipment. Meanwhile, grants of €78,203

Table 22: Variances between Budgeted and Actual Income and Expenditure

Item	Budget	Actual ²⁸	Variance
	€	€	€
Income			
Community Services	26,680	17,908	(8,772)
Expenditure			
Professional Services	69,927	149,153	79,226
Utilities	20,686	22,834	2,148
Community and Hospitality	45,460	47,309	1,849
Allowances	11,200	12,520	1,320
Travel	3,500	4,275	775

²⁸ Figures extracted from the end-of-year quarterly report.

and €600, receivable under PPP and Library schemes respectively, were unaccounted for. It also transpired that the release of deferred income on other projects was overstated by €27,132, of which the amount of €18,690 was incorrectly classified as General Income. Furthermore, deferred income as recognised on the face of the Statement of Financial Position was not apportioned into its long and short-term portions. Following LGA's recommendation, the Council approved the necessary adjustments to correctly record deferred income and any release thereof in the Financial Statements.

Whilst the recommendations forwarded by LGA have been noted, the necessary adjustments were made and reflected in the final set of Financial Statements.

For another year, the Council did not account for the waste disposal fee paid on its behalf by DLG, which amounted to €11,592. Following the posting of such transaction, an unexplained discrepancy of €17,264 was noted between the payable amount as per book balance (€8,161) and the supplier's statement (€25,425). Further audit testing revealed that instead of accounting for the full invoice, the Council was recording only the amount of tipping fees allocated by DLG. The Financial Statements were amended through an audit adjustment.

Recommendations have been noted and shall be adopted in the next financial year. Moreover, the Financial Statements have been amended based on the adjustments put forward by LGA.

Accountancy services have been acquired by direct order since 2010. The respective expenditure for the year under review amounted to €2,240.

The Council's Accountant was originally appointed following a public call for tenders. On the expiry of the first tender, the same Accountant was reappointed following a call for quotations, since the annual fees incurred by the Council in this respect did not exceed €4,658.

Included with receivables was the amount of €11,647, representing accrued income receivable from WSC with respect to trenching works carried out between 2009 and 2010. In line with the preceding year's audit report, the aforementioned

amount was understated by €7,354. However, in view that no explanations and supporting documentation was provided by the Council, LGA could not apply any satisfactory audit procedures to confirm that the recognised amount is not materially misstated. Thus, a qualified audit opinion was issued in this respect.

The sum of €11,647 is a long outstanding debt, for which no details are available. This amount needs to be written-off from the books of account.

Unreconciled differences of €8,984 and €6,563 were noted in another two creditor balances. In view that no explanations were provided, the audit report had to be qualified. Additionally, accrued expenditure of €3,963 and payroll tax liability of €840 for December 2014 remained unaccounted for. These were then incorporated in the books of account through an audit adjustment.

The Council has always done its utmost to present a true and fair set of Financial Statements. The unreconciled difference of €8,984 relates to amounts billed by ELC for works performed beyond those contracted. Consequently, the Council has not accepted the claim as it has no obligation to pay for these works. The Council would like to point out that its Accountant was available during the audit and was always willing to help, however, this matter was never referred to him by LGA. Thus, LGA's decision to qualify the audit report on this matter is not justified and deemed unfair. The audit adjustments put forward with respect to accrued expenditure and the payroll tax liability were accordingly incorporated in the Financial Statements.

The Council is still unable to distinguish between creditors and accruals. For example, an invoice of €13,051 issued after year-end, with respect to resurfacing works carried out under PPP agreement, was incorrectly recorded in the creditors' nominal ledger. Similarly, invoices issued to Regional Committees for the month of December were recorded as debtors, even though the invoice date was post year-end. Furthermore, creditors payable after more than one year, amounting to €155,569, were incorrectly recognised as short-term liabilities. Following LGA's recommendation, the Council approved the necessary adjustments and amended the Financial Statements accordingly.

LGA's recommendations and proposals were noted and will be given their due importance, and adhered to, in the future.

Although the Council obtained a confirmation with respect to the recoverability of a long outstanding debtor of €2,329, the amount in question was never received.

The Council will be taking the necessary steps to write off this long outstanding balance.

Given that a list of accrued income was not provided to LGA, the latter had to extract this from the ledger. However, a discrepancy of €2,029 was noted between the said list and the nominal ledger. It also transpired that the grant receivable in relation to a Christmas event as included in the accrued income list (€3,000) was overstated when compared to the amount as per grant agreement (€2,500). The Council approved the necessary audit adjustments and updated the Financial Statements accordingly.

LGA's recommendations have been noted and will be given due importance in the preparation of Financial Statements. The proposed adjustments have been recorded in the Financial Statements.

A bank overdraft of €60,506 was incorrectly classified as a negative current asset rather than accounted for with payables. This error was rectified through the reclassification adjustment proposed by LGA. Furthermore, included in the reconciliation of a current account were stale cheques aggregating to €2,287. Meanwhile an immaterial variance was encountered between the book balance of a current account and the respective bank statement. It also transpired that the bank statement of another bank account with a trivial balance, was not provided for audit purposes, despite that such account was still included in the Trial Balance. According to the Council, such account is no longer in use. The cash count carried out by LGA also revealed that the petty cash account at year-end was overstated by €80. The Council attributed this difference to the fact that in previous years the wrong amounts were posted in the books of account.

The Council agrees with LGA's recommendation concerning the classification of bank overdraft. As for the stale cheques, these have all been reversed.

Moreover, the discrepancy of €31 between the savings account and the respective bank statement related to unrecorded bank interest. Based on LGA's recommendations, the Council shall close the bank account having a trivial balance. Furthermore, the mistake identified by LGA with respect to petty cash has been rectified and the Council is taking the necessary steps to start reconciling petty cash on a frequent basis.

A reclassification adjustment of €1,555 was passed to increase the current portion of bank loan recognised in the Financial Statements.

The current portion of the bank loan was amended based on LGA's recommendation.

A variance of €163,923 was encountered between capital commitments as reported in the Financial Statements (€388,923) and those disclosed in the financial budget for 2015 (€225,000).

It needs to be understood that the Council works to satisfy the needs of its citizens. In view of this, the Council treats the budget merely as a guideline.

The Council's request for LGA, to pass an audit adjustment of €43,963 in the Trial Balance, indicates that the Financial Statements approved by the former were incorrect. Furthermore, no explanation was provided by the Council, as to why the accounting records were not updated, indicating that there are serious shortcomings in the updating of the Council's accounting records and preparation of Financial Statements.

LGA never spoke to the Accountant about the updating of the accounts, the inclusion of audit adjustments and the preparation of the updated Financial Statements, which were approved by the Council. The adjustments proposed in the current and previous years were always incorporated in the Council's books of account.

During the year under review, the Council passed a prior year adjustment to record an understatement of €12,158 in accrued expenditure. However, recognition of the said adjustment and the necessary disclosures were not performed in line with IAS 1 and IAS 8. Consequently, a qualified audit opinion was issued in this respect.

Point noted and LGA's recommendation will be complied with in the next set of Financial Statements.

Pembroke

Though depreciation charge is being calculated through the accounting software, this is being computed on a yearly rather than monthly basis. Furthermore, variances were noted between the depreciation charge recorded in the Financial Statements and that posted in FAR. In addition, besides that details in FAR are too generic, there is no common reference between the description of assets in the latter document and the related transaction posting in the nominal ledger.

It is not feasible to include all the details in FAR, especially when the asset relates to a construction project. However, each asset is referenced and thus can be traced back to the original invoice which includes every detail.

Notwithstanding previous years' recommendations, the Council continued to recognise litter bins (€1,098) as capital expenditure in FAR, instead of expensing them immediately to the Statement of Comprehensive Income. An audit adjustment was passed in this respect.

Point was noted and the respective adjustment was approved by the Council.

A review of the post year-end payments forwarded to creditors revealed a discrepancy between the amount of €10,742 recorded in the Council's books of account with respect to patching works carried out during December 2014, and the actual payment of €10,179 effected in February 2015. From queries raised during the audit, it transpired that the Council was overcharged the amount of €563, against which the supplier agreed to issue a credit note. The necessary audit adjustments were approved by the Council.

Point noted and the Financial Statements were adjusted accordingly.

Audit verifications carried out revealed a number of inconsistencies in the bookkeeping function of the Council. For example, income of €518 generated under specific bye-laws was incorrectly recorded as General Income. Similarly, the amount of

€14,157 paid by DLG to WasteServ Malta Ltd on behalf of the Council was erroneously disclosed under Other Government Income, instead of Other Supplementary Government Income. Tipping fees for the month of December were incorrectly expensed in the bulky refuse account. Accrued bank interest remained unrecorded, whilst accrued income receivable under the Library scheme was disclosed in the list of receivables. The aforementioned errors were rectified through the audit adjustments proposed by LGA.

Furthermore, in breach of IAS 1, accruals and deferred income for 2014 and 2013 amounting to €27,478 and €46,356 respectively, were accounted for as provisions rather than recognised under trade and other payables in the unaudited Financial Statements. An immaterial difference was also noted between commissions receivable on LES fines as per report generated from the system and the balance recorded in the books of account. Furthermore, as from November 2014, withholding tax was charged on the income earned from the capital investment held with a local bank, even though finance income received by the Council is exempt from tax.

The necessary adjustments were approved by the Council and reflected in the final set of Financial Statements.

The Council has no control on LES discrepancies as invoices are generated from the system and there is no way the Council could amend the respective report. Reports generated from different versions are yielding different results.

As regards investment income, the Council advised the bank to revoke the withholding tax, which amount was reimbursed back to the former.

Pieta`

The Council did not issue and approve a purchase order form for each payment effected.

LGA's comments have been noted and will be adhered to.

In breach of standing regulations, payments of SSC and FSS are being effected in bulk at the end of the year, rather than on a monthly basis. In fact, receipts with respect to payments falling

due during the year under review, were all dated in January 2015. Discrepancies were also noted between payroll costs as recorded in the books of account and the amounts disclosed in statutory forms. It transpired that the payroll accounting records were being updated from FS5 reports rather than the payroll reports, with the consequence that the system was lacking an element of control on the process. **Appendix J** relates.

LGA's recommendations were noted.

Four payments aggregating to €65,543, of which €49,654 was paid to a private company and the remaining balance to IRD, were not disclosed within the schedule of payments. This was also the case with respect to the Councillors' allowances. It also transpired that a number of invoices did not contain the Executive Secretary's signature as proof of approval of the related expenses.

Most of the Council's payments are approved during the Council's meetings prior to them being effected. The amounts paid to the private company are part payments with respect to PPP. The full expense has already been approved by the Council.

Notwithstanding prior year recommendations to instruct the bank not to withhold tax on bank interest received, the Council was still charged final withholding tax of 15% on three bank accounts.

The Council has informed the bank not to withhold tax on interest receivable from these three bank accounts.

Receipts of €1,650, received during the year under review with respect to administration fees brought forward from the preceding year, were recorded as income for the year, with the consequence that both receivables and income were overstated by the aforementioned amount. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

No adequate explanations were provided with respect to accrued income of €7,080 in relation to administration fees. Testing carried out also revealed that uninvoiced amounts as at year-end stood at just €500, thus resulting in an overstatement of €6,580. Furthermore, invoices of

€1,184 pertaining to the 10% LES administration fees for 2014 were posted with accrued income instead of debtors. These shortcomings were rectified through audit adjustments.

During the year under review, the Council recovered part of the pre-regional LES debtors. However, whilst the Council calculated that the amount recovered totalled €10,563, the reports issued from the computerised system showed an aggregate total of €11,920. Due to these inconsistencies, LGA was unable to verify the amount recovered.

Accrued income pertaining to a refund on salaries paid to an employee was understated by €1,135. This error was rectified by means of an audit adjustment.

Included with income for the year was the amount of €6,250 representing funds received with respect to the rental of St. Luke's Hospital car park. However, given that the said car park is still owned by the Government, this income had to be declared as invalid. Thus, the Council is to reimburse the amount in question back to the operator. An audit adjustment was approved by the Council to reverse the respective income against payables.

LGA's recommendation was noted and the necessary audit adjustments were reflected in the Financial Statements.

Whilst, the subvention received from Government was recorded net of deductions of €470 in relation to adverts for tenders, Other Government Income of €6,476 was recorded with the said allocation. Consequently, funds received in terms of Article 55 of the Local Councils Act were overstated by €6,006. An audit adjustment was only proposed to reclassify the expenditure portion of €470.

An aggregate amount of €22,430, received by the Council following the distribution of the Central Regional Committee's surplus, was erroneously accounted for as income for the year, even though such funds are intended to be used for future specific projects. Following LGA's recommendations, the Council approved the necessary adjustments to defer the aforementioned balance to future periods.

The Council adhered to the Auditors' recommendations and made the necessary adjustments.

The amount of €7,905 incurred in relation to hire of skips was incorrectly accounted for as refuse collection. Similarly, telecommunication expenses of €2,686 were erroneously recorded with repairs and upkeep. The necessary audit adjustments were proposed by LGA.

The Council was acting as a custodian for funds of €8,850 donated to the church of Our Lady of Sorrows, for restoration purposes. Erroneously, the aforementioned balance, as well as the amount of €11,078 incurred for restoration works, were recognised as income and expenditure respectively in the Council's books of account. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify such shortcoming.

Some invoices, relating to services provided or items procured during the year under review, were completely omitted from the Council's books of account, resulting in unrecorded liabilities amounting to €2,563. Such errors were rectified by means of an audit adjustment. It was also noted that, payroll tax liabilities of €22,061 were erroneously posted against accrued expenditure, rather than disclosed separately in the Financial Statements.

LGA's recommendations were noted and the necessary adjustments were posted in the Financial Statements.

The Council did not obtain monthly statements from its suppliers as required by Memo 8/2002 with the consequence that regular reconciliations were not being carried out. LGA managed to obtain a number of suppliers' statements and, from the reconciliations performed, it transpired that whilst two payable balances as disclosed in the books of account were understated by €3,509 and €1,215 respectively, another supplier balance was overstated by €2,001. Given that the Council was unable to provide an explanation for such discrepancies, LGA issued a qualified audit opinion.

The comments raised by the Auditors have been noted and will be implemented during 2015.

Included in the creditors' list are balances, totalling €64,738, that have been pending for several years. Although not material, further analysis also revealed that the list does not agree to the nominal ledger.

Point not addressed.

Other creditors as disclosed in the accounting records still include a balance of €1,351 representing funds that belonged to St. Luke's Hospital car park joint venture and which were retained by the Council. Moreover, another amount of €2,121, concerning a deposit made by an individual in respect of the issue of a new tender, which has been in dispute since 2011, is also included. Both balances are still pending since no final decision has yet been taken. As was highlighted in the previous years, the Council is recommended to monitor this matter and disclose any issues and developments in the notes to the Financial Statements.

As highlighted by LGA, both balances are still pending since no final decision has yet been taken.

Although a FAR was presented for audit purposes, this was not maintained to the standard required by the pertinent procedures, as it was prepared on a spreadsheet. This approach does not provide the necessary details, including location, description, acquisition date and supplier. Furthermore, the depreciation charge for the year as disclosed in the Financial Statements was overstated by a net amount of €22,834 when compared to LGA's workings. It also transpired that a payment of €9,473, effected to a contractor for works capitalised in previous periods, was erroneously accounted for with fixed assets rather than against the respective creditor account. The necessary audit adjustments were approved by the Council and correctly reflected in the Financial Statements.

LGA's recommendations have been noted and will be implemented during 2015. Moreover, the proposed audit adjustments have been accordingly posted in the audited Financial Statements.

Once again, it was noted that the Council has still not received any confirmation or supporting documentation evidencing the amount of €18,870 due to WSC, in relation to a bill for a fountain at the ex-Torpedo Depot Garden. The amount

was reversed from the books of account in 2011. However, notwithstanding previous years' recommendations, the Council has again failed to disclose this amount as a contingent liability in the Financial Statements.

The Council has all the supporting documentation showing that it is not liable for this cost. The bill has been transferred to and paid for by the Works Division.

The bank reconciliation of one of the Council's bank accounts included two stale cheques for a total value of €13,715. It also transpired that, the bank signatories were not revised to reflect the new Mayor and Executive Secretary.

In addition, although the Council claimed that bank reconciliations are being carried out on a monthly basis, these are not printed and filed, with the consequence that these were not provided for audit purposes. LGA was only furnished with the reconciliations for the month of December.

Points noted.

The Council did not disclose the fact that certain PPE items are secured by general and special hypothecs against the bank loan, as required in terms of IAS 16. Similarly, although the Council reported a rental cost of €22,642 and rental income of €43,441, the Financial Statements lacked the necessary disclosures as specified by IAS 17. Other shortcomings in the presentation of Financial Statements, included casting errors, as well as the lack of disclosures required by certain IFRSs.

During the financial year under review, the Council has engaged a new accountancy firm in order to prepare the accounts on its behalf. After the experience of the first year, the Council held a meeting with this firm in order to eliminate the shortcomings highlighted by LGA and to prepare the Financial Statements in accordance with IFRSs. The Council made it clear that it will not tolerate such shortcomings again and, from its part, the accountancy firm ensured that, after the experience of the first year, there will be no repetition of errors.

Qala

An expense of €7,592, relating to restoration works carried out on St. Anthony's Battery, was covered by four different calls for quotations, despite that the amount in question merited a call for tenders. Moreover, the said quotations were all awarded to the same supplier, on the basis that his submissions were the cheapest.

Although the Council issued a new call for tenders in 2013 for the provision of open skips and household waste collection, the respective agreement was only signed at the end of February 2014. As a result, during the year under review, expenditure of €5,431 was incurred under an expired contract.

The Council shall do its utmost to adhere to the procedures in all aspects and continue building on the recommendations made by the Auditors.

As already reported in prior years, the Council's FAR is still not up to date. Consequently, depreciation was calculated manually, giving rise to variances, since depreciation on various items was calculated using incorrect dates. These discrepancies were reconciled by way of audit adjustments, where the overall depreciation charge was reduced by a net amount of €1,793. In certain instances assets were not categorised consistently under the appropriate category. By way of example, the amount of €10,198 incurred in relation to the construction of rubble walls was categorised with Assets under Construction rather than Special Programmes, as in previous years.

In view that FAR was not being updated with the depreciation charge of PPE, amounts disclosed therein did not tally with those recorded in the books of account. In fact, accumulated depreciation as recorded in the register was €297,304 less than the aggregate of Government grants and accumulated depreciation as disclosed in the Council's unaudited Financial Statements.

During the past four years, depreciation has been calculated manually due to errors in the accounting package. Total accumulated depreciation in FAR does not agree with that in the nominal ledger, since in previous years, Auditors have proposed adjustments to the depreciation figures in the

nominal ledger. When such adjustments are made, a reconciliation exercise would have to be carried out, and FAR is reconstructed to be brought in line with the nominal ledger.

Despite that the architect certification indicated that the *Grunju* project was not yet complete by year-end, the Council incorrectly reallocated the cost of the respective project from Assets under Construction to Construction. In addition, the Council did not provide for €10,199, representing the difference between the certified value of works carried out on this project during the year under review (€25,000), and the invoiced amount of €14,801. Similarly, the corresponding accrued income was also unaccounted for. These shortcomings were adjusted through audit adjustments.

A number of invoices were once again not provided to the Council on time, with the consequence that certain expenditure was left unaccounted for. It also transpired that, though the aforementioned invoice of €14,801 was dated 4 December 2013, it was recorded in the accounts in January 2014. Likewise, an invoice dated 22 October 2013 was posted in the books of account in the year under review.

In 2014, the Council carried out works on *Pjazza San Ġużepp*. The square was inaugurated on 26 March of the same year; however, no bill of quantities had been issued by the time of audit. Consequently, no invoice was raised by the supplier. In a report dated exactly a year later, addressed to LGA, the Architect indicated that works not yet invoiced approximately amounted to €10,000.

Immediately after completion of works of two roads in the locality in 2012, these were damaged by a storm. The Council requested that these roads be repaired by the same contractor; however, the latter failed to perform the necessary repairs. Thus, the final bill of quantities was not issued by the Architect. In the circumstances, the road works in question were capitalised on the basis of the original architect's estimate of €43,411.

LGA's recommendations have been noted.

Included with receivables is a long overdue balance of €10,938, receivable from MEPA, in relation to works carried out at the play centre in *Ġnien il-Familja*. Although, the Executive Secretary obtained a confirmation that funds concerning the said project are actually due to the Council, the Authority did not specify the payable amount. On the other hand, the balance of €1,000, invoiced during 2014 to a waste recycling company, was not reallocated from accrued income to accounts receivable. Following LGA's recommendation, the Council approved the necessary audit adjustment to rectify this shortcoming. Furthermore, the Council did not provide for the balance receivable from the aforementioned company, which has been outstanding for more than two years.

LGA's comments have been noted.

The amortisation of certain assets was being incorrectly calculated and accounted for. Thus, the amount of €20,477 amortised by the Council was reversed and the correct amortisation of €16,530 was posted to rectify the situation.

Funds receivable in relation to the live streaming project were erroneously accounted for as income for the year under review rather than as deferred income. An audit adjustment of €1,328 was proposed by LGA and approved by the Council.

The Council's list of unrepresented cheques included three cheques, totalling €837, which had become stale. These entries were reversed against the respective creditors by means of an audit adjustment.

The Council has taken note of LGA's recommendations on these matters.

A journal entry, posted to reclassify income from the permits to the contraventions account, resulted in the latter income category being overstated by €1,817. This was rectified by means of an audit adjustment.

The Council has noted the recommendations put forward by the Auditor.

Table 23: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Community and Hospitality	21,554
Utilities	5,877
Repairs and Upkeep	3,341
Office Services	1,644
Contractual Services	1,412
Transport	1,372
Professional Services	1,301
International Memberships	274

Table 23 highlights instances encountered, whereby budget limits were not observed.

The Council does its utmost to make use of reporting tools, however, at certain times, incidental issues or urgency matters may arise.

Although reported upon in the preceding years, employees still did not have a signed contract of employment in line with their present conditions of work, as at time of audit.

The Executive Secretary does not have a signed contract since she is now employed on an indefinite contract. As for the remaining employees, there was no instruction whatsoever regarding the drawing up of contracts. Work conditions are controlled by collective agreements.

Qormi

The contract covering resurfacing of ‘access’ and ‘access only’ roads, expired on 31 December 2013. However, the Council extended the agreement until further notice, which contract was still active by the time of audit. Though a call for tenders was issued in 2014, due to high fuel prices, the quoted bids increased substantially when compared to the previous agreement, with the consequence that the tender was never awarded.

The Council issued a new tender in 2014, but the adjudication board did not finalise the adjudication process. The Council is in the process of reissuing a fresh call for tenders since the previous tender’s validity expired.

Notwithstanding that total NBV as disclosed in FAR tallied with that recorded in the books of account, discrepancies were noted in individual asset categories. Whilst NBV for Urban Improvements and Construction, as well as that for Plant, Machinery and Equipment as recognised in FAR was overstated by €78,509 and €225 respectively, that for Special Programmes was understated by €78,734 when compared to the amounts reported in the books of account.

The Council is aware that there are reallocation variances in the assets’ NBVs. Although such variances result in a nil effect, the reallocation adjustments will be dealt with during 2015.

Since no reply was received to confirmation letters sent to a number of related parties, outstanding balances, which as at 31 December 2014 in aggregate amounted to €14,502, remained unconfirmed.

Even though on a continuous basis the Council performs reconciliations of the amounts receivable, there could be instances where the latter has no control over the other parties’ response for confirmation of balances.

A reclassification adjustment of €779, from the contraventions account to the provision for doubtful debts was only recognised in the Financial Statements; the Trial Balance was not adjusted accordingly.

Although the amount was immaterial, the Council recognises that, by mistake, the related reclassification was not included in the Trial

Balance. In the future, the Council will do its utmost to provide a Trial Balance that agrees to the Financial Statements.

Four instances were noted, whereby leave carried forward exceeded the maximum of 48 hours as stipulated by pertinent regulations. In fact, in one of the cases, the aforementioned threshold was exceeded by 144 hours.

Point not properly addressed.

The Council's Lawyer did not furnish LGA with a legal letter specifying whether there were any legal cases and the possibility of the related outcome.

The Council will take LGA's recommendation and, in future audits, will obtain the legal letter beforehand. However, it is important to point out that such legal letter was not requested prior to the inception of the audit exercise, but during the course of the audit in which period the legal consultant was abroad.

Qrendi

A net discrepancy of €2,637 was noted between NBV of Office Equipment as disclosed in the Financial Statements (€6,527) and that recorded in FAR (€9,164).

The Council will strive to do its best so that FAR is reconciled with the accounts periodically.

In breach of the Local Councils (Financial) Regulations, the three-year budget plan for the income and expenditure of the Local Council was not prepared.

Although the three-year financial plan was not duly prepared, the Council has a clear vision of the income and expenditure, which is earned and incurred every year. On the other hand, the Council shall be preparing and updating this business plan as from January 2015.

While stale cheques identified during the audit of the previous year were reversed from the bank balance, as recommended in last year's report, three stale cheques amounting to €881 were still included in the current account bank reconciliation. It was also noted that, notwithstanding prior recommendations, the Council has still not

informed the bank not to withhold any tax on its savings account in view of the Local Councils' exempt position.

The Council will liaise with the Accountant in order that the situations pointed out in the Management Letter are rectified in due course.

A difference of €1,232 was identified between amounts disclosed in reports extracted from LES computerised system, and those recognised in the accounts. Moreover, the provision for doubtful debts as recorded in the Financial Statements is overstated by €906 when compared to the tribunal pending payments report as at 31 August 2011. Given that the dues are older than two years, these should be fully provided for.

The Council will be doing its utmost so that reconciliations and necessary adjustments are carried out before the unaudited Financial Statements are passed on to be audited.

A review of trade payables revealed that the amounts payable to a private company and the Cleansing Services Directorate, totalling €8,118 and €29,246 respectively, have been outstanding for more than one year.

The balance due to the private company is not going to be paid, since works carried out on a particular stretch of road were not satisfactory. The Council duly kept the 5% retention fee pertaining to those particular works. This issue was discussed with the supplier. With respect to the other balance, the Council is still awaiting a decision from DLG. Though several meetings were held with the latter and the Cleansing Services Directorate, no final decision has been taken by the time this reply was drafted.

Included with trade payables was the balance of €1,339 owing to WasteServ Malta Ltd. However, the Executive Secretary confirmed that due to an overpayment made by the Council, as at year-end, the latter was owed the amount of €8,952 from the respective company, which balance was also substantiated by the supplier's statement. Consequently, the necessary adjustments were passed to increase debtors by €8,952, as well as to decrease creditors and waste disposal expenses by €1,339 and €10,291 respectively.

The Council will strive to reconcile all balances as at year-end and will discuss outstanding balances with the respective parties.

The annual budget for 2015 included capital commitments of €99,969 earmarked for construction works. However, in line with previous years, these were again omitted from the Financial Statements.

These matters will be brought to the attention of the Council's Accountant so that the situation will be rectified in due course.

No agreement is in place between the Council and the Commissioner of Land with respect to the rental of land in *Triq Nicolo Communit*, payable at €1,100 per annum.

The Council will do its utmost to obtain a signed rental agreement.

Personal emoluments are still not being reconciled on a monthly basis. The wages reconciliation revealed a discrepancy of €3,615 between the wages paid as per Financial Statements, and those as per FS7. **Appendix J** refers. Moreover, the Executive Secretary's remuneration was overstated by €1,826 in the respective FS3.

The Council shall be reconciling personal emoluments on a monthly basis.

Notwithstanding that LGA requested a letter from the Council's Lawyer to determine whether there were any legal cases, as well as to establish the possibility of the outcome of such cases, such request was not acceded to.

This was the first instance that a legal letter was requested from the Council's Lawyer. This letter has been provided after the audit since the latter was abroad.

Rabat (Malta)

Although the Council maintains a FAR, this is not in line with best practice and in terms of the Local Councils (Financial) Procedures, as it lacked necessary details. Furthermore, whilst the cost as recorded in FAR is understated by €328,409 when compared to that recognised in the nominal ledger,

depreciation is overstated by €52,329. As also reported in the preceding year, the discrepancies noted in the cost of Urban Improvements (€72,996) and Special Programmes (€255,928) relate to grants of €73,020 and €256,980 respectively, that were not incorporated in FAR. In addition, included under the Special Programmes category in FAR are litter bins amounting to €19,309.

Various assets were categorised under the wrong asset category, thus leading to an incorrect depreciation charge. In view of these issues, no reasonable assurance could be obtained on the existence and completeness of the balance of fixed assets recorded in the Financial Statements, having a NBV of €1,817,577, as well as on the accuracy of the depreciation charged thereon. A qualified audit opinion was issued in this respect. In addition to the above concerns, Computer Software costing €1,483 was wrongly recognised as Computer Equipment rather than as an intangible asset.

Some of the variances mentioned by LGA between FAR and the nominal ledger were already identified by the Council's Accountant. Moreover, the Council shall inform its Accountant to account for the discrepancies noted in the cost of Urban Improvements and Special Programmes. As for the categorisation of assets, the Council would like to point out that its assets have been classified in line with previous years. The comment put forward with respect to Computer Software has been noted.

Disclosed in the Financial Statements are total capital commitments of €1,354,237, made up of €653,585 worth of commitments that have been contracted but not disclosed under liabilities, and €700,652 relating to commitments that have been authorised but not contracted. Notwithstanding this, the annual budget included only capital commitments amounting to €707,385.

Whilst discussing the budget for 2015, which was approved after the draft Financial Statements, it was decided to increase capital commitments by approximately €50,000.

LGA was not provided with the details of deferred income brought forward from previous years, with respect to individual grants. Consequently, no practical satisfactory audit procedures could be performed to obtain reasonable assurance on the

existence and completeness of the opening balance of deferred income recorded in the Financial Statements, having a balance of €150,088, as well as on the release for the year of the grant thereupon. In addition, the accumulated grant released in respect of projects was not equal or in proportion to the accumulated depreciation charged so far on the respective project, thus rendering the deferred income liability incorrect. A qualified audit opinion was issued in this respect.

Point noted.

Instances were encountered whereby expenditure incurred was not provided for in the annual budget for 2014. Examples include the procurement of archaeology monitoring services (€7,746) and handy-man services (€7,320). Though the unanimous consent to authorise the expenditure was properly minuted, the Council did not clearly document its approval of the estimated contract value.

The Council would like to point out that expenditure incurred with respect to archaeology monitoring services and handy-man services was not included in the annual budget because it was not anticipated at the time the budget was discussed.

Payments aggregating to €17,044 were not substantiated by a fiscal receipt. **Appendix G** refers.

The Council would like to point out that the provision of a VAT fiscal receipt is beyond its control.

No reply was received to the circularisation letters sent to three Regional Committees, covering 94% of total trade receivables. Consequently, no alternative evidence was obtained to ensure that the year-end balance of €12,433, due from the latter, was complete and free from material misstatements.

The circularisation letters have been signed and sent, however, the Council has no control over the replies received.

The bank loan security details disclosed in the Financial Statements are very generic and do not include the fact that the loan is secured by a general hypothec of €84,232 on the Council's

assets, a special hypothec of €84,232 on a house and a garage in Rabat, as well as by a pledge. No disclosure was made with reference to the repayment terms.

LGA's comments have been noted and the Council informed the Accountant accordingly.

During the course of the audit, LGA encountered various accounting errors. A discrepancy was noted between the administration fees on LES fines invoiced to the Regional Committees (€7,941) and the respective share of commission for 2014 as per computerised reports (€7,797). The amount of €29,644, paid by DLG to WasteServ Malta Ltd on behalf of the Council, was incorrectly recorded as Other Government Income instead of Other Supplementary Government Income. Similarly, income derived from bye-laws (€4,209) was erroneously recognised as General Income. Mispostings, aggregating to €11,475, were also noted in a number of expenditure accounts.

LES invoices are issued on a monthly basis and the Council has no control on the discrepancies mentioned by LGA. The comment raised with respect to mispostings has been noted and the Council shall instruct its Accountant to avoid similar occurrences in the future. The necessary adjustments proposed in this respect have been reflected in the final set of Financial Statements.

The Council also used two separate nominal accounts interchangeably for the same expenditure category. Thus, a reclassification adjustment was proposed to amalgamate both accounts. Meanwhile, disclosed within the creditors' list were negative balances of €479, whilst accrued interest remained unaccounted for. These errors were rectified through the audit adjustments proposed by LGA. Moreover, the tax withheld from the gross salary of two of the Council's employees was overstated by an aggregate amount of €1,503, whilst that withheld from another employee was understated by €195.

The Council would also like to point out that the negative balances in the creditors' list, which concern two suppliers, shall be dealt with. In fact, whilst a detailed statement will be obtained from one of the suppliers for reconciliation purposes, the Council intends to take legal action against the other supplier. The Council has accepted the

proposed audit adjustment concerning accrued interest.

As for the comment raised with respect to personal emoluments, the Council would like to point out that during the audit visit, it was never notified by LGA with the names of those employees for whom tax was incorrectly deducted.

The Council has exceeded budgeted expenditure in certain categories, such as, Professional Services (€10,442) and Transport (€6,494).

During the year under review, the Council had to issue an unexpected call for transport services. Thus, such expenditure was unforeseen.

Notwithstanding that the schedules of payment prepared and uploaded by the Council are in line with the template issued under Memo 37/2011, these lacked certain important details such as the cheque number, whilst items in respect of salary payment were found to have no amount.

The Council would like to point out that schedules of payments are properly compiled and contain all the required information. Nevertheless, it cannot be expected that cheque numbers are entered prior to the Council's approval of payments. Salary payments were included as a global amount.

Rabat (Gozo)

Over the past years, the Council received a total amount of €401,515 worth of Government grants, which was at the time accounted for under the capital approach. However, when calculating the depreciation charge for the year through FAR, only €121,278 of these grants was taken into account, implying that for the rest, depreciation was calculated on the total cost without deducting the respective grant. As a result, the depreciable amount was overstated by €280,237. Consequently, according to LGA's workings, the depreciation for the year under review was overstated by approximately €14,091. Furthermore, from the limited information provided, it is estimated that accumulated depreciation was overstated by €143,898 as at end December 2014. The audit report was qualified in this respect.

On the other hand, accumulated depreciation for Urban Improvements as disclosed in FAR, was understated by €122,149 when compared to that recognised in the books of account. According to the Council, due to glitches in the software, the system was not calculating depreciation for this specific category, so it was calculated on a spreadsheet and posted manually in the accounts.

Discussions have taken place between the Council and LGA about the technical problems within the module of FAR on the accounting package. Due to the present financial situation, the Council is not in a position to finance the cost of rebuilding. Temporarily, the depreciation records for those categories which encountered software problems, are being kept on spreadsheets. The Council will also be giving more attention in order to improve the presentation and workings of FAR.

Despite that acquisition dates of assets acquired part way through the year were correctly inputted in FAR, depreciation charge calculated through the said register covered a full year.

Point noted.

Although the Council is now updating FAR with the total cost of a project upon completion, records of assets created in previous years were not amended and thus are still reflected as payments on account to suppliers. A typical example is the cost of St. George's Square, which is still disclosed in FAR under several different assets, all having a different asset code and depreciation commencement date.

As remarked in previous years, the Council prefers that the St. George's Square expenditure is shown in different asset accounts with separate codes.

As already highlighted in the preceding year, due to unresolved disputes, the Council was never invoiced for road resurfacing works carried out years ago, bearing an estimated cost of €50,000. As a result, the Council has not accrued for such costs, with the consequence that the value of PPE is understated by the same amount. Moreover, since depreciation at the rate of 10% should have been calculated on such costs, the accumulated depreciation to date would be approximately

€23,000. The said costs have been included in the Financial Statements under capital commitments. In view of these shortcomings, LGA issued a qualified audit opinion.

The Council failed to account for the total cost of €478,339, incurred in relation to projects which were completed during the year under review, but whose invoices and the respective architect certifications were not received by year-end. This resulted in an understatement of accruals and PPE, as well as the depreciation charge. Similarly, an invoice amounting to €12,484, relating to a European Regional Development Fund (ERDF) project, was also omitted from the books of account. Proposed audit adjustments to correct these errors were reflected in the audited Financial Statements.

Points noted.

The Council did not accrue for works completed but not yet invoiced in relation to ERDF project, which was still in progress as at year-end. Since the architect's valuation reports were not made available to LGA, there were no means to quantify such works. On the other hand, the Council erroneously capitalised the amount of €366,626, being payments made in advance to the various suppliers working on the same project. No adjustment was posted in the books of account since the capitalisation of the advance payments will set-off part, if not all, of the accruals not accounted for. A qualified audit opinion was issued in this respect.

Point noted.

FAR includes items related to roads and squares on which works were still in progress. However, it transpired that the original costs expended on such projects in previous years, as well as the relevant accumulated depreciation, were not yet removed from the accounts and FAR. As a result, these projects were reflected twice in the aforementioned records. Although the cost of such projects is deemed to be material, no practical procedures could be carried out to arrive at the cost and accumulated depreciation of the assets in question, thereby leading to a qualification of the audit report.

The costs in question were not eliminated from FAR during 2014 because they were still being partially used up to the end of year. Action will be taken during 2015 to dispose of the old costs of these roads and squares.

An invoice of €9,030, covering paving slabs, was accounted for with Assets under Construction in the previous year. However, during the year under review, it was recorded again rather than reclassified to Construction, given that the project was completed by year-end. Similarly, two assets, aggregating to €12,449, were also not reclassified to the respective asset class upon completion. Reclassification adjustments were incorporated in the final set of accounts and charged depreciation thereon from the date of completion.

The Council took note of LGA's observation and the proposed adjustments were incorporated accordingly in the Financial Statements.

Testing carried out on the cut-off procedures adopted by the Council, revealed that liabilities totalling €36,986 remained unaccounted for. Following LGA's recommendation, the Council approved the necessary adjustments to increase both accrued expenditure, as well as creditors, by €20,579 and €16,407 respectively.

One has to point out that some of the invoices mentioned by LGA were presented to the Council after February 2015, even though these were dated before year-end. By that time, the accounts for financial year 2014 were already presented for the Council's approval. All efforts will be made by the Council to chase pending invoices by year-end and make the necessary accruals. Though certain progress has been made in this area, there is still room for further improvement.

As already highlighted in the preceding year, reconciliations between the purchases ledger account and the statements received from the suppliers were not carried out. This was evident from several variances identified by LGA in these two records, a number of which have been adjusted following LGA's recommendation. For example, whilst an invoice of €3,539 was accounted for twice, the amount of €2,091, relating to street lighting repairs, was completely omitted from the books of account. Moreover, a payment of

€19,240, made by DLG to WasteServ Malta Ltd on behalf of the Council, was not recorded in the books, resulting in an overstatement of accounts payable and an understatement of income. The necessary audit adjustments proposed by LGA were accordingly incorporated in the Council's Financial Statements. Furthermore, a detailed statement requested from one of the Council's suppliers, to reconcile a variance of €3,680, was not made available to LGA by the time the audit was concluded. As a result, no adjustment was proposed in this respect.

As reported in the preceding year, a discrepancy of €16,137 was noted between the amount payable to WasteServ Malta Ltd as recorded in the Council's books of account, and the balance in the respective supplier's statement. Although it was previously claimed by the Council that the variance will be investigated, up to date of audit, this was still not carried out. Consequently, no audit adjustments were proposed to this effect. However, if this variance had to be accounted for, it is highly probable that the operations and maintenance expenditure over the years would have increased by the aforementioned amount, thus resulting in higher deficit for the affected years. This matter was disclosed in the Financial Statements as a contingent liability, while a qualified audit opinion was issued in this respect.

Although weaknesses related to the posting of invoices have been highlighted in the previous years' Management Letters, no action was taken by the Council. The latter is still at times posting invoices in batches to match the payments effected. Consequently, only one date is recorded for a whole batch of invoices. Moreover, in many instances, the invoice number was not entered in the transaction details. This makes it very difficult to reconcile the accounts and identify any double postings.

The Council would like to point out that there are several suppliers who never send a statement, even though pressure is made by the Council.

From audit verifications carried out on the Council's deferred income, it transpired that the amortisation for the year was understated by €2,713. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

LGA's comments have been noted.

Once again, included within accrued income is the amount of €65,550 receivable from WSC, in respect of which, no reliable documentation was provided to LGA, except for a court letter claiming the amount from the Corporation. Approximately €65,300 of the said amount is being contested by WSC, on the basis that the number of jobs included in the claim made by the Council is over-estimated. Although a note in the subject matter has been included under contingent liabilities in the Financial Statements, no provision was made to cover this disputed amount, even though its recoverability is doubtful. Consequently, the audit opinion issued by LGA was qualified in this respect.

The Council is still insisting that the amount of €65,550 is due. In fact, a court letter has been sent to the Corporation in this regard.

Disclosed within the list of accrued income are also two long overdue amounts of €93,286 and €38,636 receivable from MEPA, relating to St. George's Square and Kennedy Square respectively. No confirmation of the former amount was provided to LGA. As regards the latter amount, MEPA does not want to release funds before it obtains clearance from TM. Notwithstanding that the Council is chasing TM, no clearance has yet been obtained. Given the uncertainty on the recoverability of these receivables, as well as the materiality of the amounts in question, a qualified audit opinion was issued in this respect.

Every effort is being made by the Council to obtain at least a written confirmation about the amount due of €93,286, committed by MEPA on certain projects.

It also transpired that accrued income as accounted for by the Council was understated by an aggregate amount of €52,936. Furthermore, prepaid insurance of €1,042 was completely omitted from the books of account. These errors were rectified by means of audit adjustments.

Upon review of the bank confirmation letter, it was noted that one of the Council's bank accounts was not included therein. From further verifications with the bank in question, the existence of the said account was confirmed, however, it transpired that

although the account is in the name of the Council, the account holder is not the latter.

Points not addressed.

As at year-end, the balance in an account held with a local commercial bank stood at €12,429. The total value of cheques issued but not presented to the bank was of €41,195, implying that the book balance was driven to an overdrawn balance amount of €28,766. As highlighted in the preceding year, this may imply that the Council is overspending.

As in the previous year, the Council issued several cheques at year-end, keeping in mind that the quarterly allocation from Central Government is usually deposited in the bank account by year-end or at the beginning of January.

Notwithstanding that the Council indicated in last year's reply to the Management Letter that remedial action will be taken with respect to issues of non-compliance with the Financial Procedures, the same observations are once again reported this year. For example, services given by an orchestra (€11,446), a band support team for the New Year's Eve activities (€20,957), and sundry repairs and maintenance works (€24,844) were procured directly from the open market, when in line with the Local Councils (Financial) Regulations, the amounts involved merited a call for tenders.

As highlighted in the preceding year, the amount of €5,900 invoiced by the Accountant during the year is much higher than the amount quoted to the Council several years ago. Notwithstanding this, no fresh call for quotations was made.

The contract for road and street cleaning expired in July 2013. Despite that a new tender was issued and awarded to the same contractor in 2013, the new contract was only signed in February 2014, with the old rates remaining in force during this lapse. As a result, the Council paid the amount of €4,850 under an expired contract.

Several instances were also encountered whereby the Mayor and Executive Secretary did not sign the respective payment vouchers.

The shortcomings were noted and the Council will take remedial action in line with the Financial

Procedures. Moreover, the Council would like to point out that the fee charged by the Accountant during 2014 does not only include the charges for the services mentioned in the quotation. Other services were requested from the Accountant on a monthly basis, for example, preparation of financial projections concerning applications of funds from EU or for local bank facilities.

The Council has exceeded budgeted expenditure under a number of headings, mainly, Community and Hospitality (€66,905), Repairs and Upkeep (€47,029), Contractual Services (€11,065), Office Services (€5,247) and Travel (€4,111), amongst others.

Efforts are being made by the Council in order to keep all expenditure within budget.

Invoices and income, amounting to €25,677 and €1,460 respectively, were recorded in the wrong nominal account. Reallocation adjustments were posted in the books of account so as to ensure that expenditure and income are appropriately categorised.

Point not addressed.

In line with preceding years, on the feasts of St. Mary and St. George, the Council charged twice the statutory fee stipulated by law, to cover permits of kiosks, with the intention to cover the cleaning of streets with the extra charge. For the Christmas and New Year's Eve activities, the Council also requested bar owners to pay €200 or €350 each as a permit. The amount remaining, after deducting these from the statutory permit fee, was considered as a sponsorship for the activity, even though the receipt does not state so. Such charges are not in line with pertinent legislation.

The Council asks for sponsors from shops and kiosks in order to help organise several activities like New Year's Eve, and other financial help during the feasts of St. Mary and St. George in order to partly finance the cleaning costs of streets.

While the Council has drawn up employment contracts for employees during the year under review, they do not specify the conditions of work and terms of employment. Moreover, although leave records were up to date, no leave forms were traced on file.

Action has not been taken by the Council with respect to the employee engaged under the scheme *Impjieg Inklussiv fil-Komunità*. Once again, during the year under review, no SSC were deducted from the respective employee's wage. Thus, no payments were forwarded to IRD in this respect, not even the employer's share. No correspondence to this effect was made available for audit purposes.

Though the Council sought written information about the employee under the scheme Impjieg Inklussiv fil-Komunità, no such information was forthcoming from the responsible department.

Safi

Quotations were not sought prior to the rental of a garage, at €2,324 *per annum*. **Appendix L – Table 1** refers. Moreover, no rental agreement was traced between the Council and the lessor. LGA was informed that the decision to rent the garage was taken by the Mayor and approved by all Councillors in a meeting held in 2013.

The contractor is being contacted to fix this issue.

Notwithstanding previous years' recommendations, the Council is still making use of a four-year contract that was entered into in 2008 for the provision of football ground services. The respective contractor was responsible to take care of the football pitch and was paid a commission of 25% of the fees received from the hire of the pitch. According to the Council, the respective services were terminated in August 2015.

The contract for the football ground was finalised during 2015.

The Council has still not prepared a FAR with the consequence that depreciation is still computed manually, rather than through the month-end facility incorporated in the accounting package, as per Local Councils (Financial) Procedures. Moreover, up to date of audit, all of the Council's assets remained untagged.

The Council shall work with the Accountant in order to draw up a FAR. Moreover, the labelling of assets is a project which the Council shall also be undertaking.

Trees in the locality were included under Urban Improvements. As a result, although these should be fully depreciated in the year of acquisition, they were being depreciated at 10% on a monthly basis using the reducing balance method. Similarly, the category of Office and Computer Equipment incorporated both office equipment and computer equipment, which were depreciated at different rates, namely 20% and 25% respectively.

Comments have been noted and measures will be taken to classify trees separately from Urban Improvements. Same applies to Office and Computer Equipment, where possible.

New street signs acquired during the year were not capitalised, but expensed in the Statement of Comprehensive Income. In line with pertinent regulations, traffic signs shall be capitalised and depreciated at 100% in the year of acquisition.

The fact that traffic signs should be depreciated at a rate of 100% and not on a replacement basis has been noted.

None of the invoices relating to fixed asset additions for the year, that were provided to LGA, were marked as certified by the Executive Secretary. Moreover, such invoices did not indicate the date of the Council's meeting in which the related purchases were approved.

Invoices shall be certified. Moreover, given that the Payment Approval Sheet is signed during Council's meetings, it must be stated that all payments are hence approved by the Council. Nonetheless, each invoice will be personally approved by the Executive Secretary.

Audit verifications carried out on expenditure recorded in the books of account during the year under review, revealed the following shortcomings:

- a. Invoices covering the purchase of a shutter and soft stones, for a total cost of €2,124 were not provided for audit purposes.
- b. Five invoices, amounting to a total of €4,323, were accounted for during 2014, notwithstanding that three were dated in 2013 and the other two in 2015.

- c. The payment voucher relating to the purchase of flags and repairs, amounting to €520, was neither dated nor bearing the relevant authorisation signatures.
- d. As highlighted in **Table 24**, instances were encountered whereby purchases were only covered by a cash register chit, bearing no reference to the Local Council. Moreover, another €8,288 worth of expenses was not covered by a fiscal receipt. **Appendix G** refers.

The Council always requests proper documentation from suppliers, but in certain cases these fail to provide them. The Executive Secretary has also informed suppliers that as from 1 January 2015, all suppliers, even those who are VAT exempt, must be in possession of a VAT receipt book and provide documentation for any purchase made from them. Moreover, the lack of invoices are one-off occurrences, which of course, the Council will strive to eliminate.

Whilst confirming balances receivable from Regional Committees, certain discrepancies were encountered, particularly with the amount due from the Southern Regional Committee. For example, whilst a cheque payment was not included in the Council's accounting records, an invoice was accounted for twice.

Remarks were noted, and action will be taken to reconcile Regional Committee balances on a regular basis.

As per reports extracted from the computerised system, from an amount of €96,292 in the preceding year, pre-regional LES debtors decreased to €93,159 during the year under review. In view of this, LGA proposed an audit adjustment to decrease both LES receivables,

as well as the provision thereon by €3,133. The Financial Statements were adjusted accordingly.

A deferred expenditure balance of €14,029 has been constant for the past three years. According to the Executive Secretary, it is highly unlikely that such project will materialise. In view of this, an adjustment was proposed, whereby the said amount was written off to the Statement of Comprehensive Income and reflected in the Financial Statements accordingly.

The Council has no comments with respect to the aforementioned shortcomings.

Instances were noted whereby the Mayor signed blank cheques prior to their issue, without indicating the payee name or amount payable. This may trigger instances whereby cheque payments are issued without the proper authorisation.

In the case mentioned here, please note that the Mayor was present in the Council's premises that day and signed a couple of cheques which the Executive Secretary had to fill in to send that very day. This was the sole reason for his signature being on these cheques.

Upon confirming an outstanding payable with WasteServ Malta Ltd, LGA noted that similar to previous years, an amount of €2,547 was included in the Council's books in order to reconcile the balances. The Council was unable to provide LGA with any explanation of the unreconciled amount.

DLG has taken care of the tipping fees charged by the service provider that were in excess of the allocation provided for such purpose. An updated statement will be requested from WasteServ Malta Ltd on a regular basis and reconciled to the books.

Table 24: Expenditure covered by a Cash Register Chit

Date	Detail	Amount
		€
06/01/2014	Set Menu	1,552
23/12/2014	Toiletries	198
12/01/2015	Posters <i>Milied Safi</i> and Stamps	63

Although the Council registered a loss during the year under review, it still provided its employees with a health insurance cover. In line with the Local Councils (Financial) Regulations, this is to be discontinued until the Council generates a positive balance in the accounts, or until such scheme does not result in a negative balance in the Council's books.

The deficit of the year 2014 is due to capital projects. The Council still has sufficient funds in the bank, and the employees should not suffer due to capital costs.

Bookkeeping inconsistencies were also noted. By way of example, a stale cheque of €1,064 was not properly reversed from the books of account. The current portion of deferred income as recognised in the accounting records was overstated whilst accruals and prepayments were not accurate. Such errors were rectified by means of audit adjustments.

Points noted. Measures will be taken to reverse the stale cheque referred to, and then if the need arises, a new cheque will be raised and approved for payment.

Notwithstanding that in prior years the Council paid membership fees of €5,000 to Gal Xlokk to be able to participate in the LEADER programme (2007-2013), by the conclusion of the audit, it has still not managed to obtain any funds from this organisation.

The Council shall be receiving funds from Gal Xlokk in 2015 for activities held in both 2014 and 2015.

San Ġiljan

The Council disregarded LGA's prior recommendations, and is still paying a fixed quarterly amount of €187 as a reimbursement to the Executive Secretary, for making use of her own car and mobile phone for Council's purposes. Although, in previous replies, the Council stated that it approved the said amount, LGA's recommendation to seek proper guidance and approval from DLG was never taken up.

LGA's comments have been noted.

Standing regulations require that capital expenditure incurred during the year corresponds to the projects approved in the annual budget estimates and business plan for that same year. However, in the financial estimates for 2014, budgeted capital expenditure amounted solely to €900, whilst the actual amount incurred totalled €75,605.

The procurement of office chairs, for a total cost of €1,247, was accounted for as recurrent expenditure rather than capital expenditure. Furthermore, although the Council's minutes showed that upon such acquisition, the Council disposed of the old office chairs, the respective disposal was not recorded in the Fixed Assets Schedule.

Budgeted capital expenditure was less than actual because capital expenses incurred were dependent on the receipt of additional funds for the particular projects. Therefore, neither the income nor the expenditure of these capital items was included in the budget. With respect to the procurement of office chairs, these were acquired as a replacement to the already existing assets, and thus were expensed.

Additional funds of €51,038, received in January 2015 from the Central Regional Committee with respect to the period July to November 2014, were incorporated in the books of account by means of an audit adjustment proposed by LGA.

Point noted and necessary action taken.

The balance of long-term payables with respect to PPP scheme was not disclosed in the unaudited Financial Statements. Following LGA's recommendation, this was adjusted to show an amount of €41,476. It is also unclear whether the grant received to date covers all the projects carried out or whether additional grants are to be recognised.

A portion of the Government grants concerning PPP project was paid at the beginning of the project. The remaining balance will be forwarded to the Council once the project is completed.

Included in the Council's list of debtors is an aggregate balance of €22,801 which has been due for more than one year. Out of the said balance, €12,608 is due from a waste recycling company,

which is facing financial difficulties. During 2014, the Council issued invoices amounting to €5,746 to the foregoing debtor, however, it only received one payment of €2,000. In view of this, it is recommended that the Council assesses the recoverability of the balance due and account for an adequate provision for bad debts.

The aforementioned list of debtors also includes an amount of €1,623, due from another debtor and which has been contested. As a result, LGA proposed that such balance is provided for and the Council correctly adjusted its Financial Statements.

Through a circularisation letter, WSC confirmed that the balance due to the Council amounted to €981. However, the amount receivable as per books of account totalled €4,579, thus resulting in a discrepancy of €3,598.

LGA's comments have been noted and the necessary actions will be taken by the Council.

While bank reconciliations for certain bank accounts were not traced, a discrepancy of €7,131 was noted between the Council's books of account and the reconciled balance for a particular bank account. Furthermore, included in the Council's bank reconciliation is a stale cheque of €381.

As also reported in the preceding year, the Council's Financial Statements still did not disclose the fact that certain fixed assets are hypothecated in favour of a bank security for loans. This is not in line with the requirements of IAS 16.

LGA's comments have been noted and the necessary action will be taken.

Suppliers' statements were not obtained from all suppliers, notwithstanding the fact that this is a monthly requirement emanating from standing procedures. Moreover, a difference of €2,933 was noted between the statement provided by one of the Council's suppliers and the respective balance as per books of account. Similarly, the balance due to WasteServ Malta Ltd as per Council's ledger was €3,684 less than that disclosed in the supplier's statement. It transpired that such discrepancies were brought forward from preceding periods.

The Council adheres to the Memo issued by DLG, which states that monthly statements are to be obtained. In fact, with every payment placed, the Council requests the respective suppliers to provide a statement within one month. However, the Council does not have any control over those suppliers who do not submit a statement.

The Council's capital commitments of €103,879, as disclosed in the Financial Statements, included a balance of €7,556 relating to the repayment of loans. Such amount should not be included with capital commitments but disclosed with contractual maturities in the liquidity risk note.

The recommendation made by LGA has been noted and the necessary action will be taken.

San Ġwann

A rental agreement was once again not provided to LGA with respect to the hire of a hall pertaining to the local parish church, used as a Day Care Centre by the Council. Furthermore, no call for quotations was issued by the Council, notwithstanding that this rental expense amounts to €1,600 *per annum*.

Likewise, a signed contract between the Council and the contractor for the provision of bulky refuse was not provided for audit purposes. The respective tender was issued in May 2014 and the total cost incurred by year-end was of €11,231.

Notwithstanding prior assurances by the Council that a FAR would be drawn up by December 2013, up to audit date, this has not been prepared. In the absence of such register, depreciation was being computed manually and on an annual basis, rather than using the accounting software as laid down in the regulations. Audit procedures carried out by LGA revealed that the depreciation charge for the year is overstated by €1,757.

A reconciliation of the amounts disclosed in the Financial Statements with those recorded in the nominal ledger revealed that, whilst total NBV as recognised in the aforementioned documents tallied, discrepancies were noted with respect to certain individual asset categories. By way of example, NBV for Construction Roads as recorded in the Financial Statements was overstated by €56,068, while that for Street Paving was

understated by €87,224 when compared to the nominal ledger.

Audit verifications, carried out on the administrative fees recognised in the Financial Statements, revealed that the amount invoiced for the period July to August was equivalent to the contraventions collected, rather than 10% thereof. Following LGA's recommendation to review the system and quantify the error, the Council passed an adjustment of €17,784 to reduce both LES income and the respective debtors.

The Council did not recognise the amount of €46,741, paid by DLG on its behalf, to set off excess tipping fees invoiced by WasteServ Malta Ltd. Meanwhile, the sum of €9,036 advanced by DLG to the Council during the year under review in settlement of collective agreement increments, covering the period 2012 to 2016, was incorrectly classified under Annual Government Income. Proposed audit adjustments to rectify these errors were approved by the Council.

As disclosed in FS3, the first €7,000 of the Mayor's remuneration was charged to tax under the part-time rules, at the rate of 15%, with the balance of €4,902 taxed at 27%. This practice is in breach of the income tax legislation, as well as Memos 26/2010 and 11/2013.

The Council did not always adhere to the concept of accrual accounting, with the result that certain accrued expenditure was left unaccounted for. For example the Council did not provide for the performance bonus of €2,771 which was eventually paid to the Executive Secretary in 2015. Similarly, the amount of €24,307 received from the Central Regional Committee in January 2015, being surplus funds for the period July to November 2014, was also omitted from the books of account. Likewise, fuel charges on refuse collection, totalling €10,976, were unaccounted for. Following LGA's request, an exercise was carried out by the Council wherein additional accruals of €8,795, which were not initially accounted for, were identified. The proposed adjustments to accrue for these amounts were then incorporated in the audited Financial Statements.

Included within the debtors' list is a balance of €7,936 due from a waste recycling company, against which no payments were received during

the past few years. Since this entity is in financial difficulties, during the preceding year a provision for doubtful debts was recognised in this respect. However, this provision was written-off against the debtor without adequate approval in one of the Council's meeting. Upon LGA's recommendation, both the receivable balance and the provision were reinstated in the accounting records. However, such adjustment was not properly recorded by the Council, since the debtor was reinstated and the contra-entry was erroneously recognised as a reversal of the provision in administrative expenses. Consequently, both receivables and surplus for the year are overstated by €7,936. A qualified audit opinion was issued in this respect.

Still included in the accrued income list and debtors' list respectively, were the amounts of €11,300 and €7,694 receivable from WSC for trenching works carried out in 2010. Testing revealed that the latter balance is overstated by €240; however, the Council was unable to provide an explanation for such difference.

Bank reconciliations were only prepared on a monthly basis for the last three months of 2014. Although LGA was informed that quarterly reconciliations were drawn up for the other nine months, no such records were provided. Furthermore, it was noted that five stale cheques, amounting to a total of €4,917, were included in the reconciliation at year-end. The respective cheques were reversed by means of an audit adjustment.

Notwithstanding prior recommendations, the Council is still subject to final withholding tax on its bank account. Moreover, the Council did not disclose the fact that items of PPE are held by general and special hypothecs against the bank loan.

The Council did not obtain monthly statements from all suppliers. In addition, through alternative procedures on creditors, LGA noted that an invoice of €2,050 was posted twice in a supplier's account. On the other hand, an invoice amounting to €7,347 was excluded from the account of WasteServ Malta Ltd, while other invoices, in aggregate amounting to €2,746 were not reflected in another supplier's account. Upon LGA's recommendation, the Council reviewed all its suppliers' accounts. This exercise revealed that creditors were overstated by €18,668, invoices

amounting to €1,541 were not recorded in the respective suppliers' account, while an invoice of €1,200 was accounted for twice. Adjustments to amend these differences were passed by the Council in the final set of Financial Statements.

Included within the creditors' list are two balances aggregating to €5,838 which have been brought forward from previous year.

The Council did not update the deferred income balances with the amount released to the Statement of Comprehensive Income and with the reclassification between current and non-current liabilities. The Council did not have the required historical workings to identify the necessary adjustments for 2014. Following LGA's recommendation the Council approved to adjust for amortisation of €6,944, as well as to reclassify the balance of €70,437 from long-term to short-term liabilities.

In the unaudited Financial Statements the Council did not show any capital commitments. Following LGA's recommendation, a new note was included for the embellishment of a small area with an estimated cost of €26,000, which was to be financed by the regional funds. However, it was noted that the prior note stating that there were no capital commitments was still retained in the Financial Statements.

During 2013, the Council incurred considerable damage after a substantial part of the ceiling collapsed. Various computer equipment and furniture were also damaged. The insurance company refused to accept the Council's claim, blaming the latter for failing to carry out the necessary repairs and maintenance to avoid the incident. During the course of the audit, an investigation was still underway to determine the cause of the incident.

The Council does not have access to the accounting records since these are prepared on the software owned by the Accountant. A copy or backup of the package is also not available at the Council, and thus, the Executive Secretary has no access to financial records.

A number of shortcomings were noted in the unaudited Financial Statements. For example, the

Statement of Cash Flows, as well as certain notes, did not cast, whilst certain disclosures were not in line with the respective IASs. Other bookkeeping errors, including the incorrect classification of expenditure, were also encountered. Furthermore, petty cash expenditure for the month of December 2014 was only recorded in the books of account in 2015, thus resulting in an overstated surplus. Following LGA's recommendation the Financial Statements were adjusted accordingly.

The Council did not provide a reply to the Management Letter.

Sannat

The cost, accumulated depreciation, as well as the resulting NBV as disclosed in the nominal ledger and Financial Statements, were overstated by €422,827, €190,653 and €232,174 respectively, when compared to the figures recorded in FAR.

The yearly depreciation charge, which was calculated manually by the Council, was also incorrect. Audit adjustments were proposed by LGA to reduce the depreciation charge for Special Programmes by €10,652 and increase that of Construction and Urban Improvements by €6,671 and €3,981 respectively.

Despite that *Tal-Bidwi* park project was fully complete during the year under review, the related cost of €37,058 was still classified as Assets under Construction as at end 2014. Moreover, invoices totalling €27,214, related to the same project, were not recorded by the Council, thereby understating both fixed assets and creditors. Similarly, although works carried out on *Triq l-10 ta' Ottubru 1942* and *Triq Pisoniano* were completed by year-end, both the related cost of €51,975, as well as the depreciation thereon, were omitted from the books of account. These errors were rectified by means of audit adjustments proposed by LGA.

LGA's recommendations with respect to the upkeep of a FAR have been noted and further attention will be given in the future. Moreover, the audit adjustments have been reflected in the final set of Financial Statements.

The Council did not take any action, in line with previous years' recommendations, to capitalise

borrowing costs of €10,018, incurred in relation to the construction of the new premises. Moreover, since depreciation was charged on the project while it was still in progress, total accumulated depreciation is overstated by €19,658, whilst the expense for the year under review is understated by €3,135. A qualified audit opinion was issued in this respect.

Issue has been noted and the Council will look into the matter and properly adjust the accounting entries.

Opening accrued income of €733 receivable in relation to sports activities was erroneously reversed against income for the year even though no funds were actually received by the Council. Further testing revealed that part of the said balance had an ageing of more than two years, and there is a probability that it will never be received. Consequently, an audit adjustment for a provision for doubtful debt was proposed by LGA whilst the remaining balance was reinstated to accrued income.

It also transpired that the Council did not accrue for the amounts of €9,704 and €6,965, receivable in respect of *Tal-Bidwi* park project and PPP scheme, which projects were both completed during the year under review. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

LGA's recommendations were noted and adjustments reflected accordingly in the audited Financial Statements.

Instances were encountered whereby amortisation of deferred income for the year was incorrectly calculated. On two occasions the respective amortisation was understated by a total of €25,343, while, on another three occasions, this was overstated by €1,363 in aggregate. Such errors were rectified by means of audit adjustments.

The amortisation of deferred income was initially calculated based on the entries in the deferred income account and the level of completion of projects. This was adjusted as recommended by LGA since the calculation was also affected by other necessary audit adjustments.

The Council did not accrue for loan interest of €939, while an invoice of €1,416, relating to maintenance work on public property, was posted twice in the books of account. The necessary audit adjustments were approved by the Council.

LGA's comments have been noted and the necessary adjustments were incorporated in the Financial Statements.

From testing carried out on the Council's bank balances it was noted that funds of €76,586 received in relation to Measure 323 were completely omitted from the books of account. This error was rectified by means of an audit adjustment proposed by LGA. Moreover, payments relating to December 2014 salaries and allowances, as well as other minor expenses aggregating to €427, were issued before they were approved in a Council's meeting.

The adjustment concerning funds received for Measure 323 was reflected in the Financial Statements. With respect to payments issued prior to approval, the Council would like to point out that salaries and Councillors' allowances are statutory payments set in the conditions of employment and in the Local Councils Act respectively. It would be unreasonable to withhold the payment of employees' salaries at the end of the month if a Council's meeting is not held at that time. The other petty items mentioned by LGA are also bills that are tied by a deadline for payment, otherwise a penalty for late payment will be imposed by the suppliers.

Budgeted expenditure for certain categories has been exceeded. **Table 25** refers.

The Council is aware that the budget has been exceeded. The change in the Executive Secretary and the appointment of an acting Secretary had an impact on the performance of the Council. The new Executive Secretary shall tackle the issues raised.

San Pawl il-Bahar

The cost of three activities, namely, a concert by the Queen Tribute Band, a fireworks festival and a powerboat activity amounted to an aggregate of €9,218. Besides that such activities were provided

Table 25: Variances between Budgeted and Actual Expenditure

Item	Variance
	€
Repairs and Maintenance	3,941
Professional Fees	2,360
Hospitality and Communitarian Services	2,241
Office Expenses	1,864
Water, Electricity and Telephone	625
Public Information	435
Rent	372

free of charge to the public, no sponsorships were obtained to cover the related costs.

Albeit previous years' recommendations, the Council's FAR has not been updated and lacks certain descriptive details. In addition, assets are not tagged with the respective fixed asset code, thereby hindering physical verification. It also transpired that the depreciation charge for the year (€260,595) was calculated by the Council on a yearly, rather than monthly basis. Moreover, computer software, amounting to €2,637, was incorrectly classified with Computer and Office Equipment in the Financial Statements, rather than disclosed separately as an intangible asset.

A physical inspection on the assets recorded in the books of account revealed that, as already noted in the preceding year, a notebook coded, 'CEQU024' was not at the Council's premises, whilst another laptop held by an administrative clerk was not listed in FAR.

A substantial variance of €626,832 was noted between capital commitments as recorded in the Financial Statements (€717,094), and those recognised in the annual budget (€90,262), as approved by the Council.

At the end of the financial year, the Council owned inventories, which consisted of books held for resale, as well as medals and ceramic towers costing €1,020. However, as per insurance policy document, only €500 of stock in trade, consisting of wines, spirits and tobacco, is covered. This implies that the Council will not be in a position to recover any losses it might incur to replace the books lost, in case of theft, fire or any other accident.

Included with receivables is an amount of €101,230 that has been outstanding for more than one year, out of which a balance of €73,611 is receivable from WSC for reinstatement works. From enquiries raised with the Council, it transpired that the recoverability of €21,752 of the former balance is deemed doubtful. Consequently, an audit adjustment of the amount in question was proposed by LGA and the Council accordingly recognised the provision for doubtful debts in its Financial Statements.

The Council's list of debtors includes three negative balances totalling €8,757. One of these balances, amounting to €7,647, is payable to the Northern Regional Committee. Originally, such amount was payable to the Council by the said Regional Committee, however, instead of issuing an invoice, the Council decided to retain the sum due from contraventions paid at the Council. Nevertheless, the Committee has still settled the amount, thus resulting in the negative debtor balance of €7,647. Such occurrence was repeated for the amount of €179 which was due to the Council by LTD. The third negative balance resulted from a double payment of €931 by the Parliamentary Secretariat for the Elderly.

With the Council's other receivables was a balance of €12,780 representing a claim for which no supporting documentation was provided to LGA. Moreover, the Council wrote-off the sum of €2,867, representing tribunal pending payments for the pre-pooling period, which were deemed irrecoverable. However, no corroborating evidence was made available. In view of this lack of information, LGA was unable to confirm the correctness of these amounts.

Review of the Council's prepayments revealed that the amount of €110,050, concerning tipping fees advanced by DLG to WasteServ Malta Ltd, was erroneously accounted for as prepaid expenditure. On the other hand, unpaid tipping fees of €9,386 pertaining to December 2014 were not accrued for. Such shortcomings were rectified by means of an audit adjustment.

The Council's list of creditors included an aggregate balance of €3,726, payable to six suppliers, which has been long outstanding. It also transpired that supplier statements were not being obtained, notwithstanding the fact that this is a monthly requirement emanating from standing procedures.

Variances were noted between the budget for 2014 and the actual results obtained during the year, as depicted in **Table 26**.

Given that, as from the beginning of May 2015, there was a change in both the Council members and the Executive Secretary, the Council was unable to submit any comments to the Management Letter. Nevertheless, it should be pointed out that the present acting Executive Secretary and the Mayor were not satisfied with the current state of affairs of the Council. In view of this, the present Council is committed to rectify the shortcomings listed above and to bring back the Council on a sound financial footing.

Santa Luċija

NBV of assets as recorded in the Financial Statements was understated by a net amount of €1,240 when compared to the amount disclosed in FAR, which is being maintained on a spreadsheet. This is not in line with the applicable regulations. The main discrepancies are highlighted in **Table 27**.

LGA's recommendations have been noted and the Council will do its utmost to rectify the situation.

Pre-regional LES debtors and the respective provision for bad debts as recorded in the Council's Financial Statements (€33,533) were understated by €38,015, when compared to the balance included in the report generated from the system (€71,548). Such difference was accounted for by means of an audit adjustment.

No comments were submitted.

A total difference of €2,722 was noted between the related party balances as recorded in the Council's books of account and the related confirmation letters received from WasteServ Malta Ltd, South Eastern Region and Southern Region respectively. The balances in question were not reconciled by the Council. Moreover, the amount of €5,330 due to the Council in relation to reinstatement works carried out by WSC, between August 2010 and the following year, was not confirmed by the latter.

Table 26: Variances between Budgeted and Actual Income and Expenditure

Item	Budget	Actual as per unaudited Financial Statements	Variance
	€	€	€
Income			
Community Services	41,500	34,261	(7,239)
Supplementary Government Income	110,050	48,968	(61,082)
Expenditure			
Repair and Upkeep	47,000	120,893	73,893
Contractual Services	682,196	720,043	37,847
Community and Hospitality	47,040	56,669	9,629
Professional Services	25,343	26,888	1,545
Overtime	7,000	8,019	1,019

The difference of €2,631 in the balance payable to WasteServ Malta Ltd relates to a payment which was recorded in the Council's books of account but not yet processed in the supplier's accounting system. The balance receivable from the South Eastern Region has now been reconciled. Moreover, the Council would like to point out that it has made various attempts to follow up the matter concerning the balance receivable from WSC, however, no feedback was ever received from the latter.

Notwithstanding previous years' recommendations, the Council still did not obtain monthly statements from its suppliers, in terms of Memo 8/2002, thus the necessary reconciliations were not being carried out.

The majority of suppliers do send monthly statements, since these are automatically issued through their accounting system. However not all of the Council's suppliers have such facility. Nevertheless, the Council will do its utmost to follow LGA's recommendation.

A variance of €388 was noted between the balance of one of the Council's bank accounts as per books of account and the bank statement, of which the amount of €254 relates to a stale cheque which was not written off from the accounting records. Another difference of €447 was also noted between the short-term and long-term loan repayment portions, which error was rectified through a reclassification adjustment.

The Council was aware of the difference of €388, which was in fact reversed during the month of January 2015. LGA's recommendation with respect to stale cheques will be adhered to. Moreover, the matter concerning loan repayment

calculations will be brought to the attention of the Council's Accountant.

Whilst the annual budget for 2015 includes budgeted capital expenditure of €71,326, capital commitments as disclosed in the Financial Statements amounted to €83,326.

LGA's recommendation has been noted.

Santa Venera

During the year under review, the Council received the sum of €70,000 from the Central Regional Committee. Notwithstanding that such funds are to be used for specific projects, the aforementioned amount was recognised as income for the year rather than deferred for future periods. On the other hand, the Council did not accrue for an additional amount of €27,953 received in 2015 but relating to 2014. Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.

The sum of €1,000 awarded to the Council under the initiatives scheme, which amount was to be received in 2015, was also incorporated in the books of account following LGA's recommendation.

Points not addressed.

The Council did not provide for accrued performance bonuses of €4,038 payable to the Executive Secretary and two other employees, as well as €1,600 payable with respect to Christmas decorations. It also transpired that, FSS tax and NI contributions of €2,329 were not separately disclosed as non-financial liabilities despite that these are preferential creditors and thus require separate disclosure. Following LGA's

Table 27: Discrepancies in Net Book Value of Individual Asset Categories

Asset Category	NBV as disclosed in the Financial Statements	NBV as recorded in FAR	Difference
	€	€	€
Assets under Construction	12,000	-	12,000
Office Computer and Equipment	10,876	10,624	252
Construction Works and Special Programmes	342,615	352,753	(10,138)
Urban Improvements	38,317	41,649	(3,332)

recommendations, the Council adjusted its Financial Statements accordingly.

Whilst the Council noted LGA's recommendation with respect to the accrual of Christmas decorations, it is to be pointed out that the respective contractor sent the invoice after the closure of the 2014 accounts. The recommendation to disclose outstanding FSS tax and NI contributions separately from other accruals was also noted.

Albeit prior year's recommendations, FAR has not been updated and still lacks certain descriptive details. Moreover, during the year under review, the Council carried out an inventory check on fixed assets and wrote off assets, with a cost of €1,398 and NBV of €212, that could not be traced. This strengthens the recommendation of having a fully-fledged register. It was further noted that the depreciation on disposed assets was netted off against the depreciation charge for the year, in the unaudited Financial Statements.

In addition to the above, NBV of certain fixed asset categories as recorded in FAR does not tally to that recognised in the Financial Statements. By way of example, NBV of Construction as disclosed in FAR was understated by €9,327 when compared to the balance accounted for in the Financial Statements, whilst that of Urban Improvements was overstated by €8,391.

Whilst efforts were made during 2014 with regards to tagging as well as writing off unused items, the Council also noted the comments raised by LGA with respect to the location of the assets and the supplier's name. The Council strongly believes that this is a complicated exercise, in fact it would like to propose to start such system as from 2015. The Council feels that it is very difficult to monitor items bought by previous administrations many years back. On the other hand, the discrepancies between FAR and the Financial Statements will be investigated.

LGA was not provided with the necessary workings to substantiate the amount of grants released to income in relation to PPP and UIF schemes brought forward from preceding years, although it was informed that the amounts recognised were based on 2013 figures. Following a reasonableness test carried out by LGA, an aggregate audit adjustment

of €9,300 was reflected in the Financial Statements to increase grants released on the said schemes.

Similarly, the necessary workings covering the allocation of grants between short-term and long-term portions were not provided for audit purposes. Consequently, LGA prepared workings based on the information available and proposed audit adjustments of €1,668 to arrive at a current portion of €8,117 for PPP grant. An adjustment to allocate €12,294 as current deferred income on UIF grant was also proposed. However, though the Council approved such adjustments, these were still not reflected properly in the Financial Statements. Moreover, the additional UIF grant of €40,285, received during 2014, to be used on a project which is expected to start in 2015, was all accounted for as current deferred income.

The adjustments passed during the year under review were the same as those recommended by the previous LGA. Nonetheless, LGA's recommendations with respect to the release of grants to income and the reclassification adjustments have been noted.

The amount of €85,040, repayable by the Council to a private company over the next two years, was also disclosed in full under current liabilities. An audit adjustment was proposed by LGA to reclassify the amount of €36,218 to non-current liabilities.

LGA's comments have been noted.

Disclosed with other receivables are two credit notes aggregating to €4,931. One of the said credit notes, which amounts to €4,720, was received in July 2011 from a company, which at the time was providing architectural and civil engineering services. However, the respective contract expired in August 2011. Following a new call for tenders, the contract was not awarded to the same company. Thus, the credit notes have no value as these cannot be set-off against services over the short-term. Whilst the Executive Secretary informed that a legal letter was sent to the supplier in question, the Council has still included the credit notes in the Financial Statements.

The Council will once again follow this issue and, if possible, conclude it once and for all.

As already reported in the preceding years, the Council did not obtain statements as at year-end from all suppliers, to confirm the closing balances and to ensure the completeness of the books of account.

As in previous years, the Council has asked for year-end statements from most suppliers, however, it is felt that chasing suppliers for monthly statements is quite time consuming. In fact, the Council strongly believes that, whilst it is in the suppliers' interests to send such statements, year-end statements will suffice.

The Council's Financial Statements have a number of shortcomings, many of which were already referred to the Council in prior years. In addition to the various divergences from IFRS, the Financial Statements also contained lack of updated accounting policies, as well as the non-disclosure of the maturity analysis of deferred income.

Moreover, the amount disclosed as capital commitments in the unaudited Financial Statements was left unchanged from the preceding year. Thus, this was not in line with the figures presented in the Council's financial estimates for 2015. Following LGA's recommendation, the Council adjusted the respective note accordingly. It also transpired that two contingent liabilities which were originally disclosed in the unaudited Financial Statements, were not recognised in the audited Financial Statements. The Council claimed that one of the issues was solved verbally and thus no supporting documentation was available. On the other hand, the threat by an individual to file a claim against the Council never materialised and thus the Council felt that such disclosure is no longer required as the probability of an outflow is remote.

Former Executive Secretaries are still shown as the representatives of two of the bank accounts held by the Council.

LGA's comments concerning capital commitments have been noted and the Council will ensure that all Commitments will be disclosed to tally with the Council's financial estimates. As regards the contingent liabilities, these were removed from the Financial Statements in line with LGA's recommendation.

Siggiewi

Many of the weaknesses highlighted were already drawn to the attention of the Council in previous years, but action was not taken to rectify them. Amongst the repetitive weaknesses are the following:

- a. By the end of the year under review, the Council had still not approved the variation of €18,217 reported upon in the preceding year with respect to the tenders for the supply of gymnasium equipment and for civil works around the outdoor gymnasium area.

The Council affirms that it has abided by the contract terms, stating that in cases where the Council requires an omission, decrease or increase in the works, which exceeds 2.5% of the contract sum, then the variation is instructed in writing. Any additions to or reductions in payments to be made to the contractor shall be based upon the rates set out in the bill of quantities.

- b. During the preceding year, while reviewing the Council's file covering the tender for patching works, LGA came across an extract from the minutes of meeting 261, stating that the Council unanimously approved to award the tender to a particular bidder. However, this contradicted the signed minutes, highlighting that the Council awarded the tender to a different bidder. Though LGA was given to understand that the former minutes were just a draft, the minutes of the subsequent meeting indicated that these were approved without corrections. Upon reviewing the same minutes during 2014, it was noted that these remained unchanged.

Reference is made to minutes of meeting held on 7 February 2013, whereby bids submitted by a private individual as well as a private company were discussed. In this meeting, the Mayor also declared that the Council's Architect would be consulted before awarding the tender. Following such consultation, during a meeting held on 27 May 2013, the Council unanimously agreed to award the tender to the private company.

This clearly indicates that the tender was never awarded to a different bidder.

- c. In breach of Memo 21/2013, the Council is still paying the Executive Secretary's mobile phone bill. The respective payments effected during the year under review amounted to €1,096. It was also noted that the Council also pays an IPSL worker €80 monthly as fuel allowance for using his own motor vehicle. Such fuel reimbursements should only be paid on a mileage basis rather than a fixed amount.

Comments with respect to the Executive Secretary's mobile phone were noted. On the other hand, the Council already took action to rectify the matter regarding the fuel allowance paid to IPSL worker.

- d. The laptop acquired by the Council for €1,119 was still held by the Executive Secretary. According to the latter, such laptop is used for meetings held out of the office, as well as to work from home. It is recommended that the Executive Secretary complies with Memo 120/2010 which provides guidance about the use of laptops.

The Council reiterates that from the initial purchase of the said laptop, it has been complying with the guidance as stipulated in Memo 120/2010.

- e. Once again, the Council paid the amount of €1,000 to *Kulleġġ San Injazju* for the use of the swimming pool by the public. Though the Executive Secretary claimed that the agreement covers a period of five years, a copy of the respective memorandum of understanding was still not provided for audit purposes.

The agreement is regulated through letters exchanged between the Local Council, Kunsill Malti għall-iSport and the Head Master of the Siggiewi Primary School. The Council accepted LGA's recommendation that in future, prior approval will be sought from DLG.

- f. Although in 2013, the Council took on board LGA's recommendation and opened a debtor

account for each Regional Committee, it failed to transfer the opening balance to the respective account and continued posting the global amount in one account.

Recommendation was noted and adjustment passed.

- g. The Council does not have any control on monies received from pre-regional LES contraventions. Consequently, the amount of €1,091 received during the year under review was posted against the global Regional Committee account. In line with the preceding years, it is recommended that LES deposits are reconciled to the respective report generated from the IT system, to ensure that all paid contraventions are remitted to the Council. Any contraventions paid at other Local Councils, LTD and LCA, and which are not deposited to the Council's bank account, are to be investigated. The collecting party is also to be informed accordingly with the outcome. Moreover, included in the Financial Statements is a refundable deposit of €1,165 placed with LES Joint Committee, and another immaterial amount receivable from other Local Councils.

As regards the pre-regional LES debtors, the Council took note of the recommendation and is investigating the matter. It is important to point out that the referred amount of €1,165 has been refunded.

A variance of €15,137 was noted between the architect certificate (€433,320), with respect to works carried out by a private company on the Civic Centre project, and the amount capitalised in the accounting records (€418,183). It was further noted that a payment on account of €20,000, forwarded to the same company in 2015, was erroneously capitalised in the books of account during 2014, despite that this was not substantiated by an architect certificate. With respect to the latter issue, an adjustment was proposed by LGA to reverse both the payment and the additions from the fixed asset account, as well as the depreciation charged thereon.

The amount capitalised has been revised to €417,904, being the amount paid to the contractor.

The Council has already requested a statement from the contractor.

From a balance of €21,000²⁹ reported in the preceding period, the outstanding amount receivable from WSC with respect to trenching works increased to €26,176, to include works carried out during 2013 and 2014. In view that no payments were received in respect to the old balances, the Council is recommended to follow up this issue with WSC and possibly refer the matter also to DLG.

The Council accepted LGA's recommendation.

The bank reconciliation provided for audit purposes, in respect of a current account, contained various errors. Besides that two payments aggregating to €15,806 were posted twice, it also included a disbursement of €20,000 dated in 2015. Furthermore, a stale cheque of €500 was not reversed, whilst a cheque of €169, dated in January 2015, was erroneously recorded as if it was drawn in January 2014. In addition, no reference was made in the unaudited Financial Statements on the restricted bank balance of €7,300 concerning MEPA permits. Such disclosure was only incorporated following LGA's recommendation.

Point noted and recommendation accepted.

Likewise the amount of €540, claimed by a resident for damages incurred, was only recognised as a contingent liability in the Council's Financial Statements following LGA's recommendation.

Point not addressed.

Suppliers' statements were not available for all creditors. Moreover, the payment schedule provided in respect of a payable balance revealed that, whilst until 2020 the Council is liable to pay the yearly amount of €7,818, *i.e.* an aggregate of €46,908, the outstanding balances as per accounting records stood at €43,724, thus resulting in a discrepancy of €3,184.

Similarly, a discrepancy of €3,221 was noted between the book balance (€38,676) of another

supplier and the payment schedule (€41,897) provided for audit purposes. It further transpired that this amount, which relates to retention money payable on the Civic Centre project, was recognised as a non-current liability, notwithstanding that it fell due within one year.

Points noted and recommendations accepted.

No explanation was provided for the discrepancy of €2,159 noted between LES debtors as recorded in the books of account and the respective reports generated from the computerised system. Following LGA's recommendation, the Council approved the necessary adjustments to increase both LES debtors and the related provision by the aforementioned amount.

The Council accepted the recommendation and is investigating the matter.

Even though the Council appealed the Court's decision to pay for damages of €3,673 to a third party, it was still bound to recognise such amount in its books of account.

Point noted and recommendation accepted.

The municipality of Vittoria in Sicily selected the Siggiewi Local Council as a partner for an EU-funded educational programme. In the preceding year, reimbursed expenditure of €33,737³⁰ could not be confirmed by LGA since the Council did not draw up a report of expenses. Despite that a report was drawn up for 2014, expenses as recorded therein (€52,965) did not tally to the respective amount recognised in the Council's books of account (€39,633). In view of this, the Council is recommended to carry out a proper exercise to be in line with the report vetted by the Auditors of Vittoria.

As stated in the final report presented to the municipality of Vittoria, which was made accessible to LGA, expenses claimed amounted to €52,965. This constitutes €37,090 worth of expenses incurred directly by the Council, €12,649 reimbursement of salaries and €3,226 administrative costs. On the other hand, between

²⁹ Amount represents trenching works carried out during 2011 and 2012.

³⁰ According to the agreement entered into with the municipality, the Council is entitled to a maximum reimbursement of €52,965 for expenses incurred in connection with this programme, after the respective invoices are vetted by the Auditors of the municipality.

23 March 2012 and 19 December 2014, the aggregate amount of €50,814 was received by the Council from the municipality of Vittoria. In view that the several attempts made to recover the difference of €2,151 were rendered futile, it is doubtful whether the Council will manage to recoup the said discrepancy.

Similar to the preceding year, significant audit adjustments were required, implying that the Council's accounting function needs to be improved significantly. Amongst those highlighted in the Management Letter are the following:

- a. Cut-off procedures were not properly applied by the Council. By way of example, opening accruals of €93,500³¹, in relation to uncertified work on the Civic Centre project, were not reversed. The Council also failed to provide for closing accrued expenditure of €74,135 on uncertified works on *Laferla* Cross project. Additionally, prepaid rent of €1,535 on the Government Civic Centre property was omitted from the books of account. These errors were rectified through audit adjustments.

LGA's comments and recommendations noted.

- b. The amount payable to WasteServ Malta Ltd as recognised in the accounting records did not tally with the supplier's statement by €29,061, as the Council did not disclose in its books, the amount paid to the former by DLG, on its behalf. Thus, an adjustment of €28,995 was passed to reconcile the creditor balance. The difference related to discrepancies that were brought forward from previous years.

Point noted and the necessary adjustments were passed.

- c. Notwithstanding that the project for the upgrading of passageways and area surrounding *Laferla* Cross was not yet finalised by year-end, the Council erroneously released the related grants of €20,788 to income, whilst recognising

a depreciation charge equivalent to the same amount. Furthermore, the closing deferred income at year-end was not apportioned between its short and long-term components. On the other hand, deferred income of €21,285 relating to various grants was not transferred to the Statement of Comprehensive Income to match the respective cost. Following LGA's recommendation, the Council approved the necessary audit adjustments.

- d. Upon the receipt of sponsorship income of €1,000, in relation to *Festa Gheneb* organised in 2013, the Council did not reverse the provision recognised during the prior year. Thus, an audit adjustment was passed in this respect.
- e. Reclassification adjustments were passed to correctly account for the Mayor's allowance (€1,604) and the Executive Secretary's remuneration (€8,843) which were incorrectly recognised in the salaries account. Meanwhile, the amount of €880 relating to NI contributions was erroneously recorded as Councillors' allowance.

Points noted and the necessary adjustments approved.

A review of the employees' files maintained by the Council revealed that these were not being updated on a regular basis. An indefinite contract of employment, documentation relating to the changes in remuneration, including the normal increments made during the years, as well as 2014 performance appraisals, were not traced.

Recommendation accepted and an exercise to update the employees' files has been initiated.

Following the audit verifications carried out, a number of adjustments were passed to rectify material misstatements in the Financial Statements. A number of reclassification adjustments were also incorporated, to improve the disclosures and presentation of the Financial Statements. It is recommended that remedial action is taken to improve the accounting function of the Council.

³¹ Though the amount of €93,500 was accrued for, only the balance of €90,000 was reversed, as this was the cost incorporated in both the books of account and FAR with respect to the administration offices.

It also transpired that the Council did not prepare the three-year budget plan.

Point noted and recommendation accepted.

Sliema

As reported in the preceding year, a particular contractor is both a customer and a supplier of the Council. The amount of €89,958 is due to the latter for scaffolding and tower crane permits, of which €83,871 was brought forward from the preceding year. Meanwhile, the contractor is owed the amount of €67,231 for resurfacing works completed earlier. Thus, as at 31 December 2014, the contractor owed the Council a net amount of €22,727. However, since the Council's attempts to set reconciliatory meetings with the supplier proved futile, such balances could not be confirmed.

The Council is determined to safeguard its position with respect to the amounts it is owed by this supplier, as well as the amounts it owes on account of works carried out in the locality. Currently, the Council's administration is negotiating with an official representing the contractor on how to resolve the dispute. Nevertheless, the Council does not exclude any legal action against the supplier in case the latter would not want to settle the matter amicably.

Included in the creditors' list are five debit balances, aggregating to €22,046. Out of the said balance, the amount of €20,225 pertains to one particular supplier, which the Council was obliged to pay on account due to delays in certification of works by the Architect.

Despite the various warnings, the Council's outgoing Architect is taking extremely long to produce the necessary certifications. Moreover, the supplier in question was threatening to stop works unless he is paid his dues. This potential action from the contractor would have ended up with creating huge inconvenience for the residents and that is why the Council resorted to make payments prior to certifications. The Council hereby assures LGA that the rest of the amounts are all justified and have been thoroughly checked prior to the closure of the Council's books of account. Justifications have accordingly been provided to the Auditors.

Notwithstanding that the related invoice was received and settled by year-end, the Council accrued for €1,560 with respect to third party damages. This error was rectified by means of an audit adjustment.

The Council accepted to take on board LGA's proposed audit adjustment.

Included in the Council's list of accruals are architect fees of €26,000 and legal fees of €3,158, of which €13,400 and €3,000 respectively were brought forward from previous periods. The Council indicated that the suppliers in question were requested to issue the invoices, however, to no avail. Since payments could not be initiated in the absence of a proper invoice, it is recommended that the Council continues to communicate with the respective service providers, reminding them that services should be supported by an official request for payment.

With respect to accrued expenditure of €26,000 on account of architect fees and €3,000 on account of legal fees, the Council has been chasing the respective suppliers for over four years now but these have failed to comply. In both cases, the contracts have expired and the Council no longer procures services from the respective contractors. Following legal advice, the Council will write-off this accrued expenditure upon the expiry of five years.

Cost of Assets under Construction brought forward from preceding years amounted to €302,209. During the year, an additional €268,355 was incurred, whilst the amount of €50,267 was capitalised. However, testing performed on the Council's additions to fixed assets revealed that the amount of €12,788, incurred in relation to works carried out in Independence Gardens, was recorded twice. The Financial Statements were revised accordingly, resulting in a year-end balance of €507,509. An erroneous reclassification of €40,885 from Assets under Construction to Special Programmes was also noted in the Financial Statements, however, given that the respective re-allocation was not reflected in the books of account, no adjustment was proposed by LGA.

The Council regrets this oversight and therefore it has accordingly taken up LGA's proposed audit

adjustment. The reclassification of €40,885 has been removed from the final set of Financial Statements.

As highlighted in the preceding year, the excess honorarium of €2,836 paid to the then Mayor in 2010, following the increase in salary of the Members of Parliament and the subsequent reversal, is still included with prepayments.

From time to time, the Council is sending reminders to the outgoing Mayor.

Included with the Council's receivables is a balance of €2,329, classified as Joint Committee Guarantees. Given the situation of the Joint Committees, the Council should assess whether such amount is recoverable or otherwise.

Point not addressed.

During the year under review, the Council accounted for additional income of €24,077 in relation to tipping fees invoiced beyond the allocated amount, on the assumption that these will eventually be settled by DLG. However, given that such funds have not yet been remitted, LGA proposed for such income to be reversed, however, the Council refused to approve such audit adjustment on the basis that DLG was allocated with a budget to settle these balances.

The National Budgetary Estimates for 2015 show clearly that DLG is obliged to compensate Local Councils for the shortfall in the financial allocation on account of tipping fees. Therefore, the Council is just portraying a true and fair picture by recognising this potential income.

Included with opening receivables is the balance of €4,080 due from a waste recycling company, which amount has been fully provided for. However, during 2014, the Council recognised a further €1,040 in accrued income, covering administration fees for the period July to December 2012. From the audit verifications carried out, it transpired that such income was already incorporated in the books of account in previous periods. Thus, following LGA's recommendation, the Council approved the reversal of this income and adjusted the Financial Statements accordingly.

The Council agrees that from independent financial reports, the respective company is clearly in financial difficulties and the chances of collecting the indicated amounts is very remote. In view of this, the Council has taken up LGA's recommendations and recognised the necessary adjustment. However, during 2015, the Council managed to recover and receive €4,000 from the aforementioned company. This shows the Council's discipline in safeguarding its assets.

Swieqi

The Executive Secretary was reimbursed the amount of €732, in respect of fuel expenses incurred while carrying out Council's operations. Despite that a proper claim form was being raised to support such reimbursement, the Council was not maintaining an electronic logbook in terms of the Fringe Benefits Rules.

Observation noted. The Council will take the necessary actions.

Notwithstanding that the contract covering the cleaning and maintenance of parks and gardens expired on 30 September 2014, the Council continued to procure such service from the same service provider.

Point noted.

Albeit prior year recommendations, FAR has not been updated and still lacks certain descriptive details, such as asset location. Moreover, the Council's assets were not tagged thus rendering it impossible to physically trace the items listed in the register. An understatement of €6,334 was also noted in the Council's depreciation charge on Special Programmes when compared to LGA's workings.

The Council will be implementing the tagging procedures prospectively. Previous years' recommendations to post depreciation through FAR are being adhered to.

Whilst network cables costing €1,080 were recorded under Computer Equipment in FAR, in the nominal ledger these were recognised as Office Equipment, resulting in an incorrect depreciation charge for the year. Such error was rectified by means of an audit adjustment.

The necessary adjustments were reflected in the Financial Statements.

From €114,858 in 2013, pre-regional LES debtors increased to €116,043 as at 31 December 2014. The Council disclosed the latter amount in its accounting records, against which a provision for doubtful debts was also recognised. This casts doubt on the reports extracted from the system.

This issue is beyond the Council's control.

Circularisation letters were sent to two debtors and two creditors as part of the audit procedures carried out on 87% of trade receivables and 60% of trade creditors, which as at year-end amounted to €5,636 and €133,313 respectively. However, no reply was received in respect of the amount of €3,028 due from the Central Regional Committee, as well as for a further €18,200 payable by the Council to a particular supplier. In the latter case, a supplier's statement was also not available.

The Council will take the necessary action.

The rate applied in relation to the release of the grant concerning the outdoor gymnasium was of 10%, despite that the said asset was categorised as Playground Furniture bearing a depreciation rate of 100%. This resulted in grants released to the Statement of Comprehensive Income being understated by €14,205. This error was rectified through an audit adjustment.

Point noted and the Financial Statements were adjusted accordingly.

The Council has exceeded budgeted expenditure for street lighting (€29,131) travel and transport (€5,163) as well as advertising and public relations (€3,830). Moreover, although income from *Skola Sajf* was budgeted at €9,800, no income was actually earned by the Council under this category.

The Council is not always able to predict its future expenditure with complete accuracy. Whereas the budget is created one year in advance, different events, some of which are beyond the control of the Council, pose both positive and negative impacts on the financial performance of the Council, which result in variances from budgeted figures.

By the conclusion of the audit, the Council's Lawyer did not provide LGA with a confirmation of all ongoing litigations undertaken by the Council.

The Executive Secretary has contacted the Lawyer to ensure that this instance will not repeat itself.

Ta' Xbiex

As already highlighted in the preceding years, the contract covering the procurement of accountancy services at the rate of €767 per quarter, plus an additional fee of €472 for the preparation of Financial Statements at year-end, remained unsigned.

Point noted.

NBV of assets as recorded in the Financial Statements was understated by a net amount of €13,007 when compared to the amounts disclosed in FAR, which contrary to the applicable regulations, is being maintained on a spreadsheet and also lacks descriptive details. Moreover, the Council was computing depreciation manually rather than through the month-end facility that is incorporated in the accounting package. Furthermore, a full year's depreciation was charged on additions acquired throughout the year under review. On the other hand, it transpired that no depreciation was charged on additions relating to Special Programmes, capitalised in previous years. The latter shortcoming was rectified through an audit adjustment of €9,048.

The Council intends to update FAR with the necessary descriptive details, however, the success of such exercise will depend on the availability of information. Moreover, the Council, with the help of the Accountant, will investigate the differences between FAR and the Financial Statements.

During 2009, the Council bought four laptops for the price of €1,796, whilst another one costing €495 was procured in 2010. However, a request raised by LGA to physically inspect the respective laptops, revealed that these electronic devices were not in the Council's premises but with the Councillors. In addition, the agent Executive Secretary confirmed that no record is kept when the laptops leave the Council's premises. It was

also noted that the four laptops procured in 2009 were no longer included in FAR. However, no explanation was provided for this course of action. These issues were already highlighted in the preceding year.

Although the Council has allowed Councillors to take such laptops at home, such devices are still property of the Council and the data contained therein falls under the Council's responsibility.

Audit testing carried out on grants revealed that the Council did not account for the release of deferred income to the Statement of Comprehensive Income and for its reallocation between current and non-current payables. Furthermore, LGA was not provided with deferred income workings for prior periods. Consequently, grants released to the Statement of Comprehensive Income of €11,371, and the reallocation between short-term and long-term payables, were estimated from available information. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly, however, it failed to disclose the maturity of deferred income.

From a review of the correspondence and receipt of grants in relation to the upgrading and maintenance of the housing estate, it was noted that accrued income of €18,884 is irrecoverable. The necessary audit adjustment to reverse such amount was approved by the Council and correctly reflected in the final set of Financial Statements.

LGA's recommendations have been noted and accepted.

Notwithstanding that the sum of €33,500, received from the Central Regional Committee, is to be allocated against future specific projects, such amount was recognised as income for the year rather than deferred for future periods. Moreover, an additional amount of €16,005 received in January 2015 but relating to the period July to November 2014, was not accrued for. Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.

An invoice of €10,267, issued by the Council to a yacht club for permits, was reduced to €3,000 and recognised accordingly as income. LGA's attempt to reconcile the amount invoiced to the bye-law rates rendered futile since a specific class that

covers the respective permits, or a justification for the Council's authority to raise such an invoice could not be identified.

LGA's comments have been noted and recommendations accepted. The invoice issued to the yacht club was based on Subsidiary Legislation 441.04 – 'Activities Requiring Permit by Local Councils'.

Audit verifications carried out revealed that whilst one of the Council's employees carried forward 96 hours of vacation leave, thus exceeding the set threshold by 48 hours, the necessary approvals were not traced in the minutes. According to the Executive Secretary, the Council was informed about this matter and found no objection to it. Review of records maintained by the Council also revealed that an Employment and Training Corporation (ETC) engagement form and FS4 form were not filed for the acting Executive Secretary. It also transpired that the remuneration paid during 2014 to the outgoing Executive Secretary was taxed at the rate of 15% under part-time regulations.

The Council will prepare ETC engagement and FS4 forms when new persons are employed. All other points and recommendations were noted.

Invoices totalling €3,481, received after year-end but relating to services provided, or items procured during the year under review, were completely omitted from the books of account, thereby resulting in understated accruals. Such expenditure was then recorded through an audit adjustment.

As already reported in the preceding year, the Council failed to obtain suppliers' statements. Through alternative audit procedures carried out on a sample of creditors, it transpired that the balance payable to WasteServ Malta Ltd as recorded in the books of account was overstated by €2,763. No explanation was provided by the Council in respect of such difference.

LGA's comments have been noted.

The Council has not resolved the issue relating to debtors of €146,629, which have been outstanding for more than four years. LGA was informed that the Council is still chasing the debtors in

question and has instituted court proceedings to recover these amounts. However, no reply has been forthcoming yet. In the past, the Council had made a general provision of €89,848 on these amounts. However, as recommended in previous Management Letters, the Council is advised to decide whether such balances are recoverable, and if not, create a provision for the full amount of disputed debtors. It was also noted that while the Council's list of debtors amounts to €76,258, the balance as per Debtors Control Account is €77,391, thus resulting in an unexplained difference of €1,133.

Presently, the Council is still chasing the long outstanding debtors, however, it will consider providing for these balances in the event of non-recoverability.

LGA was not provided with the monthly bank reconciliations as the Council claimed that such reports are not printed. The only reconciliation provided for audit purposes was that for the month of December.

LGA's comments have been noted and recommendation accepted.

Besides non adherence to certain disclosures required by IFRSs, other shortcomings as outlined hereunder were noted in the Financial Statements:

- a. Capital commitments were only disclosed in the Financial Statements following LGA's recommendation.
- b. The analysis of receivables in dispute and related provision for bad debts included all debtors, even recoverable amounts due from Regional Committees, as well as prepayments, despite that these were not in dispute.
- c. Figures disclosed in the Statement of Financial Position, do not match to the balances in the respective notes.
- d. Inconsistencies in the presentation of certain line items were noted when compared to the preceding year.
- e. The working capital figure as disclosed in the notes to the Financial Statements is incorrect.

- f. It was also noted that certain expenditure was allocated in the incorrect nominal ledger account. Reclassification adjustments proposed by LGA were approved by the Council.

Comments have been noted and recommendations accepted.

LGA was neither provided with the annual budget nor with the rolling three-year business plan. Reference to such reports was also not traced in the Council's minutes.

The Council will take action in line with the proposed recommendation.

Tarxien

The Council did not provide LGA with a copy of the contract agreement related to the cleaning, as well the opening and closing of a public convenience, adjudicated during the year under review for a total cost of €4,488 *per annum*. Similarly, the formal contract covering the rental of a piece of land within Luqa Road was not provided for audit purposes.

The Council has already contacted the relative authorities to obtain a copy of the rental contract.

Tribunal pending payments for the pooling period up to 31 August 2011 increased by €164,313 over the previous year. This implies that contraventions issued prior to 31 August 2011 have been adjudicated guilty in 2014, that is more than two years later. Though the Council has not taken into account these additional debtors, this casts doubt on the integrity of the data being generated from the computerised system.

The Council has no control over third party software. However, it will ask the administrator of the system to investigate such anomaly.

Though total NBV as reported in the Financial Statements agreed to that disclosed in both FAR and the nominal ledger, discrepancies were noted for individual categories. The variances encountered are highlighted in **Table 28**.

Table 28: Variances in Net Book Value of Individual Asset Categories

Asset Category	NBV as per Financial Statements	NBV as per FAR	NBV as per Nominal Ledger
	€	€	€
Urban Improvements	22,801	22,471	22,391
Office Equipment	7,382	7,169	6,534
Computer Equipment	5,458	5,671	6,305
Special Programmes	1,063,169	1,063,499	1,063,503

Observation noted and necessary action will be taken to rectify these classification issues.

The Council has made adjustments to the carrying value of Special Programmes, amounting to €27,184, in view that the cost of asset disclosed in the final certificate provided by the Architect during 2014 differed from the amount accounted for. However, no reclassification was made with regard to the accumulated depreciation to reverse the charge pertaining to the asset in question.

Point not addressed.

Street signs and street lighting were still depreciated at the rate of 10%, rather than written-off on the replacement basis in line with the accounting policy disclosed in the Financial Statements. It was also noted that assets are not tagged and referenced to FAR.

The Council has noted the observation and adjusted its Financial Statements accordingly. Moreover, the Council will endeavour to implement the suggested labelling.

Despite that a project relating to the construction of a parking space within *Triq Luqa* was still in its initial phase during the year under review, the Council incorrectly recorded the asset as complete. Consequently, depreciation was charged thereon. LGA proposed an audit adjustment, which was passed in the books, to record this transaction with Assets under Construction and reverse the respective depreciation charge.

Observation was noted and the Financial Statements were adjusted accordingly.

The Council did not recognise in the books of account the amount of €3,835 invoiced by a PPP contractor. The said amount is in dispute since

the supplier wants the Council to pay invoices which, according to the latter, pertain to third parties, namely WSC and a telecommunications company, and should be paid directly by the parties concerned to the contractor.

The Council noted the observation, and is already in the process of resolving the disputed amount with the relative supplier.

Included with other creditors are three balances, aggregating to €8,154, which were brought forward from preceding years. Out of the aforementioned amount, €3,508 covers an allowance due to a Councillor, which has been outstanding since 2011, as the latter failed to cash the respective cheques. The other two balances, which were already reported in prior years, represent excess funds given to the Council relating to the Youth programmes (€2,200), and an excess grant received in relation to the *Kalamija* project (€2,446).

The Council has noted the observations and will address these issues accordingly. As regards the allowance payable to the respective Councillor, the Council will try to settle this matter as recommended.

The Council did not accrue for a grant of €2,300, receivable from DLG in connection with the live streaming equipment, acquired by the Council during the year under review for €3,340. It also transpired that the current portion of deferred income relating to another project was overstated by €3,012. Following LGA's recommendation, the Council approved the necessary adjustments to rectify the aforementioned shortcomings. On the other hand, no explanation was provided for a variance encountered between the grant schedule and the accounting records, which was brought forward from the previous years.

Observation was noted and the Financial Statements were adjusted accordingly.

Included in the Council's list of debtors is the amount of €3,222, receivable from three Regional Committees, which balance has been outstanding for more than a year.

The Council is already following LGA's recommendation and is sending statements on a monthly basis.

Out of the total balance of €48,434 receivable from WSC, the amount of €38,139 has also been long overdue. In addition, it transpired that the Council was not allocating the receipts received from WSC against the actual invoice. This makes it difficult for the Council to keep a proper audit trail, identify mistakes, reconcile differences and determine the balance due.

Council is already addressing the issue with the relative entities.

Disclosed with other debtors is the amount of €1,137 receivable from a third party, representing a 50% share of the electricity bill paid by the Council with regard to a five-a-side football pitch, which is administered and operated jointly. Another outstanding amount relates to penalties for the late submission of the Financial Statements, totalling €1,119. According to the Executive Secretary, the latter amount will be refunded back as these were deducted in error.

With respect to the €1,137, the Council is addressing the issue with the other partner in the joint venture as suggested. As regards the penalties, the Council addressed the issue with DLG and it was informed that all penalties are to be reversed.

The Council recognised inventories, consisting of books with a value of €2,750. However, the said books are not held for resale, but are freely distributed to school children, residents, and anyone who requires more information about the locality. Given that the Council did not even provide a detailed stock list, LGA could not determine whether the end of year balance agrees to the Trial Balance since the documents provided do not include the unit cost per book.

The Council keeps manual records for its inventory. Since these books are rarely purchased by the public, the Council is giving such books to students on school prize days and other students who require further information on the village.

The Council has an agreement dated 22 April 2004 with a third party for the joint administration and operation of a football ground in Tarxien, as approved by the Ministry for Justice, Culture and Local Government. By the time of audit, the interests in the operation were shared equally between the Council and the third party. According to the Council's accounts, no revenue was reported by the joint operation during the year under review. LGA was also informed that the investment in the football ground, carried at €46,588 in the Council's books, was written-off in prior years.

The Council has accounted for this joint arrangement as a joint operation in the Financial Statements, recognising its 50% interest of the assets, liabilities and expenses. However, the pertinent facts of the agreement indicate that the structure of the joint arrangement under IFRS 11 is not a joint operation as classified by the Council, but a joint venture, and as such merited a different accounting treatment. Thus, this investment should be recorded at cost in the Council's separate Financial Statements. Following LGA's recommendation, the Council amended the books of account accordingly.

In addition, whilst the appointment of an Auditor to verify the books of the joint venture every six months is a requisite, the Council claimed that it is not in possession of the joint venture's audited accounts. Consequently, LGA could not confirm the amounts disclosed in the Financial Statements and ascertain that no revenue was generated from the joint venture during the year under review. A qualified audit opinion was issued in this respect.

The Council has noted the observation and adjusted the Financial Statements accordingly. It will also endeavour to carry out a yearly audit of the five-a-side ground.

Notwithstanding previous years' recommendations, the Council is still not using the specimen chart of accounts that is standard to Local Councils, Regional Committees and other Government Departments.

It also transpired that the classification of a number of accounts in the Financial Statements was not consistent. In addition, upon comparing the closing balances as per 2013 signed audited Financial Statements, to the 2014 opening Trial Balance, it was noted that the asset cost of the joint venture sports equipment did not agree to the amounts stated in the Trial Balance. An overstatement of €983 was also noted in LES administration fee as recorded in the books of account, when compared to the report extracted from the computerised system.

Observations noted and necessary action will be taken accordingly. The chart of accounts that the Council adopted is principally based on the requirements of the Local Councils (Financial) Procedures. The Council is not aware, and was not made aware of any misclassifications of nominal ledger codes. With respect to the overstatement of LES administration fees, the Council will investigate this anomaly, since all invoices are generated from the computerised system.

A review of the bank confirmation letters revealed that all active accounts are subject to withholding tax when Local Councils should be exempt. It was also noted that the Council is still paying FSS and NI contributions after the submission date. Meanwhile, LGA was not provided with the letter of approval from DLG, confirming that the 10% performance bonus paid in January 2015 could be issued to the Executive Secretary. Audit verifications carried out also revealed that the personal insurance is on a worldwide basis with a consequential higher premium.

The Council will take the necessary action on the withholding tax issue. As regards the issue of the performance bonus, the Council assures that it will comply accordingly. With respect to the personal insurance, the Council is in the process of issuing a new tender and will surely take into consideration the mentioned observations, so as to rectify the situation.

Xaghra

As reported in previous years' Management Letters, the number of computers included in FAR exceeded the amount actually in place at the Council. LGA was informed that computers dating back more than 10 years no longer existed.

To this effect, an exercise was to be carried out by the Council to take note of the variances and follow the necessary procedures to write them off. However, testing carried out revealed that the situation was not rectified.

The cost and accumulated depreciation as recognised in FAR were understated by €283,837 and €222,592 respectively, when compared to the nominal ledger and the Financial Statements. Consequently, NBV in FAR was also understated. It also transpired that the depreciation charge for the year was overstated since the amount of €116,315, incurred with respect to the network of leisure parks, which project was still under construction as at year-end, was erroneously accounted for under Special Programmes and depreciated accordingly. Following LGA's recommendation, the Council approved an adjustment to reverse depreciation of €8,198.

Instances were also encountered whereby expenditure of a capital nature, aggregating to €30,705, was incorrectly expensed in the Statement of Comprehensive Income. Reallocation adjustments were posted to rectify these errors.

Upon awarding the tender for a project in *Triq Marsalforn* in 2013, the Council placed an advance payment of €21,000 to the contractor. This amount was accounted for as a prepayment. According to the Council, the estimated value of such project stands at €96,360, however, up to time of audit, no invoice was issued by the supplier and the Architect did not prepare a bill of quantities. The Council confirmed that the related works were completed by the end of the year, but according to the Architect the project was not yet finalised. Following LGA's recommendation, the Council recorded the project as an Asset under Construction (€96,360), and reversed the opening prepayment (€21,000), thereby resulting in a net accrual of €75,360. However, LGA was still unable to obtain sufficient audit evidence to confirm the correctness of the amount of €96,360, as well as the project's state of completion.

A similar situation was noted with respect to another project carried out in the aforementioned street. As at 31 December 2014, although the Architect confirmed that the project was 51% complete, no invoice was yet issued by the contractor. An adjustment was thus posted to

record the certified works of €105,571 as accruals and Assets under Construction respectively.

No call for tenders was issued by the Council in relation to architect services, in respect of which, the total amount invoiced during the year under review was of €13,843.

The Council did not account for accrued income of €22,475, receivable in connection with a Traditional Food Festival held in 2014, as well as €4,362 relating to Measure 125. On the other hand, income of €17,486 pertaining to the *Belvedere* project, which was already accrued for in previous years, was incorrectly posted as deferred income rather than being set-off against opening accrued income. Moreover, the amount of €4,073 was posted as accrued income in relation to the said project. It also transpired that the balance of €15,000, receivable by the Council as a prize for better accessibility, was erroneously credited to accrued income instead of treated as income for the year. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

As already highlighted in the preceding year, expenditure of a similar nature is being treated and accounted for differently. For example, whilst the amount of €8,794, incurred in respect of MEPA permits and architect fees in relation to the Civic Centre project, was recognised as prepaid expenditure, other similar costs of €17,470 pertaining to the same project were disclosed with Assets under Construction. This implies that there is no consistency in the recording of expenditure. Other instances were encountered whereby costs were posted in the related income account and netted-off.

Through a circularisation letter, WSC confirmed that no balances are due to the Council. However, the amount receivable as per books of account, which has been outstanding for more than two years, is of €1,343. No provision for doubtful debts has been recognised by the Council in this respect.

The Council is not adhering to the fundamentals of accrual accounting and the matching concept. Prepaid rent of €2,250 for a site in *Triq Gajdoru* was not accounted for. Likewise, the Council did

not accrue for expenditure aggregating to €5,728, covering services provided to the Council during 2014. Conversely, the street lighting accrual as accounted for by the latter was overstated by €2,869. It also transpired that, whilst an invoice of €1,761 was posted twice, a number of invoices, collectively amounting to €7,047 and dated in 2014, were omitted from the suppliers' ledger. Funds totalling €921, raised during a concert in aid of a voluntary organisation, which were donated after year-end, were not incorporated in the books of account as at 31 December 2014. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

Rent payable to the Government Property Department for the period October 2012 till December 2014 amounted to €6,750. It transpired that whilst the Council accounted for the amount of €3,000, being the balance due for 2014, no accrual was posted with respect to the previous years' balance. In view of this, an audit adjustment of €3,750 was recorded in the Financial Statements since the said amount was deemed immaterial to warrant a prior year adjustment.

Income of €2,664 received during 2013 was accounted for again during the year under review, thereby resulting in overstated income. The Financial Statements were rectified by means of an audit adjustment.

Besides that the bank reconciliations provided for audit purposes contained minor discrepancies which were not investigated by the Council, included therein were also a number of cheques, aggregating to €3,952 which had become stale. It was also noted that, with respect to petty cash transactions, the Council was only recording the transfers from the bank account. As a result, an audit adjustment was posted to incorporate petty cash expenditure of €908 in the Council's Financial Statements.

The Council did not recognise the amount of €10,306, representing the direct payment made by DLG to WasteServ Malta Ltd on its behalf. Moreover, an invoice of €2,256, which was already accounted for in 2013, was recorded again in the year under review. These errors were rectified by means of audit adjustments.

The amount of €1,021, representing an unresolved difference that arose in the Trial Balance of the year 2009 due a corruption in the accounting software, is still disclosed under Other Payables, indicating that the issue remained unresolved.

The amortisation of deferred income for 2014 was overstated by €1,814. It was also noted that a grant of €2,242 received in relation to online streaming equipment was treated as income for the year instead of being deferred and amortised. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

A review of the agreement entered into by the Council with the contractor carrying out road resurfacing works under PPP scheme, revealed that the payment terms laid down in this contract were not followed by the Council. It also transpired that the supplier in question still had not issued any invoices for those projects which were completed over two years ago, thereby resulting in the accrued expenditure being carried forward year on year. Moreover, despite the Executive Secretary's efforts, the contractor did not provide the Council with a statement showing the balance payable as at year-end. Consequently, the amount accrued for could not be confirmed.

The apportionment between current and non-current liabilities was not calculated correctly. LGA informed the Council about the correct split and the Financial Statements were amended accordingly.

Whilst testing the Council's revenue under Other Government Income, it transpired that an amount totalling €15,600, received by the Council during 2014 under various Government schemes, was not backed by appropriate documentation. As a result, LGA could only trace the amount in question to the respective deposit slips shown in the bank statements.

The Council exceeded the budgeted costs in several categories, including Repairs and Upkeep (€17,409), Office Services (€6,487), Rent (€6,250), and Community and Hospitality (€6,121).

As at time of audit, the Council's employees still did not have a signed contract in line with their conditions of work. Furthermore, notwithstanding previous years' recommendations, employees were still not being provided with a payslip.

The Council did not provide a reply to the Management Letter.

Xewkija

Both the cost and accumulated depreciation in FAR were understated by €1,310,539 and €686,417 respectively, when compared with the Financial Statements. Moreover, while the cost and accumulated depreciation in FAR were €267,671 and €51,316 respectively, NBV recorded in the register stood at €124,197, thus resulting in a discrepancy of €92,158.

During the year under review, the Council capitalised costs aggregating to €18,937, despite that these were already accounted for in the preceding year. It also transpired that certain assets were classified under the wrong category. For example, the cost of works carried out on the public convenience at *Ta' Blankas Olive Grove* (€13,182), which were finalised during 2014, was still disclosed with Assets under Construction, thus implying that no depreciation charge was accounted for by the Council. The same applies to the construction of a stone hut and architect fees, aggregating to €11,030. Moreover, maintenance costs relating to the live streaming project were erroneously recorded as capital expenditure rather than recurrent expenditure. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

The accrued expenditure with respect to the public convenience built within the foregoing Olive Grove was overstated by €3,512. The Council updated its Financial Statements through an audit adjustment.

The amounts accounted for in 2013 with respect to *Ta' Blankas Olive Grove* and road works were in aggregate overstated by €39,787, when compared to the actual amounts invoiced by the respective contractors in the period under review. In view of the materiality of the amount in question, a prior year adjustment of €38,221, relating to road works was passed in the Financial Statements.

In line with the preceding year, the contract concerning reconstruction of pavements to housing blocks was not made available to LGA. According to the Council such task was carried out under the same contractual terms and by the

same contractor for general works on pavements. In line with the foregoing contract, the contractor is to be granted approval by the Council before commencing any works. However, it transpired that the contractor in question proceeded with reconstructing pavements for several housing blocks without obtaining the said approval. As a result of this action, disputes, which are still ongoing, arose between the Council and the contractor, with the latter opening a court case against the former to claim payment for all works carried out, irrespective of whether these were approved or not. In its accounting records, the Council only recorded the cost of works relating to two pavements, which were eventually approved.

Architectural services in relation to the foregoing works were procured through direct order and were not covered by an agreement.

The points raised by LGA, regarding fixed assets and depreciation, have been noted and the necessary audit adjustments have been reflected in the audited Financial Statements. Further care will be taken in order to avoid such circumstances being repeated. As explained during the audit, an exercise needs to be carried out in order to reconcile the fixed assets recorded in the nominal ledger with FAR.

The works carried out on the pavements at the housing estate were discussed with LGA during the audit visit to the Council, and as explained by the former there is currently a court case with the contractor.

The Council did not account for the amount of €22,564, receivable in respect of *Gnien ta' Blankas*, which was completed during the year under review. Funds amounting to €1,628, receivable in relation to the sports activities, were also unaccounted for.

Recommendations were noted and will be taken into consideration by the Council. The adjustments proposed by LGA have been approved and are reflected in the audited Financial Statements.

Through a circularisation letter, WSC confirmed that the balance due to the Council amounted to only €93. However, the amount receivable as per the latter's books of account totalled €1,255, thus resulting in a discrepancy of €1,162. It transpired

that trenching permits as from the second half of 2011 were still omitted from the accounting records of WSC notwithstanding that this issue was already highlighted in the preceding year.

The matter relating to WSC will be looked into by the Executive Secretary, so as to reconcile the amounts receivable from the Corporation, and make the necessary adjustments to reflect the correct amount.

A cheque of €240 which was incorrectly booked twice in the prior year was reversed during the year under review by means of an audit adjustment proposed by LGA.

LGA's recommendation regarding the posting of cheques has been noted.

Given that the release of deferred income to the Statement of Comprehensive Income was overstated as a result of a number of shortcomings, audit adjustments had to be passed, to decrease such release by a net amount of €1,450. It was also noted that the amount of €2,772, received with respect to the Disability scheme, and intended to cover the salary paid during the year under review, was erroneously recorded as deferred income with the Accessibility scheme, which is a completely different scheme. Such funds were transferred from deferred income to income for the year by means of an audit adjustment. Moreover, all the funds received for live streaming, intended to cover both revenue and capital expenditure, were erroneously fully accounted for as capital expenditure. Adjustments were passed to reclassify the revenue portion and correct the amortisation for the year.

It also transpired that during the year under review, the Council lost the EcoGozo scheme funds since the respective deadlines were not met. As a result, the Department requested a refund of €20,977, being the full amount given in advance to the Council to fund the works on rubble walls. The Council proposed that the refund is at least capped to the unutilised amount of €10,215. No reply to this effect was received up to date of audit. Thus, the unutilised portion was reclassified to other payables and a further adjustment was posted to reverse the related amortisation taken during the year.

The points raised by the Auditors with respect to grants and their amortisation have been noted and the required adjustments reflected in the audited Financial Statements. The Council intends to give further attention to this matter.

The Council did not provide for accrued expenditure of €5,782, relating to professional fees for *Tal-Hammrija* Embellishment Block B pavements, Christmas decorations and the hire of mobile toilets. On the other hand, an invoice of €3,028 covering rent of public gardens and playing fields, which was already accounted for in the preceding period, was included again with creditors in the current year, thus resulting in double accounting. Following LGA's recommendation, the Council approved the necessary audit adjustments.

LGA's recommendations have been noted and the proposed adjustments were posted in the audited Financial Statements.

Budgeted expenditure for Public Information, Professional Services, Purchase of Materials and Supplies, Memberships, as well as Travelling, was exceeded by an aggregate amount of €9,634.

LGA's recommendation regarding the revision of the financial reports has been noted. The budget will be revised whenever this is necessary, and presented to the Council for approval when there are variances in the expenditure relating to the budget.

Xghajra

Procurement was not always carried out in line with pertinent regulations. In addition, purchases totalling €2,517 were not substantiated by a fiscal receipt. **Appendix G** refers. It was also noted that seven items of expenditure, aggregating €4,867, were not covered by a purchase order.

Though the Council always asks suppliers to issue a VAT receipt, certain service providers still fail to comply with such requests. As regards the issue of purchase orders, the Council will rectify this matter accordingly.

During the year under review, the Council paid the amount of €4,638 in connection with road signs and markings under the same terms of the

original agreement, notwithstanding that this had expired. Furthermore, no contracts were in place with respect to the provision of accountancy and insurance services, which expense for the year amounted to €4,080 and €1,481 respectively, and awarded by the Council following a call for quotations in 2011. Similarly, the rent of the Social Centre, amounting to €2,800 *per annum*, was not covered by a contract between 3 April 2012 and 18 March 2014.

The Council is working to have new contracts. With respect to the rent of the Social Centre, both parties agreed to extend the contract verbally for the specified period and a new contract was entered into in March 2014.

The required performance bond by the successful bidder who was awarded the tender for the collection of mixed household waste, bearing a total value of €7,890, was not in file.

The performance bond was misplaced, but now it is in file.

The Council's insurance policy provides coverage for personal accident on a worldwide basis rather than local basis.

The health insurance package is a negotiated discounted package, thus, it is not possible to make changes thereto. However, the Council will try to look for other alternatives.

The Council does not have a FAR which reconciles with the nominal ledger. As a result, depreciation is computed manually through a spreadsheet. This resulted in an overstatement of approximately €2,981 when compared to LGA's workings. However, no audit adjustment was proposed to correct this difference since LGA was not provided with the Council's workings. Moreover, LGA could not determine whether the calculation is being computed on an annual or monthly basis. In addition, it was noted that assets are not tagged, thus hindering identification.

LGA's comments were noted and the Council will be looking into FAR. The exercise with respect to the tagging of assets was initiated.

No explanations were provided to LGA with respect to a discrepancy of €10,979, arising between the

book value of the *Belvedere* recreational and Sports Centre at year-end, amounting to €269,642, and the list of assets forwarded by the Council, with a total of €280,621. However, LGA was informed that the project, which commenced in 2011, and so far benefited from €218,000 in Government grants, was not completed due to lack of funds. Thus, the Council is relying on additional contributions to finalise it.

Point not addressed.

In breach of standing regulations, the Council did not obtain statements from all suppliers to confirm year-end balances and ensure completeness of the books of account. A difference of €6,801 was noted between the creditor's balance of WasteServ Malta Ltd when compared with the respective supplier's statement, arising due to the following shortcomings:

- a. Various invoices issued in 2014, which in aggregate totalled €9,350, were completely omitted from the accounting records.
- b. The invoice for December 2013, amounting to €730, was not recorded in the creditor's account while the prior year corresponding accrual was not reversed.
- c. The Council did not account for the amount of €3,278 paid by DLG to WasteServ Malta Ltd on its behalf, in settlement of tipping fees for 2012 and 2013 which were in excess of the Government's financial allocation.

The above errors were rectified through audit adjustments proposed by LGA.

Point noted and the necessary adjustments were carried out.

The Council is not honouring the fundamental concept of accrual accounting and the matching concept, thus providing an incomplete and misleading picture of its financial position. Shortcomings were identified in accrued expenditure, prepayments and accrued income as disclosed in the Council's Financial Statements. Accrued expenditure for street lighting repairs and maintenance, as well as household waste collection, was overstated by an aggregate of €2,995. Meanwhile, accrued income of €400

receivable in respect of a Christmas activity was omitted from the books of account. In addition, though the Council qualified for a grant of €2,000 for *Lapsi Day*, only the amount of €850, representing funds received during the year, was recorded in the accounting records. The insurance prepayment as recognised in the Financial Statements was overstated by €633. The Council rectified the said matters by means of audit adjustments. An additional audit adjustment to record accrued income of €15,898, representing the shortfall between tipping fees expenditure and the annual Government allocation to be funded by DLG, was reflected in the Financial Statements.

Shortcomings with respect to accrued income were noted and adjusted accordingly.

The balance of €8,126 due to a creditor has been outstanding for more than a year. According to the Executive Secretary, approximately €7,000 of the said amount is not due by the Council but by the Works Division. The amount related to professional works carried out by the Council's Contracts Manager. While the latter acknowledged that the Council is not liable to pay this amount, it has not yet issued a credit note.

Point not addressed.

Review of LES report issued from the system revealed a difference of €7,477 between tribunal pending payments as included in the said report (€23,169) and the amount reported in the Financial Statements (€30,646). The provision on doubtful LES debtors as recorded in the books of account (€17,401) was also found to be understated by €5,768. Audit adjustments to correct the gross LES receivables and the provision recognised thereon were incorporated in the books, following LGA's recommendation.

Points noted and adjusted accordingly.

Included with other receivables is the amount of €12,966 which was brought forward from previous year. The amount was not substantiated and as a result, no audit tests could be performed. A qualified opinion was issued to this effect.

Comments noted.

The grants schedule produced by the Council

did not agree to the Trial Balance and Financial Statements. It also transpired that the Council wrongly accounted for the release of grants by debiting accrued income and crediting Other Supplementary Government income by €9,611. Moreover, the Council's release of grants was based on the straight line method and on the wrong grant amounts. Audit adjustments to reverse the entry from the books of account and the Financial Statements were accepted by the Council, while another adjustment of €5,150 was passed to release grants to income and to correct deferred income at year-end. An adjustment of €249,552 was proposed and accepted, to reclassify the non-current portion of deferred income.

Back in 2012, photovoltaic panels were classified with Urban Improvements rather than Plant and Machinery. As a result, these were depreciated at the rate of 10% instead of 20% on the reducing balance method. Moreover, playing field equipment bought in 2013 was depreciated at 10%, notwithstanding that such equipment is depreciable in full on acquisition.

The respective shortcomings were noted.

A difference of €16,604 was noted between the Trial Balance provided by the Council and the Financial Statements approved by the latter and submitted for audit. This discrepancy related to depreciation being recorded in the Financial Statements but not posted in the accounting software. A proposed audit adjustment to record the respective depreciation charge for the year was approved by the Council and included in the books of account.

The observation has been noted and adjusted accordingly. The Council explained to LGA that the difference between the Trial Balance and the unaudited Financial Statements resulted due to a malfunction in the Council's computer.

Besides departures from IFRSs, other shortcomings were encountered in the presentation of the Financial Statements. Various errors in the Statement of Cash Flows and incorrect classifications in the categorisation of income were noted. Coupled with the findings reported as well as the audit adjustments proposed by LGA, this indicates that there are serious shortcomings in the updating of the Council's accounting records and

preparation of Financial Statements. It also implies that the Council's accounting function, which is of concern, needs to be addressed promptly and improved significantly.

The Council took note of LGA's comments, observations and recommendations. However, at no time during the audit LGA reported that any of the observations resulted in material weaknesses. Whilst acknowledging that LGA has to carry out the audit in accordance to the respective terms of reference, tests and observations raised are in their majority procedural and thus do not reflect any marked material weaknesses. It is a pity that certain comments are always made after the conclusion of the audit.

Interim quarterly reports, intended to identify the variations between actual income and expenditure, and the budget, as well as report on other aspects of the Council's financial performance, were not prepared during 2014. Similarly, besides that it was not prepared in the required format, the annual budget was not approved by the Council up to date of audit. Likewise, the updated three-year business plan covering 2015 to 2017 was not provided for audit purposes.

The Council's minutes indicate that meetings were not held within five weeks from the preceding one. Moreover, it was noted that the Council did not meet in February, May and August 2014. In addition, it transpired that the minutes of the Council did not follow sequential numbering as meeting 11 is followed by meeting 13.

LGA's comments were noted and the necessary actions will be taken.

During 2013, members of the Council travelled to Collotorto in connection with a proposed twinning agreement, incurring a total cost of €1,475. The Council made an application to DLG on 16 January 2013 in connection with this twinning visit, which application was immediately acknowledged by the latter. However, by the time of audit, this visit was not yet approved. This results in a breach of standing regulations since the Director's prior approval is solicited before initiating a twinning process. Moreover, the Council did not prepare the respective travel report as required by MFEI Circular No. 5/2012.

The Council is aware of the situation. LGA's comments were noted.

Zabbar

A number of Council members failed to attend meetings regularly, with the consequence that the quorum necessary for three out of 15 meetings was not reached.

Through a letter dated 23 March 2015, the Minister had excused the Councillors who were absent or excused from attending Council's meetings held between 12 March and 17 June 2014. A meeting cannot be held if there is no quorum.

Notwithstanding that the street sweeping tender expired on 30 June 2014, a call for a new tender was only published on 12 August 2014, with the tenders being opened 14 days later, *i.e.* on 26 August 2014. Consequently, expenditure totalling €15,088 was incurred in 2014 under an expired contract.

During the mentioned period, Council's meetings were not being held. This was beyond the Executive Secretary's control and resulted in the delay of a new call for tenders. However, an extension was approved by DLG.

Though on 8 April 2014 the Council issued a call for tenders with respect to household waste collection, none of the submitted offers were accepted. This issue was only discussed in September, following the expiration of the original contract on 4 July 2014. In the interim, the Council continued to procure such services from the same service provider. The amount expensed under the expired contract totalled €57,427.

Since the Council was not having official meetings, a formal decision could not be taken.

The only source documentation substantiating the rental of a garage for €412 *per annum*, is an invoice, as the Council has not yet obtained a contractual agreement. In addition, despite that the the contracts covering the leasing of the Council's office, as well as a garden from Central Government, expired in 2003, these were never renewed.

The Council will seek legal advice concerning documentation required vis-à-vis the Council's contractual obligations.

In addition to the variances indicated in **Appendix J**, an unexplained discrepancy of €1,439 was noted upon trying to reconcile the Mayor's FS3 to the accounting records.

Point not properly addressed.

Five items of expenditure, totalling €3,011, were not supported by a purchase order.

The Council does its utmost to adopt good practices, however it is not always possible due to the exigencies of work and unpredictable situations. Furthermore, though there were instances where no purchase order was issued due to the nature and urgency of work, it is the Council's normal practice to issue purchase orders.

As also reported in the preceding year, though a FAR is in place, this was not being maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Besides lacking fundamental details about the assets being capitalised, it still included assets which are no longer in use. In addition, various discrepancies were noted in NBV of certain asset categories when reconciled to the amounts recorded in the unaudited Financial Statements.

The Council had to upload FAR on various occasions owing to the several times the software stopped functioning, with the consequence that some details on the original FAR were lost. The Council still has past records, and the issues could have been resolved had LGA asked for information. Due to the limited space for a detailed description in the accounting system, it is not always possible to enter all details. With respect to the reconciliation between FAR and the Financial Statements, the Council will look into the asset categories and carry out the necessary adjustments.

During the year under review, the Court ruled that the Council is liable to pay VAT of €49,084, claimed by a contractor, on the amount invoiced for road

resurfacing works carried out in 2003. Although the said amount was correctly capitalised, the Council accounted for depreciation as if the asset was available in 2014, rather than 2003. An audit adjustment of €31,728 was proposed so that the asset is accounted for at its proper NBV.

The Council will be looking into the category and make the necessary adjustments.

The amount of €38,694 is included as receivable from WSC for trenching works, which has been accumulating over a number of years, and whose recoverability is still uncertain. In view that LGA was unable to obtain direct confirmation of the outstanding amount and no alternative audit procedures could be carried out to ensure that the balance is not materially misstated, a qualified audit opinion was issued in this respect.

A list of works carried out by WSC is available. Whilst the Council is insisting that the amounts due from the Corporation are to be settled without any further delay, the latter is refusing to pay the amounts due. Recommendations proposed by LGA, with respect to the financial and legal obligations, will be adopted by the Council.

As highlighted in the preceding years, under LES the Council receives money collected by other Local Councils on its behalf, for traffic fines occurring within the confines of Żabbar. During the past years, the Council has been recording these deposits without matching them to the appropriate fines, since no adequate information was provided by the depositing Councils. Upon reconciling the total receivable balances from other Councils, it was noted that the Council received €727 more than it was actually owed.

The Council is continuously asking for the missing bank receipts from other Local Councils who failed to produce them. The necessary adjustments will be passed.

A report extracted from LES showed that pre-regional LES debtors settled in 2014 were €2,644. On the other hand, another report indicated that pre-regional contraventions collected during the same year amounted to €2,038, thus resulting in a discrepancy of €606 between the two reports. Furthermore, the accounting records show that only €1,957 was received during the year under

review. No plausible explanation was provided to LGA in respect of such discrepancies. In view that these concerns raise doubts on the integrity of the data being generated from the IT system, a qualified audit opinion was issued.

This issue is not within the Council's control. The Council has repeatedly asked the systems operator to provide necessary explanations for the resulting variances.

The Council provided for doubtful debts of €1,195, against a number of outstanding balances. However, it transpired that the respective provision was not approved in meeting.

The Council is continuously asking for the due amounts before providing for these bad debts, since it is of the opinion that these are monies owed to the Council and should be recovered.

Regular reconciliations with suppliers' statements were not being carried out, with the consequence that amounts included in the Financial Statements were not accurate. For example, the outstanding balance as per the statement provided by a private company was €47,381 more than that reported by the Council at year-end. A discrepancy of €14,547 was also noted between the amount payable to WasteServ Malta Ltd as disclosed in the books of account and the confirmation received from the latter. The Executive Secretary claimed that part of this discrepancy relates to unrecorded invoices, which were then incorporated in the accounting records through an audit adjustment. It also transpired that WasteServ Malta Ltd did not record the payment of €9,457 paid by DLG on behalf of the Council. However, this still left an unexplained variance of €632. A qualified audit opinion was issued in this respect.

The supplier's information is not adequate and reliable enough for the purpose of reconciliation. The Council has no control over the supplier's accounts, however it will be looking into the discrepancies and make the necessary adjustments.

Included with payables are balances aggregating to €13,200, which have been outstanding for more than a year. Accrued expenditure includes the amount of €2,000 for road and street cleaning, which has been brought forward from the preceding year. In addition, the Council also provided for

accrued expenditure of €11,910, with respect to the Christmas Village activity. However, since the respective invoices were not yet received by the time of audit, and the Council did not have a detailed listing of expenses making up this accrual, LGA was unable to check the reasonableness of the accrued amount.

The long outstanding balances will be looked into and the necessary adjustment will be carried out. As regards the accrued expense of €2,000, this is still due to the contractor. In view that by the time of audit the Council had not yet received all invoices related to the Christmas activity, it accrued for the pending invoices.

The Council's inventories of €12,479 include books intended for resale. However, it was noted that such stock is slow moving, with the majority of books eventually being given out as prizes. Furthermore, LGA was not provided with a stock list itemising the books in hand. The Council is expected to assess whether the books are being accounted for at the lower of cost and net realisable value in the Financial Statements. Write-offs or provisioning of inventories might be necessary if the books remain slow moving or have no realisable value in accordance with IAS 2.

These books, which were published 15 years ago, have a slow selling rate. Since the nature and content of the book is purely informative, the Council is not of the opinion that the cost of the books is reduced further. The stock list and the list of books donated were provided to LGA.

A discrepancy of €102,520 resulted between the amount of capital expenditure committed for the financial year 2015, as disclosed in the Financial Statements (€238,500), and that recorded in the respective annual budget document (€341,020).

Point not properly addressed.

Zebbuġ (Malta)

The audit adjustments proposed by LGA and findings highlighted further on, many of which were already brought to the attention of the Council in previous audits, indicate that there are weaknesses in the controls of the Council, and that the latter's accounting function needs to

be improved considerably. Following the audit adjustments, the loss for the year increased from €48,424 as reported in the unaudited Financial Statements, to €84,283.

LGA's comments have been noted and the necessary action will be taken by the Council.

At year-end, the Council still owed the amount of €52,475 to CIR in respect of FSS tax and NI contributions, covering the period November 2011 to December 2014. Interest and penalties accruing as at 31 December 2014, based on CIR's assessments, amounted to €11,000. According to the Executive Secretary, the Council shall be seeking an agreement with CIR for the payment of such dues.

FSS forms for the years 2011 and 2012 were submitted to CIR during May 2015. In the covering letter attached to these forms, the Mayor and Executive Secretary requested a meeting to discuss the pending payments.

No employment contracts were drawn up by the Council for two of its employees who are on an indefinite contract. Thus, the respective employees do not have a signed agreement in line with their present conditions of work. It was also noted that the Council does not hold a register to record relevant information about its employees, such as appointments, resignations, dismissals, suspensions, secondments, transfers and absence from duty for sickness, as well as vacation leave.

Point not properly addressed.

The bank reconciliation report included €29,715 worth of cheques payable to the Council which became stale. From the explanations provided by the Council, such cheques are to be reissued. Thus, an audit adjustment was passed to reverse the aforementioned amount from the bank account and recognise such balance as accrued income.

Point not addressed.

During audit testing of the previous year, LGA encountered a signed declaration confirming that the present Executive Secretary found an open deposit bag in a drawer, containing 81 stale cheques, aggregating to €5,346. These were drawn in favour of the Council and dated between

November 2007 and January 2008. Another cheque in favour of San Pawl il-Baħar Local Council was also included. An LES report, titled 'Summary of Payments', which were collected between 2007 and January 2008 and amounting to €6,021, was also found in the same bag. On this report, all contraventions were marked as paid by cheque. This indicates that no adequate controls over LES receipts were exercised, thus giving rise to risks of loss, fraud and misappropriation of the Council's money.

It transpired that by the time of the previous year's audit, DLG was not yet informed on this matter and only the Mayor, the respective Executive Secretary and the clerk who witnessed the findings were aware of this fact. This goes against the Local Councils (Financial) Regulations which explicitly stipulate that in such cases, "... the Mayor or the Secretary shall initiate an investigation within twenty-four hours and notify the Minister in writing immediately...". Moreover, despite that during the year under review, this issue was reported to DLG by the Executive Secretary, no practical written recommendation was yet presented by the former.

The Executive Secretary will communicate with DLG to obtain a practical written recommendation regarding this unresolved matter. However, the Council would like to point out that since these cheques were issued in 2007, it will be a very difficult task to recover the amounts since a receipt was issued for each and every payment and the status of these contraventions is marked as paid in the system.

In view of the fact that no documentary evidence was provided to confirm LES balance of €181,299 due to the Council as at year-end, LGA was not in a position to determine if this amount is correct. However, given that this balance was fully provided for, it was not deemed necessary to qualify the audit report in this respect.

The Council will extract LES reports on the last working day of the year so as to avoid any similar occurrences in the future.

The Council still failed to maintain a FAR in line with the requirements of the Local Councils (Financial) Procedures. Consequently, the Council was computing depreciation manually on an annual basis, with the result that a full year's

depreciation was taken for assets acquired and completed during the year. It was also noted that the Council's assets were not tagged with a fixed asset code. Thus, LGA was unable to verify the completeness, existence, accuracy and valuation of PPE, as well as the depreciation calculated thereupon. A qualified audit opinion was issued in this respect.

The Council has obtained quotations with respect to the compilation of a FAR. However, no decisions have yet been taken in this regard.

As highlighted in preceding years, despite that the office premises were devolved to the Council by WSC way back in 1993, such fact was never reflected in the Council's books of account.

Given that the Council has not been made aware of this devolution of property, it has contacted the Land Department, however, no reply has yet been received.

In breach of the Local Councils (Tendering) Procedures, the Council did not issue a call for tenders with respect to concrete supplies costing €5,990.

Point noted.

The Council's inventories of €5,291 comprise books intended for resale. However, such stock is slow moving, as the majority of books are given out as prizes. In view of this, the Council should assess whether the books are being accounted for at the lower of cost and net realisable value in the Financial Statements as required by the pertinent accounting standard.

LGA's comments have been noted.

Cut-off procedures adopted by the Council at year-end were not correct, resulting in erroneous recognition of prepayments, accrued income and accrued expenditure. In fact, prepaid insurance of €1,482 was completely omitted from the books of account. Accrued income with respect to lifelong learning was understated by €2,500, while that for cultural activities was overstated by €1,748. It also transpired that a number of invoices dated in 2014 and totalling €15,139 were accounted for with accrued expenditure rather than creditors. Such errors were rectified by means of audit adjustments.

Point not addressed.

An amount of €27,450 receivable from two private entities could not be verified in terms of accuracy and recoverability. Confirmation letters were sent to the two debtors in question; however, no reply was received. According to the Council's Executive Secretary, the said amount shall be set-off against future invoices. However, no agreement was provided in support of such claim. Similarly, no confirmations were received to corroborate balances aggregating to €25,964³² due to the Council from six related party entities. Furthermore, although feedback was received from the Southern Regional Committee, a difference of €3,341 was noted between the balance as per confirmation letter and the Council's books of account. Since there were no other practical ways of obtaining reasonable assurance on the amounts in question, LGA had no other option than to issue a qualified audit opinion.

The amounts receivable from the debtors mentioned by LGA shall be deducted against invoices issued by the same debtors for purchases made by the Council. Comments raised with respect to related parties have been noted and action will be taken to avoid similar reoccurrences in the future.

Included in the Council's debtors' list are six balances, totalling €34,758, which have been long overdue. Out of the aforementioned balance, the amount of €24,250 relates to three sponsorships. The Council is recommended to chase these debtors for payment and in the event that these remain doubtful, a complete write-off of the said balances is to be considered, once the necessary approvals are obtained during a Council's meeting.

The Council shall contact these debtors with the intention of recouping the balances due. However, the Council would like to point out that, since some of these debtors provide services to the Council, amounts due may be deducted against future payments.

A garnishee order of €10,561, served on the Council by the Siggiewi Local Council during November 2006, was disclosed as a debit balance in the accruals' list. A reclassification adjustment

was passed to reallocate this amount to related party balances. However, in view that the bank confirmation letter does not disclose this garnishee order, the Council is recommended to check with the bank whether this has been released, and if in the affirmative, when the respective funds will be deposited into the bank account.

Point not properly addressed.

Included in the Council's list of creditors are balances, aggregating to €1,429,894, which have been outstanding for more than 120 days. The amounts of €652,052 and €484,481 are due to two particular suppliers respectively.

A court case is currently ongoing with respect to the balance of €652,052, whilst that of €484,481 is undergoing an arbitration case. Evidence concerning both balances is still being presented by both the supplier and the Council. Movements were registered in the remaining creditor's balances, indicating that these accounts are not idle.

The Council did not obtain statements from all its suppliers to confirm year-end balances, thereby leading to discrepancies between amounts recognised in the Financial Statements and the balances actually due. Audit testing also revealed that the amount payable to one of the Council's suppliers, as disclosed in the books of account, was understated by €4,969 when compared to the respective statement. It transpired that the related invoice was erroneously included with accrued expenditure rather than creditors. The balance payable to WasteServ Malta Ltd as included in the books of account was also understated by €29,524 when compared to the supplier's statement. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

The Council would like to point out that, although the majority of creditors do not send statements, it does not mean that the Council did not request such statements.

As already reported in the preceding year, the Council has issued payments to suppliers without having the respective invoices. As a result, the

³² Included in this balance is the amount of €10,561 relating to a garnishee order served on the Council by Siggiewi Local Council way back in 2006.

creditors' list as at year-end includes debit balances, aggregating to €41,944, of which the amount of €33,251 was brought forward from the preceding year. The former balance was reclassified to debtors by means of an audit adjustment.

Point noted.

During the year under review, a supplier registered a court case against the Council since the latter withheld payments of €71,253, on claims that the works performed by the former were not up to the required standards. A counter-claim was also registered by the Council in this respect.

Point not addressed.

As highlighted in the preceding year, the Southern Regional Committee is claiming the amount of €6,445 from the Council, being post-regional contraventions which LTD inadvertently remitted to the Council. However, though the latter maintained that this amount has already been remitted, LGA was not provided with any evidence supporting such claim.

The Council will communicate with the Regional Committee to resolve this matter.

During 2014, the Council had overdue invoices for tipping fees, arising from the fact that it was not even paying the service provider the amount specifically allocated for such purpose. Consequently, DLG deducted the amount of €39,721 from the annual financial allocation provided to the Council.

Point noted.

In the absence of a financial budget for 2015, LGA was unable to verify the correctness and completeness of capital commitments of €16,000, as disclosed in the Financial Statements.

Action will be taken to ensure that this shortcoming will not be repeated.

Żebbuġ (Gozo)

As highlighted in preceding years, amounts included in FAR did not agree with those disclosed in the Financial Statements. Whilst the

total accumulated depreciation in the register was €663,902, the respective amount in the Financial Statements, representing total depreciation plus grants, was €1,223,261, thus resulting in a difference of €559,359. Part of this variance may be due to the fact that grants, amounting to €84,498, received in prior years, were not included in FAR due to the adoption of a different accounting treatment.

A discrepancy was also noted in the resulting NBV as reported in FAR, which stood at €1,505,459, when compared to that illustrated in the Financial Statements, amounting to €1,135,998.

The cost of assets as per FAR, totalling €2,234,017, did not agree to the amount of €2,169,361, disclosed in the same register, with the latter being the summation of NBV of €1,505,459 and accumulated depreciation of €663,902. In addition, none of these figures agreed to the total cost of €2,359,259 reported in the Financial Statements.

In view of these errors, the depreciation for the year was not computed through FAR but was calculated manually. Moreover, instances were encountered whereby depreciation was not taken from the date when the project was actually finalised, thus resulting in another variance of €2,489 in the depreciation charged. It also transpired that, at times, incorrect depreciation rates were used. By way of example, the lighting system acquired during the year under review should have been depreciated at the rate of 100% rather than 10%. This resulted in a further understatement of €27,802. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

A number of items of PPE, in the asset categories of Special Programmes, Construction Works, Street Paving, as well as Urban Improvements in FAR had a nil balance of depreciation to date. NBV of some items in the Special Programmes category was also zero, notwithstanding that accumulated depreciation was nil. This implies that NBV was not recorded correctly and that the depreciation of these particular assets was not being calculated through FAR.

Albeit previous years' recommendations, the old and damaged litter bins, which were replaced by new ones purchased in 2011 for a total cost

of €11,685, were still included in FAR and the nominal ledger.

The Council failed to claim from the former Mayor, losses incurred with respect to a mobile phone which was originally given to him by the Council, and which, according to the said Mayor had been stolen, and therefore could not be returned. Furthermore, the cost and accumulated depreciation of such mobile phone were not reversed from the Council's books of account.

The cost of certain fixed assets as disclosed in the books of account were not consistent with that recorded in FAR, with the consequence that the two documents could not be tallied. It also transpired that, whilst the reversal of accrued expenditure of €7,788, recorded in the preceding year with respect to works carried out in *Triq il-Ponta*, was posted in one account, the respective invoice was recorded in a separate account. A reclassification adjustment was passed to correct this error.

The points made by LGA regarding FAR are all valid points which could not be addressed during the year under review. The Council will be taking action in order to reconcile FAR with the nominal ledger. During this exercise, the appropriate depreciation rates will be assigned to the respective assets as prescribed by DLG. Furthermore, after obtaining approval, assets that have been replaced will also be written-off. Meanwhile, the reclassification of assets and adjustments recommended by LGA were made and are reflected in the audited Financial Statements.

Upon the finalisation of a number of projects in 2013, the related costs were accrued for in line with the architect certifications, as the respective invoices were not issued by the end of the year. However, upon receipt of the said invoices in 2014, a net variance of €25,510 was encountered, thereby indicating that the valuations provided were inaccurate.

Accrued expenditure of €7,696, recorded in the books of account in the preceding year in relation to a culvert completed in 2004 in *Triq Ghajn Mhelhel*, was reversed by the Council during the year under review, notwithstanding that the respective invoice was not yet issued by the contractor. On the other hand, paving works

in *Triq id-Duluri* and *Triq il-Mungbell* were over accrued by €5,490. These errors were rectified by means of audit adjustments.

The recommendations made by the Auditors regarding the calculation of accruals have been noted.

Included in the debtors' list is a balance of €1,083 due from WSC, of which the amount of €683 has been outstanding for a number of years. However, in reply to the debtors' circularisation letter, WSC confirmed that only the balance of €56 was due to the Council. In view of this, following LGA's recommendation, the Council recognised the necessary provision for doubtful debts, while the balance relating to permits invoiced during the year under review, will be taken up with the Corporation to identify the divergences.

LGA's recommendation has been noted and the Council adjusted its Financial Statements accordingly.

The amortisation of deferred income in relation to two projects, namely UIF paving at *Triq il-Wied* and *Triq il-Mungbell*, and UIF galvanised wrought iron railing as well as new lighting system at *Qbajjar Bay*, did not commence on the date when the project was finalised. This was also the case with respect to the live streaming equipment. Following LGA's recommendation, the Council posted four audit adjustments, resulting in a net increase of €17,808 in the amount released to the Statement of Comprehensive Income.

The points made by LGA about the amortisation of the deferred income, in respect of capital projects fully or partly financed by Government grants, have been noted. Efforts will be made in the future to avoid such situations.

Expenditure incurred for Contractual Services, Public Information, Rent, as well as Hospitality and Community Services exceeded the budget by an aggregate of €39,382.

The budget was not revised during the year in order to measure expenditure and income against the original budget, which was approved by the Council.

Review of the Council's expenditure revealed

that, although the contract for cleaning and maintenance of parks and gardens expired on 31 October 2013, the new agreement was only signed on 28 February 2014, implying that for the first two months of the year, the Council procured services under an expired contract. The amount of €617 was incurred in this respect. According to the Council, the delay in signing the new contract was triggered by the fact that the cheapest bidder failed to sign the non-collusive agreement, and hence the former had to obtain guidance on what actions it should take.

Point not addressed.

Inconsistencies were noted in the tax rate applied on the Mayor's honoraria and Councillors' allowances. Whilst some were not taxed at all, others were taxed between 5% and 12% rather than the standard 20% suggested by DLG. Furthermore, the respective FS4s were submitted between May and June, thus leaving the first five to six months uncovered. It also transpired that, in breach of pertinent regulations, the vacation leave brought forward by two employees was not approved by the Council.

FS4s have been prepared and submitted to IRD as recommended by LGA during 2014.

Żejtun

Notwithstanding that the respective bye-laws were not in place, during the year under review, the Council collected an aggregate amount of €9,205 from the hire of a kiosk (€8,050), and the five-a-side football pitch (€1,155).

Point not properly addressed.

During the year under review, the Council was awarded a grant, amounting to €27,000, in relation to the development and adaptation of agriculture. From testing carried out, it transpired that the Council incorrectly recorded deferred income of €30,000. Moreover, instead of reversing the difference of €3,000, the Council erroneously released the latter amount to profit and loss. It was also noted that another grant of €10,000, receivable in respect of the locality day, *Żejt iż-Żejtun*, was not accrued for by the Council. The respective audit adjustments proposed by LGA

were correctly included in the audited Financial Statements.

LGA's comments have been noted and the necessary adjustments undertaken in the Financial Statements.

Apart from the fact that a number of payments, totalling €17,333, were not supported by fiscal receipts, as depicted in **Appendix G**, four purchases, amounting in aggregate to €4,980, were neither covered by a purchase order nor by quotations. Three other payments, amounting in total to €818, had no supporting invoice or appropriate documentary evidence. Furthermore, no formal agreement was provided to LGA with respect to the annual rental expense of €1,120 paid to a third party for the use of a garage.

The Council adheres with the procurement regulations for the majority of its acquisitions; however, one must understand that when urgent situations occur, the Council would have to act without delay. LGA's comments concerning VAT fiscal receipts have been noted and following comments raised in previous years, the Council included a disclaimer on its payment vouchers, stating that, where applicable, suppliers are obliged to provide a written declaration should they be exempt from providing a fiscal receipt in terms of the VAT Act. The point concerning the rental of the garage was not properly addressed.

The Council's personal accident insurance cover is on a worldwide basis with a consequential higher premium. Moreover, given that only a draft insurance policy document was provided for audit purposes, LGA could not confirm the exact source since the details of the insurer were not included therein. LGA was also hindered from verifying who the insured persons were since the insurance policy document did not include any names.

The Council shall look into the matter, and if the premium value proves to be substantially higher, the policy cover for the upcoming years shall be amended accordingly. Moreover, the Council shall inform the insurer to provide the original insurance policy document.

NBV of Office Equipment as disclosed in the nominal ledger was €1,171 more than that as per unaudited Financial Statements. Furthermore,

while FAR agrees to the nominal ledger, variances were identified in the individual classes of fixed assets. Discrepancies of €2,008, €1,150 and €1,119 were noted in Special Programmes, Office Equipment, as well as Furniture and Fittings respectively. It also transpired that Government grants of €798,088 were separately classified in the books of account rather than allocated against the respective fixed assets. An audit reclassification was proposed in this respect and the Council adjusted its Financial Statements accordingly.

As highlighted in the preceding years, FAR maintained by the Council is not in line with best practice and the Local Councils (Financial) Procedures, since it lacks a number of descriptive details, thereby limiting its purpose. Moreover, included in the register are old purchases of the same nature, such as fans, which by now are probably obsolete.

LGA's comments concerning the discrepancies identified have been noted and shall be investigated. Moreover, based on LGA's recommendation, Government grants will be split into the respective categories for ease of reference. With respect to the lack of details in FAR, the Council shall try to trace the original purchase invoices so as to include more details.

Up to 31 December 2014, costs of €45,439 were incurred by the Council on an outdoor equipment project. Notwithstanding that the project was still in its initial phases, the related costs were capitalised rather than recognised as Assets under Construction. Consequently, depreciation of €2,014 was charged thereon. Adjustments were passed in the books to transfer the capital expenditure to Assets under Construction and reverse the depreciation charge. It was also noted that the aforementioned costs exceeded the contracted price of €27,000 by €18,439 as at reporting date. Although relatively significant, no approval for this variance was traced in the Council's minutes. Moreover, in terms of the Local Councils (Tendering) Procedures, given that such variation is greater than 10% of the contracted price, the Council has the right to terminate the contract and issue a fresh call for tenders.

A grant of €53,575, awarded in respect of the same project, was incorrectly released in full to the Statement of Comprehensive Income. Such

error also triggered an overstatement of €2,700 in the current portion of deferred income. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

The adjustments proposed by LGA were posted accordingly in the final set of Financial Statements. LGA's comments with respect to the outdoor equipment project were noted. The Council would like to point out that such project is funded by MEPA through UIF and the respective contract clearly stipulates that, on completion of 15% and 50% of the project, the Council could claim a refund. Accordingly, the initial acceptance letter was drawn up for the amount of €27,000, thereby ensuring that the necessary documentation is provided on time by the contractor for the Council to be able to submit a claim.

During 1996, the Council together with the Department responsible for Construction and Maintenance, contracted for road works amounting to €81,378. The former disputed the said amount as it felt that such works should be paid by the latter. This resulted in a legal dispute, which the Court ruled against the Council, thus holding it liable to pay for the full amount. In previous years, an amount of €37,314 was recognised in the Financial Statements; however, LGA was not provided with an explanation as to whether this was recorded as capital or recurrent expenditure. Moreover, during the year under review, the Council capitalised the remaining amount of €44,064, but no depreciation was recognised to bring the asset down to its NBV. Thus, LGA proposed an audit adjustment of €38,292, reflecting the depreciation to date in the audited Financial Statements.

The audit adjustment proposed by LGA was accordingly included in the Financial Statements.

Despite previous year's recommendation, the Council still did not obtain statements from all its suppliers. Consequently, no reconciliations were carried out between the balances in the suppliers' ledger and the actual suppliers' statements. In addition, disclosed within the creditors' list are balances, totalling €10,547, due to 22 different suppliers, which have been long outstanding.

During the next financial year, the Council shall undertake an exercise to determine which amounts, if any, are still due. Any outstanding amounts,

which result as not payable, will be accordingly adjusted for in the books of account.

Included in the Council's list of creditors is an amount of €3,609, payable to the Cleansing Services Directorate, which is in dispute. LGA was informed that the Council is not willing to pay the said balance and that the supplier has never requested payment. However, this statement could not be corroborated.

The Council hereby acknowledges that the amount in question is still included with creditors despite the fact that the supplier has never been in contact or sent a statement. During 2015, the Council will seek to discuss this matter with the supplier and reflect the outcome of such discussions in its Financial Statements.

During 2011, the Council entered into a membership with Gal Xlokk Foundation and paid the amount of €9,000 to cover fees for the period 2007 to 2013. Instead of depositing the monies into its own bank account, the Foundation erroneously deposited the amount in question back into the Council's bank account. However, the Council did not reverse the creditor's balance of €9,000 from its books of account since no written confirmation was received from Gal Xlokk Foundation stating that the amount is no longer due. Eventually, during the audit visit, the said confirmation was received by the Council from the Foundation. Thus, an audit adjustment was proposed to remove the balance from the Council's books of account.

The adjustments proposed by LGA have been incorporated in the final set of Financial Statements.

A discrepancy of €36,687 was noted between capital commitments as disclosed in the Financial Statements (€257,200) and those in the annual budget (€220,513).

The Council shall look into the matter for future reference.

Zurrieq

Differences between NBV as disclosed in FAR and that reported in the Financial Statements were again noted this year in various asset categories, with the result that NBV in FAR is €48,562 more than the total recognised in the Financial Statements. According to the Council, certain fixed assets were not included in FAR upon upgrading to the new accounting system. As a result, both the cost of assets and the accumulated depreciation thereon as recorded in the register are €249,554 and €298,116 less than those recognised in the Financial Statements. Furthermore, since depreciation is being calculated through FAR, an incorrect depreciation amount was charged to the accounts each year. Due to the aforementioned matters, LGA could not obtain sufficient appropriate audit evidence on the carrying amount of PPE as at 31 December 2014, amounting to €2,015,523.

An exercise is presently underway to reconcile FAR with the Financial Statements. The Council had undertaken a similar exercise successfully during 2010 and 2011 and it is confident that, given the Council's record keeping, any such discrepancies will be fully investigated and corrected.

A number of accounting issues were noted during the course of the audit. Verifications carried out revealed that LES debtors' balance as recognised in the books of account was understated by €2,333. In addition, the Council failed to reverse from the accounting records prepaid membership fees of €3,600. Similarly, upon the settlement of a court case, the respective garnishee order of €1,044, which funds were used to cover the related expenses, was not reversed from the books of account. Other allowances of €1,560 were not accrued for, which omission also affected the wages reconciliation.

A bank account relating to income received from grant Measure 125, with a year-end balance of €17,261, was omitted from the Trial Balance. According to the Council's Accountant, this amount was not accounted for, since after year-end, the respective balance was transferred to the Council's main bank account. This has resulted in

an understatement of grant income received in the Statement of Comprehensive Income. Thus, an audit adjustment was approved by the Council to rectify the aforementioned shortcomings and to be reflected in the Financial Statements accordingly.

Points noted and adjustments carried out accordingly.

In view that debtors' circularisation letters sent to the five Regional Committees, as well as a private company, remained unanswered, the aggregate receivable balance of €9,213 could not be confirmed.

From this year, the Council will be sending confirmation letters periodically to all its debtors. In the past years, such exercise was undertaken with respect to creditors.

Disclosed with opening deferred income was a balance of €25,000, relating to funds received to cover the expenditure incurred for the embellishment of *Triq il-Qiegħa*. However, the said project was cancelled. Consequently, an audit adjustment was posted to reclassify the aforementioned balance to other creditors, as the amount is to be refunded back to Government.

Testing carried out also revealed that whilst the deferred income reconciliation was not up to date, the amount to be released to the Statement of Comprehensive Income was not calculated. Such shortcoming was rectified following LGA's queries. It further transpired that the release of grants to the Statement of Comprehensive Income was not carried out on a systematic basis to match with the related costs, since whilst depreciation is calculated on the reducing balance method, amortisation was carried out on a straight line basis. This resulted in a discrepancy of €3,267. No audit adjustment was passed in this respect as the amount was not considered material.

As from 2015, amortisation of deferred income will be calculated on the reducing balance method.

None of the employees' contracts were renewed after the definite period of three years. Moreover, one of the contracts did not even indicate the period it covered. This is in breach of the pertinent regulations specifying that each employment contract is to be up to date and reflecting all the

salary increases which have occurred throughout the years. Due to this shortcoming, amounts disclosed in the respective FS3s did not tally to the salary indicated in the original signed contracts.

Employees' contracts have been updated according to their salary.

From the evidence reviewed, as well as the replies provided by the Council's Lawyers with respect to the outcome of a pending court case, LGA concluded that there is a 50% probability that the Council will have to pay the amount of €3,064. An audit adjustment was proposed to include such liability in the books of account.

Point noted and adjusted as advised.

Central Regional Committee

The Committee is still making use of contracts initially entered into by the then Sliema Joint Committee, for the provision of services of an authorised officer, as well as prosecution services and the rental of offices in San Ġwann. The cost of these services for the year under review amounted to €75,024, €34,018 and €22,979 respectively.

The rental agreement of a garage, which is used as a store was also extended for another year without obtaining quotes. This rental agreement, bearing an annual expense of €2,200, was solely signed by the acting Executive Secretary and the respective lessor.

The Central Regional Committee has issued a call for tenders in 2013 and it was brought to the Executive Secretary's attention towards the end of 2014. The Director DLG had advised all Regional Committees not to issue any new tenders and not to make any extensions on current tenders since the reform of the local wardens is still ongoing. Therefore, the current service of the authorised officer is on hold. With regard to the rental agreements of the administration and tribunal premises in San Ġwann, the Executive Secretary has written to DLG in order to be guided accordingly.

No action has yet been taken with respect to asset insurance coverage.

The Executive Secretary was not aware of this matter, and shall be taking action in order to be in line with the procedures.

Between September and December 2014, the Regional Committee incurred the amount of €9,021 on sub-contracted clerical services, notwithstanding that this is prohibited under Article 53(1)(c). Moreover, in spite of the amount involved, no call for tenders was issued. In addition, the expense was recorded in the books as warden service cost, necessitating a reallocation adjustment. A qualified audit opinion was issued in this respect.

This service was urgently requested due to the large amounts of tribunal sittings, which were scheduled towards the end of the year. The Region was informed about this during mid-August and since it was waiting for DLG's go ahead to proceed with the recruitment process, an extra person had to be temporarily employed. However, the Committee is pleased to report that the temporary clerical service was stopped in mid-March and the Region has now successfully employed two new Executive Officers together with an Accounts Officer.

The purchase of two computers, effected on 26 March and 14 August 2014 respectively, for a total cost of €2,282 was neither covered by approval in the Committee's minutes, nor a purchase order. Moreover, LGA was not provided with any quotations substantiating such procurement.

The purchase of the second computer was for the Executive Secretary and reference for this purchase was made during a Committee's meeting held in September 2014. However, the agent Executive Secretary had failed to take note of this approval even though this was discussed and approved by all members during the said meeting.

A wages reconciliation between FS7 and the amount recorded in the general ledger revealed that sub-contracted labour, amounting to €7,067, was included with gross salaries. However, following the proposed audit adjustments and recommendations to revise FSS returns, an unreconciled difference of €2,794 between the revised FS7 and adjusted ledger still prevailed. A qualified audit opinion was issued in this respect.

The wages of a part-time employee were posted twice, both in the ledger and in FSS records. This resulted in the total difference of €7,067 in both records. The Committee shall ensure that transactions are not effected twice and will only be included once through FSS.

The Council posts payroll costs in one control account every pay period and then allocates a global amount to the specific personal emoluments accounts at year-end. Any, unreconciled differences are allocated against the sub-contracted labour account.

Overtime hours were calculated and controlled by one individual employee, whilst hours worked by the acting Executive Secretary and a part-time employee were also recorded by the same employee. This is a clear indication of lack of control on the amounts paid to staff for overtime hours claimed.

Points not addressed.

Copies of FS5s and the related payments were not submitted to IRD on a timely basis. It was noted that eventually the respective documentation and corresponding payments for 2014, totalling €30,031, were submitted in 2015. The latter amount included €489 in interest and penalties incurred for the late filing of 2013 documentation. Moreover, the payroll tax liability of €30,031 was this year again incorrectly disclosed with accrued expenses in the Financial Statements. Being a preferential creditor, such liability merits separate disclosure.

The delay in the submission of FS5s was addressed immediately in 2015 and, as advised, all monthly FS5s were submitted on time to avoid further interest and penalties.

Since its inception, the Committee has not paid any performance bonus to its employees. However, notwithstanding that the former agreed that all bonuses due will be paid, it only provided for those relating to 2014. Following LGA's recommendation, the Committee approved to provide for an additional liability of €15,724.

When the new Executive Secretary took up office in July 2014, she had informed all the staff members

that they had to follow the 'Collective Agreement of Clerical Workers at Local Councils and Regional Committees 2012-2016'. The staff was neither aware of this agreement, nor of the fact that it was entitled to a performance bonus. Therefore, the clerical staff wrote a letter about this issue, which the Executive Secretary forwarded to the Regional Committee's members. Upon approval, the Executive Secretary settled the performance bonus in respect of 2014 in January 2015, while bonuses for 2012 and 2013 were paid in February and March 2015 respectively.

Employee files were not updated and information was still being compiled by the new Executive Secretary. Furthermore, engagement and termination forms were only available with the latest movements. FS4s were also not prepared for the new employees.

FS4 reports were immediately prepared by the Executive Secretary as soon as she was notified that such reports must be prepared from her end.

The petty cash sheets prepared by the Regional Committee are not signed by the President and the Executive Secretary as these are not presented to the Committee. Moreover, all petty cash expenses are allocated against repairs and maintenance irrespective of their real nature.

The Executive Secretary would like to point out that the petty cash sheets are always included in the schedule of payments and are always available during meetings should any of the members wish to see them or place a query.

During the year under review, the Committee increased its provision for bad debts by €41,485 to €91,011 as at 31 December 2014. However, rather than the movement, the full amount of the provision was recognised in the Statement of Comprehensive Income. Such error was rectified through an audit adjustment proposed by LGA. It also transpired that the Committee is accounting for all infringement notices issued as income and subsequently reversing those cancelled or lost at adjudication level.

As from 2015, the Committee will ensure that all debtors are correctly accounted for and any balances which are due for more than 24 months are provided for as bad debts rather than providing for a general provision for doubtful debts. This will ensure that all previous years' debtors, which are not recoverable, are removed from the accounting records as debtors might be overstated in this case.

This year again, the Regional Committee did not account for bank charges and commission fees withheld on LES remittances from LTD and LCA. As a result, expenditure was understated by a total of €79,100, while LES debtors were overstated by the same amount. An audit adjustment was included in the books to account for these omissions.

Point noted. The Committee was unaware of such methodology. However, it will make sure that such bank charges are taken into account in the coming years. The Financial Statements were adjusted accordingly to include such charges.

The Committee did not record invoices for administration fees issued by Local Councils but what was outstanding was recorded at year-end in one single entry in the accruals account.

This method was reverted in 2015, as invoices issued from various Local Councils are now being presented on a monthly basis by the Executive Secretary. However, as not all Councils present their invoice to the Committee on time, the total commissions due are still being computed from the reports extracted from LES to ensure that all commissions are accounted for in the relevant year.

Although the Committee is carrying out some form of reconciliations between the bank receipts and amounts receivable, there is still a backlog of such task. Moreover, the relevant information is not shared with the Accountant.

With effect from 1 July 2015, the Committee has employed an Accounts Officer on a full-time basis, who shall be ensuring that this backlog is brought up to date.

A difference of €490,613 was again noted between LES balance of €3,255,179³³ as recorded in the Financial Statements and that of €2,764,566, covering both LES debtors (€2,335,392) and pending transfers (€429,174) as included in the respective reports.

The system is limited to a certain extent and hence LES debtors are computed by calculating the total amounts as recorded in the computerised system and deducting the actual receipts. The Committee shall analyse whether contraventions issued in the previous years are still recoverable so that the debtors' balance reflects the actual figure of the outstanding amount.

The depreciation charge for the year was overstated by €1,981 since furniture was depreciated at the rate of 10% rather than 7.5%, besides that this was calculated on an annual straight line basis rather than on the monthly reducing balance method. Furthermore, depreciation is calculated manually and not through the accounting software, as FAR is currently maintained on a spreadsheet, which also lacks descriptive details. The Financial Statements were rectified accordingly through an audit adjustment.

The Committee has taken note so that in the coming years, depreciation will be calculated on the reducing balance method. The adjustment forwarded by LGA was taken into account and the Financial Statements were adjusted accordingly. The Committee will also ensure that the current FAR will include the required information as highlighted by the Auditor.

The bank reconciliation covered only up to 30 December 2014, with the consequence that deposits of €3,575, which were cleared by year-end, were still included as a reconciling item. Furthermore, a copy of the bank reconciliation for the preceding months was not provided.

As from 2015, bank reconciliations for all accounts are being undertaken on a monthly basis. It is also being ensured that all transactions are correctly allocated to the current ledger account. The fact that reconciliation covered up to 30 December was a genuine mistake.

The Committee did not obtain statements from all suppliers, notwithstanding the fact that this is a monthly requirement in line with standing procedures and Memos. Discrepancies were noted between the statement and the list of creditors. The following relate:

- a. A supplier was paid twice for a six-month period rental of the premises used as a Tribunal. An adjustment to correct this error was proposed by LGA and accordingly included in the audited Financial Statements and the service provider was contacted for a refund. Moreover, only one of these payments was included in the schedule of payments which was presented for approval at a Committee's meeting.
- b. A number of invoices issued from another supplier were either omitted from, or incorrectly recorded in the books of account. This resulted in expenditure being understated by €3,222. The Committee also failed to record prepaid rent of €3,868. Such errors were rectified by means of audit adjustments.
- c. Invoices amounting to €25,008, relating to a different supplier, as well as accrued expenditure of €8,297 were also not accounted for. Proposed adjustments were accepted by the Committee and incorporated in the Financial Statements.
- d. Another difference of €4,288, noted with respect to the fourth supplier, was not resolved. The Committee was advised to look into the identified differences.

Supplier's statements are requested regularly to ensure that all creditors' invoices and payments are included in the Financial Statements, however some of the suppliers were unable to forward the requested documents as at year-end. Hence, the Committee was unable to perform monthly suppliers' reconciliations for those particular suppliers.

³³ As adjusted following the approved audit adjustments.

It is imperative to note that the major suppliers were in agreement with the amounts included in the Financial Statements as at 31 December 2014. This clearly shows that the balances of the suppliers mentioned in the Management Letter were not material.

A court case which was initiated in 2012 between the Committee and two bidders, for the service of an authorised officer, is still pending. However, notwithstanding prior years' recommendation, a contingent liability note with respect to this open litigation was still not disclosed in the Financial Statements. According to the acting Executive Secretary, the Committee is not anticipating any costs or liabilities in this regard.

The Committee was not given sufficient information to report such liability and the representatives were unsure whether the case is still pending or not. To date, the Committee still does not have information on this case to be able to report on it.

This year again, LGA was not provided with a budget.

The Executive Secretary noted that the budget was not drawn up ever since the Committee was in place. A budget for 2015 has been prepared and will be presented accordingly.

The Committee does not have access to the accounting records since these are prepared on the software owned by the Accountant. A copy or backup of the package is also not available at the office of the Regional Committee.

Computer expenses of €1,580, were allocated against the wrong nominal account. A reclassification adjustment was passed in this respect.

Points not addressed.

Other shortcomings were also noted in the Financial Statements, namely:

- a. Despite that no accounting policy was included with respect to LES income recognition criteria, a policy referring to other forms of income recognition, which are irrelevant to the Central Regional

Committee, was included in the Financial Statements.

- b. Out of its surpluses, during the year under review, the Committee distributed the total amount of €700,000 to Local Councils. This amount was recognised as an expense on the face of the Statement of Comprehensive Income rather than a distribution from reserves. The Committee also included banks charges as part of the distribution. This triggered a difference between the surplus for the year as reported in the Statement of Cash Flows and that in the Statement of Comprehensive Income.
- c. The depreciation policy includes rates and methodology that differ from those legally stipulated. Whilst the methodology was corrected in the audited Financial Statements, the rates applied were still not presented correctly.
- d. Several casting errors in the Financial Statements were also noted.

All adjustments mentioned in the Management Letter were effected following LGA's recommendations.

In line with the Local Councils Act, the Regional Committee shall meet at least once a month. However, it transpired that no meetings were held in February and June 2014, with the result that the stipulated five-week interval between meetings was exceeded.

When the Executive Secretary started carrying out meetings as from October 2014, she made sure that meetings did not exceed the maximum interval of five weeks.

Gozo Regional Committee

While the provision for bad debts, representing LES contraventions pending for more than two years, as included in the Committee's Financial Statements, amounted to €22,277, the pending amount due as per LES report totalled €55,208. Accrued income related to LES contraventions not paid (€73,747), was also understated when

compared to the system report (€91,239). Audit adjustments of €32,931 and €17,492 respectively were proposed by LGA and the Committee updated its Financial Statements accordingly.

Invoices amounting to €4,769, relating to the 10% administration fee on contraventions paid at the Rabat (Gozo) and Ġhajnsielem Local Councils, were not accounted for in the books of the Regional Committee, thus resulting in understated payables. Such error was rectified by means of an audit adjustment proposed by LGA.

The annual budgets for 2014 and 2015 were not drawn up. According to the Executive Secretary, these were not prepared due to the financial position of the Committee. In such absence audit testing was hindered.

The Committee failed to provide a reply to the Management Letter.

Northern Regional Committee

During the preceding year, the Regional Committee issued a tender for the provision of prosecution services, which call was suspended due to an objection. In the interim, a call for quote or a new tender was not issued, with the result that for another year, these services were still being provided by the same contractor who was awarded the tender years back, under the Joint Committee's administration.

An adequate LES reconciliation between the amount of contraventions collected, as indicated in the respective computerised system, and third party evidence, namely bank statements, was not carried out. A variance of €48,838 was encountered between the reports issued from the system and the amounts recorded in the Financial Statements.

The Committee is still experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. LES debtors outstanding as at 31 December 2014 amounted to €935,256, of which €634,679 has been pending for more than one year. However,

the Committee has still not yet established a proper policy to evaluate and provide for impairment in relation to adjudicated tickets which, based on experience and trend analysis, would be deemed unrecoverable. Furthermore, since the information provided to LGA in this regard was not sufficient, the latter was unable to determine the extent of the provision required to be recognised in line with the requirements of IAS 36, and thus a qualified audit opinion was issued in this respect.

Due to the application of incorrect cut-off procedures at year-end, coupled up by the lack of regular reconciliations with suppliers' statements, liabilities as recorded in the books of account were either incomplete or fully omitted. By way of example, €1,958 worth of invoices received prior to year-end was not accounted for. Accrued expenditure disclosed in the accounting records was also understated by €6,022³⁴. These transactions were incorporated in the books of account through an audit adjustment.

In breach of the Local Councils (Financial) Procedures, payments issued were not always being substantiated by the respective payment voucher. By way of example, a payment voucher was not traced to cover rental payments with respect to the Committee's premises, as well as a garage amounting to €11,647 and €5,823 respectively. A payment of €167 for grocery items was also not covered by a payment voucher. Furthermore, as highlighted in **Appendix G**, no VAT fiscal receipt was provided to substantiate expenditure totalling €21,009, of which €18,287 was not even covered by an invoice.

In the absence of a FAR to record the fixed assets additions acquired by the Committee, depreciation charge is being calculated manually and accounted for through a journal entry on a quarterly basis. It was also noted that assets are depreciated on the straight line basis rather than the reducing balance method. This error was rectified through audit adjustments. Moreover, assets are not tagged, thus hindering physical identification.

The procurement of flags, solar films, a cordless phone, as well as a local area wireless technology extender, in aggregate costing €1,604, was treated

³⁴ Included in this amount is the performance bonus (€4,897) payable to the Executive Secretary and employees. However, it transpired that the amount actually paid totalled €5,065, thus resulting in an overstatement of €168.

as recurrent expenditure. Following LGA's recommendation, the necessary adjustments were approved by the Committee to capitalise the aforementioned items and recognise depreciation thereon.

For another year, petty cash transactions were not being recorded. In the nominal petty cash account there was only one transaction of €207, dated 31 December 2014. This represents the closing amount of petty cash as at year-end, implying that the cash expended and reimbursed during the year was allocated directly from the bank account to the miscellaneous expenses account, whilst the cheques issued to reimburse the petty cash payments were also not accounted for through the petty cash account.

Despite that Regional Committees are exempt, investment income earned from a local bank was subject to withholding tax.

A discrepancy of €15,516 was noted between commissions payable to Local Councils as disclosed in the Financial Statements and the respective reconciliation provided for audit purposes. In view that no further documentation and explanations were provided by the Committee, LGA had no option other than to qualify the audit report.

The Regional Committee is still not maintaining the accounting data at its offices, as this is held by the respective Accountant.

A number of non-compliance issues emerged from the audit. For example, by the conclusion of the audit assignment, the Committee had still not prepared the three-year business plan and the budget for 2015. Moreover, the chart of accounts is not in line with the Local Councils (Financial) Procedures, as the Committee is continuously opening new accounts, despite that an account for the specific type of expenditure is already incorporated in the nominal ledger. It also transpired that the nominal ledger is not being regularly scrutinised for misposting errors. Consequently, reclassification adjustments aggregating to €3,337 were passed to rectify these misallocations.

The Committee failed to provide a reply to the Management Letter.

South Eastern Regional Committee

An analysis of a particular report revealed that contraventions amounting to €43,059 were cancelled, whilst another €159,822 were waived during the year under review. According to the acting Executive Secretary, the Committee can cancel contraventions from the system, either because these were issued on a wrong number plate, the same contravention was issued more than once, or in cases where details about the offender are not available, such as in the case of foreign number plates. On the other hand, waived tickets represent contraventions which were either reversed following a petition, or were not adjudicated guilty by the Tribunal. The Committee is recommended to adopt strict controls and procedures for cancelling contraventions to avoid potential abuse.

Contraventions are only cancelled once it is ascertained that the money due cannot be recouped or in case of errors, which render the contraventions as null.

As already reported during the preceding years, the South Eastern Regional Committee has taken over a number of contracts, including prosecutor services, authorised officer services, warden services, as well as speed camera contributions, which were initially entered into by the then Joint Committee. A total expenditure of €681,251 was incurred in 2014 for the provision of such services. The Committee did not sign a formal extension in respect of such contracts. In the circumstances, it is recommended that a new call for tenders is issued.

LGA was not provided with evidence that an IT audit of LES was carried out to provide comfort that information generated there from is complete, accurate and free from material misstatement. Consequently, LES income, expenses, receivables and payables as recorded in the Financial Statements, amounting to €1,719,944, €416,209, €1,456,070 and €450,919 respectively, could not be verified. A qualified opinion was issued in this respect.

It also transpired that the agreement pertaining to the operation and technical support of the said system was inherited from the Joint Committee.

Thus, it is recommended that the Committee liaises with DLG to draft a fresh agreement with the service provider in question.

An agreement was signed in August 2012 between the Region and a company providing warden services and speed camera contributions. However, the services of this company are no longer being used. With respect to the warden services offered by another company, the Committee was advised not to renew the contract in view of the envisaged LES reform. The authorised officer services were terminated in May this year. Moreover, the services of the three prosecutors mentioned in the Management Letter are no longer being used. The latter used to provide prosecutor services with the Valletta Tribunal, which was closed down in 2014.

The Regional Committee was not covered by a valid performance bond from the respective accountancy firm and its legal adviser, as the ones they possessed were expired.

The Committee has noted LGA's observation and taken necessary action accordingly.

No agreements or contracts were traced with respect to the rental expenditure on property as outlined in **Table 29**.

Decisions regarding the location and premises of the Tribunals are made by the Ministry for Justice, Culture and Local Government. The Committee approved the rental amount unanimously during a meeting held on 1 February 2015. The Fgura Tribunal ceased functioning in 2014, following a decision by the said Ministry. Thus, the premises are no longer being used. The Region will not be making any further use of the store in Fgura.

The procurement of office cleaning services, as

well as legal advice bearing a cost of €1,109 and €1,182 respectively, was made through direct orders. Purchase orders were also not raised in this respect.

The Regional Committee has noted LGA's observation and will issue purchase orders for all purchases in excess of €23.29.

An analytical review exercise carried out by LGA revealed that expenditure incurred by the Regional Committee for warden services is relatively high when compared to the value of contraventions issued. Such costs for 2014 amounted to 42% of LES income, compared to 40% in 2013. According to the Executive Secretary, this expenditure is expected to increase even further over the coming year, due to the price adjustments as allowed under the contract. In addition, the Committee engaged an authorised officer to scrutinise the invoices for warden services, by assessing the number of billed hours and hourly rate before the respective invoices are paid.

Warden costs are dictated by the terms and rates as set out in the tender submissions. The Committee has reviewed current routes and effected changes in an effort to get better value for money. Any untracked hours claimed are deducted from payment.

The Committee is no longer making use of the authorised officer services and these functions have been taken over by the Region's Executive Secretary. Hence, it can now liaise directly with the warden companies to achieve better value for money.

The Committee based its provision for LES doubtful debtors on the higher of adjudicated tickets outstanding for more than two years

Table 29: Rental Expenditure not covered by Contracts or Agreements

Details	Amount incurred
	€
Tribunal in Żejtun	14,754
Tribunal in Fgura ³⁵	2,469
Store in Birżebbuġa	650
Store in Fgura	419

³⁵ The rent of Fgura Tribunal was terminated in October 2014.

(€497,030) and adjudicated tickets at year-end multiplied by the average ratio of unpaid tickets over the preceding three years (€815,545). The Committee argued that this provision is more prudent and indicative of the recoverability of LES debtors. However, such methodology is not in line with the accounting policies applicable to Local Councils and Regional Committees, whereby unpaid contraventions shall be considered as impaired and provided for in full after two years from their date of issue. Furthermore, IAS 39 prohibits the creation of general provisions for doubtful debts because of the extreme subjectivity and judgement involved. Following LGA's recommendation, the Committee agreed to change its policy and consequently reduced the provision from €815,545, as initially reported in the unaudited Financial Statements, to €497,030.

LGA's observations were noted and the necessary adjustments were recorded in the Committee's Financial Statements.

The Regional Committee's Financial Statements recognised a significant balance of €1,827,348 as due from adjudicated tickets, against which the provision for doubtful debts of €497,030 as indicated above was recognised. In addition, disclosed with receivables is also the amount of €125,752 representing pending transfers from collectors.

In April 2015, the Committee undertook an exercise to issue 3,500 letters in respect of unpaid fines issued until the end of January 2014.

Included in the books of account is the amount of €11,314 representing contraventions remitted by the collector but not yet deposited or cleared by the bank. To substantiate this amount, the Committee extracted a reconciliation report from the computerised system, which at year-end had a balance of €11,967. No explanation was provided for the difference.

It was further noted that €2,370 of the amounts in transit relate to contraventions issued in 2012 and 2013, thus implying that, whilst on the system these were marked as transferred in those years, they had not been physically remitted to the Committee's bank account as at time of audit. Thus, LGA was unable to verify the cash in transit to subsequent bank receipts. It also transpired

that the collectors in question also include the Committee itself and its Tribunals, meaning that all collectors involved did not deposit the money collected in the bank in a timely manner.

A discrepancy of €3,217 was encountered between the bank balance as recorded in the books of account and the respective bank confirmation.

It also transpired that two bank accounts with trivial balances are idle. If these accounts are not being used, for security reasons, the Committee is recommended to close such accounts. It was further noted that another bank account has been designated as taxable.

The Regional Committee notes LGA's observations and, where possible, it shall take necessary action.

While accrued performance bonus was understated by €1,536, warden costs were overstated by €1,751. Following LGA's recommendation, the Committee approved the necessary adjustments and rectified the Financial Statements accordingly.

The Committee is disputing an amount of €91,098, in relation to warden services provided up till August 2014. According to the Executive Secretary, the authorised officer was unable to verify 3,625 hours of warden services that were billed in the invoice in question, and thus did not certify the relative payment.

Notwithstanding that the full value of invoices as issued by the contractor was recorded in the creditors' nominal ledger, in the Financial Statements, the Committee also recognised the amount of €91,098, referred to above, as accrued income. However, since after year-end, the contractor has shown his intent to institute legal proceedings against the Committee to collect these amounts, the latter agreed to LGA's recommendation to reverse the accrued income in the audited Financial Statements and show the creditor balance in full.

The Regional Committee noted LGA's observations and took the necessary action.

Capital commitments budgeted for 2015 (€5,500) differed by €4,165 when compared to the amount disclosed in the Financial Statements (€1,335).

In view that a number of members did not attend meetings regularly, the necessary quorum for three out of 15 meetings was not reached. As a result, meetings were not held at least once monthly and a number of payments were issued without the Committee's prior approval.

Petty cash expenditure is not approved in the Committee's meetings.

LGA's observation was noted and necessary action will be taken where possible. Petty cash expenditure is to be forwarded to the members of the Regional Committee for their approval.

As also pointed out in preceding years, the Committee is not using the specimen chart of accounts that is standard to Local Councils and Regional Committees. Furthermore, the administrative report for 2013, summarising the performance, operations and achievements of the Committee during the year, was not prepared and approved. The latter also failed to update the three-year business plan for the years 2015 to 2017. Moreover, interim reports, showing variations between budgeted and actual income and expenditure, and reporting on other aspects of the Committee's financial performance, were not provided to LGA upon request. In addition, the financial budget for 2015 was neither prepared in the prescribed format nor was it approved by the time of audit. LGA also noted that no reply to the previous year's Management Letter was submitted by the Committee. Since such issue was not minuted, it could not be ascertained whether the members of the Committee discussed the respective observations.

The Regional Committee notes LGA's comments and will take necessary action. With respect to the chart of accounts, clarification from DLG was requested as to whether this needs to be in line with the Local Council (Financial) Procedures, however no answer was ever provided. In the absence of such direction, the Committee set up the chart of accounts on the basis of the templates provided in the accounting software package. As regards the quarterly reports, these were prepared and presented to the Committee's members.

At year-end, current assets exceeded current liabilities by €680,531. The low level of liquidity could imply that the Committee might not be able to fulfil its financial obligations as they fall

due. With significant working capital tied up in debtors, taking an average of 241 days to pay, the Committee currently relies on the support of its creditors' extended credit terms. Due to the limited liquidity, the Committee has not distributed any funds to its members during the year under review.

The Regional Committee has undertaken a debt chasing exercise to improve its liquidity position.

Southern Regional Committee

As also reported in the preceding year, a number of members did not attend all Committee's meetings with the consequence that on certain occasions, the necessary quorum was not reached. It also transpired that when a Mayor was absent from a particular meeting, this fact was not disclosed in the agenda of the following meeting. This goes against the Local Councils Act, which states that members need to attend all meetings held in a calendar year and the President is required to state the reason for any member's absence in the Committee's agenda.

The Committee does its utmost to ensure that all the Mayors attend for the respective meetings and, if unable to do so, send a substitute. However, sometimes such absenteeism is beyond the Committee's control. This absenteeism, in certain cases, was the reason why the time lapse between one meeting and the next exceeded five weeks. The issues regarding absenteeism and the Committee's agenda will be followed by the Executive Secretary.

The Financial Statements presented for audit purposes were not the same as those approved and submitted to NAO. These were revised to incorporate a provision for doubtful debts of €645,677.

LGA was provided with a different set of Financial Statements from that submitted to NAO since the Committee was still awaiting guidance from DLG with respect to the provision for doubtful debts. A reply was only received following the deadline for submission, and the Financial Statements were amended accordingly to incorporate the provision for doubtful debts.

As per reports extracted from LES, as at 31

December 2014, LES debtors amounted to €1,803,498. Out of this amount, €1,451,151 related to tribunal pending payments, €129,821 represented amounts paid but which were not yet remitted to the Committee, whilst €222,526 covered pending contraventions that have not yet been referred to Tribunal. On the other hand, in its Financial Statements, the Regional Committee recognised LES debtors of €1,682,610. After taking into account the reconciling items, there was still a difference of €504 for which the Committee failed to provide an explanation.

The Committee did not account for amounts receivable of €13,579, which transaction was then incorporated in the books of account through an audit adjustment proposed by LGA.

Though the Committee agrees with the comments passed by LGA, it is important to point out that such reconciliations and variances are sometimes beyond the former's control. During the year under review, the Committee did its utmost to avoid such discrepancies, by regularly communicating with the personnel in charge of LES where variances were noted. The value of LES debtors at year-end is relatively high and every effort will be made to collect balances due. Through the legal services provider, the Committee will commence to send legal letters to collect tribunal pending payments.

The majority of reconciling items for related party balances, are invoices covering administration fees payable to Local Councils, which have been accrued for. However, in view that the accrual for the year was calculated on the total amount of contraventions collected by Government, LGA could not separately trace the amount payable to each Local Council. It also became apparent that related party reconciliations were not carried out for three Local Councils.

Prior to effecting payments to Local Councils, invoices are reconciled to reports generated from LES. Most Local Councils rarely send a statement and this is only submitted upon request.

FAR is still maintained on a spreadsheet. A laptop costing €1,051 was also not yet tagged.

Although at the moment FAR is maintained on a spreadsheet, it includes the key data needed and is still reconciled with the nominal ledger. In the future, the Committee will try to maintain FAR on

the accounting package. The issue of the untagged laptop was a one-off instance. Most probably, the tag fell off the laptop due to it being a movable item. The Council would like to point out that, upon purchase, all assets are tagged with a fixed asset code.

The Committee failed to prepare the three-year budget plan.

The Committee shall be working on the three-year budget plan to ensure more effective cost control on the Committee's operating activities.

Local Councils Association

The procurement of office fittings, as well as a fire alarm system, was not covered by quotations. **Appendix L – Table 1** refers. Moreover, no documents were provided to the acquisition of a gate costing €5,274.

The Association always strives to abide with the requirements of the Financial Procedures. The purchases mentioned by LGA had to be undertaken in a short time and thus it was not possible to abide with the tender procedures. Such purchases related to fixed assets which the Association purchased when it moved to the new premises in Marsa. Furthermore, the gate could only be purchased from a limited number of suppliers. In the future, the Association shall strive to follow the applicable procedures.

FAR presented by the Association for audit purposes lacks certain necessary details, including location of assets, as well as the respective supplier and invoice number. Furthermore, depreciation is being calculated manually on a spreadsheet rather than through the accounting software.

Comments about details of location, supplier and invoice number have been noted and the Association shall do its utmost to update accordingly.

The Association no longer keeps a record of the refundable air tickets. In the absence of such record, LGA could not perform audit procedures to obtain sufficient evidence on the outstanding balance, thereby leading to a qualification of the audit report. Moreover, while the total amount

of refundable tickets was presented separately in the Financial Statements, this was not reflected in the nominal ledger. An audit adjustment of €151,251 was proposed by LGA to reclassify the said amount in the ledger.

The Association shall start a reconciliation process to be able to identify and tally the balance refundable on air tickets. However, it is to be noted that refundable air ticket transactions were tallied to the bank statement and no discrepancies were identified.

From the Association's minutes dated 9 June 2014, it was also noted that no record is kept indicating the amounts that belong to the Association and funds advanced for projects.

LGA's comment has been noted and the Association has agreed to retain a separate account in this regard.

Once again, income and expenses relating to projects concluded during the year were netted off in the accounts. Income and expenditure for refundable air tickets was separately disclosed in the books of account. To this effect it was noted that income exceeded expenditure with €1,198 during the year under review. LGA's recommendation to reconcile the two balances and adjust the figure in the audited Financial Statements was not taken on board by the Association.

Point noted.

No formal procedures are in place to determine the classification of receivables and payables between the current and non-current portions. During the course of the audit, LCA was requested to reclassify €29,827 between short-term and long-term receivables. However, such reclassification was not reflected in the Financial Statements. Moreover, an analysis provided by the Association indicated that the non-current portion of payables was overstated. However, despite LGA's recommendation, the Association did not adjust its Financial Statements.

As discussed with LGA during the audit, it is very difficult to predict with reasonable assurance whether receivables from projects will be received within the next 12 months or after. The Association

has various on-going EU projects which have a different target end date, however, it is normal practice for such date to be moved due to reasons which are beyond the Association's control. Furthermore, the funds will not be received on the target end date but in instalments on other dates which therefore makes the process of classification between current and non-current receivables very subjective. The same explanation applies for the classification of payables between short-term and long-term.

Notwithstanding that general provisions are specifically prohibited under IAS 39, for the sake of prudence, a general provision of €30,000 on refundable expenditure receivable in respect of various EU projects was still created in 2013 by the Association. No movements were registered in this provision during the year under review.

This provision has been created in previous years. In the next financial year, a provision for each EU project shall be recorded.

In breach of pertinent regulations, as at year-end, the Association had a cash in hand balance of €2,313. Furthermore, notwithstanding that the cash was received on 24 December 2014, it was only remitted to the bank on 15 January 2015.

LGA's comments have been noted and the Association shall adhere to the Financial Procedures. However, the Association would like to point out that funds are deposited on a frequent basis and that the occurrence noted by LGA happened during the festive season.

Some of the creditors' statements requested by LGA were not readily available, implying that monthly statements were not being obtained by the Association in line with standing regulations. Furthermore, LGA's reconciliations between suppliers' statements and the creditors' list revealed certain discrepancies as highlighted in **Table 30**.

Before payments are issued, the Association normally reconciles creditors' statements for the routine creditors. However, the suppliers identified by LGA are not routine ones. In view of this, the Association also intends to start reconciling non-routine creditors.

Table 30: Discrepancies between balances as disclosed in the Suppliers' Statements and the Creditors' List

Supplier	Amount as per Ledger	Amount as per Statement	Difference
	€	€	€
1	30,951	28,060	2,891
2	5,111	2,748	2,363
3	2,220	3,235	(1,015)

Three invoices relating to 2014, amounting to €15,887, were neither recorded in the books of account, nor accrued for. Such errors were rectified by means of audit adjustments.

LGA's comments have been noted and the necessary adjustment to account for these accruals has been posted. Nevertheless, the Association would like to point out that some invoices relating to 2014 may have not been received by the second week of February 2015, which is the date when the Financial Statements had to be approved.

Notwithstanding that Article 53(5) of the Local Councils Act stipulates that employee contracts should be made for a three-year period, in June 2013 the Association signed a five-year contract with a Special Adviser, being the former Executive Secretary. It was also noted that the agreement with the new Executive Secretary, which was drafted in September 2013, still included the name of the previous Executive Secretary, who has now been appointed Special Adviser. Furthermore, in September 2013, an EU Project Co-ordinator was employed for a three-year period. However, a copy of the latter's contract provided for audit purposes was still unsigned.

The Association has sent a letter to DLG with respect to the Special Adviser. Moreover, as for the EU Project Co-ordinator's contract, this is available at the Association's office.

Remuneration paid to the President of the Association, the Special Adviser, as well as the EU Project Co-ordinator were treated as part-time emoluments in FS3. As a result, all the remuneration paid to the President and the EU Project Co-ordinator was subject to 15% tax, while the overall rate applied to that earned by the Special Adviser was of 21%.

The Association shall adhere to FSS procedures.

Besides non-adherence to certain disclosures required by IFRSs, which necessitated the qualification of the audit report, the following shortcomings were also noted in the presentation of Financial Statements presented by the Association:

- a. Unaudited accounts delivered to LGA were signed by the President but not by the acting Executive Secretary.
- b. The surplus for the year included in the Statement of Cash Flows amounts to €103,786, whereas the amount reported in the Statement of Comprehensive Income in the audited Financial Statements is €102,786.
- c. Casting errors, as well as lack of consistency in the presentation of certain line items, when compared to comparative figures, were also noted.

It is to be noted that although the Financial Statements of the Association were approved on 16 February 2015, the audit only started in the second week of April. At that time, the Association only had the services of an acting Executive Secretary. Furthermore, the Association was not provided with a draft copy of the Management Letter to be able to iron out any casting errors prior to the approval of the audited Financial Statements.

In line with the Local Councils Act, the Association shall meet at least once a month. However, it transpired that no meetings were held in March, August and October 2014. In such instances, the stipulated five-week interval between meetings was exceeded several times. Furthermore, whilst the aforementioned legislation requires that all

meetings are held at the Association's premises, it was noted that one of the meetings was held in a hotel.

LGA's comments have been noted. The decision to hold a meeting at a hotel was unanimously approved by all executive members.

Other Particular Concerns

Performance Indicators

As part of the Local Government Reform consultation process carried out in 2009, performance indicators covering eight critical areas, namely environment, the road sector, education and culture, human resources management, equal opportunities, citizen participation, customer care, and finance, were identified. During the same year, the proposed performance indicators were discussed with key stakeholders during a workshop organised by DLG, in collaboration with the Centre of Expertise for Local Government Reform within the Council of Europe. This was followed by planned task force meetings held by DLG, to discuss the areas to be measured, the criteria to be adopted, as well as the interpretation of key definitions and terminology to be used in respect of these indicators. However, although substantial work was carried out, this project was halted.

During the year under review, DLG embarked on a new project titled 'A Partnership for Creative Governance', under the Norway grants programme, including as key stakeholders LCA, the Norwegian Association of Local and Regional Authorities and again the Centre of Expertise for Local Government Reform within the Council of Europe. The main objective of the assignment is to enhance the Local Government system in Malta, through the implementation of tools already adopted by the Council of Europe, with the key focus being on the relation of the performance indicators with the legal requirements, both in terms of Local Councils' direct responsibilities and the financial regulations.

To date, a Partnership for Creative Governance, a Training Needs Analysis and a National Training Strategy have been compiled and published. This was complimented by a pilot project conducted

with 17 Local Councils to establish the way forward, by introducing performance management on two to three issues. In view that no systematic approach was ever introduced amongst all Local Councils, a manual for the implementation of Performance Management System and respective indicators is being drafted to ensure that the common procedure adopted will yield the same results. Furthermore, a Leadership Academy Programme is underway, where Mayors and Executive Secretaries receive training in various disciplines to enhance their leadership skills.

The main performance indicators included in the aforementioned manual, namely, residual household waste and recycling, improved street and environmental cleanliness, as well as road maintenance, are of particular importance in assisting Local Councils to monitor the actual level of accomplishment, and determine how they could become more efficient, effective and deliver more value for money. Eventually, these would also enable NAO to carry out value for money audits as requested by Local Councils Legislation.

The last two components of the project are a National Strategy for Innovation and Good Governance, as well as the award of the European Label for Governance Excellence. The latter shall only be awarded if the participating Local Councils achieve the pre-defined targets set by the Council of Europe.

Mid-term Audits

In line with the Local Councils (Audit) Regulations, whenever there is a change in the position of the Executive Secretary within a particular Local Council or Regional Committee, a mid-term audit is required. This should serve as an independent handover exercise to the new incumbent. The responsibility of informing the Auditor General and the Director for Local Government, when the Executive Secretary hands in his notice of termination of employment, or when the Local Council does not intend to renew his contract, is entrusted in the Mayor.

Following NAO's continuous recommendations, during 2014 through Memo 14/2014, in an attempt to address certain issues that are not covered by the aforementioned regulations, DLG issued more

specific guidelines that are to be followed in the case of a change in the position of the Executive Secretary. In line with the new instructions, a mid-term audit is to be conducted if the change in the term of office is effected two months following the beginning of a new financial year and if it is not later than two months prior to the end of a financial year. In addition it was specified that the set of Financial Statements drawn up in such cases, once approved and signed by both the Mayor and the Executive Secretary, are to be submitted to the Auditor General and the respective LGA, within a period of five weeks from the date of termination of the outgoing Executive Secretary.

Notwithstanding this, during the period under review, eight Local Councils as well as two Regional Committees, changed their Executive Secretaries within the period obliging them to carry out a mid-term audit. **Appendix M** refers. However, only three Local Councils, namely Fontana, Ghajnsielem and Lija adhered to the legislation cited above and performed the required exercise.

Despite that this non-compliance is becoming common, the Department is not taking any stand *vis-à-vis* the respective Councils. This lenient approach reduces the importance that the mid-term audit should be given.

In addition to certain issues already highlighted further up in the Report under the respective Local Council, the following were also noted during the respective mid-term audits carried out.

Fontana

A discrepancy of €403,668 was noted between the sum insured with regard to buildings and property in the open, totalling €100,000 and €90,000 respectively, and the cost of urban improvements and construction works aggregating to €593,668 as recorded in the books of account.

Point not addressed.

A review of the bank audit letter revealed that a bank account relating to Measure 313, with a balance of €17,286 was omitted from the accounting records. The Council also failed to record accrued income of €7,496 receivable in

respect of the same project. These errors were rectified through audit adjustments.

LGA's comments have been noted.

Testing carried out on the cut-off procedures adopted by the Council revealed that the latter did not accrue for entertainment costs amounting to €1,011, as well as for FSS and SSC for the month of June totalling €1,098. An invoice relating to transport services also remained unaccounted for. Further errors were noted in the reversal of opening accruals. Following LGA's recommendation, the Council approved the necessary adjustments.

Noted and any error is regretted. The Council did its utmost to apply the correct cut-off procedures at year-end.

MEPA application fees totalling €1,272, incurred with respect to the extension of the Civic Centre were incorrectly capitalised, even though the related project is still at its very early stages. A reclassification adjustment was approved by the Council.

Point not addressed.

Ghajnsielem

Adjustments totalling €2,346 were proposed by LGA to capitalise professional fees, in relation to specific projects, which were expensed through the Statement of Comprehensive Income.

This expenditure relates to architect services in relation to a compilation of a tender document.

Grants received in relation to *Għajn tal-Hasselin* were amortised, even though the respective project was not fully completed. The Council approved an adjustment to rectify this error.

The claim submitted by the Council during the period, with respect to the *Interreg* programme, which was audited by an independent auditor, disclosed total certified expenses of €17,514. Given a co-financing rate of 85%, the Council should have accrued for €14,887 rather than €13,573, thus resulting in accrued income being understated by €1,314. On the other hand, bank interest receivable was overstated by €1,078. It

was also noted that, opening accrued expenditure of €1,486 with respect to waste disposal, was reversed against the incorrect nominal account. These errors were rectified through the audit adjustments.

LGA's recommendations were noted and the necessary adjustments were carried out.

Lija

The amount of €1,350 paid to a third party for assistance and support in drafting adjudication reports, letters of intent, letters of acceptance, as well as contract agreements, was not covered by a call for quotation. However, although the Council may seek the advice of professionals on technical issues when adjudicating a tender, it is not expected to contract third parties to do the administrative work on its behalf. Such responsibility falls within the remit of the Executive Secretary who is the administrative head of the Council.

Irrespective of prior year's recommendation, three contracts covering the provision of refuse collection, street sweeping and grass cutting, as well as the cleaning of public convenience remained undated. In the latter case, the agreement was also not signed by the Mayor.

Points noted and action will be taken.

A review of the bank confirmation letter revealed that two bank accounts have been idle for the last two years. It was also noted that the signatories of accounts held with a local financial institution comprised the ex-Mayor and/or retired Executive Secretaries.

The Council will look into this matter to change the signatories and decide the way forward with respect to such accounts.

The bank reconciliation provided for audit purposes also included double posting of LES administration fees in the books of account, stale cheques, as well as deposited amounts which were still showing as unreconciled items.

The points raised by LGA have been noted and will be looked into during the coming year. As regards the stale cheques, these were analysed, and the necessary reversals have been carried out.

New cheques will be reissued where necessary.

As at 31 July 2014, an increase of €495 was noted in the Council's tribunal pending payments for the pre-pooling period, when compared to the preceding year. This casts doubt on the integrity of the data being generated from LES.

Reports generated from LES are beyond the Council's control.

Notwithstanding that in respect of the Citrus Festival held in February 2014, the Council was awarded a total grant of €5,000, only the amount of €1,563 representing the portion received during the period under review, was recorded as income. Thus, an adjustment of €3,437 was passed to account for the remaining part of the grant which was remitted to the Council's bank account in November 2014.

Point noted and the audited Financial Statements were adjusted accordingly.

The Council also failed to account for the payment of €8,087 forwarded by DLG to WasteServ Malta Ltd in relation to pending dues for tipping fees. This was then incorporated in the books of account through an audit adjustment.

The related documentation was not passed on for the necessary entry in the accounts. More attention will be given to this matter in the future.

Another audit adjustment was approved by the Council to capitalise the cost of €4,146, incurred for steel and masonry works in connection with the upgrading of *Ġnien tal-Mirakli*, which expenditure was incorrectly recorded through the Statement of Comprehensive Income. The related depreciation charge was also adjusted accordingly.

The necessary adjustments have been made and reflected in the Financial Statements.

Gross emoluments, as disclosed in the statutory forms, were understated by €2,110. According to the Council, the amount of €597 was omitted from FS5 of January 2014, thus reducing the unexplained difference to €1,513.

The wages reconciliation was prepared and the points raised by LGA were reflected accordingly.

Included with expenditure was the amount €1,500 charged by the Automated Revenue Management Serviced Ltd (ARMS) for an electricity sub-meter which was stolen several years ago from a public garden. The Council is recommended to ensure that all meters installed in public places are adequately secured from theft and damage to avoid similar charges in the future.

Point not addressed.

This year the Council again included the amount of €1,404 with accrued income, for which no explanation or supporting documentation was provided.

This balance has been brought forward from previous years and should be written off in the coming year.

The Council did not adopt proper cut-off procedures with the result that certain expenditure was either completely omitted from the books of accounts, or not fully provided for. Such errors were rectified through audit adjustments, which increased the Council's expenditure for the period by €17,523.

The mentioned invoices were not received by the time the unaudited Financial Statements were compiled, however these were included in the audited Financial Statements.

Bank interest receivable, as well as the reversal of opening prepayments, was also incorporated in the accounting records through audit adjustments.

The Council was not aware of the investment income at the time the Financial Statements were prepared. The necessary audit adjustments were made and reflected in the audited Financial Statements.

A grant of €12,000, awarded to the Council by DLG to finance the embellishment and upgrading of *Ġnien tal-Mirakli*, was fully recognised as income on date of receipt, rather than matched with the respective cost. On the other hand, the Council failed to release grants of €4,747 on capital assets acquired or constructed in previous year. These shortcomings were corrected by the

Council through audit adjustments, with €9,835 of grants being released to income for the period under review. As a result of these adjustments, short-term deferred income as originally recorded by the Council was understated by €6,644. Consequently, an additional adjustment was passed to properly reclassify deferred income into long-term and short-term portions.

Points raised by LGA were noted and the necessary action has been taken to rectify the situation. The correct amounts were included in the audited Financial Statements.

Disclosure of long-term PPP payables was overstated by €9,473. An audit adjustment was approved by the Council to reclassify this portion to current liabilities.

The necessary adjustments were posted in the audited Financial Statements.

In the Financial Statements submitted for the mid-term audit, the Council disclosed €12,000 as approved capital expenditure not yet contracted for as at 31 July 2014. However, at this date, the Council had already contracted capital commitments of €7,934, representing the provision and installation of solar lights for which a tender was issued during this period and an agreement was signed on 24 March 2014.

Capital commitments correspond to the amounts reflected in the Council's budget for the year. This will be presented more clearly in the future.

The Council failed to disclose as a contingent liability the fact that an insurance company is suing the Council, the Council's Architect and the contractor jointly for €18,486 in damages suffered by a resident. The damages are alleged to have been caused as a result of water floods during the resurfacing of an alley in *Triq Sant'Antnin*.

This was a claim from a resident in Triq Sant'Antnin where the insurance is claiming funds due to damages incurred during resurfacing works carried out by a contractor in Triq Annibale Preca. This claim has been dealt with by the Council's Lawyer and for valid reasons it is refusing to pay the amount of €18,486.

Appendices

Appendix A – Financial Allocation

Table 1: Income received by Local Councils

Local Council	Government Allocation 1 January – 31 December 2014	Other Supplementary Income received from Central Government	Other Income generated by Local Council	Totals
	€	€	€	€
Attard	575,640	101,727	44,710	722,077
Balzan	249,137	23,640	42,518	315,295
Birgu	258,635	45,512	154,579	458,726
Birkirkara	1,114,822	293,755	232,489	1,641,066
Birżebbuġa	629,515	149,359	22,456	801,330
Bormla	415,016	31,653	12,127	458,796
Dingli	299,309	41,589	19,456	360,354
Fgura	513,318	71,908	51,726	636,952
Floriana	322,418	45,516	50,921	418,855
Fontana	130,561	22,197	4,410	157,168
Gudja	251,713	25,433	19,814	296,960
Gżira	473,500	24,995	12,816	511,311
Għajnsielem	296,567	43,681	42,411	382,659
Għarb	204,454	77,271	34,255	315,980
Għargħur	216,129	44,079	23,330	283,538
Għasri	157,805	15,712	2,094	175,611
Għaxaq	300,968 ³⁹	-	-	300,968
Hamrun	582,912 ³⁶	23,520	62,757	669,189
Iklin	219,720	33,083	10,163	262,966
Isla	260,443	31,168	115,138	406,749
Kalkara	232,371	12,072	9,321	253,764
Kerċem	236,901	24,821	25,139	286,861
Kirkop	184,098	117,617	8,774	310,489
Lija	230,936	36,917	25,702	293,555
Luqa	356,196 ³⁷	93,330	27,829	477,355
Marsa	471,379	138,982	8,796	619,157
Marsascala	692,059	89,006	31,834	812,899
Marsaxlokk	325,488	91,954	14,737	432,179
Mdina	181,861	19,469	38,406	239,736
Mellieħa	1,009,987	179,942	111,672	1,301,601
Mgarr	391,753	33,395	23,266	448,414
Mosta	1,001,067	174,667	123,826	1,299,560

³⁶ This amount does not tally to the amount of €581,335 disclosed in the Financial Statements.

³⁷ Government allocation as disclosed in the Financial Statements amounted to €356,071. This is stated net of deductions of €120 imposed by DLG with respect to wireless connections.

Appendix A – Financial Allocation *cont./*Table 1: Income received by Local Councils *cont./*

Local Council	Government Allocation 1 January – 31 December 2014	Other Supplementary Income received from Central Government	Other Income generated by Local Council	Totals
	€	€	€	€
Mqabba	241,636	113,236	12,440	367,312
Msida	480,443	77,517	38,721	596,681
Mtarfa	234,132	36,369	32,417	302,918
Munxar	209,292	96,585	12,400	318,277
Nadur	407,041	54,491	28,326	489,858
Naxxar	825,418	116,511	68,360	1,010,289
Paola	622,656	18,330	48,343	689,329
Pembroke	354,084	43,854	19,503	417,441
Pieta`	269,429 ³⁸	55,535	68,581	393,545
Qala	252,333	44,337	4,044	300,714
Qormi	1,000,727	220,542	135,234	1,356,503
Qrendi	313,923	5,313	10,948	330,184
Rabat (Malta)	959,183	66,648	18,874	1,044,705
Rabat (Gozo)	486,710	52,191	25,596	564,497
Safi	219,058	15,069	16,942	251,069
San Ġiljan	616,364	43,756	119,672	779,792
San Ġwann	658,107	67,223	42,181	767,511
San Lawrenz	142,867 ³⁹	-	-	142,867
Sannat	203,690	45,423	5,700	254,813
San Pawl il-Baħar	1,233,873	109,570	170,969	1,514,412
Santa Luċija	295,939	41,724	48,447	386,110
Santa Venera	372,256	49,291	19,192	440,739
Sigġiewi	702,246 ⁴⁰	53,180	38,875	794,301
Sliema	952,386	88,597	87,334	1,128,317
Swieqi	533,909	136,960	21,150	692,019
Ta' Xbiex	194,700	22,392	14,520	231,612
Tarxien	447,619	82,946	26,889	557,454
Valletta	677,496 ³⁹	-	-	677,496
Xagħra	484,476	79,082	9,194	572,752

³⁸ The financial allocation as recorded in the Financial Statements amounted to €275,905, in view that Other Government Income aggregating to €6,476 was disclosed therein.

³⁹ In the case of Ghaxaq, San Lawrenz and Valletta, only the Government allocation was included since the audited Financial Statements were not submitted by the end of September 2015, being the ultimate deadline set by NAO for analysing such Financial Statements.

⁴⁰ Financial allocation as per Financial Statements stood at €702,124. The difference of €122 relates to deductions imposed by DLG, with respect to wireless costs, that were netted off against the allocation provided.

Appendix A – Financial Allocation *cont./*

Table 1: Income received by Local Councils *cont./*

Local Council	Government Allocation 1 January – 31 December 2014	Other Supplementary Income received from Central Government	Other Income generated by Local Council	Totals
	€	€	€	€
Xewkija	313,645	51,969	8,921	374,535
Xgħajra	163,713	31,745	3,510	198,968
Żabbar	770,890	78,561	21,300	870,751
Żebbuġ (Malta)	717,717 ⁴¹	153,765	45,542	917,024
Żebbuġ (Gozo)	405,346	67,399	10,653	483,398
Żejtun	740,247	97,054	120,485	957,786
Żurrieq	709,770 ⁴²	89,941	71,348	871,059
Totals	31,000,000	4,565,076	2,834,083	38,399,159

Source: ‘Government Allocation’ – as per report provided by DLG.

‘Other Supplementary Income received from Central Government’ and ‘Other Income generated by Local Council’ – as disclosed on the face of the Statement of Comprehensive Income, even though at times these did not tally to the balances recorded in the respective note.

Note: ‘Other Income generated by Local Council’ also includes finance income, such as interest earned on bank balances, however this excludes any increase in fair value of investments, recognised through the Statement of Comprehensive Income.

⁴¹ Allocation as per Financial Statements stood at €717,680.

⁴² Government allocation as disclosed in the Financial Statements amounted to €720,812, as this included the amount of €11,042 received by the Council to cover wages in line with the employees’ collective agreement for the period 2012-2014. For consistency purposes the latter amount was disclosed as ‘Other Supplementary Income received from Central Government’ in the above Table.

Appendix A – Financial Allocation *cont./*

Table 2: Income generated by Regional Committees

Regional Committee	Income generated
	€
Central Regional Committee	4,470,421
Gozo Regional Committee	302,968
Northern Regional Committee	1,621,595
South Eastern Regional Committee	1,720,144
Southern Regional Committee	2,166,860
Total	10,281,988

Note: Regional Committees were provided with a Government allocation only during their first year of operation. From thereon, their main source of income is the money generated from LES.

Appendix B – Reports that were either Qualified with an ‘Except for’ Audit Opinion or highlighting an ‘Emphasis of Matter’

Column 1 indicates the localities wherein, included in the Financial Statements, is LES income received during the year under review, from the respective Joint Committee. LGAs were unable to determine the amount of additional income that the Council is entitled to receive, since the audited Financial Statements of the Joint Committee for the financial year 2014 were not yet available. Furthermore, there were no alternative acceptable audit procedures that LGAs could perform to obtain reasonable assurance on the completeness of the share of income or expenses that was recorded in the Financial Statements.

Column 2 shows the Councils where the Financial Statements for the year under review were not prepared in their entirety in accordance with IFRSs, mostly since disclosure requirements were not complied with. Very often such disclosures related to the requirements of IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 – Related Party Disclosures and IFRS 7 – Financial Instruments: Disclosures.

Column 3 highlights the Councils where other specific issues on an individual basis were encountered.

Column 4 illustrates the localities where the going concern assumption, used in the preparation of the Financial Statements, is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Councils, and on the continued support of the latter’s creditors. Any adverse change in either of these assumptions would hinder the Council in meeting its financial obligations as they fall due, without curtailing its future commitments.

Local Council/ Regional Committee/LCA	Column 1	Column 2	Column 3	Column 4	
				‘Except for’ Audit Opinion	‘Emphasis of Matter’
Attard	x	x	x		x
Balzan	x	x			
Birkirkara	x	x	x		x
Birżebbuġa			x		x
Bormla		x	x		
Dingli	x		x		
Fgura		x	x		
Floriana		x	x		
Gżira	x	x	x		
Għajnsielem			x		
Għarghur	x	x	x		
Iklin	x	x			
Kalkara		x	x		x

Appendix B – Reports that were either Qualified with an ‘Except for’ Audit Opinion or highlighting an ‘Emphasis of Matter’ *cont./*

Local Council/ Regional Committee/LCA	Column 1	Column 2	Column 3	Column 4	
				‘Except for’ Audit Opinion	‘Emphasis of Matter’
Kirkop ⁴³					x
Lija	x	x	x		x
Luqa		x			
Marsa		x	x		
Marsaxlokk	x	x			
Mdina	x	x	x	x	
Mellicha	x				
Mġarr	x		x		
Mosta	x	x	x		x
Mqabba		x			x
Msida		x	x		x
Mtarfa	x	x	x		
Nadur					x
Naxxar	x	x			
Paola	x	x	x		
Pembroke	x	x			
Pieta`		x	x		x
Rabat (Malta)	x	x	x		
Rabat (Gozo)			x		x
San Ġiljan	x	x			
San Ġwann	x	x	x		
San Pawl il-Baħar	x	x			x
Sannat			x		x
Santa Venera	x	x			
Sliema	x		x		
Swieqi	x	x		x	
Ta’ Xbiex	x	x			
Tarxien	x		x		
Xagħra			x		x
Xgħajra		x	x		x
Żabbar		x	x		
Żebbuġ (Malta)			x		x
Żejtun	x	x			
Żurrieq			x		

⁴³ As highlighted further up in the Report, LGA issued a disclaimer of opinion for Kirkop Local Council.

Appendix B – Reports that were either Qualified with an ‘Except for’ Audit Opinion or highlighting an ‘Emphasis of Matter’ *cont./*

Local Council/ Regional Committee/LCA	Column 1	Column 2	Column 3	Column 4	
				‘Except for’ Audit Opinion	‘Emphasis of Matter’
Central Regional Committee		x	x		
Gozo Regional Committee		x			x
Northern Regional Committee		x	x		
South Eastern Regional Committee			x		
Southern Regional Committee			x		
LCA		x	x		

Note: Since no audit opinion was provided for Birgu, Hamrun, Qrendi and Siggiewi, these have not been included in the Table above.

Appendix C – Delayed Submission of Audited Financial Statements

Date when the Audited Financial Statements were submitted to the Auditor General	
Within the following week	
4 May 2015	Hamrun Northern Regional Committee
6 May 2015	Kerċem Mqabba Rabat (Gozo)
7 May 2015	Għarb
May 2015	
13 May 2015	Balzan Birkirkara Santa Venera Sliema
June 2015	
2 June 2015	Msida Pieta`
10 June 2015	Ta' Xbiex Central Regional Committee
16 June 2015	San Ġwann
18 June 2015	Xgħajra
30 June 2015	LCA
July 2015	
2 July 2015	Birgu
September 2015	
23 September 2015	Gozo Regional Committee

Appendix D – Amounts in dispute with WasteServ Malta Ltd

Local Council	Total Amount in dispute as at 31 December 2014
	€
Attard	34,123
Balzan	5,611
Birkirkara	67,352
Birżebbuġa	13,682
Bormla	1,452
Dingli	5,047
Fgura	35,253
Gudja	1,454
Gżira	17,806
Għargħur	12,029
Iklin	11,475
Isla	11,995
Kirkop	1,467
Lija	3,926
Luqa	5,727
Marsascula	58,852
Marsaxlokk	1,911
Mellieha	44,345
Mgarr	16,567
Mosta	40,791
Mqabba	10,520
Msida	18,342
Mtarfa	13,162
Nadur	1,446
Naxxar	25,855
Paola	25,761
Pembroke	7,817
Pieta`	13,118
Qormi	55,413
Qrendi	10,291
Rabat (Malta)	3,533
Safi	8,504
San Ġiljan	13,986
San Ġwann	14,287
San Pawl il-Baħar	126,432
Santa Lucija	2,631
Santa Venera	24,718
Siggiewi	24,866
Sliema	18,131

Appendix D – Amounts in dispute with WasteServ Malta Ltd *cont./*

Local Council	Total Amount in dispute as at 31 December 2014
	€
Swieqi	44,700
Tarxien	25,725
Ta' Xbiex	4,777
Żabbar	632
Żebbuġ (Malta)	36,323
Żebbuġ (Gozo)	113
Żejtun	22,480
Żurrieq	6,797
Total	951,225

Source: The figures disclosed in the Table above were provided by the respective LGAs, as per information illustrated in the related suppliers' statements.

Note: In view that the audited Financial Statements of Ghaxaq, San Lawrenz and Valletta Local Councils were not submitted by the end of September 2015, being the ultimate deadline set by NAO for analysing such Financial Statements, the respective Councils were not included in the Table above.

Appendix E – Membership Fees paid in 2014 to Gozo Action Group

Local Council	Total Amount Paid
	€
Fontana	500
Gharb	500
Ghasri	500
Kerċem	500
Munxar	500
Nadur	500
Qala	500
Sannat	500
Xagħra	700
Xewkija	500
Żebbug (Gozo)	500

Source: The figures and information disclosed in the Table above were provided by the respective LGAs.

Appendix F – Assets falling under the Council’s responsibility not properly insured

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Birgu	Office and Computer Equipment	56,653	-
	Urban Improvements	524,503	11,500
	Office Furniture and Fittings	79,661	53,500
	Construction	678,876	-
	Building Improvements	-	95,000
Birkirkara	Buildings of standard construction including Fire-Fighting Equipment and Air Conditioners	Leased ⁴⁴	2,329,373
	Plant and Machinery	177,519	-
	Child Care Centre	172,603	-
	Fixtures and Fittings	67,645	40,000
	Office Equipment	49,168	40,000
Birzebbuga	Buildings	80,751	140,000
	Office Furniture Fittings, Plant Machinery and Equipment	117,892	132,479
	Glass and Sanitary Ware	-	5,000
Bormla	Furniture and Fittings	61,481	92,606
	Office Equipment	33,192	-
	Motor Vehicles	8,269	4,000
	Plant and Machinery	5,959	-
	Urban Improvements	199,049	-
	Construction Works	798,600	269,231
	New Street Signs	21,693	-
Dingli	Council Premises	161,169	70,000
	Urban Improvements	132,539	116,468
	Computer Equipment and Office Furniture and Fittings	118,617	142,602
	Motor Vehicles	12,113	-
	Plant and Machinery	10,223	450
	Trees	2,997	-
	Stationery	-	1,000
Fgura	Trees	10,455	10,000
	Furniture and Fittings	32,778	33,000
	Urban Improvements	443,721 ⁴⁵	-
	Office Equipment	39,060	30,159
	Plant and Machinery	1,734	1,685
	Motor Vehicles	11,586	4,700
	Acquisition of Property	1,001	-
	Property for Development	1,216,308	601,414

⁴⁴ The lease agreement for the Civic Centre specifies that the Property and Furniture as well as Fittings in common areas should be insured for €2,373,000.

⁴⁵ Net of Government grants of €43,410.

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Floriana	Plant and Machinery, Furniture and Fittings and Other Contents	108,570	98,000
	Computer Equipment	8,849	8,275
	Glass	-	1,000
Gżira	Buildings	179,001	252,736
	Fixtures and Fittings	71,201	22,375
	Computer and Office Equipment	61,298	19,572
Għargħur ⁴⁶	Administrative Buildings, Office Furniture and Fittings, Office and Computer Equipment and Plant and Machinery	191,455	Traders combined bearing a total sum insured of €171,890
Għasri	Property	129,040	70,000
	Office Furniture and Fittings	18,624	10,000
	Plant and Machinery	487	-
	Computer Equipment	7,918	3,000
	Office Equipment	14,182	-
	Construction	543,718	-
	New Street Signs	2,115	-
	Urban Improvements	24,430	-
Iklin	Property – Premises A	-	46,587
	Property – Premises B	-	34,940
	Stock	-	233
	Office Furniture, Fittings and Fixtures	23,354	11,172
	Plant and Machinery and Electronic Equipment	33,220	5,000
	Property in the Open	-	2,330
	Fixed Glass	-	582
	Rented Property	12,591	10,986
Isla	Office Furniture and Fittings	56,830	53,461
	Office Equipment	15,264	-
	Computer Equipment	6,543	-
	Urban Improvements	160,881	76,933
	Construction	174,714	-
	Special Programmes	516,799	80,000
	Plant and Machinery	1,096	-
Kalkara	Furniture and Fittings	48,911	14,000
	Plant and Machinery		
	Office and Computer Equipment		

⁴⁶ LGA was unable to obtain an itemised detail of the coverage.

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Kerċem	Assets under Construction	478,957	116,000
	Urban Improvements and Construction	593,674	-
	New Street Signs	4,554	-
	Computer and Office Equipment	20,075	-
	Office Furniture and Fittings	15,146	15,146
	Special Programmes and Construction	444,161	-
Lija	Buildings	780,839	80,000
	Office Furniture and Fittings	16,849	17,849
	Plant and Machinery and Office Equipment	44,117	-
	Urban Improvements	132,553	-
	Fixed Glass	-	1,000
Luqa	Property	179,426	159,890
	General Contents and Assets including Machinery (but not limited) situated at the Council’s Premises	48,954	22,565
	Outside Property	337,901	863
	Electronic Equipment	14,436	9,825
	Motor Vehicle	10,000	6,100
Marsa	Property	329,212	472,000
	Plant and Machinery	64,021	25,000
	Office Furniture and Fittings	175,933	95,000
	Electronic Equipment	9,053	21,000
Marsaxlokk	Office Furniture and Fittings	23,202	-
	Plant and Machinery	12,881	2,492
	Computer Equipment	17,653	3,517
	Office Equipment	15,168	14,668
Mdina	Buildings including debris removal cost	99,169	232,937
	Trade Furniture, Fixtures and Fittings, Property in the Open, Urban Improvements, Mirrors, Hydraulic Manhole Cover, Costumes and Umbrellas	228,432	209,364
	Electronic Equipment	11,957	11,104
	Plant and Machinery	2,668	-
	Special Programmes	92,492	-
	Trees	10,902	-
Mellieha	Property	93,840	197,175
	Office Furniture and Fittings	160,786	133,359
	Street Signs	73,322	-
	Plant, Machinery and Equipment	37,570	32,729
	Urban Improvements and Construction	284,054	-
	Special Programmes and Projects	6,666,181	-

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Mgarr	Special Programmes	1,075,645	-
	Buildings including Permanent Fixtures and Fittings and all other contents	498,600	536,000
	Construction	677,106	-
	Plant and Machinery	18,312	4,000
	Street Signs	63,775	10,000
	Works of Art situated at a Contemporary Art Museum in Mgarr	-	250,000
Mosta	Urban Improvements	359,875	120,000
	Furniture and Fittings	162,275	53,000
	Computer and Office Equipment	137,866	23,500
	Plant and Machinery	52,544	57,000
Msida	Buildings	465,835	376,893
	Furniture and Fittings	72,286	27,952
	Street Furniture	50,440	20,000
	Urban Improvements	185,162	67,500
Mtarfa	Office and Computer Equipment	19,759	Electronic equipment - €20,000
	Office Furniture and Fittings	36,898	Trade furniture, fixtures and fittings, machinery, tenant’s improvements, moveable utensils and consumables - €60,000
	Plant and Machinery	7,624	
	Urban Improvements	287,349	Buildings including but not limited to landlord’s fixtures and fittings, professional fees for re-instatement, debris removal, common parts, walls, gates and fences, outbuildings and surrounding areas, including but not limited to air-conditioning system and lift - €110,000
	New Street Signs	38,068	
	Trees and Plants	10,740	
	Construction	170,678	

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Munxar	New Street Signs, Urban Improvements, Construction and Special Programmes	1,607,716	Up to €60,000
Nadur	Office Furniture and Fittings	32,299	11,650
	Office and Computer Equipment	22,682	8,000
	Plant and Machinery	31,516	-
	Construction	2,005,273	158,400
	Council Premises	138,150	-
	Elevator	-	20,970
Naxxar	Furniture and Fittings	45,706	103,000
	Plant, Machinery, Office and Computer Equipment	56,033	40,000
	Urban Improvements and Construction	506,750	-
	Special Programmes	2,936,079	-
	Trees	47,806	-
	Street Signs and Lights	11,138	-
	Property	23,296	80,000
Paola	Property Office Buildings	97,834	35,000
	Furniture and Fittings	33,803	47,000
	Office Equipment	25,554	-
	Computer System	22,981	-
	Plant and Machinery	17,577	-
	Motor Vehicle	9,800	3,500
Pembroke	Office Furniture, Fixtures and Fittings	24,583	27,190
	Property in the Open	-	81,000
	New Street Signs	11,787	
	Computer and Office Equipment	45,367	45,370
	Special Programmes	653,660	-
	Trees	18,091	-
	Buildings	-	72,655
	Plant and Machinery	6,481	-
	Construction	547,060	-
	Urban Improvements	393,083	-
Pieta`	Premises	142,331	175,000
	Contents of Council’s Premises	112,031	50,000
	Police Station	15,389	-
	Car Park	10,014	94,000
Qala	Fixtures and Fittings, Equipment and Plant and Machinery	59,060	16,600
	Buildings	-	11,600
	Trees and Plants	2,264	-
	New Street Signs	11,537	-
	Urban Improvements	40,760	-
	Special Programmes	679,089	-
	Construction	665,534	-

Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Qormi	Office Furniture, Fixtures and Fittings	108,703	108,550
Rabat (Malta)	Computer and Office Equipment	75,205	-
	Plant and Machinery including Furniture, Fixtures and Fittings	45,919	84,855
	Road, Pavements and Other Capital Projects	2,416,190	3,626,572
	Street Signs	64,685	-
	Special Programmes	1,246,733	-
	Motor Vehicles	11,644	4,500
Rabat (Gozo)	Assets under Construction, Construction Works, Urban Improvements and Special Programmes	3,183,866	80,095
Safi	Property	253,460	252,460
	Office Furniture, Fittings and Fixtures	40,567	38,736
	Electronic Equipment	13,985	9,102
San Ġiljan	Property and Office Furniture and Fittings	253,441	204,448
	Computer Equipment	40,988	17,705
	Urban Improvements	23,214	-
	Construction	216,686	-
	Special Programmes	1,628,400	-
	New Street Signs	9,707	-
San Ġwann	Property	246,865	139,750
	Furniture, Fixtures and Fittings	41,225	16,338
	Office and Computer Equipment	97,332	11,647
	Street Furniture consisting of Street Mirrors, Park Benches, Playing Equipment and Safer Surfacing Street Furniture and Garden Lights	The Council did not provide LGA with a FAR. As a result, the cost of these assets could not be determined.	39,940
	Public Convenience		34,940
Sannat	Office Furniture and Fittings	36,227	9,400
	Construction	472,101	83,300
	Urban Improvements	117,300	
	Special Programmes	667,641	
	Street Signs	9,735	-

Appendix F – Assets falling under the Council’s responsibility not properly insured

cont./

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
San Pawl il-Bahar	Council Premises	780,271	885,000
	Trees	24,972	-
	Office Furniture and Fittings	40,102	20,000
	Plant and Machinery and Computer and Office Equipment	102,109	26,000
	Street Paving	115,082	-
	Urban Improvements	1,054,952	102,502
	Playground Furniture	32,386	-
	Motor Vehicles	31,171	-
	Special Programmes	3,034,627	-
	Stock	1,020	500
Siggiewi	Property, Plant and Equipment		850,000
	Photovoltaic System	511,030	13,000
	Fixed Glass		1,165
	Office Furniture	4,693	34,775
	Office Equipment	29,814	21,598
	New Street Signs	25,283	-
	Urban Improvements	636,595	-
	Special Programme – Resurfacing	2,748,242	-
Sliema	Buildings	186,515	46,587
	Office Furniture and Fittings	46,636	23,293
	Plant, Machinery and Equipment	41,599	3,817
	Property in the Open	-	50,000
	Computer	17,497	23,118
Swieqi	Buildings	-	475,000
	Furniture and Fittings including Safes, Strong-Rooms, Cash Registers, Glass Loss	24,411	15,370
	Computer Equipment	10,624	-
	Office Equipment	27,141	-
	Street Signs	55,070	-
	Street Lights, Playground Equipment and Street Mirrors	80,706	545,000
	Urban Improvements	18,340	-
	Reservoir underlying Open Area	-	130,000
Special Programmes	1,973,283	-	
Ta' Xbiex	Property	165,125	170,000
	Office Furniture, Fittings and Others	29,693	14,000
	Office and Computer Equipment	27,220	13,274
Tarxien	Property	156,118	497,000
	Furniture and Fittings	25,653	18,000
	Equipment	12,535	15,000
	Urban Improvements	71,934	-
	Special Programmes	2,093,606	-

Appendix F – Assets falling under the Council’s responsibility not properly insured

cont./

Local Council	Fixed Asset	Cost of Assets ⁴⁷	Amount insured
		€	€
Xaghra	Urban Improvements and Special Programmes	2,323,737	-
	Buildings	-	71,165
	Computer and Office Equipment and Plant and Equipment	34,104	60,382
	Office Furniture and Fittings	21,397	
Xewkija	Urban Improvements	411,257	60,000
	Construction	976,768	
Żebbuġ (Malta)	Buildings	-	40,629
	Office Furniture and Fittings	18,769	12,812
	Electronic Equipment	22,814	7,943
	Plant and Machinery	35,554	-
	New Street Signs	34,338	-
	Bus Shelters and Street Furniture	-	42,794
Żebbuġ (Gozo)	Office Furniture and Fittings, Computer Equipment and Plant and Machinery	66,170	25,050
	Urban Improvements	448,108	-
	New Street Signs	58,919	-
	Construction and Special Programmes	1,788,268	-
	Buildings	-	22,130
Żejtun	Property	462,581	285,000
	Special Programmes	1,309,299	75,000
	Furniture and Fittings	62,880	80,000
	Urban Improvements	270,757	25,000
	Office Equipment	9,596	-
	Plant and Machinery	1,020	-
	Fixed Glass	-	5,000
Żurrieq	Office Furniture, Fixture, Fittings, Plant and Machinery and Computer Equipment	83,252	156,700
	Property and Special Programmes	2,850,277	1,571,600

Note: Details in the above Table are in line with the amounts highlighted in the respective Management Letters. However, certain discrepancies were noted between the cost of assets disclosed in the related Management Letter and that recorded in the Fixed Assets Schedule included in the audited Financial Statements. This is due to the fact that Local Councils’ capital expenditure is very dynamic and updates itself all the time. Thus, there is the possibility that on the day LGAs carried out their audit visit, the latest list of fixed assets registered with the insurers may have not been up to date as it is not practical that Local Councils inform the insurance company every time an item of capital expenditure is recognised in the accounts.

⁴⁷ Where an insured fixed asset category is not included in both FAR and the fixed assets schedule disclosed in notes to the Financial Statements, the Cost of Assets in the Appendix is shown as nil.

Appendix G – Expenditure in respect of which a Proper Fiscal Receipt was not provided for Audit Purposes

Local Council/ Regional Committee/LCA	Amount	Council's Reply
	€	
Balzan	330 ⁴⁸	Although the Council notes the observation and has done so over the past years, unfortunately, certain entities only work using cash registers especially for things bought over the counter. In terms of VAT law, both the Council and the suppliers in question are compliant and the cash register receipt is a legally compliant fiscal document itself. Thus, there is incongruence between the respective laws that is creating this anomaly, which needs to be addressed by the legislator.
Birkirkara	447	The Council did not provide a reply to the Management Letter.
Bormla	12,728	Most of the suppliers provide a tax invoice. On every payment voucher issued to suppliers, the Council clearly writes 'Kindly acknowledge payment with an official fiscal receipt'. In most cases, suppliers comply with such request but some do not. Two of the mentioned suppliers have provided a declaration with respect to exemption from registering for VAT on the basis of LN 254 of 2011.
Dingli	33,250	The Council shall ensure that a valid fiscal receipt is obtained for all expenditure incurred.
Floriana	3,477	The Council does its utmost to obtain fiscal receipts, however, the fact that certain contractors do not fully comply with the legal requirements, is beyond the Council's control.
Fontana	662	LGA's comments have been noted and the Council shall do its utmost to obtain fiscal receipts for all payments issued. However, a number of suppliers still do not provide a fiscal receipt, although requests for such receipts are made by the Council.
Gżira	10,124	The Council has noted its shortcomings. Moreover, the librarian shall be notified that she has to provide a fiscal receipt.
Gharb	3,287	The Council always requests fiscal receipts, however, these are not always provided by the suppliers.
Gharghur	1,154	Council takes note of the importance of collecting fiscal receipts from suppliers upon payment and will take the necessary steps to ensure compliance with this legal requirement arising under VAT legislation. With regard to the two librarians, the Council confirms that they have now registered with the VAT Department as required by law.
Isla	14,003	The Council did not provide a reply to the Management Letter.
Luqa	6,267	The Council has sent letters to the suppliers requesting the provision of proper fiscal receipts. With respect to those suppliers who have not prepared the invoices as required, the Local Council shall draw their attention as to the deficiencies in their invoices and no such invoices will be retained if these are not in line with the stipulated requirements.

⁴⁸ This procurement was made against a cash register chit.

Appendix G – Expenditure in respect of which a Proper Fiscal Receipt was not provided for Audit Purposes *cont./*

Local Council/ Regional Committee/LCA	Amount	Council's Reply
	€	
Mdina	1,115	Point not properly addressed.
Mellieha	2,200	LGA's comment has been noted and the production of a fiscal receipt was requested in writing for both payments, which requests are regularly sent to the Council's suppliers.
Mġarr	35,794	LGA's comments have been noted and the Council does its utmost to request such receipts for all payments issued. However, during 2014, a number of suppliers did not forward fiscal receipts despite the Council's efforts.
Mosta	12,985	All payments mentioned by LGA were issued in 2015 and thus the Council is still chasing the respective suppliers for fiscal receipts.
Mtarfa	53,233	Point not addressed.
Naxxar	52,127	Point not addressed.
Paola	2,223 ⁴⁹	Point noted. The Council intends to obtain a declaration from those suppliers whose annual income does not exceed the threshold of €7,000.
Rabat (Malta)	17,044	LGA's comments have been noted, however, the Council would like to point out that the provision of a VAT fiscal receipt is beyond its control.
Rabat (Gozo)	51,725	As already mentioned in last year's reply, the Council always informs the suppliers to issue fiscal receipts and stamps all payment vouchers with the statement saying 'Victoria Local Council – Please issue Fiscal Receipt'.
Safi	8,288	Suppliers are always requested to provide adequate documents but not all adhere. The Executive Secretary has also informed suppliers that as from 1 January 2015, all suppliers even those who are VAT exempt, must be in possession of VAT receipt books and provide documentation for any purchase made to them.
San Ġwann	4,990	The Council failed to provide a reply to the Management Letter.
San Pawl il-Baħar	1,210	Given that, as from the beginning of May 2015, there was a change in both the Council members and the Executive Secretary, the Council was unable to submit any comments to the Management Letter. Nevertheless, it should be pointed out that the present acting Executive Secretary and the Mayor were not satisfied with the current state of affairs of the Council. In view of this, the present Council is committed to rectify the shortcomings highlighted in the Management Letter and bring back the Council on a sound financial footing.

⁴⁹ Included in this balance is the amount of €1,698 relating to a manually written invoice, which was not supported by a fiscal receipt.

Appendix G – Expenditure in respect of which a Proper Fiscal Receipt was not provided for Audit Purposes *cont./*

Local Council/ Regional Committee/LCA	Amount	Council's Reply
	€	
Sannat	1,981	LGA's comments have been noted and further attention shall be taken by the Executive Secretary.
Sliema	3,261	The Council makes every effort to obtain an appropriate fiscal document. Unfortunately, certain suppliers are happy to break the law. In view of this, the Council is looking into the matter, and any suppliers who are found not to be compliant will be blacklisted from future procurement orders.
Tarxien	2,389	The Council takes note of the observation and it will ensure that suppliers are chased for the respective fiscal receipts.
Ta' Xbiex	20 ⁵⁰	Point noted.
Xaghra	34,725	The Council failed to provide a reply to the Management Letter.
Xghajra	2,517	The Council always asks suppliers to issue a VAT receipt. However certain suppliers still fail to provide the respective fiscal receipts.
Żabbar	1,030 ⁵¹	An invoice has always been provided prior to payment. The Council will do its best to vet all invoices so that those which lack details are rectified immediately.
Żejtun	17,333	Following comments raised in previous years, the Council included a disclaimer on its payment vouchers, stating that, where applicable, suppliers are obliged to provide a written declaration should they be exempt from providing a fiscal receipt in terms of the VAT Act.
Central Regional Committee	2,325	Point not addressed.
Gozo Regional Committee	55,053	The Committee did not provide a reply to the Management Letter.
Northern Regional Committee	21,009	The Committee did not submit its reply to the Management Letter.
LCA	2,806	Had the Association been made aware of this issue during the audit, the related fiscal receipt would have been made available to LGA.

Note: Data included in the above Table is not exhaustive as this only highlights the instances encountered by LGAs whilst carrying out sample testing.

⁵⁰ Transaction was merely supported by an internal payment voucher.

⁵¹ In addition to this, three other instances were noted whereby the respective invoices, aggregating to €2,088, were not addressed to the Council.

Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations

Local Council	Donation provided		Council's Reply
	Amount	Description	
	€		
Birgu	400	<i>Auberge</i> of England	The Council did not provide a reply to the Management Letter.
Bormla	417	Food and drinks bought to be consumed during Easter reception for Councillors and band clubs	These cannot be considered as donations. The Council is proud and boasts about having the best and most popular Easter procession in Malta and for the past years has complemented this traditional procession with a reception offered to the local band club musicians and members of the general public.
	375	Gold medal for <i>Ġieħ Bormla</i>	The Council does not agree that the purchase of a gold medal which has been awarded during <i>Jum Bormla</i> 2014 to a person who distinguished himself and made an honour to the city, as well as trophies awarded to local organisations in recognition of their hard work for the benefit of the community, are treated as donations.
	375	Trophies, medals and tokens	
	200	Painting of Bormla to be given to Kate Middleton	This gift was proposed by the Office of the Prime Minister in accordance with the protocol.
Floriana	870	Mementos and plaques	The Council considers the provision of mementos and plaques as a form of acknowledgement and appreciation for the work done by others.
Għarb	226	Funds donated to a charitable institution	LGA's comments have been noted so that such matter will not be repeated.
Isla	121	Gift for priest	The Council did not provide a reply to the Management Letter.
	25	Hampers	
	346	Hampers and gifts for staff	
Kalkara	300	Memento given to Prince William	Point not addressed.
	116	<i>Għaqda Regatta Nazzjonali</i>	
Mgarr	200	Donation in relation to <i>Ġieħ l-Imgarr</i>	This donation is part of a social commitment of the Council in the locality.
Paola	292	Hampers for elderly	These were given out as tokens to show appreciation to those parties who participated in public events organised by the Council.
	250	Carnival trophies	
	59	Tokens for <i>Jum Paola</i>	
	35	Tokens for church function	
	30	Tokens for <i>Madonna ta' Lourdes</i> feast	
Rabat (Gozo)	468	30 books	Point not addressed.

Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations

cont./

Local Council	Donation provided		Council's Reply
	Amount	Description	
	€		
San Pawl il-Baħar	465	Glass plaque for the locality's swimming club	Given that as from the beginning of May 2015 there was a change in both the Council members and the Executive Secretary, the Council was unable to submit any comments to the Management Letter. Nevertheless, it should be pointed out that the present acting Executive Secretary and the Mayor were not satisfied with the current state of affairs of the Council. In view of this, the present Council is committed to rectify the shortcomings highlighted in the Management Letter and bring back the Council on a sound financial footing.
	283	Glass awards distributed during a treasure hunt	
	142	Mementos	
	98	Trophy for classic sports car	
	75	Glass gift	
Swieqi	10	Donation to parish priest	Observation noted. This was paid to the parish priest for celebrating a dedicated mass for the Council.
Tarxien	35	Trophies	Observation noted. The Council will comply accordingly.
	24	Tokens for car show	
Żabbar	350	Mementos for the local youth football nursery	The sport activity was organised in collaboration with the Council. No donations were made and participants were presented with a memento from the Council.
Żejtun	525	Bracelets for Mother's Day event	Point not addressed.

Note: Data included in the above Table is not exhaustive as this included only the instances encountered by the Auditors whilst carrying out sample testing.

Appendix I – Amounts expended on Christmas Lunch or Reception exceeding the stipulated Threshold

Local Council	Event		Number of Council Members entitled to attend for such Event	Amount that should have been incurred by the Council	Amount actually incurred by the Council	Total Amount paid in excess of the Threshold stipulated in Memo 8/2011	Council's Reply
	Reception or Dinner	Maximum Threshold per Person					
		€		€	€	€	
Fgura	Dinner	30	13	390	428	38	The Council will be more careful in not exceeding the set limit.
Isla	Dinner	30	9	270	300	30	The Council did not provide a reply to the Management Letter.
Kalkara	Dinner	30	9	270	439	169	The Council has taken note and shall rectify these matters accordingly.
Mdina	Dinner	30	7 ⁵²	210	275	65	The Council has noted LGA's comment and would like to point out that all efforts were made to recover all the fees from the participants.
Mgarr	Dinner	30	8	240	256	16	LGA's comments have been noted.
Paola	Dinner	30	16	480	528	48	The amount budgeted for the Christmas dinner was originally below the allowed amount. However, some of the guests ordered additional beverages, thereby resulting in additional costs being incurred.

Source: The information disclosed in the Table above, was provided by the respective LGAs.

⁵² Eight Council members were entitled to attend the event, however only seven attended.

Appendix J – Inconsistency in Payroll Reconciliation

Local Council/Regional Committee/LCA	Gross Personal Emoluments including Employer's Share of NI as per		
	Accounting Records [^]	FS7	FS5s
	€	€	€
Birgu	77,335	77,321	77,383
Dingli	48,357	48,357	48,233
Fgura	125,906	125,905	125,706
Floriana	115,365	112,383	112,382
Fontana	41,217	40,497	39,508
Gżira	89,858	89,744	89,238
Gharghur	73,624	73,610	68,943
Hamrun	122,019	125,750	125,750
Kirkop	71,006 ⁵³	70,484	70,484
Luqa	101,962	104,269	104,269
Marsaxlokk	98,832	98,832	99,899
Mgarr	78,929	78,929	78,891
Mtarfa	70,584	70,384	70,535
Paola ⁵⁴	115,283	113,908	96,437
Pieta`	92,976	95,833	95,770
Qormi	175,589	175,818	175,818
Qrendi	70,088	73,703	73,703
Rabat (Gozo)	87,116	87,049	87,062
San Ġwann	139,477	140,464	140,464
Sannat	58,321	56,384	55,835
Siggiewi	102,393	108,918	108,918
Ta' Xbiex	63,247	63,900	63,871
Xewkija	68,858	68,579	68,858
Żabbar ⁵⁵	123,697	123,695	122,159
Żebbug (Malta)	118,415	111,904	111,904
Żurrieq	117,668	117,663	117,663
Central Regional Committee	118,244	121,900	121,900
Northern Regional Committee	93,379	93,637	88,951
LCA	185,865	186,904	187,058

[^]These figures were stated after taking into consideration any audit adjustments passed during the course of the audit as well as after adjusting for any opening and/or closing accruals and prepayments.

Source: The figures disclosed in the Table above were provided by the respective LGAs.

Note: In certain instances, FSS and NI contributions as disclosed in FS5s, FS7 and accounting records also do not reconcile. Instances were also noted whereby amounts disclosed in FS7 do not reconcile to those recorded in FS3.

⁵³ The difference of €522 relates to performance bonus paid to a former Executive Secretary that was not disclosed in FSS forms.

⁵⁴ The difference between FS7 and the monthly FS5s represents emoluments not disclosed in FS5 forms.

⁵⁵ The difference arose as during the audit fieldwork LGA was not provided with updated FS5s.

Appendix K – Management Letter Weaknesses

Local Council/Regional Committee/LCA	1	2	3	4	5	6	7	8	9	10
Attard	x	x	x	x	x	x	x			x
Balzan	x	x	x	x	x		x			x
Birgu	x	x	x	x	x	x	x	x		x
Birkirkara	x		x	x	x	x	x			x
Birżebbuġa	x	x			x	x	x			x
Bormla	x	x		x		x	x			x
Dingli	x	x	x	x	x	x	x	x	x	x
Fgura	x	x	x	x	x	x	x	x		x
Floriana	x	x	x	x	x	x	x	x	x	x
Fontana	x	x		x	x	x		x	x	x
Gudja	x			x	x	x	x		x	x
Gżira	x	x	x	x	x	x	x	x	x	x
Għajnsielem	x	x		x	x	x	x			x
Għarb	x	x	x	x		x	x	x	x	x
Għarghur	x	x		x	x	x	x	x	x	x
Għasri	x	x				x				x
Hamrun	x				x	x	x	x		x
Iklin	x			x			x	x		
Isla	x	x	x	x	x	x	x	x	x	x
Kalkara	x	x	x	x	x	x	x	x	x	x
Kerċem	x	x		x	x	x	x	x		x
Kirkop	x	x		x	x	x	x	x	x	x
Lija	x	x	x	x			x	x		x
Luqa	x		x	x	x		x	x		x
Marsa	x	x	x	x	x	x		x	x	x
Marsascala	x	x		x	x	x	x	x		x
Marsaxlokk	x	x	x			x	x	x		x
Mdina	x	x		x	x		x	x	x	x
Mellieħa	x	x	x	x	x		x		x	x
Mgarr	x	x	x	x	x	x	x		x	x
Mosta	x	x	x	x		x	x	x	x	x
Mqabba	x	x	x	x	x	x	x	x	x	x
Msida	x	x		x		x	x			x
Mtarfa	x	x		x	x	x			x	x
Munxar	x	x		x	x			x		x
Nadur	x	x	x		x	x	x	x		x
Naxxar	x	x		x	x	x	x		x	x
Paola	x	x	x	x	x	x	x	x	x	x
Pembroke	x	x	x			x		x	x	x
Pietà	x	x	x	x	x	x	x	x	x	x
Qala	x	x		x	x	x		x		
Qormi	x	x	x	x	x	x	x			x
Qrendi	x	x	x	x	x		x	x		x

Appendix K – Management Letter Weaknesses *cont./*

Local Council/Regional Committee/LCA	1	2	3	4	5	6	7	8	9	10
Rabat (Malta)	x	x	x	x	x	x	x	x	x	x
Rabat (Gozo)	x	x	x	x	x	x	x	x	x	x
Safi	x	x		x	x		x	x	x	x
San Ġiljan	x	x	x			x	x	x		x
San Ġwann	x	x		x	x	x	x	x		x
San Pawl il-Baħar	x	x		x	x	x	x	x	x	x
Sannat	x	x	x	x	x	x	x	x	x	x
Santa Luċija	x	x	x		x	x	x	x		x
Santa Venera	x	x	x		x	x	x	x		x
Sigġiewi	x	x	x	x	x		x	x		x
Sliema	x	x				x	x		x	x
Swieqi	x	x		x	x			x	x	x
Ta' Xbiex	x	x		x	x	x	x	x		x
Tarxien	x	x	x	x	x	x	x	x		x
Xaghra	x	x	x	x	x	x	x	x		x
Xewkija	x	x		x	x	x	x	x		x
Xgħajra	x	x	x	x	x		x		x	x
Żabbar	x	x	x	x	x	x	x	x	x	x
Żebbuġ (Malta)	x	x	x	x	x	x	x	x		x
Żebbuġ (Gozo)	x	x		x	x	x				x
Żejtun	x	x	x	x	x	x	x	x	x	x
Żurrieq	x	x	x		x			x		x
Central Regional Committee	x	x		x	x		x	x	x	x
Gozo Regional Committee				x	x	x	x			x
Northern Regional Committee	x	x	x	x	x		x	x	x	x
South Eastern Regional Committee	x	x	x	x	x		x	x		x
Southern Regional Committee	x		x				x			x
LCA	x	x		x	x		x	x		x

1. Property, Plant and Equipment
2. Accounting
3. Local Enforcement System
4. Procurement
5. Salaries
6. Receivables
7. Payables
8. Cash and Cash Equivalents
9. Invoices and Receipts
10. Provisions outlined in the Subsidiary Legislation not complied with

Appendix L – Procurement not carried out in line with Pertinent Regulations

Table 1: No Public Call for Quotations was issued prior to procurement

Local Council/ Regional Committee/ LCA	Amount	Details	No. of Quotations provided for Audit Purposes	Council's Reply
	€			
Birgu	3,196	Provision of audio equipment and services	-	The Council did not provide a reply to the Management Letter.
	3,118	Works at Day Care Centre	-	
	2,190	Third party tasked with raising and lowering a flag	-	
Dingli	1,371	Social and cultural event	-	The Council shall take LGA's advice and issue a call for quotations for the provision of any service exceeding €1,165.
Fgura	2,090	Rent of tribunal garage	-	In view of the fact that the tribunal garages lie exactly underneath the Council's offices, the Council kept the rent of such premises to be able to provide educational courses and other services, as the mentioned premises lie at street level, whilst the offices are not accessible to disabled persons. The issue with respect to the rent of the Council's offices will eventually be resolved once the Council moves its premises to the new administrative offices at Hompesch Road.
	1,747	Rent of Local Council premises	-	
Floriana	1,189	Electricity consumption at the rate of €0.19 per unit consumed	-	The Local Council is making use of an electricity meter without paying for the rental charge. In fact, the respective supplier only invoices the Council for the units consumed at the rates prescribed by ARMS. Thus, the Council is of the opinion that, under such circumstances, it is not deemed necessary to issue a call for quotations.
Isla	4,195	Monument base	-	The Council did not provide a reply to the Management Letter.
	2,587	Performance and sound	-	
	2,500	Monument of light	-	
	2,242	Transport of monument	-	
	1,860	Food products	-	
	1,652	Transport of monument	-	
Kalkara	1,987	Street signs	-	The Council has taken note and shall rectify these matters accordingly.
Mdina	1,304	Spraying of litter bins	-	LGA's comments have been noted and the Council would like to point out that this was an urgent case.
Mgarr	2,055	Bulky refuse collection	-	The new tender for bulky refuse collection has now been issued, adjudicated and awarded. The new tender was not issued before because the Council decided to issue all the tenders which were going to expire in one lot, so as to reduce the cost of adjudication and give the possibility for contractors to offer a better price due to economies of scale.

Appendix L – Procurement not carried out in line with Pertinent Regulations *cont./*

Table 1: No Public Call for Quotations was issued prior to procurement *cont./*

Local Council/ Regional Committee/ LCA	Amount	Details	No. of Quotations provided for Audit Purposes	Council's Reply
	€			
Mqabba	3,585 ⁵⁶	Maintenance of gardens	-	The Council has never entered into a contract with ELC. It was the Central Government that has imposed Local Councils to use the services of this consortium. However, a call for tenders shall be issued in the near future.
Qala	2,025	Maintenance of soft areas	-	The Council would like to point out that the contract for the upkeep of soft areas had to be terminated due to the fact that the service being offered was poor. Consequently, such service had to be procured from a new supplier, by means of a direct order. Nonetheless, the Council shall be issuing a call for quotations in this regard.
Rabat (Gozo)	1,850	Cabinets for customer care office	-	It is true that sometimes due to the urgency of matters the Council failed to issue quotations for certain services.
	3,085	Tickets for football tournament	-	
	1,256	Treatment of palm trees and pruning of ficus tree	-	
Safi	2,324	Rental of garage	-	The Council shall liaise with the contractor to issue a contract for the rental of the garage.
San Ġwann	1,490	Two desktop computers	1	The Council did not provide a reply to the Management Letter.
Sannat	1,920	Whitewashing of Council premises	-	LGA's recommendations have been noted and further attention shall be taken to tackle the issues mentioned.
	1,416	Works at the public convenience	-	
Tarxien	2,300	Software programme permits	-	The Council will endeavour to comply with pertinent regulations.
Xewkija	1,518	Day Care Centre for the elderly	-	The Council had no choice since there is only one Day Care Centre in Gozo, meaning that no other quotations would have been collected. The Council is seeking to have a venue which will accommodate elderly people in Xewkija in the future.

⁵⁶ The Council has a contract with ELC for the maintenance of gardens; however, the work was not awarded by a call for quotations in accordance with the Local Councils (Financial) Procedures.

Appendix L – Procurement not carried out in line with Pertinent Regulations *cont./*

Table 1: No Public Call for Quotations was issued prior to procurement *cont./*

Local Council/ Regional Committee/ LCA	Amount	Details	No. of Quotations provided for Audit Purposes	Council's Reply
	€			
South Eastern Regional Committee	1,182	Legal advice	-	LGA's comments have been noted.
LCA	3,107	Fire alarm system	-	The Association always strives to abide with the requirements of the Financial Procedures. The purchases mentioned by LGA had to be undertaken in a short time and thus it was not possible to abide with the tender procedures. Such purchases related to fixed assets which the Association purchased when it moved to the new premises in Marsa.
	1,896	Office fittings	-	

Notes: Certain anomalies still prevail between the thresholds laid down in the Local Councils (Financial) Procedures 1996 and Local Councils (Financial) Regulations, where procurement is to be covered by a call for quotations. The Local Council (Financial) Procedures, 1996 stipulate that at least three official signed quotations are required for purchases of value above €233 (Lm100) but not greater than €2,333 (Lm1,000). On the other hand, the Local Councils (Financial) Regulations specify that three official signed quotations are to be obtained prior to procurement of items exceeding €1,165 (Lm500) but not exceeding €4,659 (Lm2,000), in which case a call for tender is then required.

The Table above includes only those instances, where procurement exceeding €1,165 was not covered by a call for quotations. The list is also not exhaustive as this includes only instances that were noted by LGAs whilst carrying out sample testing. Furthermore, certain Councils, including those listed in the Table above, could have had other items of expenditure that were not covered by a call for quotations which were not highlighted, simply because their cost did not exceed €1,165.

Appendix L – Procurement not carried out in line with Pertinent Regulations *cont./*

Table 2: Goods and/or Services of the same nature procured within a Period of Four Consecutive Months without issuing a Public Call for Quotations

Local Council	Amount	Details	Council's Reply
	€		
Gżira	3,820	Kitchen top, shelves, brackets, activity centre, base cupboard including sink and top cupboards with handles	Point not addressed.
Isla	4,384	Road markings and traffic signs	The Council did not provide a reply to the Management Letter.
Luqa	7,440	Purchase of lights and electrical works at new Council offices	Point not addressed.
Paola	1,622	Combined insurance policy	The Council is striving to comply with the Local Council (Financial) Procedures.

Appendix M – Change in Executive Secretary

Local Council/ Regional Committee	Office Term of the outgoing Secretary		Position	Remarks
	From	To		
Birgu	1 January 2014	31 March 2014	Deputy Executive Secretary	An Executive Secretary was appointed.
Birzebbuga	30 May 2013	28 April 2014	Agent Executive Secretary	Seconded to the Permanent Secretary's Office at the Ministry for Education and Employment.
Fontana	18 April 2013	25 June 2014	Agent Executive Secretary	An Executive Secretary was appointed.
Ghajnsielem	1 January 2010	13 August 2014	Executive Secretary	Officer was transferred to the public service (DLG).
Għargħur	18 June 2013	29 September 2014	Executive Secretary	As from 29 September 2014 the Officer started to work within DLG.
Kalkara	12 September 2013	6 March 2014	Agent Executive Secretary	An Executive Secretary was appointed.
Lija	7 March 2013	22 July 2014	Agent Executive Secretary	An Executive Secretary was appointed.
San Lawrenz	20 August 1994	10 September 2014	Executive Secretary	Officer was appointed as an Executive Secretary at another locality.
Central Regional Committee	25 May 2012	25 June 2014	Agent Executive Secretary	An Executive Secretary was appointed.
South Eastern Regional Committee	27 March 2013	18 June 2014	Agent Executive Secretary	An Executive Secretary was appointed.

Note: The data disclosed in the Table above was provided by DLG.

The following is a list of Memos issued by DLG during the years, which were referred to throughout the Report:

List of Memos	
Memo 6/2015	<i>Depożitar ta' Flus fil-Kont tal-Bank tal-Kunsill Lokali</i>
Memo 4/2015	<i>Kumitat tal-Finanzi</i>
Memo 1/2015	<i>Gheluq tas-Sena Finanzjarja</i>
Memo 27/2014	<i>Skema dwar Inizjattivi ta' Attivitajiet 2014-2015 – Linji Gwida – Applikazzjoni 1 – Applikazzjoni 2</i>
Memo 14/2014	<i>Mid-Term Audit</i>
Memo 34/2013	<i>Sejhiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq</i>
Memo 25/2013	<i>Skema dwar Inizjattivi ta' Attivitajiet 2013-2014 – Applikazzjoni tal-KL – Applikazzjoni tal-KR – Linji Gwida</i>
Memo 21/2013	<i>Linji Gwida dwar Telefon Ċellulari tal-Kunsilli Lokali</i>
Memo 16/2013	<i>Kontribut Finanzjarju ta' Kunsill Lokali għal Xiri ta' Materjal Edukattiv għall-Iskejjel</i>
Memo 11/2013	<i>Hlas ta' Taxxa u tal-Bolla tas-Sigurta' Soċjali</i>
Memo 10/2013	<i>Kuntratti tal-Kunsilli Lokali</i>
Memo 59/2012	<i>Gheluq tas-Sena Finanzjarja</i>
Memo 121/2011	<i>Gheluq tas-Sena Finanzjarja</i>
Memo 91/2011	<i>Administration fee għal hlas ta' multi fl-Uffiċċji Amministrattivi</i>
Memo 84/2011	<i>It-Tharis Tal-Ordnijiet Permanenti Waqt Il-Laqgħa Tal-Kunsill</i>
Memo 37/2011	<i>Template Tal-Iskeda Tal-Hlasijiet</i>
Memo 8/2011	<i>Emenda għal Memo 122/2010 - Ikliet/riċevimenti organizzati mill-Kunsilli Lokali</i>
Memo 150/2010	<i>Gheluq tas-Sena Finanzjarja</i>
Memo 122/2010	<i>Ikliet/Riċevimenti Organizzati Mill-Kunsilli Lokali</i>
Memo 120/2010	<i>Użu ta' Laptops</i>
Memo 107/2010	<i>Avviż Legali 374 tal-2010 - Regolamenti tal-2010 dwar Allowance lis-Sindki u lill-Kunsillier Lokali</i>
Memo 45/2010	<i>Kuntratti Godda dwar Resurfacing ta' toroq b'sistema ta' Public Private Partnership</i>
Memo 26/2010	<i>Taxxa fuq l-Allowance lill-Kunsillieri</i>
Memo 1/2010	<i>Tqassim ta' dokumenti lill-Kunsilliera</i>
Memo 68/2009	<i>Hinijiet tal-Laqgħat</i>
Memo 35/2009	<i>www.lc.gov.mt</i>
Memo 8/2002	<i>Laqgħa Annwali mal-Awditur Ġenerali</i>

Included in the Table hereunder, is a list of IASs and IFRSs that were referred to throughout the Report:

International Accounting Standards	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
International Financial Reporting Standards	
IFRS 7	Financial Instruments: Disclosures
IFRS 11	Joint Arrangements

Recent NAO Publications

NAO Audit Reports

December 2014	Annual Audit Report of the Auditor General - Public Accounts 2013
December 2014	Annual Audit Report of the Auditor General - Local Government 2013
January 2015	Information Technology Audit: Commerce Department
February 2015	An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes
February 2015	An Investigation of Government's Acquisition of the Café Premier
March 2015	An Analysis of Enemalta Corporation's Hedging Activity during 2014
April 2015	Performance Audit: Provision of Residential Long-term Care (LTC) for the Elderly through Contractual Arrangements with the Private Sector
May 2015	Audit of Gozo Channel Company Limited: Public Service Obligation Bid Feasibility and Operational Considerations
June 2015	Performance Audit: Class Size in State Primary Schools
July 2015	A Comparison of Crude Oil Prices and Electricity Tariff Band Structures
July 2015	Performance Audit: Tackling Domestic Violence
July 2015	Information Technology Audit: Housing Authority
October 2015	An Investigation of matters relating to the Emphyteutical Contract between Government and the General Workers Union
November 2015	An Investigation into the Issuance of Encroachment Permits between December 2012 and March 2013

NAO Work and Activities Report

May 2015	Work and Activities of the National Audit Office 2014
----------	---