

# Report by the Auditor General on the Workings of Local Government

2013





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**Public Accounts 2013**



## List of Abbreviations

ARMS	Automated Revenue Management Services
CIES	Community Inclusive Employment Scheme
CIR	Commissioner of Inland Revenue
CVA	Controlled Vehicular Access
DLG	Department for Local Government
EARDF	European Agricultural Rural Development Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ETC	Employment and Training Corporation
EU	European Union
EUPA	European Union Programmes Agency
FAR	Fixed Asset Register
FSI	Financial Situation Indicator
FSS	Final Settlement System
IASs	International Accounting Standards
IFRSs	International Financial Reporting Standards
IPSL	Industrial Projects and Services Ltd
IRD	Inland Revenue Department
IT	Information Technology
LCA	Local Councils Association
LES	Local Enforcement System
LGA	Local Government Auditors
LN	Legal Notice
LTD	Licensing and Testing Department
MEPA	Malta Environment and Planning Authority
MFEI	Ministry of Finance, the Economy and Investment
MFIN	Ministry for Finance
MRRA	Ministry for Resources and Rural Affairs
MTA	Malta Tourism Authority
NAO	National Audit Office
NBV	Net Book Value
NI	National Insurance
PPCD	Planning and Priorities Co-ordination Department
PPE	Property, plant and equipment
PPP	Public Private Partnership
UIF	Urban Improvement Fund
VAT	Value Added Tax
WSC	Water Services Corporation



## Foreward

The National Audit Office is obliged by law to audit all Local Councils in Malta and Gozo, together with all Regional Committees as well as the Local Councils Association. For this purpose, by virtue of Article 65 (1) of the Local Councils Act (Chapter 363 of the Laws of Malta), the Auditor General appoints duly qualified persons to audit the respective Financial Statements. Following a competitive call for tenders by the National Audit Office, these Local Government Auditors are appointed for a period of one year, which may be renewed annually for a total period of not more than five consecutive years.

In continuous liaison with the Local Government Auditors, the National Audit Office reproduces the observations and recommendations arising from their audits, in the Annual Audit Report of the Auditor General. Considering that every year Government allocates at least 31 million euro to Local Councils, as well as the fact that the five Regional Committees – four in Malta and one in Gozo – generate income to the tune of another eight million euro, this year the National Audit Office deemed it appropriate to issue a separate report dedicated solely and exclusively to the workings of Local Government, as it is felt that the respective results should be given due consideration both by the Administration as well as the citizens of Malta and Gozo.

Whilst appreciating the extremely useful contribution being given by all Local Councils, acknowledging especially the work afforded by the elected Local Government representatives, this Office hopes that the shortcomings identified in this Report will be duly addressed in the best interest of the Maltese taxpayer.

Anthony C Mifsud  
Auditor General

10<sup>th</sup> December 2014

## Executive Summary

By the time the respective Report was concluded, *i.e.* mid-November 2014, the audited Financial Statements of Birgu Local Council were still not submitted to the National Audit Office when these should have been received by 2 May 2014. Fifty-six Local Councils, three Regional Committees and the Local Councils Association managed to deliver by the foregoing deadline. Another six audited Financial Statements reached the National Audit Office by end of May 2014, 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 for Local Councils and Regional Committees, a number of concerns and weaknesses prevailed from previous years and have been reported in this Report. The following are the major concerns noted:

- a. Due to the various shortcomings encountered, Local Government Auditors could not express an opinion on the Financial Statements as presented by two of the Local Councils, namely Mosta and Valletta.
- b. The Audit Reports of another 55 Local Councils and all the five Regional Committees were qualified with an 'except for' audit opinion.
- c. Same as in the previous year, 25 Local Councils and a Regional Committee recorded a negative Working Capital in the Statement of Financial Position.
- d. Thirty-five (2012: 32) Local Councils registered a Financial Situation Indicator below the established benchmark of 10%.
- e. Thirty-seven (2012: 32) Local Councils and a Regional Committee (2012: 1) registered a deficit in the Statement of Comprehensive Income.
- f. Only 36 (2012: 44) Local Councils, a Regional Committee (2012: 2) and LCA sent their response to the Management Letter within six weeks from the receipt of the respective Audit Report, as required by Article 8, sub-article (2) of the Local Councils (Audit) Regulations 1993.

The main common shortcomings that were encountered in the Management Letters 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. Income and expenditure accounted for on cash rather than accrual basis.
- c. Payments made not substantiated by a proper invoice and/or fiscal receipt.

- d. Fixed Assets Register either lacks necessary details or not maintained at all.
- e. Budgeted expenditure for certain categories of expenditure exceeded.
- f. Procurement not in line with the pertinent regulations.

Notwithstanding that more than three 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. Although these were expected to be wound up after one year following the set up of the Regional Committees, to-date the National Audit Office still has no indication that such process officially commenced.

In addition, similar to the preceding period, 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. Since these entities were entrusted with the collection of public funds, it is felt that such situation is unacceptable.



# Local Councils

## Background

The responsibility to draw up the Local Councils' Financial Statements as at year-end rests with the Executive Secretary. Once 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) Procedures and 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 three private audit firms, on behalf of the Auditor General, awarded by tender.

The Financial Statements being reported upon cover calendar year 2013, during which, Government allocated €31 million<sup>1</sup> (2012: €31.5 million) and €102,772 to Local Councils and LCA respectively. **Appendix A – Table 1** refers.

Unlike Local Councils, Regional Committees are not provided with a Government Allocation. Their main source of income is the revenue generated from the Local Enforcement System (LES). **Appendix A – Table 2** refers.

## Audit Scope and Methodology

The scope of the reviews carried out by the National Audit Office (NAO) 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 opinion given by the contracted Local Government Auditors (LGAs) 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.

## Key Issues

### *Local Enforcement System not subject to Systems Audit*

The main source of revenue for Regional Committees is the income generated from LES. Amounts recorded in the Financial Statements in this respect are primarily extracted from reports generated from an Information Technology (IT) system, which is operated by an external service provider.

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<sup>1</sup> As per information provided by the Department for Local Government.

Notwithstanding that during a meeting held with the latter, NAO was verbally informed that an audit of the financial aspect of the system is carried out by its Auditors each year, the request for a copy of the related audit report was not acceded to. Thus, for another year it was not possible to ensure that the reports generated to account for the income receivable are correct 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.

This issue also affected the amounts reported by certain Local Councils with respect to pending payments from the pre-regional period. Up to the preceding year, Councils based their LES Debtors on Report 622 (Tribunal Pending Payments) extracted from Version 1 of the LOQUS system, which was permanently closed off by the system administrator during the year under review. Consequently, Councils were guided to download the same report from Version 2 of the system on the basis that this gives more accurate information. Yet, it transpired that receivables disclosed in the latter report were higher than those reported in the preceding years. Though this might imply that certain contraventions issued before 31 August 2011 have been adjudicated guilty in 2013, (*i.e.* more than two years later), it still questions the integrity of the system and the reliability of the data generated therefrom, especially when such increases were not substantiated by plausible explanations or evidence.

### **Joint Committees**

Notwithstanding that more than three 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. Although these were expected to be wound up after one year following the set up of the Regional Committees, to-date NAO still has no indication that such process officially commenced.

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. Furthermore, 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 during the preceding period, 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.

This contributed to the qualification of the Audit Report of 29 Local Councils who are to be provided with the respective audited Financial Statements as per pooling agreement. Consequently, 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 Councils. **Appendix B** refers.

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

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

<sup>2</sup> With the exception of Rabat, all Gozitan Local Councils formed part of the pooling system.

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.

By the time of audit, 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 system<sup>2</sup> 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 Financial Statements of the Gozo Regional Committee included the amount of €26,000 payable to the 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, due to its liquidity problem, the Gozo Regional Committee 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 as presented by the Mosta and Valletta Local Councils for the reasons highlighted below.

#### **Mosta Local Council**

##### **Fixed Assets**

During the year under review, the Council constructed a new Fixed Asset Register (FAR) to record its acquisitions of Property, Plant and Equipment (PPE). However, the balances in such FAR do not agree with those recorded in the Nominal Ledger. Moreover, the description of the respective assets merely includes the name of the contractor or supplier.

Furthermore, the depreciation charge has not been calculated through this software but was

accounted for through a journal entry on an annual basis. Furthermore, various asset categories were allocated the wrong depreciation rate. For example, no depreciation was charged on Special Programmes, despite that this category attracted a depreciation charge at the rate of 10%. However, in the Financial Statements approved on 30 April 2014, the Council passed an adjustment amounting to €48,521 for which no supporting documentation was provided.

Consequently, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balance of Fixed Assets recorded in the Financial Statements, which at year-end had a Net Book Value (NBV) of €1,521,840, as well as on the accuracy of the depreciation charged thereon.

##### **Inventories**

The valuation method of Inventories held by the Council is not in line with International Accounting Standard (IAS) 2. The stock of books and maps as recognised in the Financial Statements, amounting to €17,613, was valued at selling price rather than the lower of cost or Net Realisable Value. Moreover, despite that there were no new publications during the year, the quantity of stock in respect of two books increased when compared to the previous year. Conversely, whilst other items of stock decreased, no related income was recorded by the Council, implying that such decreases may be attributable to items of stock that were given on a complimentary basis. In addition, it was also noted that the Council does not hold an insurance policy in respect of such inventories.

##### **Receivables**

Included within the Debtors' List is a long outstanding amount of €29,376, receivable from Water Services Corporation (WSC) for road reinstatement, in respect of works carried out for water house connections. During the previous year, the Council claimed that a settlement agreement, estimated at €13,950, has been reached with the Corporation to this effect. However, such agreement was not provided for audit purposes, implying that the amount receivable from WSC

as recognised and disclosed in the Financial Statements is purely based on estimates prepared by the Council. No documentary evidence, providing reasonable assurance that the amounts recognised were not materially misstated, was made available.

Included under Accrued Income is the balance of €286,857, representing amounts to be recovered under European Union (EU) Funded Projects. However, the information and evidence provided by the Council in this respect was not sufficient for LGA to determine whether the recognition of these receivables was correct and in line with the requirements of International Financial Reporting Standards (IFRSs).

### Payables

The Council's Statement of Financial Position shows the amount of €617,671 as Payables at year-end. However, as highlighted further on in this report, the information and evidence provided by the Council indicates that this amount is misstated.

No substantiating documentation was provided to validate the amount of €389,224, relating to EU Projects and Grants, recognised under Deferred Income, and the balance of €13,370 disclosed under Other Creditors in respect of rents due to the Land Department. Consequently, practical procedures could not be performed to obtain reasonable assurance on the amount of misstatement in relation to these payables as recognised in the Financial Statements.

Certain discrepancies between the amounts disclosed in the Nominal Ledger under Deferred Income and those illustrated in the respective workings provided by the Council were encountered. Whilst the amount recorded in the Trial Balance with respect to the grants received on account of a project in the zone known as *Blata l'Gholja* was overstated by €222,667, that for Public Private Partnership (PPP) First was understated by €53,922. In view of the latter variances, the Council claimed that these arose due to a reallocation made in previous years and for which an audit adjustment was proposed during the year under review. Following the said adjustment, the discrepancy decreased to €168,745. In view that no supporting documentation was provided by the Council, LGA was unable to validate the

resulting variance, since there were no additional alternative procedures that could be carried out to determine the correct amount to be recognised and disclosed in the Financial Statements.

### Private Public Partnership Scheme

As at year-end, the Council recognised the value of €569,607 as amounts due to contractors undertaking road resurfacing works under the PPP Scheme. However, no adequate workings were provided for LGA to be able to obtain reasonable assurance on the said amount.

Furthermore, the balance of €3,149 was disclosed as Assets not yet Capitalised in respect of road resurfacing works carried out under the same scheme. However, the actual total value of roads resurfaced and finalised, but not certified as at year-end, amounted to €477,748. Consequently, both Assets and Liabilities in the Financial Statements are understated by €474,599.

The Trial Balance supporting the Financial Statements showed an amount of €390,296 in respect of Assets not yet Capitalised. However, such amount was only disclosed as a note to the accounts.

### Non-Compliance with IFRSs

The Financial Statements were not drawn up in line with the applicable IFRSs and the related disclosures.

Additional shortcomings are highlighted further on in the report.

### Valletta Local Council

#### Fixed Assets

The Council failed to provide LGA with a FAR in relation to the fixed assets acquired during the years. Consequently, the latter could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balance of fixed assets (excluding Assets under Construction) recorded in the Financial Statements, which at year-end had a NBV of €1,248,483, as well as on the completeness of the depreciation charged thereon.

Furthermore, depreciation for the year was not calculated and posted through the accounting software on a monthly basis as required by the Financial Procedures, besides that the rate charged in respect of computer equipment was not in line with the Council's accounting policies.

The contractor responsible for PPP projects, issues purchase invoices solely upon the receipt of payments from the Council. According to the Architect's certifications, the total works carried out in this respect, which were completed and certified in 2012, totalled €299,408, out of which the balance of €179,645 was paid by the Council as per PPP agreement. This implies that the amount of €119,763 was still payable at year-end, which balance remained unaccounted for by the Council. The related depreciation charge amounting to €17,089 was also not taken into account. These transactions were eventually incorporated in the books of account by means of an audit adjustment.

During 2013 and the preceding year, the Council undertook capital refurbishment works in *Peacock Garden*, in respect of which it obtained a grant from the European Regional Development Fund (ERDF), up to a maximum of €855,721. This represented 85% of total eligible expenses. Though the remaining expenditure will be borne by the Council, the latter managed to obtain a further €50,000 co-financing grant from the Department for Local Government (DLG). The payments to the contractors are administered by the Malta Treasury Department, whereby it issues the full payment to the suppliers and then recovers the relevant proportion from the EU fund and the Council respectively. Testing carried out revealed that purchase invoices, which by 31 December 2013 aggregated to €231,702, addressed to the Council and which were partly financed by the EU grant, were not entered in the accounting records. In addition, the funds of €196,946 advanced by EU to finance payments to the respective suppliers were also unaccounted for. Furthermore, payments worth €34,755 effected by the Council to the Department during the last two years, were incorrectly recorded against Deferred Income. These shortcomings imply that Assets under Construction, as well as Deferred Income as recognised in the books of account, were both understated by the amount of €231,702. In view

that the evidence provided in this respect was limited, LGA felt that it was imprudent to propose any audit adjustments.

### Receivables

An amount of €22,648 pertaining to Trade Receivables<sup>3</sup> could not be verified in terms of accuracy and recoverability. Although LGA prepared confirmation letters to be signed by the Council and to be subsequently sent by the former to each respective debtor, the Council never returned the signed letters, albeit these were requested by LGA on various occasions.

During 2013, the Council accounted for a balance of €6,753 as LES debts due from other Local Councils representing tickets having the 'Place of incident' Valletta, but which were paid in other Local Councils. Whilst, documentation provided confirmed that only €47 of the said balance was still outstanding at year-end, the Council failed to provide the necessary documentation to justify the variance of €6,706. Likewise, no supporting evidence was provided by the latter in view of another amount of €7,923, representing receivables due from LES Online, dating back to 2011.

The information and evidence provided by the Council with respect to Controlled Vehicular Access (CVA) accrued income for the years 2012 and 2013 was not sufficient for LGA to obtain reasonable assurance on the amounts being recorded.

### Payables

Testing carried out on Trade Payables, which following the approval of audit adjustments proposed by LGA, totalled €561,187, revealed a significant number of misstatements arising due to the fact that the Council is not preparing proper suppliers' reconciliations<sup>4</sup>.

### Income

The information and evidence provided by the Council with respect to certain items of income were not sufficient for LGA to obtain assurance on the amounts being recorded. These included

<sup>3</sup> As at 31 December 2013, the Council has recognised Trade Receivables of €26,476.

<sup>4</sup> Additional details on this issue are provided further on in this report.

grants of €11,570 and €6,932 released to income in relation to the PPP scheme and *Mattia Preti Square* respectively. Likewise, a journal entry of €12,163, posted at year-end to write off the credit balance in the account 'Cash to be deposited', was not substantiated.

### Non-Compliance with IFRSs

Lack of adherence to the applicable standards and necessary disclosures was noted in the preparation of Financial Statements.

### Emphasis of Matter

As at year-end the Council was facing a net current liability position. Thus, 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 provided by Central Government. Any adverse change in such assumption would not allow the Council to be able to meet its financial obligations as they fall due without curtailing its future commitments.

Other deficiencies are included further on in the report.

### 'Except for' Audit Opinion

Apart from Mosta and Valletta Local Councils, another 55<sup>5</sup> Audit Reports, out of the 67 received, were qualified with an 'except for' audit opinion, for one or more of the shortcomings mentioned hereafter. This same qualified audit opinion was also given to the five Regional Committees.

Forty-three Local Councils' and four Regional Committees' Financial Statements for the year under review, were not prepared in their entirety in accordance with IFRSs, since they lacked appropriate disclosures<sup>6</sup>.

The Going Concern assumption used in the preparation of Kalkara Financial Statements is dependent on further sources of funds other than the Annual Financial Allocation received from Central Government, the collection of debts

due to the Local Councils, and on the continued reliance on the Council's Payables. Any adverse change in either of these assumptions would not enable the respective Council to meet its financial obligations as they fall due without curtailing its future commitments.

There were other specific issues for the Local Councils and Regional Committees on an individual basis. In the case of Regional Committees, this also included the fact that no satisfactory evidence was obtained that the IT system for LES has been properly audited.

The financial liquidity concern was also evident in another 21 Local Councils and two Regional Committees. However, in such instances, the respective issue was highlighted through an 'Emphasis of Matter'.

In addition to the above, as already referred to under 'Key Issues', a number of audit reports were also qualified on the basis that amounts due from LES could not be determined.

The qualifications and the related Local Councils and Regional Committees are listed in **Appendix B**.

A significant number of Audit Reports have also been qualified because, apart from the shortcomings mentioned above, the Financial Statements did not include the budgeted figures. However, since Local Councils are now accounting on an accrual basis, such a requirement is no longer applicable. Consequently, these Councils and Regional Committees were not included in the list of qualified Audit Reports in **Appendix B**, as it was deemed unfair to report them merely because an amendment to the Local Councils (Financial) Procedures has not yet been effected by DLG.

### Negative Working Capital

Same as in the previous year, 25 Local Councils and a Regional Committee registered a negative Working Capital<sup>7</sup> during the period under review. This could imply that they may encounter difficulties in meeting their obligations when due.

<sup>5</sup> Fifty-five Audit Reports represent 82% (31 December 2012: 86%) of all the Financial Statements submitted by Local Councils.

<sup>6</sup> Mainly in respect of IAS1, IAS8, IAS20, IAS24 and IFRS7.

<sup>7</sup> Working Capital is defined as Current Assets less Current Liabilities.

**Table 1: Negative Working Capital<sup>8</sup>**

<b>Local Council</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Attard	(208,397)	(133,648)	(37,502)
Birkirkara	(985,032)	(792,930)	(786,717)
Birżebbuġa	(176,421)	(29,980)	(168,425)
Bormla	(23,745)	(59,401) <sup>•</sup>	(61,783)
Dingli	(132,788)	(61,224)	(35,020)
Ghasri	(25,830)	5,014	56,452
Kalkara	(45,290)	(5,047)	(241)
Mdina	(125,805)	(90,265)	(83,557)
Mqabba	(134,232)	(166,284)	132,698
Msida	(157,376)	(17,502)	166,676
Nadur	(107,081)	(152,274)	(118,259)
Pieta`	(71,041)	(26,086)	133,195
Qormi	(3,749)	(105,986) <sup>•</sup>	(35,886) <sup>•</sup>
Rabat (Malta)	(228,679)	(175,455)	(154,737)
Rabat (Gozo)	(82,231)	(13,226)	(26,288)
San Ġwann	(30,791)	(54,166)	(50,569)
Sannat	(67,687)	(24,162)	109,906
San Pawl il-Baħar	(92,876)	316,400	681,347
Siggiewi	(30,686)	(34,994)	25,127
Tarxien	(104,338)	43,925	178,893
Valletta	(626,160)	(95,000)	148,152
Xaghra	(66,296)	(85,660)	102,386
Xgħajra	(11,934)	19,250	48,757
Żebbuġ (Malta)	(1,362,696)	(489,834) <sup>•*</sup>	(259,048)
Żurrieq	(626,364)	(39,942) <sup>*</sup>	291,664
<b>Regional Committee</b>			
	<b>€</b>	<b>€</b>	<b>€</b>
Gozo Regional Committee	(85,284)	(447)	1,175

<sup>\*</sup> Comparative figures have been reclassified to conform with the current year's presentation.

<sup>•</sup> Comparative figures have been restated to reflect prior year adjustments passed during the current financial period.

<sup>8</sup> 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.

**Table 1** lists these Councils and Regional Committees, 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, most of these Councils also experienced a deficit in the Statement of Comprehensive Income for 2013.

### Attard

The liquidity of the Council kept deteriorating, from a negative working capital of €37,502 in 2011 to €208,397 during the year under review. Although Current Assets increased by 36.09%, from €80,964 in 2012 to €110,186 in 2013, this increase was mainly due to Accrued Income and Receivables, standing at €75,493 and €12,730 respectively, with €9,900 of the latter's balance, *i.e.* 77.77% exceeding the credit period. On the other hand, Cash and Cash Equivalents decreased drastically, from €17,351 in 2012 to just €1,666 in 2013, while Payables increased from €113,472 in 2012 to €211,537 in 2013, *i.e.* an increase of 86.42%. This may indicate that in the very near future the Council will not be in a position to meet its obligations as they fall due.

### Birkirkara

The Council's financial situation deteriorated further during the current period. Although a decrease of €133,115 was registered in overall Current Liabilities, this was not sufficient to sustain the substantial decrease of €325,217 in overall Current Assets. In fact, whilst Accrued Expenditure and Payables decreased by €58,603 and €45,955 respectively, drastic decreases of €209,810 and €139,803 were registered in Accrued Income and Receivables respectively. On the other hand, the Council's Cash and Cash Equivalents increased by €30,124 when compared to the preceding year. Moreover, the Council is disputing amounts payable to a number of creditors, aggregating to €138,377, which amounts were only disclosed as Contingent Liabilities.

### Birzebbuga

The financial situation of the Council has deteriorated significantly by almost six times,

during the year under review when compared to the prior period. The Council's Current Assets dropped by €221,197 (48.60%), substantially exceeding the decrease in Current Liabilities of €74,756 (15.41%). The main contributor to the fall in Current Assets was Cash and Cash Equivalents which recorded a dip of €137,031 (82.74%), ending the year with a balance of €28,587 (2012: €165,618). On the other hand, the marginal decrease in Current Liabilities is mainly due to a reduction of €101,529 in Short-term Borrowings, out of which only €53,361 was actually settled. The resulting balance of €48,168 was reclassified to Non-Current Liabilities, in view of the incorrect disclosure in the preceding year. Payables also increased by €13,652, whilst the bank balance was overdrawn by €30,688.

### Bormla

Whilst the financial situation improved from prior year due to a decrease in Current Liabilities of 65%, the Council still ended the financial year with a negative Working Capital of €23,745. The movement in Current Liabilities was mainly brought about by decreases in amounts owed to Related Parties (€122,516), Trade Payables (€55,380) and the Overdrawn Bank Balance (€17,347). However, a substantial decrease of €159,426 was also reported in the Council's Current Assets, thereby hindering recovery from the current negative financial situation being faced by the Council.

### Dingli

The financial position of the Council worsened to a negative Working Capital of €132,788 at the end of the year. The decrease of €21,576 in overall Current Liabilities, was not enough to sustain the substantial decrease of €93,140 in Current Assets. Whilst Receivables, made up of Prepayments and Accrued Income, remained fairly stable when compared to the preceding year, a decrease of €94,559 was registered in Cash and Cash Equivalents. Meanwhile the variance in Current Liabilities was the result of a decrease of €9,435, €6,395 and €5,481 in Bank Overdrawn balances, Accrued Expenditure and Deferred Income, as well as Payables respectively.



### Ghasri

During the year under review, the financial position of the Council was driven to a net liability position of €25,830. This was brought by a reduction of €8,073 in Current Assets coupled up by an overall increase of €22,771 in Current Liabilities. The main movements were noted in Cash and Cash Equivalents which decreased by €8,251 over the preceding year, whilst Payables and Accrued Expenditure increased by €18,914 and €3,857 respectively.

### Kalkara

As at year-end, the Council registered a negative Working Capital of €45,290, resulting from a substantial increase of €36,580 in overall Current Liabilities coupled with a decrease of €3,663 in total Current Assets. Although Accrued Expenditure dropped by €31,549 when compared to prior year, Creditors increased by €65,322. Likewise, the increase of €22,392 in the Council's Receivables was totally offset by a negative movement of €26,055 recorded in Cash and Cash Equivalents.

### Mdina

The increase in Current Liabilities, coupled with a decrease in Current Assets, resulted in a further deterioration of the Council's financial situation when compared to prior year. Current Assets declined by 24% from €49,073 in 2012 to €37,239 in 2013. Cash and Cash Equivalents, as well as Trade and Other Receivables, decreased by €6,713 and €5,121 respectively. Furthermore, though 92% (€12,406) of the Receivables have exceeded the credit period, these were not impaired. Meanwhile, an increase of €23,706 was registered in Current Liabilities over the preceding year.

### Mqabba

Albeit a slight improvement, the Council is still in a precarious financial situation, ending the year with a net Current Liability position of €134,232 (2012: €166,284). Both Current Assets and Current Liabilities decreased, with a dip of €84,324 in the former, and a decrease of €116,376 in Current Liabilities. Cash and Cash Equivalents

decreased by €32,392 during the year under review, while the other contributors to the fall in Current Assets were Prepayments and Accrued Income, which totalled €13,139 as at December 2013, as compared to €59,848 in 2012. On the other hand, the decline in Current Liabilities was brought about by a fall of €74,796 and €34,313 in Payables and Accrued Expenditure respectively.

### Msida

The Council's financial position continued in the negative trend, deteriorating significantly during the year under review. The negative Working Capital of €17,502 registered during 2012, has increased to €139,874, closing 2013 in a net liability position of €157,376. While Current Liabilities increased by €29,362, Current Assets fell by €110,512 in 2013. The main contributors for these negative movements were the increases of €51,236 and €10,750 in Accrued Expenditure and Deferred Income as well as Other Creditors respectively, and a simultaneous decrease of €112,390 in Prepayments and Accrued Income.

### Nadur

Although the working capital improved by €45,193 when compared to the prior year, the Council still registered a negative financial position of €107,081 as at year-end. A comparison to the amounts recorded during 2013, with those of the previous year, shows that although the Council managed to decrease Current Liabilities by €76,159, this was mitigated by reductions in Receivables, as well as Cash and Cash Equivalents, amounting in total to €30,966.

### Pieta`

The liquidity of the Council continued to deteriorate even further. This significant worsening position was brought about by an overall decrease of €51,646 in Current Assets, with both Trade and other Receivables as well as Cash and Cash Equivalents registering decreases of €28,365 and €23,281 respectively over the prior period. On the other hand, Current Liabilities decreased by only €6,691, with Trade and other Payables registering a fall of €6,926.

## Qormi

Compared to prior year, the financial position of the Council improved significantly, ending the year with a negative Working Capital of €3,749 (2012: €105,986). Whilst Current Liabilities increased by €44,315 mainly due to an increase of €76,225 in Payables, which was partly outweighed by the decrease of €31,528 in Accrued Expenditure, Current Assets increased by €147,677, with Receivables and Cash and Cash Equivalents registering increases of €118,546 and €29,138 respectively. However, irrespective of this negative liquidity position, the Council still bound itself to meet Capital Commitments of €68,000 over the coming year.

## Rabat (Malta)

The Council's financial situation in 2013 continued to deteriorate when compared to that of prior periods. Although overall Current Liabilities decreased by €61,289, this was not sufficient to offset the even higher reduction of €110,104 registered in Current Assets. Both Cash and Cash Equivalents and Receivables decreased drastically by €69,330 and €40,774 respectively over the prior year. Meanwhile, the increase of €26,329 in Payables was totally outweighed by decreases registered in Accrued Expenditure and Deferred Income, as well as Government Grants of €80,022 and €7,769 respectively.

## Rabat (Gozo)

The Council's Working Capital situation continued to deteriorate by a further €69,005 when compared to that of the prior year. This was mainly the result of a decrease in overall Receivables of €17,617, together with an increase of €71,093 and €20,762 in the overdrawn bank balance as well as Accrued Expenditure respectively. Meanwhile a decrease of €41,834 was registered in Payables.

## San Ġwann

Although the Council's situation slightly improved, it still concluded the year under review in a net liability position of €30,791 (2012: €54,166). The Council managed to increase Current Assets by €3,246, whilst at the same time reducing Current Liabilities by €20,129. These movements were

mainly due to an increase of €12,822 in Cash and Cash Equivalents, and a decrease of €20,140 in Payables and Accrued Expenditure.

## Sannat

During the year under review, the Council's working capital continued to deteriorate even further. This was brought about by a decrease of €17,961 in overall Current Liabilities, which was not enough to make up for the considerable decreases in Cash and Cash Equivalents as well as Receivables, amounting to €49,583 and €11,903 respectively. On the other hand, a decrease of €45,554 in Accrued Expenditure was partly offset by an increase of €23,769 in Deferred Income.

## San Pawl il-Bahar

As at year-end, the Council registered a net Current Liability position of €92,876, resulting from a substantial decrease of €463,690 in overall Current Assets. Although Current Liabilities decreased by €54,414, and Trade and Other Receivables increased by €76,902, such movements were not sufficient to offset the decline of €534,907 registered in Cash and Cash Equivalents.

## Siggiewi

The increase of €18,489 in Cash and Cash Equivalents during the year under review was completely offset by the decrease of €19,196 in overall Receivables. An increase of €21,786 in Prepayments and Accrued Income was totally outweighed by a decrease of €7,228 and €36,747 in LES Debtors and Other Receivables respectively. Meanwhile, whilst an increase of €102,348 and €7,307 was recorded for Accrued Expenditure and Deferred Income respectively, total Payables decreased by €114,670.

## Tarxien

From a positive Working Capital of €43,925 recorded at the end of the previous year, the Council closed the current financial year in a negative position of €104,338. Although Cash in Hand and at Bank increased by €40,716 when compared to prior year, such increase was not sufficient to offset the decrease of €89,765 in Trade and Other Receivables and the increase in overall Current

Liabilities of €99,152. The substantial increase in Current Liabilities was mainly related to increases in Trade Creditors, Deferred Income and in the Current Bank account of €46,336, €32,111 and €14,377 respectively.

### Valletta

During the year-ending 31 December 2013, the Council's financial situation deteriorated substantially further as Current Liabilities exceeded Current Assets by €626,160. This resulted from a significant decrease of €116,052 and €108,005 in Receivables and Cash and Cash Equivalents respectively, coupled up by a major increase of €307,103 in Trade and Other Payables. The movement in Receivables was mainly due to a decline in LES Debtors and Accrued Income of €37,701 and €70,618 respectively. Meanwhile, whilst short-term Deferred Income decreased by €18,806 over the preceding year, increases of €202,583, €110,384 and €12,942 were registered for Payables, Accrued Expenditure and Other Creditors.

### Xaghra

Although the working capital improved by €19,364 by the end of the year, the Council's Current Assets still fall short of the Current Liabilities. The increase of €39,453 reported for Trade and Other Receivables was partly offset by the decrease of €28,879 registered in Cash and Cash Equivalents. Meanwhile, except for Accrued Expenditure, which increased by €4,823 when compared to the preceding year, all the other line items constituting Current Liabilities decreased, with the result of an overall reduction of €8,790.

### Xgħajra

From a positive working capital registered in the preceding year, the Council was driven to a negative financial position during the current period. The reduction of €29,528 in the Council's Payables was not sufficient to offset the even higher decrease of €60,712 recorded in overall Current Assets. The major movements noted were in the Council's Bank Balances and Other Debtors which decreased by €31,005 and €21,543 respectively. Moreover, the downward movement registered in Current Liabilities was the result of reductions in Creditors, Deferred Income and the

Overdrawn Bank Balance by €30,320, €21,520 and €10,756 respectively. On the other hand, Accrued Expenditure increased by €33,068 when compared to prior year.

### Żebbuġ (Malta)

In the current period, the Council faced the worst financial situation as Current Liabilities exceeded Current Assets by €1,362,696. This was the result of a considerable decrease of €89,516 and €63,856 in both Cash and Cash Equivalents and Receivables respectively, coupled up by a significant increase of €766,048 in Payables. On the other hand, a drop of €46,558 was registered in the Council's Overdrawn Bank Balance. The movement in Receivables was mainly due to a decline of €89,583 in LES Debtors, mainly brought by an increase in the provision for doubtful debts. Conversely, upward movements of €14,063 and €11,664 were registered for Receivables, as well as Prepayments and Accrued Income respectively. Meanwhile, whilst Accrued Expenditure and Deferred Income decreased by €5,725 over the prior year, Trade and Other Payables as well as Government Grants increased by €739,476 and €32,297 respectively.

### Żurrieq

The negative Working Capital has deteriorated significantly, closing the year with a negative balance of €626,364. The main contributor to this adverse situation is the drastic fall in Current Assets which saw both Cash and Cash Equivalents, as well as Receivables, being slashed by more than half, registering decreases of €334,572 and €207,449 respectively. This translates into a decrease of 60% in Current Assets, resulting in a closing balance of €363,139 as at year-end (2012: €905,160). On the other hand, Current Liabilities increased by €44,401 during the year under review. This was mainly due to increases of €47,365 and €11,444 in Trade Payables and Accrued Expenditure respectively, partly set-off by a reduction of €18,366 in the Overdrawn Bank Balance.

### Gozo Regional Committee

The Committee's financial position deteriorated considerably when compared to the preceding

year. In view that contraventions were not being paid, the latter experienced cash flow problems with the consequence that it did not have sufficient funds to cover commitments as they fell due. Other Payables increased by €54,656 during the year under review. Meanwhile, a provision for doubtful debts of €7,061 was recognised with respect to contraventions older than two years.

### *Improvement in Working Capital*

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

### *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.

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, the substantial change in the Council's financial 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 the PPP Scheme, are not expected to be included in the FSI calculation. Upon unanimous agreement with relevant stakeholders, the formula for the computation of the FSI was modified on such basis.

It is pertinent to note that way back in 2002, a total of 37 Local Councils were exempted from maintaining a positive FSI of 10%. Throughout the years, this decision, which was taken by DLG, was not revised with the consequence that more than a decade later, these Councils are still stating that this exemption prevails. As reiterated in the preceding years, considering that now the Councils are operating in a financial environment which is substantially different from that of 2002, the Department is expected to consider whether such exemption is still applicable or not, on a case-by-case basis.

Thirty-five Local Councils (2012: 32) registered a FSI below the 10% benchmark required by law. These are shown in **Table 3**.

**Table 2: Improvement in Working Capital<sup>9</sup>**

Local Council	31 December 2013	31 December 2012	31 December 2011
	€	€	€
Gzira	91,077	(6,525)*	27,559
Gharghur	33,215	(8,269)	25,280
Isla	19,640	(14,544)	60,827
Paola	302,883	92,088 <sup>10</sup>	(91,464)

\*Comparative figures have been reclassified to conform with the current year's presentation.

<sup>9</sup> 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 balances recorded in the respective notes.

<sup>10</sup> During the preceding year, the Council registered a net current liability position of €305. However, in view that a prior year adjustment was passed during the year under review, the related figures were restated accordingly.

**Table 3: Financial Situation Indicator**

<b>Local Council</b>	<b>FSI 1 January – 31 December 2013<sup>^</sup></b>	<b>FSI 1 January –31 December 2012<sup>^</sup></b>	<b>Council's reply</b>
	<b>%</b>	<b>%</b>	
Attard	(34.52)	(23.96)	The Council has been trying for years to rectify the liquidity procedure, hoping the Government will improve the present funding system, which is not sufficient for the present Local Council exigencies.
Birkirkara	(73.20)	(66.89)	The Council will be preparing and revising its cash flow projections to address the financial problem over a two-year period and attempts to re-track the financial position back into place.
Birżebbuġa	(22.87)	(6.50)	Points noted. The Council will inform DLG of what actions it is going to take to rectify its financial situation.
Bormla	(6.67)	(15.75)	A comparison of the working capital for 2012, with that for 2013 as outlined by LGA, implies that in real terms over a period of 12 months, the Council improved its working capital by €37,370. However, as already stated in previous year's reply, the Council strongly believes that the annual financial allocation should be increased by at least €99,000 or otherwise, the Council will not be in a position to meet the residents' expectations.
Dingli	4.81	(17.07)	The Council believes that the FSI will improve in 2014, if the right controls are implemented.
Gzira	(7.98)	9.24	The comments made by the Auditor have been noted. The Council has been working very hard in order to maintain a positive FSI, by kerbing expenditure as much as possible.
Gharb	(1.07)	(3.75)	The Council will work towards improving FSI, to bring this up to the 10% threshold.
Ghaxaq	9.64	6.21	The Council will do its utmost to maintain a positive FSI equal to 10% of the annual allocation.

**Table 3: Financial Situation Indicator *cont./***

<b>Local Council</b>	<b>FSI 1 January – 31 December 2013<sup>^</sup></b>	<b>FSI 1 January –31 December 2012<sup>^</sup></b>	<b>Council's reply</b>
	<b>%</b>	<b>%</b>	
Kalkara	(49.88)	(22.75)	Point not addressed.
Kerċem	(1.04)	10.41	The Council is doing its utmost to control expenditure, both by compiling the annual budget, and also by preparing quarterly reports with the necessary comparison between these documents. FSI has improved from 2012 and the Council believes that it will continue to improve in 2014, if unexceptional expenses do not occur again.
Kirkop	(35.21)	(65.18)	The Council is doing its utmost to keep recurring expenditure as low as possible, so that the current financial situation is improved. Capital expenditure has already been restricted.
Lija	5.51	3.88	The Council will work towards improving the FSI, to bring this up to the 10% threshold.
Mdina	(68.45)	(47.77)	In an attempt to bring back, its finances to a proper level of liquidity, the Council embarked on a cost cutting exercise. However, each year the Council is being requested by the Department to enter into more obligations without being compensated for such expenditure in the annual budget. The recommendations listed by LGA are already being followed, since contracts are only being undertaken if the project is absolutely necessary, or if it is funded by special schemes. The Council had made a claim to DLG for supplementary funds due to the increasing costs, in respect of cleaning and maintenance incurred, to be able to cater for the tourists that visit its grounds on a daily basis. However, the Department refused this claim.
Mosta	1.14	(38.38)	Reply to the Management Letter was not provided.

**Table 3: Financial Situation Indicator *cont./***

<b>Local Council</b>	<b>FSI 1 January – 31 December 2013<sup>^</sup></b>	<b>FSI 1 January –31 December 2012<sup>^</sup></b>	<b>Council's reply</b>
	<b>%</b>	<b>%</b>	
Mqabba	(23.79)	(31.47)	Although the Council managed to improve its FSI and the liquidity position, at year-end, the Council completed a vast program of road works that involved almost every road in the locality, with the scope of drastically reducing the expense for the maintenance of roads. As such, this is an investment from which the Council will reap positive results through a reduced road maintenance burden.
Msida	(21.73)	(6.35)	These matters will be brought to the Accountant's attention.
Nadur	(52.35)	(33.12)	The main cause for the negative FSI is due to the fact that the Council has embarked on the PPP scheme, for which it does not have the necessary finances.
Pieta`	(19.76)	(3.62)	LGA's comments were noted and measures will be taken to rectify this.
Qormi	(15.99)	(5.02)	The Council has been exempted from regulation 55 of the Local Council Act. Local Councils are not informed that such exemptions no longer apply. The Council would like to take the opportunity to ask DLG to clarify the matter.
Rabat (Malta)	(22.16)	(13.70)	Although the Council expects DLG to take the appropriate provisions as stipulated in the Local Councils (Financial) Procedures, it will consider LGA's recommendation in terms of a restructuring plan, to address the liquidity position.
Rabat (Gozo)	(34.44)	(19.30)	The Council will try to curtail the current expenditure in order to improve the financial situation.
San Ġwann	(3.62)	(6.90)	The Council failed to provide a reply to the Management Letter.
San Lawrenz	(32.89)	(15.85)	The Council will work towards improving this indicator, to bring it up to the 10% threshold.

**Table 3: Financial Situation Indicator *cont./***

<b>Local Council</b>	<b>FSI 1 January – 31 December 2013<sup>^</sup></b>	<b>FSI 1 January –31 December 2012<sup>^</sup></b>	<b>Council's reply</b>
	<b>%</b>	<b>%</b>	
Sannat	(27.70)	(18.97)	The Council will try to change the situation from a negative FSI to a positive one, and will try to maintain the 10% margin in order to be able to manage its cash flows properly.
Santa Luċija	2.33	18.80	During the past three years Government's financial allocation remained more or less the same, regardless of the ever increasing running costs and other expenses imposed on the Council, such as allowances to Councillors and Mayors, yearly increase in salaries, and the additional overtime due to the opening of Council's office on Saturday. Despite this situation, as in previous years, the Council managed to end the year with a positive balance. This was achieved while the Council was giving its maximum in the delivery of services, and implementing a number of projects through its participation in various Government schemes, such as PPP where the Council spent not less than €53,000 from the allocation on resurfacing works in these last two years. However, the Council will continue to monitor its financial situation and try to set targets to achieve the 10% FSI as recommended.
San Pawl il-Bahar	(3.33)	35.75	The Council is addressing the liquidity situation, in fact no fresh projects or programmes, which are not funded by special schemes, are being considered.
Sigġiewi	(1.34)	(5.17)	The Council is aware that in these last financial years its liquidity position has deteriorated due to the fact that it undertook numerous capital projects.
Tarxien	(12.28)	(1.76)	The Council has already informed DLG about its financial position and is taking the necessary steps to revise such position.
Valletta	(84.08)	(2.96)	Reply to the Management Letter was not provided.



**Table 3: Financial Situation Indicator *cont./***

Local Council	FSI 1 January – 31 December 2013 <sup>^</sup>	FSI 1 January – 31 December 2012 <sup>^</sup>	Council's reply
	%	%	
Xaghra	(30.42)	(15.39)	The Council will try to change the situation from a negative FSI to a positive one. It shall also try to maintain the 10% margin, in order to be able to manage its cash flows properly.
Xewkija	(34.48)	71.85	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 kerbed expenditure throughout the year, however it had to honour commitments made by the previous Council.
Xgħajra	(7.03)	(15.39)	Point not addressed.
Żebbuġ (Malta)	(182.08)	(144.78)	The FSI has been negative for quite a long time and is not a sole snapshot of year 2013. The Council is taking the necessary steps so as to remedy the situation.
Żebbuġ (Gozo)	8.88	30.26	The necessary action will be taken by the Council in order to remedy the situation.
Żurrieq	(11.18)	37.54	As per regulations in force, DLG was informed accordingly.

<sup>^</sup>Workings as provided by LGAs.

### ***Statement of Comprehensive Income<sup>11</sup>***

Thirty-seven Local Councils (2012: 32) and the Gozo Regional Committee (2012: 1) registered a deficit 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.

<sup>11</sup> A deficit in the Statement of Comprehensive Income results when the cost of expenditure is greater than revenue.

**Table 4: Statement of Comprehensive Income<sup>12</sup>**

<b>Local Council</b>	<b>1 January – 31 December 2013</b>	<b>1 January – 31 December 2012</b>	<b>1 January – 31 December 2011</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Attard	(24,714)	(22,289)	(69,050)
Birkirkara	(46,601)	(95,543)	(50,689)
Birżebbuġa	(72,029)	48,632	(16,154)
Dingli	(9,118)	(20,287)	(6,198)
Floriana	(65,894)	(116,250)	(108,328)
Gudja	(5,112)	(15,074)	61,571
Għarb	(2,981)	16,475	5,269
Għarghur	(6,266)	13,495	(11,557)
Għasri	(44,227)	7,996	(904)
Kalkara	(18,724)	(20,166)	(24,822)
Kirkop	(57,972)	(23,628)	(63,718)
Lija	(14,056)	(26,323)	(17,934)
Marsa	(16,430)	9,929	34,645
Marsascalea	(60,437)	(98,845)	(25,304)
Mdina	(40,864)	(41,796)	(97,470)
Mellieħa	(15,850)	242,924	138,429
Mġarr	(15,331)	32,568	102,936
Mqabba	(12,041)	(5,575)	4,425
Msida	(89,500)	(49,087)	11,179
Mtarfa	(3,590)	17,379	15,887
Nadur	(35,912)	2,790	44,997
Pieta`	(44,219)	(17,406)	(8,147)
Qormi	(96,939)	(227,104)	528
Qrendi	(84,280)	679	(30,139)
Rabat (Malta)	(46,409)	(68,300)	21,582
Rabat (Gozo)	(120,896)	(87,087)	(23,601)
Safi	(68)	(20,798)	13,604
San Ġiljan	(78,130)	(27,938)	32,398
Sannat	(34,762)	(17,432)	(8,908)
San Pawl il-Baħar	(439,969)	(63,855)	131,927
Sliema	(214,181)	316,031	90,531
Tarxien	(6,402)	11,634	8,919
Valletta	(215,972)	(29,897)	24,854
Xewkija	(43,861)	20,453	48,626
Xgħajra	(32,237)	(9,435)	3,721
Żebbuġ (Malta)	(265,191)	(219,178)	(254,080)
Żebbuġ (Gozo)	(20,935)	45,998	(35,814)

**Table 4: Statement of Comprehensive Income<sup>12</sup> cont./**

Local Council	1 January – 31 December 2013	1 January – 31 December 2012	1 January – 31 December 2011
<b>Regional Committee</b>			
	€	€	€
Gozo Regional Committee	(84,985)	(1,813)	2,034

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

### Attard

The loss for the year increased by €2,425 when compared to the loss registered during 2012. The increase of €93,393 (15.13%) in funds received from Central Government was not enough to sustain the decrease of 82.6% covering Income raised under LES, from €38,258 in 2012 to €6,655 in 2013, as well as an increase of 10.93% in Expenditure, mainly due to administration expenses which increased from €189,020 in 2012, to €248,623 in 2013. The main contributors to this variance were Utilities, with an increase of 267.37%, from €3,993 in 2012 to €14,669 in 2013, as well as Depreciation, with an increase of €56,405 (58.96%). A significant increase of €15,034 (109.81%) was also recorded in Repairs and Upkeep of Road and Street Pavements.

### Birkirkara

Though the Council managed to cut back its Operations and Maintenance expenses, as well as the Administration expenses by €127,154 and €6,687 respectively, it still ended the financial year with a deficit. This was mainly due to the fact that overall income received by the Council decreased by almost €44,349 when compared to that reported in the prior period. Decreases of €23,445 and €20,870 were also noted in General Income and Income raised under LES respectively. Meanwhile, an increase of €40,550 was noted in Personal Emoluments paid during the year under review, mainly because on average, three additional officers were engaged with the Council in 2013.

### Birżebbuġa

The Council went from a profit of €48,632, recorded in 2012 to a deficit of €72,029 in the year under review. While revenue fell by €75,059 (9.33%), expenditure increased by €45,602 (6.04%) over the prior period. The increase of €26,568 in Funds received from Central Government was not enough to sustain the reductions of €5,058 and €96,614 in Income raised under LES and General Income respectively. The significant drop in General Income related to the fact that the maximum bank guarantees<sup>13</sup> of €95,441, which the Council demanded the bank to transfer in its favour during the preceding year, were immediately recognised as income during that same year. On the other hand, Personal Emoluments registered an increase of €14,240 (14.06%) while Administration and Other Expenditure increased by €36,182 (11.77%) over the prior period, with Depreciation, and expenditure on Social Events, Office Services and Professional Services increasing by €37,443, €8,269, €3,744 and €3,460 respectively.

### Dingli

Although the financial position improved by 55% from the previous year, the Council still registered a deficit at period-end. This improvement was mainly due to an overall increase of around €18,063 (5%) in overall income. On the other hand, whilst the Council managed to cut back Operations and Maintenance expenses and Personal Emoluments by €25,250 (15%) and €5,260 (8%) respectively, Administration and Other Expenditure increased by €37,404 (30%). Such increase mainly resulted

<sup>12</sup> 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.

<sup>13</sup> In view of fraud allegations against the Council's road works contractor, the latter refrained from executing all the works and obligations outlined in the respective PPP agreement.

from a rise in Depreciation and Amortisation charges (€20,186), Travel expenses (€15,630) and Other Hospitality Costs (€4,728).

### Floriana

Notwithstanding that the deficit decreased by €50,356 (43%) when compared to prior year, the Council still ended the current financial year with an excess of expenditure over income of €65,894. This improvement in its deficit was mainly brought about by a decrease of €32,079 and €18,972 in Operations and Maintenance, as well as Administration and other Expenditure respectively, coupled up by an overall increase of €7,584 in income received by the Council. The major cutbacks in expenditure were noted for Community and Hospitality expenses (€48,075), *Gardmed* project expenses (€31,206), Depreciation (€15,751), LES (€10,651) and Professional Services (€7,977). On the other hand, an increase of €8,279 was reported for Personal Emoluments. Furthermore, whilst in the preceding year there was a decrease in the provision for doubtful debts of €84,775, thus decreased Administration and Other Expenditure by the same amount, an increase of €15,426 was registered during the year under review.

### Gudja

Albeit deficit was reduced by 66.1% from the prior year, the Council still registered a loss of €5,112 during the year under review. During 2013, expenditure decreased by €73,406, in particular due to *Tal-Mithna* Estate Project where costs went down from €76,531 in 2012 to €3,847 in 2013. Notwithstanding this, the fall in expenditure was not enough to sustain the reduction of €63,444 in income. This was mainly due to a fall of €65,291 in Supplementary Income received from Central Government, coupled up by a decrease of €6,072 and €682 in Income from Law Enforcement and Finance Income respectively. The increase of €12,825 in General Income was not enough to make up for these shortfalls. Meanwhile the main increases in expenditure were noted in respect of Travelling (€13,756) and Road Markings and Signs (€7,107).

### Gharb

The decrease in expenditure during the year was not enough to make up for the decrease in revenue, with the result that the Council registered a total comprehensive loss of €2,981. Whilst Funds received from Central Government increased by €46,974, when compared to the previous year, a substantial decrease of €309,572 was noted in General Income, arising due to a reduction of €304,522 with respect to income covering EU Programmes. On the other hand, the decrease in Operations and Maintenance Expenditure of €330,333, was partly abated by increases in Personal Emoluments (€12,954), Depreciation (€89,050) and Impairment of Receivables (€14,728). Conversely, amounts expensed with respect to Community and Hospitality decreased by €21,590.

### Għarghur

From a surplus of €13,495 registered at the end of the previous year, the Council ended the current financial year with a loss of €6,266. The increase of 9.93% in the Council's overall income was not sufficient to offset an overall increase of 18.71% in expenditure incurred during the year under review on Personal Emoluments, Operations and Maintenance, as well as Administrative and Other Expenditure. Main increases in expenditure were noted for Depreciation (€24,023), Road Markings and Signs (€8,201), Executive Secretary's Salary and Allowance (€5,604), patching works of Road and Street Pavements (€5,140), Community and Hospitality (€2,972) and Road and Street Cleaning (€2,701).

### Għasri

The overall increase of €48,471 (31%) in expenditure, together with a marginal decrease of €3,752 in income, has led to a substantial deterioration in the financial situation of the Council. A marked increase of €36,956 in the Operations and Maintenance Expenditure was mainly brought by a rise in amounts incurred for Road and Street Pavements (patching works) (€32,974) as well as for Open Skips (€6,999). In

fact, as reported further on in the report, budgeted expenditure for Repairs and Upkeep was exceeded by €33,343. Meanwhile, Personal Emoluments also increased by €11,564 over the preceding year.

### Kalkara

Despite that a slight improvement was registered over the prior period, the Council still ended the current financial year with a deficit of €18,724. Even though overall Expenditure decreased by €4,008, and overall Income increased by €2,646 when compared to the preceding period, total Income earned by the Council was not sufficient to offset the expenses incurred during the same year. An increase of €13,165 was registered in Other Government Income. However, General Income, the Annual Government Allocation, and Income from LES, dropped by €7,659, €6,035 and €2,154 respectively.

### Kirkop

The slight improvement registered during 2012 was completely overturned during the year under review, with deficit increasing to €57,972 (2012: €23,628). While Expenditure increased by €18,506, Income decreased by €15,838. The main contributor to the increase in expenditure was the expense related to *Ecoagro* project, amounting to €44,603 (2012: Nil). On the other hand, falls of €9,365 and €6,027 were registered in General Income and Funds from Central Government respectively.

### Lija

Although still in the red, the Council managed to reduce the deficit by €12,267 (47%), ending 2013 with an excess of expenditure over income of €14,056 (2012: €26,323). This improvement was mainly due to an increase of €13,310 in General Income, of which €10,992 related to receipts from Sundry Contributions and Donations. On the other hand, overall Expenditure remained at the same levels of 2012. While expenditure related to Personal Emoluments decreased by €16,925 (17%), expenses incurred in connection with Professional Services increased to €21,309 during the year under review (2012: €6,173), *i.e.* an increase of €15,136.

### Marsa

From a positive financial situation registered by the end of the previous year, the Council was driven to a negative financial position during the current period. The overall increase of €36,982 in the Council's expenditure totally outweighed the increase of €10,479 over the previous year's income. While Funds received from Central Government increased by €12,367, General Income decreased by €2,462. Furthermore, expenditure relating to Community and Hospitality, Other Contractual Services, Other Repairs and Upkeep, as well as Repair and Upkeep for Road and Street Pavement (patching works) increased substantially by €9,354, €7,980, €7,916 and €6,984 respectively.

### Marsascala

Notwithstanding that the deficit is not as high as that registered in the prior year, the Council still ended the current financial year with an excess of expenditure over income of €60,437. This improvement was mainly due to a decrease of €97,232 (10.02%) in overall expenditure. Meanwhile, a reduction of €58,824 (6.51%) was also registered in overall income generated by the Council during the year under review. The main contributors to the reduction in Income were decreases of €55,473, €14,681 and €11,171 in Other Government Income, Annual Government Allocation and General Income respectively. On the other hand, an increase of an aggregate of €67,446 was noted with respect to expenses incurred for Repairs and Upkeep of road and street pavements, Cleaning of Public Conveniences, Cleaning and Maintenance of Parks and Gardens, and Information Services.

### Mdina

The Council ended the current financial year with a loss of €40,864, thereby registering an insignificant improvement of €932 when compared to prior year. Although the Council's Administrative and Other Expenditure decreased by €24,533 over 2012, this was not sufficient to improve the financial position, as an almost equivalent decline of €26,610 was registered for General Income. On the other hand, the main

downward movement in expenditure was noted for Depreciation (€13,090), Travel (€8,817) and Professional Services (€8,526).

### Mellieha

A substantial negative impact was noted in the financial situation of the Council at period-end, with a reported loss of €15,850, when compared to the profit of €242,924 recorded in the prior year. The increase of €31,332 (2.64%) in overall income was totally outweighed by a substantial increase of €290,106 (30.79%) in total expenditure incurred during the year. Considerable increases were registered for Cultural Events (€18,701), Signs (€16,279), Cleaning and Maintenance of Parks and Gardens (€14,508), Other Repairs and Upkeep (€10,987), Cleaning of Public Conveniences (€10,482), Tuition for Courses (€9,771) as well as Road Markings (€8,188). Moreover, Depreciation charge for the year and provision for doubtful debts amounted to €410,516 (2012: €202,881) and €27,770 (2012: Nil) respectively.

### Mgarr

From a positive financial situation registered at the end of the previous year, the Council was driven to a deficit by the end of the current period. This was brought about by a reduction in the Council's income of 5%, coupled with an increase in expenditure of 4%. Funds received from Central Government and General Income decreased by €19,890 and €6,585 respectively, whilst an increase of €42,228 was registered in Operations and Maintenance Expenditure. The main considerable increases reported in expenditure related to Waste Disposal (€23,527), Repairs and Upkeep of Road and Street Pavements (€10,414), Handyman Services (€7,036), Signs (€5,540) and Other Repairs and Upkeep (€5,429).

### Mqabba

The Council more than doubled its previous year's deficit of €5,575. The overall increase of €49,770 in Income was not enough to sustain the significant increase of €56,236 in Expenditure. While the Council managed to curtail certain expenditure, including LES expenses (€3,620), Professional Services (€2,448), and Repairs and Upkeep of Street Signs (€2,359), other substantial increases

were noted for Depreciation, Repairs and Upkeep of Road and Street Pavements, as well as National and International Memberships, which increased by €38,317, €16,595, and €5,291 respectively.

### Msida

The negative trend continued to persist even during the current year, whereby the Council registered a loss of €89,500, being 82% more than that reported in the preceding year. This was due to a substantial increase of €70,098 in expenditure, which was mainly brought by increases in Personal Emoluments (€22,771), Depreciation (€19,240) and Engineering Services (€19,198). On the other hand, income received by the Council increased solely by €29,685.

### Mtarfa

From a surplus of €17,379 registered at the end of the previous year, the Council ended the current financial period with a loss of €3,590. Even though, the Council's income over the previous year increased by €17,110, such increase was not sufficient to overcome the even higher variance of €38,079 in overall expenditure. The main contributors to the general increase in the Council's expenses were Depreciation, Employees' Salaries, Community and Hospitality costs, Utilities as well as Bad Debts written-off in aggregate increasing by a total of €31,182 over the preceding year.

### Nadur

The increase of €41,325 in total income received by the Council was not enough to sustain the overall rise of €80,290 (17.70%) in expenditure incurred during the year under review. The movement in income was mainly brought by an increase of €33,299 and €15,997 in Other Government Income and EU Project Funding respectively. Other substantial increases were noted for Personal Emoluments (€10,777), Repairs and Upkeep of Public Property (€9,975), Refuse Collection (€18,137), Road and Street Cleaning (€6,844), Street Lighting (€15,575), Other Contractual Expenses (€5,988), Travel (€9,594), Community and Hospitality (€14,677) as well as Other Repairs and Upkeep (€6,066).

### Pieta`

The financial position of the Council continued to deteriorate, with the loss increasing by €26,813 over that registered in the prior period, closing the year under review with a loss of €44,219. The increase of €4,725 in income was not enough to sustain the significant increase of €31,538 in overall expenditure. The main line items contributing to this increase are Depreciation (€21,420), Provision for Bad Debts (€18,282), Personal Emoluments (€11,796), Transport (€3,752) and Cultural Events (€2,890).

### Qormi

During the year under review, albeit significant increases in Refuse Collection (€35,864), Training (€7,039), and Cultural Events (€15,701), the Council managed to reduce overall expenditure by €157,544 (11.8%). At the same time, the downward shift in revenue was also contained, with the current year's decrease amounting to just €27,379 (2.2%) when compared to that of €171,428 (11.96%) registered during the prior year. This was mainly the result of an increase of €22,889 (33.5%) in General Income. The net effect was an improvement of 57.3% in the Council's financial position, ending 2013 with a loss of €96,939 (2012: €227,104).

### Qrendi

The marginal increase of €17,083 in overall income could not sustain the increase of €102,042 in expenditure, which was mainly due to a hefty increase in Repairs and Upkeep, particularly road asphaltting expenses, which soared from €24,977 in 2012 to €105,126. Other substantial increases in expenditure were noted for Depreciation (€24,530), Community Services and Events (€8,599), Materials and Supplies (€4,357), Repairs and Upkeep of Signs (€2,307) as well as Street Lighting (€1,944). An increase of €1,928 was also noted in the provision for doubtful debts.

### Rabat (Malta)

Despite that a slight improvement in the Council's position was registered over the prior period, the latter still ended the year with a loss of €46,409. This was brought by an increase of €7,749 in

overall income received by the Council, coupled by a decrease of €57,466 in Administration and other Expenditure. Notwithstanding this, a considerable decline of €39,640 was registered in the Council's General Income. Substantial increases were noted for Road and Street Pavements Patching Works (€82,790) as well as Repairs of Plant and Equipment (€11,679).

### Rabat (Gozo)

During the year under review, the financial situation of the Council worsened even further. In fact, the Council registered a loss of €120,896 compared to that of €87,087 for 2012. Though overall expenditure incurred during the year remained fairly stable, total income received by the Council decreased by €37,399 during the year under review. The main movements were reported for Funds received from Central Government (€14,922), Income raised under Bye-Laws (€4,597), Profit generated on sale of books (€6,038) as well as income received from Contributions and Donations (€16,637).

### Safi

Although the Council still registered a marginal deficit of €68, this has been reduced substantially from the €20,798 recorded in prior year. The Council made up for the decrease of €3,255 in income, by a further decrease of €23,985 in expenditure, particularly in the Administrative and Other Expenditure category. The main contributor to such fall in expenditure has been Professional Services, which decreased by €12,632.

### San Ġiljan

During the year under review, the Council almost tripled the loss registered in 2012. The Council managed to decrease overall expenditure by €89,868 (9.43%). However, revenue also decreased substantially mainly in Income raised under LES, which fell from €198,689 in 2012 to €21,118 in 2013. The minimal increase in funds received from Central Government, as well as the other income generated by the Council, failed to make up for this shortfall, and ended the year with a loss of €78,130.

### Sannat

During the current year, the financial situation of the Council deteriorated even further, mainly due to the fact that the increase of €46,596 registered in overall income received by the Council was totally outweighed by the substantial increase of €63,926 in total expenditure incurred during the year. The main increase in revenue (€44,353) was reported for Funds received from Central Government, which includes also Grants provided for specific projects. On the other hand, a significant upward movement of €67,817 in Administration and Other Expenditure was encountered, mainly due to increases in Depreciation as well as Community and Hospitality, amounting to €58,351 and €9,131 respectively. As reported further on in the report, budgeted expenditure with respect to Hospitality and Community Services was also exceeded by €23,129.

### San Pawl il-Bahar

From year to year, the financial position of the Council is deteriorating. The €439,969 deficit reported during the year under review is nearly six times higher than that of €63,855 reported in the preceding year. This was due to the fact that, the increase of €8,328 in income raised under LES was totally outweighed by a decline in the Council's General Income of €42,667. On the other hand, whilst a slight decrease of €19,315 was recorded in Administration and Other Expenditure, substantial increases were registered in Operations and Maintenance Expenditure (€308,655) and Personal Emoluments (€42,581). Amongst the main expenditure increases were Patching works (€125,766), Refuse Collection (€92,099), Handymen and Works Monitor Service (€69,988), Repairs to Public Property (€43,482) and Employees' Salaries (€37,741).

### Sliema

The profit of €316,031 registered during year-ending December 2012, was completely wiped out, with the Council ending the year under review with a loss of €214,181. During 2013 overall income fell by €1,124,615, with all income categories, except for Funds received from Central Government and Finance Income, reporting significant decreases. On the other

hand, during the same year, expenditure increased from €993,290 in 2012 to €1,338,758 during the year under review. Three expenditure line items, namely Operations and Maintenance, Administration and Other Expenditure, as well as Personal Emoluments registered increases of €227,489, €101,533 and €16,446 respectively. The main increases were noted in Repairs and Upkeep for road and street pavements (€147,530), Other repairs and upkeep (€32,993) and Cultural Events (€19,161). The amount of €41,926 with respect to third party liability damages was also expensed during the year under review.

### Tarxien

Notwithstanding the increase of €13,800 in overall income, coupled by a decrease of €33,731 in Operations and Maintenance expenditure, the Council still ended the current financial year with a loss of €6,402. This was mainly brought about by an increase of €9,956 and €57,171 in Personal Emoluments and Administration and Other Expenditure respectively incurred during the same year. The main variance was encountered in the Depreciation and Amortisation expense which increased by €60,154 (107.44%), when compared to the prior year.

### Valletta

During the year under review, the Council's financial situation declined substantially when compared to the preceding year. Whilst Administration and Other Expenditure decreased by €68,808, such decrease was out-weighed by increases of €141,840 and €12,245 in Operations and Maintenance costs and Personal Emoluments, respectively. In addition, increases in Local Enforcement Income (€5,467) and Funds received from Central Government (€1,817) were not sufficient to off set the drop of €107,942 registered in the General Income generated by the Council, which has further contributed to the loss of €215,972 suffered in the current financial year. Main increases in expenditure were noted for Road and Street Cleaning (€91,563), Refuse Collection (€71,003), Repairs and Upkeep of Road and Pavements (€7,364), Employees' Salaries (€10,681) and Executive Secretary Salary and Allowance (€5,571). On the other hand, the main decline in income was due to a decrease of



€25,212 in grants released to the Statement of Comprehensive Income. Furthermore, during the preceding year, the Council wrote back creditors' balances amounting to €51,392.

### Xewkija

A substantial negative impact was noted in the financial situation of the Council at period-end, with the consequence that a deficit of €43,861 was reported when compared with the surplus of €20,453 for the prior year. This was brought by the fact that, whilst expenditure increased by €75,507, income received by the Council was only increased marginally by €11,193. The main variances in income were registered in the Funds received from Central Government (€9,737) and General Income (€2,090). Meanwhile, amounts paid out for the Cleaning and Maintenance of Public Conveniences, Tipping Fees, Professional Services as well as Community and Hospitality expenditure increased by, €9,073, €11,658, €18,915 and €13,531 respectively. Likewise, an increase of €8,727 was also noted in the Depreciation charge for the year.

### Xgħajra

The loss of €32,237 reported as at year-end was the result of a decrease in overall income of €19,050 generated by the Council, together with an increase of €3,752 in the costs incurred. General Income and Funds received from Central Government decreased by €16,036 and €2,900 respectively, while an increase of €4,625 was registered in Personal Emoluments.

### Żebbuġ (Malta)

During the current year, the financial position of the Council deteriorated even further. The overall increase of €27,920 in income received by the Council was not sufficient to sustain the even higher increase of €73,933 in overall expenditure

incurred. Albeit the Council managed to curtail Personal Emoluments by a marginal amount of €3,914, upward movements of €69,954 and €7,891 were recorded in Administrative and Other Expenditure as well as Operations and Maintenance Expenditure respectively.

### Żebbuġ (Gozo)

The additional funds of €92,170 received from Central Government ran short of the increase in expenditure of €159,035, with the result that the Council registered a comprehensive loss for the year of €20,935. Substantial increases in expenditure were particularly noted for Road and Street Pavements - patching works (€63,712), Public Property (€20,546) and Depreciation charge for the year (€108,375). As highlighted further down in the report, the budgeted expenditure covering Repairs and Maintenance was exceeded by €63,478.

### Gozo Regional Committee

The financial situation of the Committee continued to deteriorate from the previous year, reaching a total comprehensive loss of €84,985. This increase in deficit was mainly due to a decrease of €75,740 (22.58%) in funds raised under LES. Notwithstanding such decrease, Operations and Maintenance Expenses, which relate to LES expenditure, still registered an increase of €17,640 (6.67%) over the previous year.

### *Rectified Positive balance between Income and Expenditure*

The ten Local Councils listed in **Table 5** rectified their position to a surplus by the end of the year under review.

During the preceding year, eight Local Councils and two Regional Committees had rectified their position of a surplus by year-end reviewed.

**Table 5: Rectified Positive balance between Income and Expenditure<sup>14</sup>**

Local Council	31 December 2013	31 December 2012	31 December 2011
	€	€	€
Bormla	3,205	(31,682) <sup>a</sup>	(14,086)
Fgura	4,727	(7,022)	(18,950)
Hamrun	50,886	(89,060)	150,048
Isla	6,151	(18,944)	21,181
Kerċem	9,233	(57,718)	37,569
Luqa	13,383	(27,433)	56,520
Mosta	173,061	(214,677)	2,803
San Lawrenz	25,321	(7,227)	25,315
Siggiewi	77,739	(27,461)	76,413
Xagħra	6,180	(24,687)	24,393

<sup>a</sup>Comparative figures have been restated to reflect prior year adjustments passed during the current financial period.

## Control Issues

A number of control issues necessitating improvement were identified in a number of Councils:

- a. Payments issued prior to being approved during a Council meeting.
- b. The performance bonus paid to the Executive Secretary was approved and paid immediately, without drawing up appraisal reports and obtaining approval from Director (DLG) as required by the pertinent regulations.
- c. Budgeted expenditure for certain expenses exceeded.
- d. Procurement was carried out on an expired contract.
- e. Established limit for petty cash expenditure exceeded.
- f. Cash from custodial receipts and from other general income not deposited on a twice-weekly basis, as required by the regulations.
- g. Reimbursement to Councillors and Local Council employees not fully supported by

the appropriate documentation. At times not even a proper claim form was raised in respect of such reimbursements.

- h. Local Councils are not making use of the reporting tools in hand, such as the twelve-month Budget, the three-year Business Plans, the Quarterly Reports, and the yearly Administrative Reports.
- i. No proper receipts were 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 21 February following the end of the financial year.

<sup>14</sup> 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.

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.

Notwithstanding that during the preceding years, penalties were imposed on those Councils that did not adhere to the respective deadlines, during the year under review a decline was noted in the number of Local Councils/Regional Committees that managed to submit the respective unaudited Financial Statements on time, *i.e.* by 21 February 2014. In fact, only 57 Local Councils (2012: 63), two Regional Committees (2012: 3) and LCA abided with the pertinent regulations. Whilst submission by another four Local Councils and the South Eastern Regional Committee was effected within the following week, the Financial Statements of another three Councils were provided on 17 March, 10 April and 22 April 2014 respectively. The Central Region filed its unaudited Financial Statement by 17 April 2014, whilst the Birgu Local Council kept prolonging until 17 September 2014. In contrast, a copy of the unaudited Financial Statements of Kalkara, Qrendi and Xghajra Local Councils, as well as Northern Regional Committee, were only made available by the respective LGA, as the Council/Committee failed to submit a copy of these Financial Statements to the Auditor General.

### ***Audit Report and Financial Statements***

Fifty-six Local Councils, three Regional Committees and LCA strived to deliver the audited Financial Statements and Management Letters (2012: 62 Local Councils, and 3 Regional Committees) by the stipulated deadline of 2 May

2014. Another six audited Financial Statements reached NAO by end of May 2014, while the other eight kept delaying their submission. Meanwhile, the Financial Statements of Birgu Local Council were not submitted at all by mid-November 2014, being the ultimate 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 on time.

## **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 they do not curtail their expenditure. This was mainly brought about by the significant commitments that the Councils entered into during the preceding years, especially with the introduction of the PPP scheme<sup>15</sup>, which costs add up to millions of Euros.

In addition, certain Councils are experiencing difficulties and, to a certain extent, have limited control over the collection process of their Receivables. 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. Meanwhile, a provision against some of these Debtors has been taken. These issues are creating further cash flow problems to the respective Councils.

Furthermore, despite their precarious financial position, certain Councils have still approved and contracted for additional Capital Commitments, reaching up to hundreds of thousands of Euros, which expenditure is also to be met during the coming financial year, *i.e.* 2014.

<sup>15</sup> 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.

### *Incorrect Bookkeeping*

The concern that in certain instances, the Financial Statements presented for audit purposes are not up to standard, besides that they contained a number of errors still prevails. Various points highlighted in the Management Letters indicate that there are serious shortcomings in the updating of the Councils' accounting records, mainly resulting from the lack of effective and efficient controls. Deficiencies were noted in the processing of the raw accounting data in the finalisation of the accounts, whereby fundamental reconciliations were not properly undertaken. Moreover, at times certain balances were not substantiated. Another cause of concern was the significant audit adjustments passed to correct the material misstatements noted by the Auditors. During the year under review, a particular instance was encountered whereby the respective LGA had to postpone the audit process in view that the unaudited Financial Statements provided by the Council were of poor quality and contained a series of errors. By way of example, whilst as per Financial Statements the Council registered a loss, the Trial Balance disclosed a substantial profit.

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 consequently rely upon inaccurate accounts for decision-making purposes and the budgeting process. Thus, it is pertinent that 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, such services are not always yielding the desired results. Thus, also to be cost-effective, during the preceding years DLG has been encouraged 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. Once again, the Department is being requested to give this proposal its most active consideration.

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 as 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 who do not prepare the related Financial Statements of good standards.

### *Tippling Fees payable to WasteServ Malta Ltd in dispute*

Following discussions with the Ministry for Finance (MFIN), eventually during the year under review a decisive action was taken 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 the financial year 2013, DLG advanced the total amount of €1.2 million<sup>16</sup> to WasteServ Malta Ltd, as part payment of the disputed amounts of €1,426,249<sup>16</sup> aggregated during the period 2009 and 2011. This implies that as at 31 December 2013, Local Councils still had outstanding balances, to settle with WasteServ Malta Ltd **Appendix D** refers. An additional payment of €1.1 million<sup>16</sup> was forwarded by DLG to the said service provider in February 2014.

To ensure a more transparent and smooth process, the funds were advanced directly to the service provider, with Councils being guided to record

<sup>16</sup> The quoted figures are in line with the information provided by DLG.

this entry in their books of account as Other Supplementary Government Income. However, from the audit testing carried out, it transpired that 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. Instances were also noted whereby the expense that ought to be covered by such funds was not incorporated in the accounting records, due to the fact that in the preceding years, erroneously Councils failed to account for waste tipping fees that were beyond the allocation provided in this respect. These errors were then rectified by means of audit adjustments as proposed by LGA.

### *Membership Fees paid to Local Action Groups*

Despite that Local Councils have no authorisation to pay membership fees to any of the three Local Action Groups, namely *Gal Xlokk*, *Majjistral* and *Gozo Action Groups*, testing carried out revealed that over the years a number of Councils have still effected payments in this respect. **Appendix E** refers.

These Local Action Groups were set up in 2009, upon the implementation of the *LEADER* programme, that is one of the funding strands under the Rural Development Programme 2007-2013. The aim of this programme is to improve the development potential of rural areas, by bringing together the different public and private local actors. These Groups are formed by representatives of the public sector, such as Local Councils and other Government Entities, as well as representatives of social economic partners and other civil society organisations. 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.

Although certain Councils either obtained funds or managed to secure some EU funding through these Local Action Groups, little, if any, information was provided in respect of the benefits derived by each particular Council from such initiatives. NAO opines that from time to time, Councils engaged in such Groups are expected to carry out a cost-benefit analysis, so as to ensure that the return yielded is substantially higher than the amounts forked out.

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 three years have elapsed since the cessation of the respective Joint Committees, discussions for the delegation of the street lighting function to the five Regional Committees are still underway. Consequently, for another year, the 32 Councils disclosed in **Table 6** hereunder continued to procure such service through direct orders, from the same service providers, under the same conditions as outlined in the agreements 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 2013	Local Council	Amount incurred during 2013
	€		€
Balzan	2,265	Naxxar	25,861
Bormla	11,790	Nadur	20,690
Dingli	6,423	Pembroke	17,266
Fgura	11,953	Pieta`	7,296
Floriana	4,322	Qala	8,730
Gudja	8,003	Rabat (Gozo)	27,400
Gżira	6,731	San Lawrenz	4,321
Għajnsielem	12,498	Sannat	6,463
Għarb	2,671	Santa Venera	12,164
Għasri	3,100	Sigġiewi	22,900
Għaxaq	4,953	Swieqi	24,905
Kerċem	3,289	Tarxien	2,185
Marsascalea	28,236	Xagħra	6,873
Marsaxlokk	12,861	Xewkija	7,459
Mqabba	5,756	Żabbar	14,426
Munxar	4,041	Żebbuġ (Gozo)	14,344

It was only through Memo 34/2013 dated 30 December 2013 that DLG instructed the Councils to issue a new call for quotations or 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. This course of action is to continue until the delegation of such function to the Regional Committees is finalised.

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.

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.

### *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 being either 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 13th 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 Legal Notice (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 to procure 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 highlighting 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 aggregated to thousands of Euros, 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 through 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 Approach as outlined in IAS 20, was to be applied when accounting for such funds. Hence, funds received to acquire items of PPE should initially be treated as Deferred Income. The income is to be subsequently recognised on a systematic and rational basis in accordance with the useful life of the asset, *i.e.* a portion of the income is to be transferred every year to account for the depreciation charge.

Though such accounting treatment is also reiterated year after year in the year-end Memo<sup>17</sup> issued by DLG, from concerns raised in the Management Letters prepared by LGAs, it transpired that a number of Local Councils are still adopting an incorrect treatment for the recording of such

<sup>17</sup>This Memo provides guidelines to be followed by Local Councils in the preparation of Financial Statements for the upcoming year-end audit.

Grants. The main concerns are highlighted hereunder.

- a. Certain Councils are still adopting the Capital Approach for the treatment of such 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. At times amortisation is recognised on a yearly basis, rather than 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 project payments and grants received in respect of large projects. Though this provides a clearer picture of what has been spent and distinguish 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. The respective specimen included in the Local Councils (Audit) Procedures can be 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 NAO continuously recommended DLG to embark on an exercise to update the current template, which will then need to be revised yearly, 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 the latter, such proposal has not yet been taken on board.

### ***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, four years down the line, various instances highlighting non-adherence to the said provisions, as outlined hereunder, 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 been taken on board as yet.



Eventually 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 citizen's development in society, through Memo 16/2013 issued on 8 July 2013, DLG allowed financial assistance, not exceeding €200 per year, provided by Councils to schools for the procurement of educational material, thus no longer falling within the definition of a donation.

However, as highlighted in **Appendix H**, during 2013, at least 27 Local Councils still effected other payments in respect of expenditure which constitutes a donation.

#### 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 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, even through the re-issue of additional memos on the subject matter, 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 either by the Mayor, or the Executive Secretary, or by both. Other instances were

noted whereby the uploaded signed minutes were subsequently amended. In addition in breach of Memo 84/2011, meetings were not duly numbered with a distinct number. Other cases were encountered whereby the minutes were not properly maintained to the extent that these lacked additional details, such as indication of the date and time of the subsequent meeting.

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. 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 still paid their Full Share of Allowance despite that they failed to attend Council 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 Council 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 expended on Christmas Lunch or Reception exceeded the Stipulated Threshold

The surpassing of the maximum threshold, set in respect of expenditure incurred for Christmas Lunch or Reception, has become one of the common issues that LGAs encounter in a number of Local Councils on a yearly basis. **Appendix I** refers. This was either because:

- a. the respective Council invited individuals, such as service providers and partners of employees or members, who were not entitled to attend for such activity in the first place, 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.

### **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) is still not taken seriously by the Councils. This is evident from the differences encountered, upon reconciling emoluments as disclosed in the Financial Statements<sup>18</sup>, 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. Through the aforementioned communication, DLG clarified that on an individual basis, Mayors and Councillors are to seek guidance from IRD on the tax rate that is to be applied on their honoraria and allowances respectively.

Yet, instances were noted whereby such remuneration was still either being taxed at a different rate<sup>19</sup>, or was not taxed at all, during the year under review. Additionally, in certain cases the Mayor's Honoraria, allowances paid to Councillors, as well as salaries paid to the Executive Secretary, were considered as 'Part-

time' emoluments when declared in the FSS documentation, thus taxed at the incorrect rate of 15%.

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 under-payments of tax paid. 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 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 30 September 2014, at least the amount of €8,266<sup>20</sup> was still to be refunded.

#### **Leave Records**

An analysis of the Councils' minutes revealed that at year-end, a number of Councils approved to carry forward unused leave of its employees, and the Executive Secretary. However, it was noted that whilst in certain cases no information relating to the number of hours carried forward was disclosed in the respective minutes, instances were encountered whereby the accumulated

<sup>18</sup> Adjustments for opening and closing accruals and prepayments, as well as any audit adjustments passed, were taken into consideration.

<sup>19</sup> At times, this was due to the fact that the Payee Status Declaration Forms (FS4) were not filed.

<sup>20</sup> Included in this amount is a balance of €3,840 due from an ex-Mayor who passed away in 2011.

leave carried forward from 2013 to 2014 was in excess of the 48 hours allowed by the pertinent regulations, besides that this was not substantiated by a written approval.

Audit verifications carried out in this area revealed additional deficiencies. Besides others, these included the fact the vacation leave carried forward by certain Executive Secretaries was not approved by Director (DLG), and that no leave forms were traced on file, implying that vacation leave was being availed of without obtaining prior approval.

### **Local Councils' response following Management Letters**

As at 13 June 2014, or six weeks after the respective Audit Reports, 36 out of 67<sup>21</sup> Local Councils, as well as LCA, sent their response to the Management Letter as required by Article 8, sub-article (2) of the Local Councils (Audit) Regulations, 1993. Twenty-five<sup>22</sup> other Councils exceeded the stipulated deadline to submit their reply. On the other hand, a copy of the reply of Paola Local Council was only made available by DLG, as the former failed to submit a copy of their feedback to NAO.

The Gozo Regional Committee also managed to submit a reply to the Management Letter in time, while the Southern Region made its submission a day after the deadline. By the finalisation of this report, no reply was provided by the Central, Northern, as well as the South Eastern Regional Committees.

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***

Notwithstanding that the concern that the same irregularities are being, year after year, highlighted in the Management Letters, has been voiced a number of times in the presence of DLG, no apparent remedial action has 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 proper upkeep of FAR, unrecorded liabilities at year-end and non-abidance by the procurement procedures, apart from the proper accounting 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 '*Gheluq tas-Sena Finanzjarja*', whereby it 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.

Eventually, 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.

<sup>21</sup> Local Councils that have submitted the Financial Statements by mid-November 2014.

<sup>22</sup> Out of these, 13 have submitted their reply within four days after the deadline.

### *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
- j. Provisions outlined in the Subsidiary Legislation

**Appendix K** lists the Councils where the above-mentioned weaknesses were encountered and the frequency of their occurrence. An indication of the most material weaknesses is also listed hereunder:

### *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 depreciation, as reported in the books of account, and that calculated by LGA.
- f. Despite that the total NBV as per FAR and/or Nominal Ledger agreed to the amount featuring in the Financial Statements, totals of individual categories did not reconcile. On the other hand, other instances were

noted whereby asset costs and depreciation charge as disclosed in FAR did not reconcile to the amounts recorded in the Financial Statements.

- g. Besides that in certain cases FAR is maintained on a spreadsheet, instances were also encountered whereby the Council has over 20 Nominal Accounts opened and used in its Nominal Ledger to record various cost items of PPE. This makes it difficult to reconcile such Nominal Accounts with FAR and immediately detect any discrepancies.

### *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. At times this was due to the fact that prior year adjustments passed during the year under review were dated 1 January 2013.
- b. Discrepancies between the Council's Trial Balance and the unaudited Financial Statements.
- c. The system being used in respect of income recording does not entail a proper audit trail.
- d. Income and expenses accounted for on cash basis rather than on an accrual basis.
- e. Incorrect cut-off procedures resulting in over or understated prepaid and accrued expenses. Additionally, opening Prepayments and/or Accruals were either not reversed, or were reversed against the wrong account.
- f. Income and/or expenditure not recorded in the correct Nominal Account. Instances were also noted whereby items in the Financial Statements were classified under the wrong or different line items for each of the reporting periods presented. In addition, adequate documentation was not provided to support amounts disclosed in the books of account.
- g. Expenses incurred were netted off against the income received.

- h. Inventory held by the Council comprised items which were not held for sale, such as stamps and stationery, as well as books held for free distribution. On the other hand, amounts paid in respect of goods held for re-sale were expensed in the Statement of Comprehensive Income.
- i. Income earned by the Council was not always covered by a Bye-Law.
- j. The Nominal Ledger Chart of Accounts is not prepared in line with the standard Chart of Accounts applicable to Local Councils.
- k. Amounts in dispute were disclosed both as a Contingent Liability, as well as amounts payable.
- l. Invoices relating to 2012 were accounted for during 2013, whilst invoices relating to the year under review, were completely omitted from the accounting records.
- m. Expenditure of a Capital nature recorded as Expenditure of a Revenue nature and *vice versa*.
- n. Statement of Cash Flows not properly prepared.

### **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 2013 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 LOQUS 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 fee, receivable by Local Councils from the respective Regional Committee, was 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. Amounts due from Regional Committees at year-end not accrued for.
- g. 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:

- for purchases of value not greater than €1,165, items of the same nature are not purchased within a consecutive four month period;
- 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
- 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 are not always adhering 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. Number of payments forwarded to the same service provider within a period of four months, for the provision of similar services, so as to by-pass the requirement of a public call for tenders and/or quotations. **Appendix L – Table 2** refers.

- c. Contract agreements not in place, because either no agreement was drawn up in the first place or it got misplaced.
- d. 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.
- e. 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. Moreover, the respective adverts were not always provided for audit purposes.
- f. Tender documents, such as Performance Bonds and/or Guarantee, Schedule of Offers, as well as the respective agreement, not provided for audit purposes.
- g. Schedule of Offers neither dated nor underlined, thus it was impossible to determine the date when the call for offers ended, and to indicate cut-off after the last bidder. Instances were also noted whereby this schedule was only signed by the Executive Secretary and one Councillor. Though such shortcomings have been repeated for consecutive years, these are still not being addressed.
- h. Performance Guarantee dated after the contract date, and/or after the date when the works commenced. Instances were also encountered whereby this document was either not provided within seven days from when the contract was awarded, or not provided at all. However, the Council still continued with the execution of the contract.

### Salaries

- a. Computations of personal emoluments, including performance bonuses, honoraria and allowances, were at times inaccurate, thus leading to under or overpayments.
- b. Instances were encountered whereby no payslips were issued to Council's employees, or these lacked necessary details.

- c. Salaries and allowances paid, as well as the applicable income tax and NI contributions, were not being posted in the correct Nominal Account.
- d. Income tax and NI contributions were not being remitted to IRD on a timely basis.
- e. The Council was applying different tax rates to different types of income.
- f. Besides not always submitted on time, declarations sent to IRD were incorrect, for example, amounts paid were understated, or declared twice, incorrect details were given regarding dates of employment, and part-time emoluments recognised as fringe benefits.
- g. At times overtime paid was not declared in the respective Payee Statement of Earnings (FS3s).
- h. Payee Status Declaration Forms (FS4s), instructing the Council to apply a lower tax rate than 20% on the Mayor's Honoraria and on the Councillor's allowance, were not prepared.

#### Receivables

- a. Councils' receivables still included amounts which have been pending for several years, some of which are no longer recoverable.
- b. Balances as per Debtors' List do not reconcile to Debtors' Control Account.
- c. Amounts due from Debtors and/or Accrued Income were over or understated, due to invoices and/or receipts posted twice, or not posted at all.
- d. Amounts received during the year, to settle pending Receivables', were incorrectly treated as income.
- e. Income still receivable at year-end was neither recognised as Accrued Income nor as a Contingent Asset.
- f. Amounts invoiced were still being disclosed

under Accrued Income, rather than accounted for as Receivables.

#### Payables

- a. Included with payables are overdue balances, as well as accrued costs, which have been brought forward from previous year and were never followed up.
- b. Creditors' List as at 31 December 2013 did not agree to Creditors' Control Account and the respective amount recognised in the Financial Statements.
- c. Regular reconciliations with supplier statements were not being 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, either were not posted in the books of account, or posted twice.
- e. Debit balances were included in the Creditors' List. In certain instances these have been 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 expenses.
- g. Incorrect disclosure of short-term and long-term portions of liabilities.
- h. Instances were identified whereby expenditure was not supported by adequate documentation.

#### Cash and Cash Equivalents

- a. Bank reconciliations were not always carried out. When these were performed, they were either done manually, or on a spreadsheet, rather than in 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 charged on interest received on the savings deposit account.
- e. Ex-employees and/or members are still included as representatives of the Council's bank accounts.
- f. Current portion of bank loan, as disclosed in the Financial Statements, is incorrectly calculated.
- g. Cash held at Council premises higher than the maximum threshold stipulated by the pertinent regulations. At times differences were also identified between amounts as per physical cash count and amounts as per accounting records.
- h. Petty Cash expenditure not approved in Councils' meetings. Cases were also encountered whereby petty cash payments were either not accounted for at all, or were recorded in the books of account twice.
- i. Petty Cash Sheet either not prepared at all, or does not include a detailed analysis of the expenditure.

#### Invoices and Receipts

- a. Multiple receipt books are used concurrently for various sources of income.
- b. Amounts receivable are not always covered by a proper serial enumerated invoice. Where an invoice is issued, this is not raised through the accounting system, but is issued manually using a word processing application. At times receipts are issued manually, thus increasing the risk of human error.
- c. Supporting documentation was not always provided in respect of payments made.

- d. The Council does not reconcile its receipts on a regular basis when a deposit is made.
- e. Instances were encountered whereby the respective invoices were not traced.

#### Non-compliance with certain Provisions outlined in the Subsidiary Legislation

- a. Lack of organisation in the upkeep of documentation and updating of the Council's accounting records.
- b. LGA was not provided with all official documentation requested.
- c. Official documentation, including Quarterly Reports, the approved Financial Statements, the Budget, reports on travel abroad, reports on twinning agreements, as well as the reply to the Management Letter, not prepared and approved on time, and sometimes not filed at all.
- d. Councils' minutes were not properly prepared and maintained. Furthermore, these are not bound on an annual basis, as guided through memos issued by the Department.
- e. Council meetings commenced before the established time, without obtaining the respective Councillors' approval. These lasted for more than the three-hour maximum duration. Furthermore, the minutes failed to indicate the time of the meeting's adjournment.
- f. Members recorded in Council meetings' attendance sheets provided by the Council did not tally to the present members as recorded in the respective minutes.
- g. Council meeting not held within five weeks from the immediately preceding meeting.
- h. Procurement of litter bins and street signs not accounted for on replacement value, as specified in Memo 121/2011.
- i. Insurance Health Policy still includes individuals who are no longer Council members.



- j. Statement of all the expenditure incurred in relation to travel abroad was not drawn up by the Council.

## 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 comments, if any, relative to each.

### Attard

Capital Commitments of €53,000, as included in the Financial Statements, were already provided for in the books of account under PPE.

*The Council will make sure that the Financial Statements are prepared in conformity with IFRSs and in accordance with IAS 16.*

As at time of audit, two contract agreements covering patching works and the provision of insurance services, both dated 1 October 2013, had not been signed by the respective contractors. However, up to December 2013, invoices worth €49,022 were issued to the Council. Furthermore, the Letter of Acceptance with respect to the tender covering the maintenance of road markings, against which the Council was invoiced the amount of €9,003 by year-end, was not signed by the Mayor.

*Action has been taken and Letters of Acceptance signed. This was only done through a genuine mistake.*

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.

*The amount can be deducted from the quarterly allocation without the need to go through the whole procedure to open a new bank account with its consequences.*

Disclosed within the Statement of Financial Position are books held for re-sale, amounting to €10,191. However, it was noted that 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 stocks.

*DLG approved book donations up to €200 to be awarded during prize days. Thus, instead of spending money, the Council gives away books from its own stock.*

In 2013, the Council held a preliminary meeting with a delegation from the Council of Elancourt in France, with the prospect of initiating a twinning process. While the Council incurred the amount of €1,544 in connection with the delegation's visit to Malta, no prior approval was sought from DLG in accordance with the Local Councils (Twinning) Regulations. Furthermore, given the Council's adverse financial position and overstretched budget, this twinning process may not be entirely in line with the said regulations, stating that the Council shall only engage in a twinning process if it has sufficient funds available for this purpose.

*The Local Council has sought permission from DLG for the start of the twinning procedure with Elancourt and will follow all the procedure stated therein.*

### Balzan

The Council and the respective contractor did not sign the contract agreement, with a value of €10,030, covering the reconstruction of part of existing church parvis parapet wall at the Parish Square.

*Point noted. However, this was not in hand, as it was misplaced. The Council will comply immediately with these types of circumstances to avoid this type of error.*

The payment of €5,500 received from WSC, in settlement of reinstatement works carried out in 2009, was incorrectly recognised as income for the year, instead of settled off against the debtor account. Meanwhile, the Council failed to accrue for grants of €2,280, receivable from DLG in respect of the activities and sports initiatives undertaken by the former, in line with Memos 38/2012 and 49/2012 respectively. The Council approved the necessary audit adjustments.

*Points noted.*

The bank reconciliation of the Council's account number xxx002 included two stale cheques for a total value of €1,047, while that of another bank account was not provided for audit purposes.

*Recommendation taken into consideration and will be implemented during the current financial year.*

Overdue creditors, amounting to €12,807, were still pending at year-end, of which €5,590 is subject to a warrant of seizure by the Court and thus could not be written back. Meanwhile the amount of €2,329 is payable to Court in respect of court fees.

In addition, included in the Financial Statements is an amount of €8,666 in respect of crane deposits that have not been claimed by the applicants, out of which €7,966 relates to prior years, with some even dating back to 2004.

The LES income as recorded in the books of account was understated by €323 when compared to that disclosed in the report generated from the LOQUS system.

*Recommendations put forward by LGA were noted and will be implemented during 2014.*

The Council failed to record the 10% retention money on the contractor's Bills of Quantities, amounting to €34,467. Adjustments recommended by LGA were undertaken by the Council to increase Assets under Construction, and the related creditor by the amount in question. Other audit adjustments of €29,297 were incorporated into the final set of Financial Statements to account for the grant receivable on the retention money.

*Recommendations were taken into consideration.*

As in the previous year, although the total NBVs as recorded in both FAR and the Nominal Ledger are in agreement, the totals of two individual categories, namely Special Programmes and Construction, differed by €19,329.

*Whilst, the differences in costs have been rectified, the difference in the accumulated depreciation,*

*resulted from the fact that the previous Auditors carried out a manual calculation of the depreciation and highlighted that the calculation of the depreciation according to FAR was wrong and an audit adjustment was passed. Due to its restrictions, FAR could not be updated. The only way to reconcile this is to reverse these audit adjustments in the accounting system.*

### Birkirkara

The contract drawn up following the awardance of the tender, for the provision of project and contract management services, was neither signed by the Council nor by the respective service provider. Moreover, the said tender had been adjudicated to the cheapest bidder who quoted the rate of 0.95%. However, from review of the Council's minutes, it transpired that the contractor<sup>23</sup> added an unsigned addendum to the original contract, providing that all additional works outside the scope of the agreement are chargeable at the rate of 2% as management and supervision charges. Nonetheless, LGA noted that the contractor was invoicing the Council at the rate of 2.95% of the value of works certified. In this respect, an amount of €2,954 was billed, out of which the Council paid the sum of €2,774. In a Council meeting, the latter approved to request a credit note from the contractor, and decided to refer this case to the Department to establish whether the above addendum breached the Tendering Procedures.

*By the date of this reply, the contract was signed. The Council discussed this matter with the contractor and it was agreed that a credit note would be issued for all amounts charged at 2%, thus all work certified will be done at a fee of 0.95%.*

The lease contract of €500 per annum with a local rugby club was terminated during the year under review, as the latter refused to pay accumulated water and electricity expenditure of €26,000, and because the club sublet the bar for €750 per month without the Council's approval. In addition, a review of the Council's minutes revealed that the contract with the said club was only signed by the ex-Mayor, thereby rendering it null and void.

<sup>23</sup> With the knowledge of the ex-Mayor according to the same contractor.

*The Council will ensure that both the Mayor and the Executive Secretary will sign all contracts entered into. This dispute was resolved through an out-of-court settlement by the date of this reply.*

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. In 2014, the Council was notified that the supplier is seeking legal action to collect the said amount due.

Notwithstanding that the contracts covering the services of a Lawyer, Architect and insurance expired during 2013, the Council has continued to make use of such services and it approved their extension until a new tender is issued. This goes against Memo 10/2013 stipulating that the Council should start preparing for a new call for tenders ahead of the expiry date of existing contracts. LGA also noted that the Council's contract agreements are being entered into for a period of four years, which goes against the instructions communicated by DLG, whereby the latter specified that Council agreements may be signed for a period of three years, but can be extended by a further year if both parties agree.

It also transpired that the Council failed to sign a letter of extension in respect of four contract agreements, which are subject to annual extension clauses up to a maximum period of four years. These contracts were entered into for a period of one year, subject to a further renewal of three years upon sending an official letter. The amount of €14,459 was paid to these service providers during 2013.

The agreement covering the lease of a photocopier, against which during 2013 the Council was invoiced the amount of €19,554, was not provided for audit purposes.

*The Council shall be looking into these contracts and terminate them immediately if they are in breach of the law and, accordingly, it shall look forward to adhere to the relevant procurement procedures. By the date of the reply, most tenders were republished, or are in the process of being*

*published. Where letters of extension are missing, these will be drafted and signed immediately.*

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, for an additional charge of €130 per day. This resulted in an increase of refuse collection expenditure by more than €20,000. 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.

*The Council will follow LGA's advice and issue a new tender.*

Following the expiration in 2003, of 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, no renewal notices or letters for such leases were drawn up. Nonetheless, during the year under review, the Council has received an aggregate amount of €17,973 as rental income from such premises.

*The Council will ensure that during the current year, letters of extension are prepared confirming renewal of the leases under the same terms and conditions of the original contract. Nevertheless, the contract was already renewed on a verbal basis as the occupants decided to retain the space being allocated to them.*

In breach of the Local Councils (Financial) Regulations, various purchases were not supported by a purchase order. Examples, include aluminium apertures repairs, as well as the procurement of metal works and fixing of a plaque, costing €1,062 and €1,593 respectively. In addition, no quotations were sought with respect to the latter case, which instance is also disclosed in **Appendix L**. Moreover, as highlighted in **Appendix G**, from the audit sample tested it transpired that no VAT fiscal receipt was available to support purchases aggregating to €6,002.

*Purchase orders are always issued by the Council and the purchase orders for the mentioned cases have been made available to LGA<sup>24</sup>. Moreover, the*

*Council will ensure that suppliers are approached and asked to provide a valid fiscal receipt.*

No explanations or documentary evidence was provided to justify the increase of €4,989 in tribunal pending payments for the pre-pooling period.

*The Council believes that the increase in contraventions issued before September 2002 is quite strange. Although the Council recorded this movement in its financial records, it also prudently provided for it in full, thus leaving no effect on the Financial Statements.*

Though FAR in total agrees with the Nominal Accounts, discrepancies were noted in specific categories. For example, NBV in FAR for Urban Improvements is overstated by €141,357 whilst that for Special Programmes is understated by the same amount. Meanwhile, computer software has been incorrectly classified with Plant, Machinery and Equipment in FAR. In addition, an overstatement of approximately €19,723 was noted in the Council's depreciation charge when compared to LGA's workings. This could be the result of the year-end date of FAR, which is incorrectly set at 31 March rather than 31 December.

A discrepancy of €3,919, which arose upon the reclassification of some assets was also identified in the fixed assets schedule.

*The Council has completely reconstructed its FAR during the financial year 2004/2005 after a thorough exercise which has been carried out by the Council's administration and since then it has been maintained in perfect condition. Whilst it is true that the plant register software has a 31 March year-end date, the respective supplier has failed to adjust the year-end when asked to do so. The Council shall again ask the supplier to get this matter sorted once and for all.*

Besides that included in the Debtors' List are receivables of €1,195 which have been outstanding for more than one year, the Council also recorded a provision against doubtful receivables of €12,565. This indicates the Council's failure to collect the amounts due to it.

*The Council is well aware that it has some problems in recovering some of its receivables and that is the reason why a provision of €12,565 was created. The latter will assess the recoverability of these amounts and write off any amounts deemed to be irrecoverable.*

Council's inventories of €3,841 comprise of books intended for resale. However, it was noted that such stock is slow moving, in fact, 32 books bearing a cost of €755 were given out as prizes during ceremonies held by the Council. 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 might be necessary if the books remain slow moving or have no realisable value in accordance with IAS 2.

*The Council will assess the net realisable value of these books and recognise any write-offs accordingly.*

As highlighted in the preceding year, the Council occupies a building spread on three floors, which it intends to refurbish 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, example Railway Station. 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 overlying 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 the year under review, the Council received the sum of €45,161 in this respect, and at the end of the reporting period, the latter also recognised

<sup>24</sup> NAO confirmed with LGA that the related purchase orders were not provided for audit purposes.

the amount of €85,284 as a balance receivable from this developer. The Council is confident that the remaining grant is still receivable, however it cannot determine when it will actually be paid. In view that LGA was unable to ensure the recoverability of this balance, a qualified audit opinion was issued in this respect.

*Developments on 'Ta' Monita' project and ancillary agreement are being monitored. The Council has been repeatedly told that the Land Department is making its final preparations to devolve the gardens in question to the former, at which point the mentioned sum of €85,284 is expected to flow into the coffers of the Council.*

The Council's Accrued Income includes grants receivable of €22,174, from DLG, under two separate co-financing agreements that were completed and certified in prior year. 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.

*The Council will follow up these amounts receivable and take the necessary actions if these are no longer recoverable.*

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 (MRRA), in respect of restoration works carried out on the aqueducts. However, the latter has 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 has been forwarded directly to the Council in previous years. In view of this, to protect its interest, the Council is recommended to seek guidance from its legal advisor and DLG about this issue.

*The Council was informed by the company responsible for recycled waste, that it never passed any monies to the Works Division. This*

*agrees with what the Works Division is stating. In view of this, the €30,748 was prudently recognised as a liability in the Council's books of account.*

When the agreement for waste recycling services expired on 30 June 2013, the balance of €15,401 was receivable from the aforementioned company, as per Council's books of account. However the Council decided to write down the said balance by €6,205, in order to agree with the outstanding amount of €9,196 as disclosed in the year-end statement issued by the respective entity which is currently facing financial difficulties. However, no provision for doubtful debts has been recognised with respect to this balance. In addition, accrued income of €4,941, for excess tonnage collected in 2012 was reversed by means of an audit adjustment proposed by LGA, in view that such amount is also considered doubtful.

*The Council did not write down the debtor's balance to agree with the entity's statement. After verification, it transpired that the sum of €6,205 received in prior years from the respective company was accounted for as income rather than credited against the respective debtor's account. So in effect, the said balance was a double recognition of the same income in past years. In view of the immateriality of the amount, no prior year adjustment was recognised, however, it was reflected in current year's figures. Furthermore, although the Council approved and posted the audit adjustment based on LGA's recommendations, this was based on the critical situation that the company is in. During 2014, a provision for the full amount will be made. An invoice was raised for this amount in 2014.*

According to the Council's books of account, the balance due to a supplier as at year-end amounted to €464,229, while that as per Supplier's Statement is of €465,367<sup>25</sup>, thereby resulting in a variance of €1,138. Further investigation revealed that part of this difference relates to a set-off of €1,482, booked by the Council but not reflected in the Supplier's Statement.

*The Council will take on board the recommendations put forward by LGA and will ensure that the supplier recognises the set-off in its statement as well.*

<sup>25</sup> This excludes disputed work of €90,750.

The sum of €67,738 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, disclosed in the Council's Financial Statements is a Contingent Liability covering the amount in question, in favour of WasteServ Malta Ltd. However, given that the amount due to the said company has already been provided for in full, such disclosure was not necessary.

*The Council has an agreement with DLG in this respect, whereby the amount of €20,580 is being deducted from each allocation in order to settle old outstanding balances. As regards the Contingent Liability note, the Council felt that it should mention that there is an amount in dispute with the supplier in its Financial Statements. By year-end, there was no confirmation as to whether additional funds will be received from DLG with respect to tipping fees.*

The amount of Capital Commitments that has been contracted for, but which were not provided for in the books of account, as disclosed in the Financial Statements (€91,356), does not tally to that reported in the 2014 annual budget (€67,000).

*The variance relates to payments for security cameras, which will span over in 2015. These could not be reflected in the budget for 2014 but they were already approved and contracted for by the end of the year 2013, and therefore correctly included in the note to the Financial Statements.*

The excess honorarium still to be refundable from the ex-Mayor as disclosed under Prepayments, is overstated by €1,019.

The Statement of Cash Flow did not completely reflect the actual cash movements in accordance with IAS 7. For example, payments to acquire PPE have not been adjusted for by the movements in capital accrued expenditure and creditors, of €51,047 and €86,314 respectively whilst Grants received should also reflect the amounts of €185,936 which were accrued for in 2012, but received during the year under review.

*The amount with respect to the excess honorarium dates back to 2009 when there was an increase*

*in Mayor's remuneration from one-third to two-thirds of that given to a member of parliament. The Council's Mayor qualified for this increase from 1 November 2009 as stated in Legal Notice 278/2009. This prepayment represents the two months for November and December 2009 as was actually recommended by the Auditors at that time. Although the Council in principle did not agree with this, it followed LGA's recommendation and accounted for this as a prepayment in its records.*

*All valuable comments made by LGA are noted and will be addressed accordingly for the forthcoming year ending 31 December 2014.*

### Birżebbuġa

Instances were encountered whereby income received by the Council was not categorised under the correct Nominal Account. For example, the amount of €30,249, paid by the Department on behalf of the Council, in respect of prior year excess tipping fees, was disclosed by the Council with Other Government Income, when this should have been recorded under Other Supplementary Government Income. Likewise, income of €4,854 generated from LES Administration Fees was incorrectly included with income generated from Community Services in the unaudited Financial Statements. The Council also recorded receipts, of €1,104 and €807 respectively, in the wrong customer accounts. Likewise, the opening accrual of €2,400 for contract management fees was reversed against an incorrect account, while a provision was made for accrued expenses of €800. Furthermore, it transpired that the Council included accumulated depreciation on property of €10,179, in the same Nominal Account as that of construction, giving rise to a discrepancy between the Nominal Accounts of these Fixed Assets and the Financial Statements.

The Council accepted the adjustments and reclassifications proposed by LGA, and updated the books of account accordingly.

*The issues highlighted have been addressed, and carried out during the audit. Moreover, during year-ending 2014, reclassifications will also be carried out in the accounting system.*

Although the Council made a public call for quotations and selected the cheapest offer, for the provision and installation of online streaming equipment, the quoted amount of €4,733 was still in excess of the tendering threshold stipulated in the Procedures.

*The online streaming equipment does not cost €4,733, as stated in the Management Letter, since this amount includes also the cost for three years' maintenance agreement, and hence the Council is in line with the Local Council Financial Procedures.*

Whilst the Council has compiled FAR during the year under review using the Nominal Ledger as a reference, depreciation charge as computed by FAR is overstated by approximately €19,452 according to LGA's workings. It was also noted that FAR has computed a full year's depreciation for assets acquired during the year. Thus, the Council is now encouraged to investigate such discrepancies as well as to confirm the completeness of register by physically inspecting all assets listed therein to ensure that they are still in existence and in use. This would enable the Council to identify any missing, obsolete or impaired assets and account for them properly in the accounts. It is also recommended to tag all assets (where applicable) and reference them to FAR.

*Ideally LGA provides the Council with the related workings so that during the current year, the Council could seek advice from the service provider.*

A creditor's statement indicates that as at year-end, unbilled resurfacing works in progress on *Triq il-Bajja s-Sabiha*, amounted to €210,398. However, by year-end, such works were not provided for in the books of account.

*Point noted.*

Whilst the Council recognised LES Debtors of €69,051 receivable from the Żurrieq Joint Committee, during a meeting held in April 2012, the latter claimed that only the balance of €12,126 was still payable to the Council. Although the Joint Committee was to investigate the Council's claim for payment, to-date neither the results of the investigation, nor acknowledged acceptance

to pay this amount, were communicated to the Council. Due to the fact that the Żurrieq Joint Committee is in the process of winding down its role in the LES, recoverability of this balance remains highly doubtful. A qualified audit opinion was issued in this respect.

*The Council is seeking legal advice regarding the recovery of the outstanding sum which the Żurrieq Joint Committee still owes the Birżebbuġa Local Council.*

A difference of €3,844 was noted between the creditor balance of WasteServ Malta Ltd and the related Supplier's Statement, arising from the fact that a cheque issued to the creditor in December remained unaccounted for. The respective payment was incorporated in the books of account by means of an audit adjustment.

*The point was addressed during the audit. Reconciliations are usually carried out by the Council.*

A number of balances aggregating to €1,125, payable to four service providers, have been long outstanding. On the other hand, the Council has an overdue amount of €1,559 receivable from WSC, which balance was also confirmed by the latter.

*The Council will continue chasing its debtors whilst it will investigate the amounts payable and proceed accordingly.*

The understatement (€19,614) in the cost of assets as recorded in the books of account, as well as the writing off against capital grants in 2005, a prescribed amount of €111,101 due to the then Tourism Department for the cleaning of beaches up till October 1997, were addressed during the year under review through a prior year adjustment. Consequently, the Council also adjusted the opening provision for accumulated depreciation by €46,793. However, inconsistencies were noted in the presentation of such adjustment. Following LGA's recommendation the Financial Statements were adjusted accordingly.

*All mentioned shortcomings were addressed during 2013 audit.*

The Council's Capital Commitments, amounting to €437,975, as disclosed in the unaudited Financial Statements, do not agree to the budgeted capital expenditure for 2014, totalling €406,000.

*The budget was prepared after the preparation of the Financial Statements. This year, the Council will ensure that the budget is prepared in the beginning of the financial year.*

Significant variances were noted between the budget for 2013, and the actual results obtained during the year, as depicted in **Table 7**.

In addition, the Council budgeted for capital expenditure of €1,217,816, while the actual amount paid in 2013 was €385,100.

*The budget is always prepared as accurately as possible, but sometimes, the achieved outcomes differ from those planned. That is why there are discrepancies.*

### Bormla

As already highlighted in preceding years, it is understood that the Council is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. As at 31 December 2013, outstanding balances covering the period January 2000 to August 2011 amounted to €328,741.

In addition, 46.38% of Trade Receivables, amounting to €12,396, have been due for more than one year. Whilst, adequate provision (€328,741) has been taken against LES Debtors, once again the provision (€6,276) for long outstanding Trade Receivables was not updated from the preceding year, with the result that this included certain amounts that have been settled by year-end. Moreover, it was only following LGA's recommendation that the Council provided for €3,410 owed by a private limited company, in view of the possibility that this will not be recovered.

*The Council firmly believes that since the matter of LES Debtors is effecting almost all Councils, Central Government should intervene. During 2014, the Council will send letters to offenders as suggested by LGA. Furthermore, the provision for long outstanding Trade Receivables will be updated during 2014 and debtors, which are deemed not recoverable, will be written off.*

Although the Council maintains a FAR, a number of assets were still being incorrectly categorised, with the consequence that these are being depreciated using an incorrect depreciation rate. For example, computer software acquired in 2012 started being depreciated in FAR with effect from 1 February 2013, besides that this was incorrectly included with Computer Equipment, rather than categorised separately in FAR. Consequently, this resulted in the software being depreciated on the reducing balance method which contradicts

**Table 7: Variances between Budgeted and Actual Expenditure**

Nature	Budget	Actual
	€	€
Income from Central Government	1,549,416	704,021
Income from contraventions	70,000	-
General income and income from Bye-Laws	116,050	24,852
Personal Emoluments	103,550	115,555
Operations and administrative	409,100	492,805



the accounting policy adopted by the Council, stating that computer software is to be amortised using the straight line method. In addition, litter bins procured during the year for €1,185, were capitalised rather than accounted for on a replacement basis. On the other hand, two instances were identified whereby expenditure of a capital nature, totalling €624, was fully expensed in the Statement of Comprehensive Income.

Whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to quantify the amount with accuracy. Thus, a qualified audit opinion was issued in this respect. Notwithstanding this, an adjustment was approved by the Council to reverse the overstatement in the amortisation of computer software, as well as to capitalise the amount of €624 and recognise depreciation thereon.

*As regards the issue of the intangible assets, as well as that where capital expenditure was recognised as revenue expenditure, the Financial Statements were adjusted accordingly, following LGA's recommendation. The fixed assets mentioned by LGA will be re-categorised and the accumulated depreciation will be revised during 2014. Furthermore, FAR will be amended accordingly so that assets listed by LGA will be treated on replacement basis in line with Memo 121/2011.*

Upon reconciling FAR with the Financial Statements, further discrepancies were encountered. Notwithstanding that included in FAR are street signs bearing a cost and accumulated depreciation of €21,694, such assets were not recorded in the Financial Statements. Likewise, grants totalling €113,906, disclosed under Construction in FAR, were incorporated as a one lump figure with depreciation, in the Financial Statements.

*Following LGA's recommendation, the Financial Statements were adjusted accordingly.*

Deferred Income released to the Statement of Comprehensive Income, amounting to €8,720, was not equivalent to the depreciation of the relative assets, being €4,248. Likewise, an accrued grant, relating to an asset that was capitalised during the year under review, was fully recognised as income,

rather than matched against the depreciation charge for the year. Consequently, income arising from Contributions was overstated by €1,950 and rectified by an audit adjustment.

*Following LGA's recommendation, the Financial Statements were adjusted accordingly.*

No appropriate invoices were provided to the Council, to support an aggregate expenditure of €4,102 incurred with respect to legal services, construction, repairs and restoration works. In addition, as highlighted in **Appendix G**, four service providers did not provide a VAT fiscal receipt in respect of payments, totalling €74,645.

*The Council will try harder to ensure that in the future, all expenditure is accompanied with the appropriate tax invoice and will continue to request a VAT fiscal receipt with every payment effected. However, as already pointed out in previous year, not all suppliers are equipped to issue proper invoices.*

The Council entered into a joint venture agreement with a private contractor for the construction and administration of two 5-a-side football pitches, which had been devolved to the Council in June 2006, with the approval of the Land Department. The devolution agreement specifically states that consent is to be obtained from the latter prior to subleasing any part of this property. However, in 2010, the Council had issued a call for persons interested in operating the football grounds and hiring of bar facilities, without obtaining any approval from the Land Department.

Furthermore, for another year, in breach of the requirements of the joint venture agreement, no audited annual report was prepared for the joint venture. The Council also failed to recognise an investment in the joint venture, in line with IAS 31. In absence of the required audited report as at 31 December 2013, LGA could not rely on the financial information as provided by the Council to obtain reasonable assurance on the amount of assets and liabilities applicable to this joint venture, and thus a qualified audit opinion was issued in this respect.

*The contract of the football grounds and bar facilities operator expired and the future of the joint venture and the complex is at stake. Discussions*

*are being held with Central Government in a bid to buy out the contractor's share. In the meantime, the bar facilities and the football pitches are not being used. On the other hand, the Council failed to understand LGA's observation with regard to the audited annual report and the requirements of IAS 31, whereby the share of income, expenditure and assets are duly recognised in its Financial Statements. It further declared that all proceeds from the hiring of the football pitches are recorded in the Financial Statements. The Council is not responsible for any expenses for the running and maintenance of the complex, as this responsibility was all shifted on the complex operator. The Council is not the owner of neither the complex nor the land on which the complex was built.*

The majority of the proposed audit adjustments pertaining to 2011 and 2012 were not posted in the accounting records of the Council. Moreover, the Council reflected some of the audit adjustments of 2012 in its accounts, without documentation supporting the balances. The Council's attempt to reverse such balances resulted in the creation of further fictitious publications expense, amounting to €2,757 and distortion in the bank reconciliation.

The Council's annual Government Income for 2013 was also overstated by €8,016. Moreover, certain income received by the Council during the current year was classified in the wrong category, and corrected following LGA's recommendation. Furthermore, the Council passed a prior year adjustment to properly reflect the adjustments proposed by LGA in the previous year. However, since classifications and disclosures were not carried out in line with the requirements of IAS 8, a qualified audit opinion was issued in this respect.

*The Council's Accountants will be informed about this shortcoming with a view that similar mistakes will not be repeated as from next year.*

### Dingli

The tender for the provision of street lighting installations and maintenance services was never renewed, even though the contract expired on 7 November 2011. In addition, following an argument with the contractor in 2013, the Mayor replaced such contractor with that who had offered the second best price when the call for tenders was originally issued in 2008, instead of issuing a

new public offer. Total invoices issued by the two service providers during the year under review in aggregate amounted to €6,423.

Moreover, upon the expiration of the contract for the supply and laying of tarmac and concrete, on 30 June 2013, the Council continued to procure such services from the same service provider. The Council stated that tenders for these services, as well as for the provision of road works and collection of waste, were issued during the same year. However, such offers will be reissued in 2014 as tender forms were rejected for not being in accordance with EU regulations. Out of the total amount of €29,134 invoiced during the year under review in this respect, the balance of €12,608 related to services provided under the expired contract.

*LGA's comments have been noted and the Council will be doing its utmost to improve its performance with regards to tendering procedures, especially now that the Council has a new Mayor and Administrative team.*

In breach of Memo 122/2010, the Council has incurred a total of €7,614 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 (which in this case amounted to €1,498), whichever is the highest.

*LGA's comments have been noted and the Council will do its utmost to avoid having similar issues in the next financial year.*

The cash in hand balance disclosed in the Financial Statements as at 31 December 2013 is understated by €1,869. The difference was the result of cash and cheques received by the Council during the year, for which no sales receipt was issued, thereby not recognised as income in the books of account.

*LGA's comments have been noted.*

No purchase request and purchase order forms have been prepared for 11 items of expenditure, amounting to €7,720, whilst the actual purchase orders for expenditure, totalling €4,069, did not include an amount. Moreover, as highlighted in **Appendix G**, no VAT fiscal receipt was made available for disbursements of €37,807. On the

other hand, expense items adding to €29,039 were not supported by an invoice. In addition, although catering services for *Jum Had-Dingli* were quoted at €1,816, the Council spent €2,312.

Payments effected in respect of accounting services were only covered by an invoice stating that the services provided are VAT exempt. Notwithstanding this, no written declaration from the individual providing such services was received by the Council, in this respect.

In most instances, Payment Vouchers filed were not signed by both the Executive Secretary and the Mayor and did not include any numerical sequence. The Council's minutes did not indicate that the Schedule of Payments for June was approved. In fact, both the hard copy provided during the audit, as well as the soft copy uploaded on the website, were both unsigned, thus implying that payments included therein, aggregating to €65,831, were not approved by the Council.

*Whilst noting the Financial Procedures, one has to keep in mind that certain requests would be required urgently and thus it would be practically impossible to issue purchase requests and orders, especially for repeat purchases from the same supplier. Nevertheless, it is important to note that the Council is doing its utmost to, whenever possible, issue such purchase requests and orders.*

*LGA's comments with respect to Payment Vouchers and quotation procedures have been noted and any human error is deeply regretted. The Council will do its utmost to avoid similar issues from occurring in the next financial year.*

For another year, the Council failed to provide a FAR to substantiate the amounts of fixed assets as recognised in the Financial Statements. Consequently, LGA's testing to verify the physical existence of assets held by the Council, as well as the depreciation charged thereon, was limited. It was also noted that various fixed assets are not classified correctly and thus are being depreciated with the incorrect depreciation rates. An audit adjustment was proposed in this regard and the Council updated its Financial Statements accordingly.

Furthermore, instead of being calculated and posted through FAR in the accounting system, as required

by the Financial Procedures, depreciation is being accounted for through a journal entry. Testing carried out revealed that whilst total depreciation for Construction and Special Programmes as per workings provided for audit purposes amounted to €49,292, the charge recognised in the Financial Statements, prior to audit adjustments, was of €51,101. It transpired that both the opening cost and opening NBV figures used in the depreciation workings were incorrect and did not tally to the figures included in the Financial Statements.

The Council also failed to provide LGA with adequate details and information of the Assets not yet Capitalised, amounting to €477,192 as at year-end, out of which the amount of €41,201 was capitalised during the year under review. In view of the fact that there were no other practical ways of obtaining reasonable assurance on the completeness of fixed assets, as well as the depreciation calculated thereupon, a qualified audit opinion was issued.

*The Council acknowledges that currently FAR is not existent. 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.*

Contract work carried out for the Council is not always being certified by a Contract's Manager or by a professional Architect. In fact, two instances have been encountered whereby payments, totalling to €48,330, were not covered by a certification of works.

*LGA's comments have been noted and the Council will be doing its utmost to rectify its position as much as possible.*

Although the Council initially disclosed that there were no Capital Commitments in the Financial Statements, a capital expenditure of €83,700 is included in the annual budget for 2014. Likewise post balance sheet events relating to a grant of €209,850 (VAT excl.), awarded to the Council on 14 February 2014, under Measure 313 – 'Upgrading and Embellishment of the Dingli

Village Centre', were completely omitted from the Financial Statements. Following LGA's recommendation, proper disclosures were recognised in the Financial Statements.

*Capital Commitments were disclosed in the updated Financial Statements.*

Whilst invoices issued by the Council to Regional Committees, for commission on post-regional LES fines totalled €1,428, the amount of €1,641 was recognised in the books of account. Furthermore, according to the report issued from LES system, the Council's share of commission for 2013 should have amounted to €1,444 thus implying that such balance neither reconciled to the invoices issued nor with the amount recorded in the Financial Statements.

*The adjustments recommended by LGA were posted accordingly in the Financial Statements. Invoices for the administration fees on LES contraventions will be posted through the Debtors' Ledger to ensure that the Financial Statements are more accurate.*

The Council failed to recognise the amount of €12,394, paid by DLG on its behalf, to set off pending tipping fees for invoices issued by WasteServ Malta Ltd between 2009 and 2013. This is in breach of the directive issued by DLG, through Memo 01/2014, where it requested all Councils to recognise these amounts as 'Other Government Income'. An audit adjustment was proposed in this regard and the Council adjusted its Financial Statements accordingly.

*Point noted. Adjustments were posted in the Financial Statements.*

The grant of €12,924, receivable under a Life-long Learning Programme was completely omitted from the books of account. A number of other errors were encountered in the year-end adjustment for accrued and prepaid expenditure. These were rectified by the proposed adjustments.

*LGA's recommendations have been noted and any proposed audit adjustments were accounted for in the updated Financial Statements.*

Notwithstanding previous year's recommendation, 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. Consequently, a number of misstatements, arising out of the lack of proper accounting and recording of such payables, were encountered. From an analysis of the Payment Vouchers issued in January 2014, it became apparent that invoices dated in 2013, amounting to €1,718, were not posted in the Suppliers' Ledger.

*The Council does its utmost to reconcile available Supplier Statements to the balances in the books of account.*

On 11 December 2012, the Council issued two purchase orders for the same work, to two different contractors. Although the respective services were not provided by year-end 2012, during that same year, the Council still accounted for the amount of €1,200, being the cost disclosed on one of the purchase orders, as the other did not include any amount details. The same expense was recorded once again in 2013, upon the receipt of the actual invoice of €1,100, thus resulting in double accounting. An audit adjustment reversing the 2012 entry was proposed by LGA and the Council adjusted its Financial Statements accordingly.

*LGA's comments have been noted and any errors in cut-off are regretted. The proposed audit adjustments were accounted for in the Financial Statements.*

As already highlighted in the previous year, the Council has made use of the 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 with the second supplier were different, although the amount due was still to be repaid over a number of years, as had been agreed upon with the original service provider. The Council incorrectly included total commitments of €136,695, due to both suppliers, as a short-term liability under Accrued Expenditure, 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 in this respect, led LGA to qualify the audit opinion.

*LGA's comments have been noted and the Council will be doing its utmost to improve in this regard.*

LGA's requests for supporting documentation with respect to grants were not acceded to. The following instances were encountered.

- a. Out of the balance of €38,418 recognised as additions on Measure 313 project, the amount of €26,669 was not substantiated with the necessary documentation. The Council provided only the respective bank statements showing the direct payment made to the supplier. Neither an application form nor a request for payment with regards to this grant were provided.
- b. During the year under review, the amount of €10,378 was reversed from the opening balance of the Urban Improvements Funds. Queries raised remained unanswered, as the Council is unaware of what this amount consists of. Though the latter confirmed that the project was completed in January 2013, no supporting documentation was provided, evidencing that the project was put in use during the year.
- c. No information was made available as to when the amount of €6,432, disclosed as an opening balance under Grant photovoltaic system, was received by the Council.

Consequently, LGA was limited in testing whether the amount of €28,043, capitalised by the Council for grants received during 2013, is correct. It was also not possible to verify the accuracy of the amount released as income. In view of this, a qualified audit opinion was issued.

*LGA's comments have been noted and the Council will be doing its utmost to improve in this area. However, one has to appreciate that the current Administration of the Council was not involved when these grants took place and thus it is very difficult to reconcile the amounts.*

In breach of Memo 150/2010, the Council's Accountant does not hold a warrant of a Certified Public Accountant. Even though this was reported in previous year, the latter continued to provide services to the Council in 2013 by direct order. Invoices were still being issued under

the designation of Accountant and Auditor. On 1 February 2014, the same individual issued an invoice to the Council, covering the compilation of the Financial Statements for financial year 2013. However, as indicated on the cover of the same Financial Statements, these were not prepared by the latter but by a relative of the individual in question.

*LGA's comments have been noted. The Council's new Accountant holds a warrant of a Certified Public Accountant and has vast experience in Local Council (Financial) Procedures.*

Included within the opening balances of the Nominal Ledger was a Suspense Account with a credit balance of €8,279. Furthermore, the Trial Balance as at year-end still did not balance by €444.

*Points not properly addressed.*

Besides that income was not always categorised correctly, receipts relating to activities carried out during the preceding year, were only recorded in the books of account during 2013, when the money was actually received.

*Any adjustments indicated by LGA were accounted for in the updated Financial Statements.*

No accounting software backup, for the year under review was made available to LGA, in view of the Council not being provided with a readable softcopy by the Accountant.

*LGA's comments have been noted.*

The Government allocation for the year, as per document provided from DLG, amounted to €299,661. Although this amount has been correctly recognised by the Council, the balance actually received was short by €602. This difference was not supported by any documentation and was recognised as penalties in the accounts. Moreover, the Council failed to expense for a local area wireless technology service.

*Point noted. A reclassification was posted in the updated Financial Statements.*

LGA identified several shortcomings while reconciling the Council's payroll workings with

statutory returns and the ledger. The original bar-coded Payer's Annual Reconciliation Statement (FS7), was not accepted by IRD due to errors. Furthermore, the unsigned documentation replacing the latter was dated 20 February 2014, thus falling after the deadline for submission.

The Council also failed to prepare and sign a contract of employment with an individual who was employed as a full-time clerk as from August 2013. The Payee Statement of Earnings (FS3) of another employee, who terminated employment as of 15 December 2013, still covered up to 31 December 2013. The termination form required by the Employment and Training Corporation (ETC), of the said employee was not made available. Moreover, incorrect tax deduction rates were being used for another employee, resulting in a tax overpayment of €863. No Payee Status Declaration Form (FS4) has been provided for this employee.

*The shortcomings identified by LGA have been noted and the Council will be doing its utmost to address such shortcomings. However, one has to appreciate that during 2013, the Council had a complete change in its administration.*

Notwithstanding that during the year under review the Council sold certain items, the stock balance was not adjusted accordingly, with the result that the stock figure of €654 as recognised in the Financial Statements is the same as that of the previous year. Furthermore, no stock list was provided for audit purposes.

*The Council will be analysing its inventories in 2014 and update the value of such inventories in the Financial Statements. Any stock which is obsolete will be written off during the said year.*

### Fgura

The release of deferred income has not been undertaken in line with the required accounting treatment using the Income Approach as detailed in IAS 20. Consequently, the amount amortised in respect of a particular project was overstated by €9,967, whilst the deferred income as at year-end was understated by the same amount. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

*The matter was resolved during the audit.*

It is understood that the Council is experiencing difficulties in the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, as at period-end, the Council still had pending fines relating to the period 1 May 2000 to 31 August 2011. Furthermore, it was noted that no proper reconciliation is being maintained for LES pre-regional dues from other Local Councils. The respective amounts are also not supported by proper breakdown as the Council claimed that the balance of €1,454 consisted of unidentified deposits from other Local Councils received prior to the current financial year.

*The Council's Executive Secretary discussed this matter with other Executive Secretaries who had chased such debtors as recommended by LGA. It transpired that the administrative burden and effort that the recommended exercise implies, would in turn prove itself as not being worthwhile in terms of return.*

*As LES income started to accrue from Regional Committees, the Council cleared the accounts of any outstanding contraventions receivable from other Councils. Consequently, any receipt of pre-region LES contravention is credited to one debtor account. The debit entries on the account reflect the year's receivable income in line with the LES system reports. Nonetheless some Councils deposit amounts in the Fgura Local Council's bank account that relate to periods prior to the year under review. These are therefore recorded and taken to income on a receipt basis.*

Audit testing carried out revealed that some of the expenditure undertaken by the Council was not supported by a proper invoice and fiscal receipts in terms of the VAT Act. Bulky refuse services amounting to €1,066, provided to the Council by a private limited entity were supported by a declaration from the said supplier stipulating that it does not exceed the VAT registration threshold of €7,000. Notwithstanding this, the same company charged the Council the amount of €12,198 in relation to footpath works, which were supported by an undated invoice and by a handwritten receipt issued from an unofficial receipt book on which a VAT exemption number was quoted. Following LGA's recommendation,

the Council obtained written confirmation from the VAT Department that the respective service provider was not granted any exemption number. Subsequently, the supplier issued the VAT receipt dated April 2014.

*The Council has addressed the matter before it was mentioned by LGA as the former had verified the exemption number with the VAT Department. The related entity was then asked to provide a valid VAT receipt, which was in turn provided.*

Although the Council maintains a FAR, a number of assets have been incorrectly categorised, with the consequence that an incorrect depreciation rate has been applied and recognised in the Financial Statements. Moreover, the Council continued to recognise litter bins as capital expenditure in FAR, instead of expensing these immediately to the Statement of Comprehensive Income. Whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive to the exact amount of misstatement. Thus, a qualified audit opinion was issued in this respect.

Furthermore, differences have been identified between the assets as disclosed in FAR and those recognised in the Nominal Ledger. For example, the depreciation of Construction in the Nominal Ledger is overstated by €30,434, whilst that of Urban Improvements is understated by €30,401.

It also transpired that the amount of €3,487, incurred for exterior and internal works on the new Council's premises, was incorrectly accounted for as entertainment cost in the Statement of Comprehensive Income, rather than recorded as expenditure of a capital nature. An audit adjustment was proposed in this respect, which the Council has taken up accordingly.

*The Council is currently reviewing the FAR, which exercise started during October 2013, but was not concluded by year-end. It is planned that the exercise will be concluded during 2014. The difference of €30,434 between FAR and the Nominal Ledger refers to historical grants of €235,087 recorded under Construction works. As part of the exercise being carried out, it was concluded that the said grants should be split between Construction and Urban Improvements*

*into €204,653 and €30,434 respectively. With respect to the capital expenditure incurred, the Council adopted the audit adjustment recommended by LGA.*

The Council's Capital Commitments as disclosed in the Financial Statements amounting to €326,750 do not tally with the budgeted capital expenditure for 2014 of €197,944. Moreover, expected capital expenditure of €2,400 pertaining to the purchase of equipment for live streaming transmission of the Council's meetings was completely omitted from both the Financial Statements and the annual budget.

*LGA's recommendations have been noted.*

As highlighted in the preceding year, the Council is still not carrying out regular reconciliations of its creditors' balances. In fact, whilst carrying out testing on Trade Payables, amounting to €97,857, a significant number of misstatements, arising out of the lack of proper accounting and recording of such Payables, were encountered. For example, from the statements of two of the Council's suppliers, it was noted that the amounts payable as disclosed in the books of account were overstated by €4,135 and €907 respectively. On the other hand, the Council failed to account for a balance of €3,354 due to a contractor.

Included in the Creditors' List was also a payable amount of €2,396 which the Council claimed that it is not due. This consisted of a price reduction in the final certification issued by the Architect, due to the fact that works performed were not carried out to the Council's satisfaction. However, the contractor has never issued the required Credit Notes. On the other hand, the Council has not provided supporting documentation from the contractor, committing himself to accept such deductions.

Audit adjustments were proposed to account for a payable retention fee of €3,354 that was omitted from the books of account, as well as to reverse an invoice of €616 dated 2011, which was booked twice in the Council's accounting records. The Council accordingly posted such adjustments in its Financial Statements.

It also transpired that disclosed within the Creditors' List were long outstanding balances,

aggregating to €1,880, in respect of which the Council has to take legal advice and assess if such balances should be written off.

*Regular reconciliations are effectively being carried out. Problems arise when certain suppliers do not send a statement. The Council usually leaves the balances outstanding for two years and then writes them off when no claim is received. A list of the long outstanding payables will be prepared and the amount will be accounted for as income in the next financial year.*

It also transpired that cut-off procedures were not carried out properly by the Council, resulting in an overstatement of the accrual balance by €1,100. Such error arose due to an accrual recognised for band services for Fgura Arts and Food Fighting Festival 2012, which was eventually cancelled, and thus the said services were never received. Following LGA's recommendation, the Council approved the necessary audit adjustments to reverse the amount in question.

*The Council will be reviewing all of its outstanding purchase orders since these form part of the accrued expenditure. The objective is to cancel those purchase orders which are no longer applicable.*

A number of shortcomings were also identified in Trade Receivable balances, including an overstatement in one customer account, and an omitted invoice issued in 2012 in respect of LES Administration Fees. In addition, a refund with respect to internet charges was incorrectly recognised as a receivable, since the related bill dated 2012 was never accounted for in the Council's records. These errors were adjusted by means of audit adjustments proposed by LGA.

*The matter was resolved during the audit.*

A bank guarantee of €1,170 was not disclosed in the Contingent Liability note, whilst the amount claimed by one of the Council's contractors as recognised in the aforementioned note is understated by €3,830.

*The points raised will be acted upon during 2014.*

## Floriana

In breach of the Local Councils (Tendering) Procedures, no public call for tenders was issued for the hiring of equipment used during the New Year's Eve activity. The amount paid in this respect totalled €24,190.

*The transaction in question pertains to the New Year's Eve activity, which was originally contracted to an organiser who dropped his commitments 48 hours before the activity. Following legal advice the Council continued with the organisation of the activity, however it had no time to gather quotes or issue tenders. In the meantime, legal actions (arbitration as was agreed through contractual obligations) were filed against the contractor who failed to abide by the signed contract.*

As already highlighted in the preceding years, a proper FAR is not being maintained in line with the terms of the Local Councils (Financial) Procedures, as well as best practice. The Council has so far prepared a form of register on a spreadsheet up to 31 December 2010, and it has exported the Nominal Accounts for the 2011, 2012 and 2013 additions to a worksheet. However, this approach is limited since it does not provide the necessary details. The depreciation workings also vary from those calculated by FAR integrated in the accounting system. LGA was limited in the procedures to verify the physical existence of PPE held by the Council at a NBV of €803,632 as well as to ascertain that the depreciation charge of €85,022 is correct. Thus, a qualified audit opinion was issued in this respect.

Furthermore, an elevator installed during 2011, and paid for by two different cheques, was allocated to two different asset categories. Whilst the amount of €5,569 was recognised under Construction, with a depreciation rate of 10%, the balance of €14,334 was accounted for as Office Furniture, depreciable at the rate of 7.5%. Although this issue was highlighted in the preceding years, no adjustments were posted by the Council to rectify this error. Moreover, a comparison of the values recorded in FAR maintained on a spreadsheet, with those disclosed in the Financial Statements, revealed that whilst the cost of assets in the former record is overstated by a net amount of €3,161, the



depreciation reported therein is understated by a net amount of €19,554. In addition the opening balances, in the 2013 Financial Statements for the Plant and Machinery category, do not tally with the audited closing balances of the preceding year. Both the opening cost and the accumulated depreciation figures in the current year's Financial Statements are overstated by €23,829.

*The Council has finalised the reconstruction of FAR integrated in the accounting system, as recommended by LGA. Once this assignment is complete, an exercise will be made to correct any differences between FAR and the Financial Statements.*

From testing carried out, it transpired that total income of €19,307, received from Government entities and Departments, was not supported by an official receipt issued by the Council. Likewise, income of €2,679 derived from the rental of barriers was not covered by a Bye-Law. Furthermore, in addition to the instances highlighted in **Appendix G**, no purchase order was available for expenditure, amounting to €6,349, while expenses totalling €1,895 were not covered by a Payment Voucher. This is resulting because instead of issuing payments to the respective service provider for services rendered, the Council is setting off amounts payable against the balances receivable from the former, in relation to the rental of a room within the Council's premises.

Moreover, several payments amounting in total to €8,919 were encountered, whereby the cheque number was either not included in the Schedule of Payments, or the payment included therein did not tally with the amount invoiced.

*The Council took note of LGA's recommendation. In addition, it has also considered the introduction of an electronic receipt system incorporated within the accounting software, however it resulted that the implementation of such a system will be a burden on the Council's finances.*

*As regards the issue of Payment Vouchers, no payments were actually made to the service provider, as the respective balance was set off against the amounts receivable from the latter. The purchase orders covered retention money being forwarded to the contractor.*

*All payments are listed in the Schedule of Payments, thus LGA might have missed the details on the schedule.*

Instances were identified whereby the Council did not match the income with the relative expenses. This resulted in cut-off errors and misstated profits.

Accrued income of €10,179 and €40,908, representing monies receivable in respect of revenue and capital expenditure respectively, incurred by the Council in relation to the project covered by the *Gardmed* grant, were completely omitted from the books of account. Notwithstanding that during the year under review the Council capitalised the amount of €33,269 in connection with this project, Deferred Income equivalent to the depreciation charge of €1,090 was not released to the Statement of Comprehensive Income. Furthermore, Accrued Income of €9,265 disclosed in the Financial Statements was not accurate due to the inclusion of an opening balance amounting to €1,980, which was not reversed by the Council, despite that the respective sales invoice was issued in 2013. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly.

*Whilst taking note of the respective observations, the Council will ensure that schemes applied for and approved by DLG will be accounted for accordingly. Adjustments proposed by LGA were accepted by the Council. The latter will also ascertain that in the future, reconciliation will be carried out in respect of accrued income. Moreover, a detailed spreadsheet, relating to Grants and the release thereof to the Statement of Comprehensive Income, will also be prepared.*

As at year-end the Council recognised LES Debtors of €213,220, against which a provision for doubtful debts of €137,100 was recorded. However, upon comparing the aforementioned amounts with reports extracted from LES system, it transpired that whilst LES Tribunal Pending Payments as disclosed in the Financial Statements were overstated by €11,868, the related provision was understated by €64,252. In view of these material differences, LGA had no option other than to qualify the audit opinion on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of LES

income and receivables recorded in the Financial Statements at year-end.

*The Council took note of the shortcomings highlighted by LGA and will ensure that reconciliations with LES reports will be carried out accordingly.*

The Council is not carrying out regular reconciliations between records in the Supplier's Ledger and the actual Suppliers' Statements. This observation was supported by various factors, including negative balances in the Creditors' List, collectively amounting to €2,105. The opening balance payable to WasteServ Malta Ltd was understated by €4,830, whilst an invoice of €112 raised by another service provider was completely omitted from the accounting records. Other balances due to two different suppliers were misstated, as recorded in the books of account, since the payment made was erroneously posted in the wrong Creditor Account. Furthermore, a guarantee of €770, withdrawn by the Council against a promotion and event company for the dismantling and setting up of bins and benches was still recorded as a liability rather than released to income.

As already highlighted during the preceding year, it transpired accruals' accounting was inaccurate. Whilst accrued expenditure disclosed in the Financial Statements amounted to €16,440, the Accruals' List, provided for audit purposes by the Council's Accountant totalled €16,867 after netting off a negative amount of €8,281. Queries raised by LGA on this discrepancy once again remained unanswered by the Council. The accrued utilities expense was overstated by €1,580 while an accrual of €1,610, for services rendered by two service providers, was recorded by the Council, notwithstanding that the respective invoices were dated in 2013. Moreover, invoices totalling €1,079 have been included both as an accrual and as a creditor, implying that the expense has been accounted for twice. In view of the above misstatements, LGA proposed a number of audit adjustments, which the Council failed to account for appropriately.

*LGA's recommendations were noted and the necessary actions were taken by the Council to rectify the situation. Furthermore, the latter also adopted the accrual concept and invoices received*

*are being accounted for properly. The proposed audit adjustments were approved by the Council, and the Financial Statements were corrected accordingly.*

Advance payments of €6,418, as disclosed in the Financial Statements, includes opening balances of €5,242 relating to rental income that was not reversed by the Council, and of €1,265 for which the Council did not provide an explanation. Meanwhile, the Council did not account for the amount of €5,918 in relation to the rental of a room, covering the period 1 January to 25 May 2014. Though LGA proposed audit adjustments to rectify these errors, these were not all reflected appropriately in the Council's books.

*The proposed audit adjustment on the rental income was approved and the Financial Statements were amended accordingly.*

The Nominal Ledger balance of a bank account did not tally with the bank statement by €2,196. This discrepancy resulted mainly because uncashed cheques at year-end, collectively amounting to €2,315 were not included with the unpresented cheques in the reconciliation. No other explanation was given for the remaining discrepancy of €119.

*Bank reconciliations are carried out on a monthly basis, however in view of the issue highlighted by LGA, the Council is scrutinising the transactions and movements in the bank accounts.*

In line with the preceding year, no proper stock control system and accounting was in force in respect of inventory of books and compact disks held by the Council. The value of stock held, as recognised in the Financial Statements, stood at €13,799. However, from the information provided by the Council, it transpired that some stock, is unaccounted for in the Financial Statements, while other inventory, is not appropriately valued in accordance with IAS 2. Furthermore, the value of books in the Statement of Financial Position includes the amount of €2,198, despite that this balance has also been expensed as publications in the Statement of Comprehensive Income. According to the list provided by the Council, the cost of books sold during 2013 amounted to €398, thus resulting in a variance of €1,800.

*Given that the amount of inventory is immaterial and the movements during the year are not so frequent, a stock-take is performed twice yearly, rather than on a quarterly basis. Any movement in stock is recorded in the Nominal Ledger account.*

### Fontana

The contract for domestic waste collection expired in 2008. Notwithstanding this, it continued 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 advisors, 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. During the year under review, the amount of €13,564 was paid by the Council in this respect.

*The tender for refuse collection expired in 2010. As pointed out by LGA, the tender was issued and legal advice sought from two different lawyers. However, no response was received. The Council sought further advice from DLG, and in March was authorised to reissue the tender. The contract was signed in April 2014.*

Upon reconciling FAR with the Nominal Ledger and the Financial Statements, it transpired that the figures included therein did not tally. The cost of assets in FAR is lower than that recorded in the Nominal Ledger by €211,004. Since this variance is approximately equal to additions acquired during the preceding four years, *i.e.* between 2010 and 2013, LGA concluded that new assets were not being included in FAR. This issue was already highlighted in prior years' Management Letters. Furthermore, total accumulated depreciation in FAR, which stood at €128,099, remained unchanged from the previous years, with the consequence that this did not tally with the total Depreciation plus Grants in the Nominal Ledger, which amounted to €333,193. As a result, NBV as reported in FAR was higher than that disclosed in the Financial Statements by €5,910.

It also transpired that the depreciation charge for the year, as calculated by the Council, was understated by €2,021. Audit adjustments were posted in this respect.

*FAR does not agree with the Nominal Ledger since in previous years, various adjustments were made to the Nominal Ledger accounts. As a result, FAR needs to be reconstructed completely in order to agree with the adjusted depreciation, and consequently the assets' NBVs.*

An invoice, dated 28 December 2012 and amounting to €22,601, relating to the construction of the Civic Centre, was accounted for again in 2013 as additions for the year. This invoice was reversed through an audit adjustment. A reclassification adjustment of €2,985 was also passed to transfer items of play ground furniture to a separate account, as these were incorrectly allocated under Plant and Machinery.

*All the adjustments and reclassifications recommended by LGA were accounted for in the audited Financial Statements.*

A review of the Council's minutes revealed that various computer and office equipment were to be disposed of during 2013. However, these items were neither written off from FAR, nor the books of account. Moreover, the acting Executive Secretary was unable to determine from FAR which were the assets that were disposed of, thus the necessary audit adjustments could not be passed.

*The necessary adjustments were made in both the Nominal Ledger and FAR in order to write off the assets that were no longer usable.*

Included within accrued income is a long outstanding amount of €1,230 receivable from a waste recycling company.

*The amounts of accrued income mentioned by LGA were not invoiced at the time of preparation of the unaudited Financial Statements. The Council was not aware that the aforementioned company was in financial difficulty and thus the related debts should be considered doubtful.*

Whilst going through the list of unrepresented cheques as at year-end, it was noted that a number of cheques, totalling €1,209, had become stale. In addition, included in the books of the Council were deposits of €275 from cultural activities and permits, which amount was not reconciled to the bank statement. From testing carried out

it was concluded that such income is likely to have been accounted for twice. Furthermore, upon reconciling actual cash in hand at year-end with the amount disclosed in the accounts, which stood at €321, a discrepancy of €166 was noted between the two balances. Moreover, according to accounting records the petty cash limit of €233 set by the Local Councils (Financial) Regulations was exceeded.

*The Council does not agree with the discrepancy in the petty cash mentioned by LGA. In the preceding year LGA stated that petty cash was €100 short, when in fact it transpired that one of the cheques issued to petty cash was stale.*

Accruals accounted for at year-end were incomplete. A review of the post year-end payments revealed that invoices totalling €2,836, that were issued during 2014 but which related to expenditure incurred during 2013, as well as the performance bonus of €1,224 were not accrued for. Similarly, an invoice of €165, dated in 2013 and covering electricity consumption, was not accounted for. These were then incorporated in the accounting records by means of an audit adjustment.

Testing carried out on opening accruals brought forward from the preceding years revealed that, upon the receipt of invoices in 2013, the amount of €224 was not reversed from the opening balance. On the other hand, the amount of €1,654 was reversed from the opening accruals, when this did not form part of this opening balance. On the other hand, two payments, aggregating to €2,484, were inadvertently recorded in the accruals account rather than the respective expense account. These errors were rectified through the audit adjustments proposed by LGA.

A discrepancy of €2,004 was noted between the amount payable to WasteServ Malta Ltd, as recorded in the books of account, and the respective Supplier's Statement. Such variance resulted from the fact that the amount of €2,096 paid directly to the creditor by DLG, as well as an invoice of €92, were completely omitted from the accounting records.

*The points raised by LGA have been noted and care will be taken in order to avoid such situations in the future. The adjustments recommended by LGA were reflected in the audited Financial Statements.*

Upon recalculating the amortisation of deferred income, LGA noted that the amount released to the Statement of Comprehensive Income was understated by €2,000. Thus, an audit adjustment was approved by the Council to recognise the correct amount in the Financial Statements.

In breach of the instructions given by DLG, during the years 2012 and 2013, the Council failed to issue invoices with respect to the administration fee charged to Regional Committees, with the consequence that these amounts remained unaccounted for, unless they had been paid.

*The invoices relating to income for the 10% administration fee were not issued since the LES package was not working correctly. The Council will take action to resolve this matter. However, since no contraventions have been paid at Fontana Local Council, there is no accrued income to be collected because the 10% administration fee is only receivable for collecting income from contraventions.*

**Table 8: Variances between Budgeted and Actual Expenditure**

Expenditure	Amount exceeded
	€
Hospitality and community services	4,438
Rent	1,144
Materials and supplies	1,089
Participation and membership in local and international organisations	637

Budgeted Expenditure for certain categories has been exceeded, as detailed in **Table 8**.

*The budget and other reporting tools will be used by the Council and the necessary revisions will be made when necessary.*

### Gudja

During the year under review, the Council paid the amount of €3,500 to band clubs, for band services and Christmas decorations. Once again, the Council is recommended to consider the necessity of this expenditure in the furtherance of its operations, and the implications of these payments on the financial results and position of the Council.

*The Council has taken note of LGA's remark and agreed that such expenditure is in line with the furtherance of its operations and that it will obtain the best value for money in the interest of the social and cultural wellbeing of the community of Gudja.*

During these past two years the Council failed to calculate the depreciation charge for the year through FAR, since some assets have been tagged with the straight line method of depreciation. Consequently, as at year-end, accumulated depreciation, as denoted in the register, did not tally to that recognised in the unaudited Financial Statements by €70,288.

*LGA was provided with FAR on the accounting software, whereby details relating to the date of purchase, cost and supplier, as well as the method of depreciation, were included. The total in such register agrees with the Fixed Assets Nominal Accounts. Depreciation is being calculated for each category using the reducing balance method.*

Expenditure of a revenue nature namely, hire of skips (€5,355) and instant road repair bags (€6,495), was erroneously capitalised. On the other hand, the Council expensed professional fees of €1,944 incurred in connection with capital projects. Audit adjustments were carried out in line with the requirements of IAS 16.

*The Council would like to report that the adjustments proposed by LGA regarding the classification of assets were duly approved and reflected in the books of account of the Council. Notice has been taken to capitalise any expenses incurred to put a capital item in use.*

The transfer of completed assets from assets in the course of construction has not been presented properly in the Fixed Assets Schedule of the Financial Statements. The reallocation to Assets in Use (€40,678) was erroneously included with additions, rather than the appropriate line to net off the transfer. In addition, the related depreciation charge of €3,849 was recognised by means of an audit adjustment, as it was unaccounted for. Furthermore, current year's additions to Assets under Construction, totalling €5,088, were excluded from the schedule.

*In the final set of Financial Statements, the PPE note was adjusted to correctly show the classification of assets.*

*The proposed adjustment, referring to opening figures for Assets under Construction which were put to use during 2013, was accepted and duly reflected in the books of account.*

Included with Receivables is an amount of €2,707 due from WSC which has been outstanding for a number of years. On the other hand, the Trade Creditors balance at year-end includes four long

outstanding balances, aggregating to €2,053, which have been brought forward from previous years. The Council is again recommended to investigate these balances, and if they are unlikely to be recovered, it should decide whether to write the balance off.

*The Council is investigating the possibility of recovery of the amount receivable through a set-off, and if during the financial year ending 31 December 2014 this amount will not be recovered, the Council will decide in meeting, to write the balance off. As regards pending payable balances, the Council is also investigating these amounts, as it appears that with the exception of one item (€249), for various reasons valid at law, the remaining balances are no longer due by the Council.*

A discrepancy of €4,475 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 out of the amount of €10,947 actually paid, only €4,781 was recorded by the Council in the accounting records, as the payment forwarded by DLG to the supplier, in settlement of the disputed tipping fees, was not taken into consideration. Furthermore, an invalid amount of €1,691 was also posted against the creditor account. Audit adjustments to correct these misstatements were approved by the Council and passed in the books of account.

*LGA's comments have been duly noted and acted upon in a positive manner. In fact, adjustments, as proposed by the latter, were accepted by the Council and posted in the books of account.*

Although a Court case was filed, 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 amount in dispute, which totals €24,100, relates to a payment withheld by the Council, since it is claiming that the work 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. Both balances were still included in the Creditors' List.

*Though LGA's comments have been noted, at the moment there is no positive action that can*

*be taken by the Council. Since it's the Council's responsibility to ensure that its financial interest be defended and protected at all times, the latter will react to any action that may be taken against it.*

During the year under review, the Council reversed an accrual of €6,491, carried out last year to account for refuse collection expenditure relating to the period May to August 2012, which has not yet been invoiced or paid. An audit adjustment was again proposed and approved by the Council, to reinstate this liability in the final set of Financial Statements.

*The Executive Secretary has brought up this matter during the Council meeting of 5 June 2014. The Council is satisfied that this amount is not due (as also confirmed by the contractor) and on the basis of such explanation and declaration by the contractor, the Council has approved to write off this balance of €6,491.*

In 2013, the Court decided a case, which was settled in favour of the Council, with the plaintiff's claim of €4,417 being refused. Notwithstanding this, the said amount was still disclosed as a Contingent Liability in the unaudited Financial Statements.

Furthermore, the Council's legal advisor notified the Council that a contractor whose services had been engaged for a number of years is seeking from the latter the amount of €7,386 and not €2,753 as was estimated in prior years and reported in the draft Financial Statements. The Council acknowledged LGA's recommendation, and amended the Contingent Liabilities' note in the final set of Financial Statements.

*The Council confirms that the figure for Contingent Liabilities was adjusted in the final set of Financial Statements as per LGA's recommendations.*

Included in 2014 budget is the cost of €72,000 for the upgrading of *Gnien Raymond Caruana*. Notwithstanding that the tender for this work was adjudicated during the current year, the unaudited Financial Statements incorrectly state that these works have not been contracted yet.

*The Council accepted LGA's recommendation and disclosed this Capital Commitment as capital expenditure that has been contracted for.*

*The Capital Commitments note was adjusted as recommended by LGA.*

## Gżira

Six contracts covering road markings, architectural services, insurance cover, supply and delivery of tarmac, the provision of cleaning and maintenance of public convenience, as well as the collection of bulky refuse, street sweeping and grass cutting, which expired during the preceding years, were still in operation as at audit date. Although the extension of the said contracts 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. Sample testing revealed that during the year under review, the Council paid at least the amount of €10,805.

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 tender 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.

*The Council is in the process of issuing calls for tenders for all its expired contracts.*

Upon testing a sample of expenses it transpired that the orders for three items of expenditure, namely, dog litter bins (€1,115), upgrading and installation of new street lighting (€688) and skip hire (€433) were made verbally and not in writing, with the consequence that no purchase orders were drawn up.

*The Council will take the necessary actions in this regard.*

In May 2013, the Council signed a contract agreement of €68,416 for the construction of pavements and kerbs, which project is financed through the Urban Improvement Fund (UIF) with the respective amounts being forwarded to the Council upon certification by the Council's, as

well as Transport Malta's Architect. 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 an amount of €53,627, being net of the 10% retention money and 5% contract management fee. An audit adjustment of €9,094 was approved to reflect the total cost of works certified.

*LGA's recommendation has been noted and the Council carried out the proposed audit adjustment accordingly.*

LGA was unable to trace assets held at the Council's premises to FAR, as the details disclosed in the register were very limited. Certain information, such as purchase date and supplier details, were also lacking. Moreover, the respective assets are not tagged. Additionally, there are several items of computer equipment with low net book values that are obsolete.

*The Council will upgrade FAR and remove any depleted equipment.*

Following the adjudication of the tender for Public Private Partnership for resurfacing works in *Triq Sir Patrick Stuart* and *Triq Sir Fredrick Ponsomby* in 2010, the Council prepared a spreadsheet calculating the amounts payable and the method of payment in accordance with the PPP payment scheme, which were discussed and agreed upon by the respective contractor. However, a discrepancy of €3,792 was noted between the balance disclosed in the accounting records (€62,786) and that recorded in the Supplier Statement (€66,578) provided by the contractor. The Council claimed that it is not aware of what the variance might be and maintained that the Supplier's Statement is not showing the true balance.

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 to receive the sum of €25,098 until the end of 2013.

*This project forms part of the PPP scheme and has a repayment set up to the year 2020. The Council, together with its Architect, Accountant and the respective contractor, have created a common*

*spreadsheet showing a repayment scheme up to the said year. Consequently, all stakeholders reconciled their respective accounts to reflect the agreed workings. The Council notified the contractor regarding the mismatch identified by LGA and such contractor had to carry out the necessary corrections, since as far as all the stakeholders are concerned, the Council's books of account are correct.*

*The Council will also be liaising with DLG so that any pending funds will be settled.*

During the year under review, the Council entered into an agreement with the Malta Environment and Planning Authority (MEPA) to benefit from UIF, for the construction of pavement and kerbs amounting to €139,219. Such agreement superseded a previous one with a total cost of €117,321 entered into during 2009. Given that the new agreement was signed in 2013, an audit adjustment was proposed by LGA, and eventually approved by the Council, to incorporate this transaction in the books of account against accrued and deferred income, as well as to apportion the latter into its short-term and long-term portions.

*Point not properly addressed.*

During June 2013, the Council received the sum of €3,090 from the Joint Committee. However, LGA could not corroborate if such sum was deposited, since the bank statements for the said month were not made available.

*The Council cannot understand why this note was remarked, as all the pertaining bank statements have been provided to the Auditors during the course of audit.<sup>26</sup>*

Included in Trade Receivables is an aggregate amount of €4,410 that has been long outstanding, out of which the balance of €2,010 is due from a waste recycling company, which is facing financial difficulties. Following LGA's recommendation, the Council has posted the necessary provision for doubtful debts by means of an audit adjustment. The remaining balance of €2,400 is due from three Regional Committees.

*The Council has taken provisions to follow-up the overdue receivables. Moreover, as correctly remarked by LGA, the company responsible for recycled waste is in financial difficulty. The Council has been issuing reminders, yet the balance of €2,010 has remained unpaid. A provision for bad debts has been accounted for, based on LGA's recommendation.*

The bank reconciliation for one of the Council's bank accounts was prepared up to 30 December 2013. As a result, the list of unreconciled items was overstated by the amount of €4,500.

*The bank reconciliation was prepared as at 30 December 2013 as this was the last statement available at the time of drawing up the unaudited Financial Statements.*

Capital Commitments, as disclosed in the Financial Statements and annual budget issued by the Council, amount to €34,000 and €100,800 respectively, thus implying that disclosure in the Financial Statements is understated by €66,800.

*The Council had not yet approved the budget for 2014 at the time when the unaudited Financial Statements were prepared. This gave rise to the discrepancy identified by LGA.*

In its Financial Statements, the Council disclosed a contingency of €60,773, relating to the Strand and Town centre, to be financed through UIF. However, though the contract was awarded to a particular contractor, the works never commenced. During 2013, the original agreement was replaced with another UIF for the construction of pavement and kerbs. Albeit LGA's recommendations to eliminate this note, it was still included in the audited Financial Statements.

*LGA's recommendation has been noted.*

Besides that the Council failed to issue the respective invoices to the Regional Committees on time, these were left unsigned and included the name of the former Executive Secretary who resigned in early November 2012.

<sup>26</sup> LGA confirmed that the related bank statements were not provided for audit purposes.



*The invoices were not issued in a timely manner due to the lack of human resources. The Council will do its utmost to comply with the related Memo 93/2011. The latter will also inform the Central Region to remove the name of the former Executive Secretary from the automated invoicing of LES and replace it with that of the acting Executive Secretary.*

### Għajnsielem

As already highlighted during 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's final certification, while, the Council listed all the assets present in the new civic centre and tallied them to the Nominal Ledger.

This adopted method created various discrepancies in the cost and accumulated depreciation of assets as disclosed in 2011 Financial Statements. Whilst the closing cost of PPE as per audited Financial Statements for year 2011 amounted to €1,046,654, the opening cost for the subsequent year totalled €889,317, thus implying a difference of €157,337, out of which €1,108 represented a reclassification to intangible assets. Likewise, a variance of €103,751 was noted between the closing accumulated depreciation (€464,800) and the opening balance (€361,049) in the subsequent year, out of which €330 represented a reclassification to 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 example, 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.

*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 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 Council could not obtain the necessary data from the previous Accountant and a legal letter will be issued to obtain such data.*

*The variances of €156,229 and €103,421 noted in the opening cost and the accumulated depreciation thereon, 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.*

*The depreciation calculation start date for assets acquired in previous years would not be exactly recorded in FAR due to lack of information. While it is difficult to identify the month during which each asset was acquired, the Council can reliably confirm that the year in which the asset was purchased and made for use is correct.*

*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 premises have been depreciated as from this date.*

*Additionally, in contrast to LGA's comments, besides that the Council had appropriately categorised assets according to their nature, the FAR also contains a detailed description of assets, including the respective identification codes and location.*

It transpired that assets which were still under construction were not included in the register, resulting in a variance of €43,841 between the cost of assets as disclosed in FAR (€1,025,221) and the amount recorded in the Nominal Ledger and Financial Statements (€1,069,062) presented for audit purposes. Following audit adjustments, this discrepancy was further increased by €7,597. It was also noted that Government grants were not disclosed in the register, implying that depreciation charge for the year is overstated. LGA was given to understand that these grants have never been included in the register, as the Local Council does not have the necessary details as to which particular assets the old grant relate.

As a result of these shortcomings, NBV as disclosed in FAR exceeded that reported in the unadjusted Financial Statements by €1,774.

*The variance of €43,841 related to projects which were not yet capitalised, namely Ghajn tal-Hasselin project (€30,174) and Ta' Passi project (€13,667). Since they are still in their early stages, and are not yet certified and completed, these projects should not be included in FAR.*

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

As from 2012, the depreciation charge was calculated through the accounting software,

and was based on the new FAR as inputted by the Council. Thus, the depreciation charge was calculated on the new adjusted NBV balance. However, as explained above, accuracy of this balance, and consequently the depreciation charge thereon, could not be verified. Moreover, no depreciation was charged for the month of January in respect of all the assets brought forward from the previous year. The proposed audit adjustment, intended to rectify the various depreciation shortcomings encountered by the Auditor, would have resulted in a net reduction of €3,675 in the depreciation charge for the year. However, this was not accepted by the Council, and was thus included in the list of unadjusted errors.

In view of the above, LGA had no other option than to issue a qualified audit opinion.

Adjustments were made by LGA to capitalise Architects' and Engineering fees, as well as MEPA permit fees, in relation to specific projects, aggregating to €17,030, which were expensed through the Statement of Comprehensive Income. On the other hand, an audit adjustment amounting to €9,432 was made to write off expenses relating to the *Simirat Valley* project, which costs were all being capitalised, even though this project is of a revenue nature.

*LGA capitalised and reclassified expenses, amounting €10,214, to PPE. These relate to an application for permits made by the Council, to evaluate whether the project is viable and acceptable to MEPA. The project will be aborted unless it is financed by EU funds. Applying the substance over form concept, the said amount was written off as an expense.*

Two cheques totalling €33,418, which were received in December 2013, were only accounted for in January, with the result that the Council's books were still showing this amount as outstanding as at year-end.

*Although cheque remittance advices were dated in 2013, these cheques were received at the end of January 2014 and were deposited within that week.*

In breach of the Procurement Regulations, Architect's services, amounting to €6,273, comprising of two invoices of €1,615 and €4,658

respectively, issued during a four-month period, were neither covered by a call for tenders nor by quotations. Furthermore, although the contract for the collection of bulky refuse expired on 19 November 2009, the Council was still utilising the services of the Department for Projects and Development without issuing a new call for tenders.

*The expense incurred by the Council for the provision of the bulky waste disposal did not exceed €1,165, and therefore, the Council did not renew its tender in this respect. Whilst acknowledging the fact that the Architect services exceeded €1,165, the Council did not have any control over such expense.*

Audit testing carried out also revealed several variances with regards to the amortisation of deferred income. Consequently, an audit adjustment of €5,070 was passed to increase the amount originally released to the Statement of Comprehensive Income.

*LGA's recommendation was noted, whilst the audit adjustments relating to the amortisation of grants were carried out.*

The Council failed to apply proper cut-off procedures, with the result that expenditure amounting to €1,574, 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, income accrued in relation to the *Interreg Program* was overstated by €1,314, since part of the expenses claimed were not listed in the component budget as per application. The Council approved the necessary adjustments to increase accrued expenditure and reduce accrued income by €890 and €1,314 respectively.

*The Council accepts the fact that some invoices relating to 2013 were not provided in a timely manner by its suppliers. The audit adjustments made by LGA were approved accordingly. It is to be noted that cut-off errors have diminished from previous years, even when taking into consideration that this year Bethlehem f'Għajnsielem took place during December 2013 and January 2014.*

*The amount of €1,314 which exceeded the component budget, will be claimed again in the*

*next financial year, since the budget by the IV Interreg Lead Partner was increased.*

Instances were encountered whereby budget limits were not observed. For example, amounts paid for Community and Hospitality exceeded the budget by €31,535. Furthermore, certain expenses relating to the activity of *Bethlehem f'Għajnsielem* were classified in other categories, thus the excess would be even higher should these be correctly categorised. In connection with the organisation of such activity, the Council received €15,000, of which €5,000 were provided by the Ministry for Gozo, whilst the remaining €10,000 were approved in line with Memo 25/2013. Meanwhile, actual expenditure incurred in relation to training was €1,624 more than that anticipated. The Council predicted a net deficit of €145,048, after taking into account capital expenditure of €223,000. Thus, after eliminating capital expenditure and deduct the depreciation charge as per Financial Statements, a surplus of €42,043 would result, when in reality the Council ended up with a surplus of just €17,203.

*For the year ended 31 December 2013, the Council forecasted a balanced budget. In fact, it decided to invest in employee training, as several courses were organised in Gozo, which in total amounted to only €1,624. As regards the Community and Hospitality fund category, this was exceeded by €31,535 for the simple reason that Bethlehem f'Għajnsielem was not projected to be organised during the year under review. However, with the assistance of the Gozo Ministry, this popular event was reintroduced. 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.*

## Għarb

Following the publication of a tender in 2012 for the maintenance of *Ta' Pinu* public convenience, the rates quoted by the sole bidder were deemed by the Council to be high and the contractor rejected the Council's offer to operate at lower

rates. Subsequently, this contract was awarded to the local football club through a direct order. The respective agreement stipulates that it shall remain valid until the public convenience is taken over by *Ta' Pinu Church*, or expenditure under the contract reaches €1,165, whichever comes first. However, although the total amount invoiced during 2013 amounted to €1,242, this agreement was still in force during 2014.

*The Council will look into this contract. One must note that this public convenience is used by many tourists visiting the area, and thus it is impossible not to maintain this service properly.*

Waste collection services provided up to May 2013, and totalling €2,580, were also procured under an expired contract, between May 2008 and the aforementioned date.

*Waste collection contract had been issued but had not yet been signed. The Council was working at very advantageous rates with the previous contract and the signing of the new contract involved a substantial increase in the cost.*

Testing carried out on FAR revealed that, although the total NBV as per FAR and the corresponding figure in the Financial Statements are in agreement, certain asset categories had a different NBV in the two records.

*The disagreement in the Fixed Asset categories referred to by LGA, is due to overlapping categories, such as Construction, Special Programmes and Urban Improvements, which are not always easy to categorise. However, since the depreciation rate for these asset categories is the same, the depreciation charge is not affected.*

Some additions capitalised within the Special Programmes category were being depreciated at the standard rate of 10%, even though according to the nature of such assets, which included outside equipment, street lighting, as well as, landscaping costs, they should have been depreciated at 100%, in line with the applicable accounting policies. Thus, following LGA's recommendation, the Council passed the necessary adjustments to correct the charge for the year, as well as the amortisation of the related deferred income. Various assets acquired during the year were not separately identifiable in FAR.

Costs amounting to €125,691 relating to three particular projects, namely *Piazza Gerano*, *Leisure Park* and *Triq it-Trux*, were still categorised as Assets under Construction even though these were completed during 2013. As a result, the depreciation charge for the year was understated. Hence, the necessary audit adjustments were passed, whilst the cost of the assets was reclassified accordingly.

Further testing also revealed that the value of the above assets was based on the bills of quantity, as the final invoices were not yet issued, notwithstanding that works carried out under the PPP scheme were completed in 2012. This could adversely impact both the depreciation charge for the year, as well as the amortisation of any grants received, especially in the event that the final invoices differ significantly from the total cost being capitalised.

Whilst the payment of €1,859 in respect of a new ramp at the Parish Church was expensed through the Statement of Comprehensive Income, minor expenses of €932, relating to maintenance works carried out during the year in the Child Care Centre, were capitalised. Audit adjustments were passed by the Council, capitalising the amount of €1,859, and accounting for the depreciation charge thereon.

Further to the above, the grant of €1,858 received in connection with the said ramp, was disclosed as income for the year rather than treated as deferred income. Thus, an additional adjustment was undertaken to decrease income in the Statement of Comprehensive Income by €1,843 and increase deferred income by the same amount.

*The adjustments recommended by the Auditors in respect of Assets under Construction were carried out before presenting the audited Financial Statements, whilst the necessary amendments will also be made to FAR to avoid discrepancies in the coming years. More attention will be given to the analysis of capital and revenue expenditure in the future.*

*Considering its value and the fact that the total expenses were fully refunded, the ramp at the Parish Church was originally classified as Repairs and Upkeep. The Council does not agree with the capitalisation of this expense however, since*

*this was recommended by LGA, the necessary adjustments were made.*

Instances were encountered whereby amortisation of deferred income for the year was incorrectly calculated. It transpired that on six occasions the respective amortisation was understated by a total of €106,154, while in another case, this was overstated by €4,014.

*The amount of deferred income released by the Council was based on the project completion date. This is subjective, and the Auditors always make their own calculation which is different to that of the Council. Nonetheless, the adjustments recommended by LGA are reflected in the Financial Statements.*

Funds for a sport activity organised during 2012 were still receivable at year-end, since the claim was prepared and submitted around mid-2013. Moreover, it was noted that instead of requesting €2,517, as agreed with LGA during the previous year's audit, the Council claimed €4,000, which was fully recognised as accrued income, again including the amount already recognised in the accounts. This resulted in an over-accrual of the same amount. The Council also failed to accrue for the amount of €1,880, representing funds receivable in respect of another sports activity held during 2013. The necessary audit adjustments were incorporated in the audited Financial Statements.

*The audit adjustment for the sports activity receivable was carried out as recommended by LGA.*

Accrued Income, amounting to €71,580, was accounted for by means of an audit adjustment, since this was completely omitted from the books of account.

Several reclassification adjustments had to be passed, since grants received were incorrectly recorded as receipts of an unrelated grant.

*The Auditor's recommendations in respect of accrued income have been noted, and the*

*necessary adjustments made and reflected in the audited Financial Statements.*

Included with Receivables are long outstanding balances of €42,202<sup>27</sup> and €3,270 due from WSC and a waste recycling company respectively. In view of the Deputy Executive Secretary's claim that the amount due by WSC is unlikely to be recovered, this was partly reversed against deferred income (€27,475), with the balance of €14,727, which was already recognised as income in the preceding years, being expensed as an impairment. On the other hand, since the amount receivable from the waste recycling company is not material, it has been decided that no provisions will be taken for the time being.

Although invoices, collectively amounting to €2,053, were issued by the Council, the respective amounts were still recognised as accrued income rather than receivables. The same applies for the amount of €37,364, which was accrued for during 2012 in respect of the *OBIMED* project, but which was received during the year under review and was incorrectly recorded as deferred income. Hence, the Council approved an adjustment to reverse this amount to rectify the error.

Other invoices totalling €1,180, raised by the Council with respect to services rendered during 2013, were incorporated in the books of account by means of an audit adjustment.

Income of €1,200 and €3,708 relating to road reinstatement works carried out in 2009, and an insurance claim filed in 2012 with respect to floodlights damages respectively, were only recognised in the books of account during 2013, upon receipt.

*As explained during the audit, the amounts receivable from WSC for the reinstatement of roads will most probably not be received. The Council will start accounting for issued invoices as amounts receivable rather than accrued income. The recommendations made by LGA with respect to accrued income have been noted and more attention will be given to this matter. The*

<sup>27</sup> The amount of €34,040 related to works carried out in *Triq il-Knisja* which WSC agreed to finance, whilst the balance of €8,162 related to the patching works with cold asphalt of four different roads.

*adjustments recommended by LGA were reflected in the audited Financial Statements.*

A proper reconciliation was not carried out by the Council for all its bank accounts, and several adjustments were made to reconcile the bank balances. For example, during the preceding year, an adjustment was approved by the Council to record a receipt of €29,925, whose remittance advice was dated before year-end. However, during the year under review, this transaction was accounted for again when the deposit was made, resulting in double accounting of the same transaction.

The bank reconciliation report also included a number of cheques, totalling €3,575, which had become stale by the end of the financial year, and had to be reversed through an audit adjustment. Included in the said balance is a cheque of €650 which was originally issued as a guarantee in favour of the Malta EU Steering and Action Committee, but was never actually presented. Since the guarantee expired, an audit adjustment was passed to cancel this cheque and reverse the corresponding receivable. Additional adjustments were passed to correctly account for interest receivable.

*Stale cheques were reversed and the necessary action has been taken. Bank reconciliations are carried out on a regular basis while the adjustments highlighted by LGA have been reflected in the audited Financial Statements.*

Queries raised by LGA on overdue balances brought forward from previous year revealed that payments, aggregating to €22,166, issued to long outstanding creditors, as well as an additional expense of €9,210 incurred during the year under review with respect to the *OBIMED* project, remained unaccounted for. This triggered, a discrepancy of €31,376 between the book balance of the *OBIMED* current account and the respective bank statement. Similarly, invoices totalling €1,244, issued by the supplier for refuse collection services rendered during June and September 2013, were also omitted from the accounting records. Further testing revealed that other invoices, totalling €4,431, which were dated in 2013 but were paid after year-end, have been omitted from the books of account as well.

Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Likewise, the Council failed to provide for €55,937, representing works carried out and street lighting services provided during 2013, but not invoiced by year-end, as well as NI and FSS payable to Commissioner of Inland Revenue (CIR) for the month of December. On the other hand, included within the Accruals List is the amount of €7,676, made up of a number of invoices received during 2013, which should have been posted as payables. These errors were rectified through an audit adjustment.

Upon reconciling a sample of Suppliers' Statements against the respective accounts payable, additional discrepancies were noted, arising mainly due to the fact that certain invoices remained unaccounted for. Moreover, amounts in dispute with another two suppliers, amounting to €6,673 and €382 respectively, were not accounted for by the Council but only disclosed in the Financial Statements as Contingent Liabilities.

*Whilst long overdue amounts were discussed with LGA, it was agreed that an exercise will be carried out during the coming year to verify and settle the amounts outstanding. Creditors mentioned by LGA have been reconciled and all outstanding balances settled. Whilst noting the recommendations put forward with respect to accruals, the Council will give further attention to this matter.*

### Gharghur

A variance of €2,340 was noted between the administrative fees of €1,404 as disclosed in the LES report generated from the system, and the amount of €3,744 recognised in the Financial Statements. No explanation was provided by the Council in this respect. However, further testing revealed that such variance arose due to misposting of a number of transactions. Following LGA's recommendations, the Council rectified its Financial Statements accordingly, except for an immaterial difference.

*LGA's comments have been noted and the Council will forward to the Accountant the quarterly reports.*

Following a call for quotations for the setting and printing of Gharghur Local Council Magazine, 11 bids were submitted. As laid down in the minutes of sitting held on 22 May 2013, the Council selected the most advantageous offer, which presented a 16-pager option in line with the requested layout of the Council, at a quoted bid price of €693 per issue. However, whilst going through the related documentation, LGA noted that another bidder offered a lower price of €636 for the 16-pager option. The Council failed to clarify in the minutes why it did not opt for the cheapest bid.

*The Executive Secretary was not asked for clarifications about the matter. The cheapest bid did not qualify for consideration as the quotation was not deposited in the tender box as stipulated in the Instructions to the bidders document.*

In breach of the Local Councils (Financial) Procedures, no purchase order was issued in respect of various expenditure items totalling €5,222. It also transpired that a payment of €961 in relation to a Public Address system was effected against a Supplier's Statement as no invoice was provided. In addition, the Engineer's certificate was not attached to an invoice of €214, covering repairs of street lamps. Instances were also encountered whereby in breach of Memo 109/2010, various expenditure items paid by the Council's staff on its behalf were reimbursed without a claim form.

*LGA's comments were noted.*

Although a number of street light repair jobs, amounting to €2,020, were carried out between January and June 2013, only one invoice for payment was issued on 3 June 2013, with the Fault Lamp Report approved for payment on 18 June 2013. This implies that the certification of street light repair works is taking long to be carried out, and as a result it would not be easy for the Council to contest any errors or faulty services, for which it is being billed. Furthermore, such batch payment is also detrimental to the Council as it creates shocks on its cash flow position.

Further to the above, the Council does not have an appointed Quantity Surveyor to certify construction materials, delivered directly on sites, and to ensure that these are being employed in the best manner.

*LGA's recommendations have been noted and the contractor will be advised to issue monthly bills. With respect to the Quantity Surveyor, the Council would like to point out that the volume involved is minimal and does not justify the appointment of such surveyor. The certification of works is either done by the Local Council's Architect, the Executive Secretary, Mayor or by the Councillors respectively.*

As highlighted in prior years, variances were noted between the balances recorded in FAR and those in the Nominal Ledger. While the cost of assets, as well as accumulated depreciation and grants in FAR are understated by €113,443 and €147,490 respectively, when compared to the Nominal Ledger, NBV is overstated by €57,202. Furthermore, FAR does not reconcile on a category basis. No explanations were provided in view of these discrepancies.

Notwithstanding that during financial year 2010 the Council conducted a major reconstruction of its FAR, LGA still identified various shortcomings with respect to asset allocations in the register. Although such instances were highlighted in previous years' Management Letters, they were still not rectified. Other cases were encountered whereby assets were recorded in a very generic way, without a detailed description. It was also noted that items of PPE, which were scrapped or no longer in use, were not reflected as such in FAR. As a result, the Council did not recognise any asset impairment or disposal in its Financial Statements. It also transpired that assets are not tagged with the respective fixed asset code. Consequently, certain assets were not separately identifiable, whilst other items, which were physically identified, had a nil value in FAR. This implies that FAR is not being updated.

Once again, certain Fixed Assets in FAR were also assigned the wrong depreciation rate. Thus, the respective expense charged to the Statement of Comprehensive Income was incorrect. Furthermore, during the year under review, depreciation was calculated manually on an annual basis, rather than through FAR. Although calculations were provided by the Council, it was noted that these were performed in batch form rather than on an itemised basis, resulting in certain items being depreciated at the wrong rate. An audit adjustment of €27,544 was proposed in

this respect. In view of the limited information provided for audit purposes, LGA was unable to come up with an accurate audit adjustment.

Assets under Construction are being capitalised in parts, when bills are issued by the respective contractors. Even in FAR, these assets are being recorded on an expense incurring basis, rather than capitalised and recorded as a whole project. In fact, the Council has capitalised the amount of €43,085 in embellishment works at *Ġnien il-Ponta*, even though the project was not finalised by year-end. In relation to the same project, in an unexplained entry, the Council wrote-off an accumulated cost of €7,006 to Other Debtors. LGA could not determine the rationale behind such entry, especially when during 2014, the Council received an interim bill, confirming that contrary to what is claimed by the Council, this project is actually in process and nearing completion. Consequently, such transaction was reversed by means of an audit adjustment. LGA proposed a further two audit adjustments to reallocate back the amount of €43,085 to Assets under Construction and eliminate the accumulated depreciation of €1,348 charged thereon, given that the project was not completed by year-end.

Furthermore, instances were encountered whereby expenditure of a capital nature, totalling to €1,043, was recorded as revenue expenditure, as the amounts incurred were directly expensed in the Statement of Comprehensive Income. Conversely, pavement repair works, with an accumulated value of €4,997, were capitalised as construction of new pavements rather than expensed as repairs and upkeep of roads. Reallocation adjustments were posted to rectify these errors.

*LGA's comments have been noted. The Council's Accountant will be using the schedule as recommended by LGA for depreciation and other adjustments, and will continue working on the schedule to ensure continuity of allocation. Moreover, verifications and updates of the figures in FAR will be performed. The current approach of using batched totals for depreciation calculation purposes will be abandoned and FAR software will be utilised instead. The necessary changes will also be made to ensure compliance with the appropriate depreciation rates.*

Capital Commitments disclosed in the Financial Statements, amounting to €88,605, relate entirely to road resurfacing works under the PPP Scheme. However, the budget document for 2014 shows total commitments of €84,000, made up of construction and improvements (€51,000), new office furniture (€5,000) and other special programmes (€28,000). This difference could not be explained. Furthermore, the note in the Financial Statements does not distinguish between commitments approved but not contracted, and commitments contracted but not provided for in the Financial Statements in terms of IAS 16. Additionally it is not understood why the Council is presenting a commitment relating to PPP agreement, when this is already recognised in the Financial Statements. The only plausible justification for this matter revolves around the fact that the Council may be entering into a PPP agreement for road resurfacing of *Triq Fra Duminku Mifsud*. However, this could not be confirmed from the detail of the budget document for 2014.

*Note has been taken of the observation relating to IAS 16 with regard to disclosure of Capital Commitments.*

Shortcomings relating to the accounting treatment of Government grants resulted in a combination of misstatements, distorting the Financial Statements. The main misstatement was the amount of €24,893, representing grants received on account of the UIF Scheme financing *Playing Field Equipment – Ġnien il-Paċi Embellishment* project, which, instead of being posted to the long-term Deferred Grants Nominal Account, was written off against the cost of the asset, thus applying the Capital rather than the Income Approach.

Further to the above, the schedule of workings provided by the Council shows that total grants released to the Statement of Comprehensive Income amounted to €15,590. However, the Financial Statements showed an amount of €8,168, resulting in an unexplained difference of €7,422. Moreover, LGA could not compare and reconcile the entries made in the Nominal Ledger with the schedules provided for audit purposes. These issues show serious inconsistencies in the accounting methodology adopted by the Council. Audit adjustments were proposed to reverse



completely the original erroneous entries and post new ones to rectify the matter. While the Council has posted the adjustments accordingly, the presentation in the Financial Statements remained incorrect.

*The Accountant acknowledged that a number of differences and discrepancies arose due to the fact that the changeover from the Capital to the Income Approach was not carried out properly. The necessary action will be taken to rectify this situation.*

The Council is funding *Ġnien il-Ponta* embellishment project through EU Funds and Central Government co-financing. In March 2011, the Council signed an EU funding agreement, relating to financial aid in respect of the Rural Development Programme 2007-2013.

The last claim filed in 2013 was dated 21 October 2013 and covered works up to 31 July 2013. The subsequent claim was filed on 18 February 2014, implying that the Council is taking long to raise the said forms and file them with the Paying Agency. Furthermore, the Architect's certification did not indicate clearly whether additional works were carried out prior to the closure of the financial year-end.

As a result of the above, LGA was unable to determine the value of works accrued between 1 August till the end of December 2013, and establish the fair value of the project as at year-end. Thus, LGA estimated the cost based on the number of days accumulating between the said period pro-rated to the total number of days covered by the third claim, and proposed the necessary adjustments for the Council to rectify its Financial Statements in line with IAS 11.

Although the project should have been completed by 21 March 2014, the Paying Agency temporarily extended the completion date till May 2014. However, by the conclusion of the audit, the project has not yet been finalised due to some outstanding MEPA permits which should have been acquired before the commencement of the project, rather than during the extension period. Moreover, a review of the Project File revealed that certain documentation was missing, while the file itself was not divided and categorised properly, in line with the agreement in place.

*The Executive Secretary has taken note of LGA's recommendation in connection with EU Funds agreements, as well as those relating to the Project File.*

Along the years, the Council has published various books for resale with the locality's theme. As at year-end, a total of 734 books, together with eight badges of the locality's Coat of Arms were still in hand. Although the Council maintains a perpetual inventory system for these items, no value of the closing stock was recognised in the Financial Statements. Instead, the cost incurred for the publications and badges was immediately written off and expensed in the Statement of Comprehensive Income. LGA was not provided with enough detail to propose the necessary audit adjustments in this respect. It was also noted that the list of books and badges given out on a complimentary basis were not being tabled during the Council's meeting for approval.

*LGA's recommendation has been noted and the Executive Secretary will ensure that end of period stock lists and valuations will be made available in the future.*

Included within Receivables is an amount of €4,746 due by WSC on account of road reinstatement reimbursements, and an additional amount of €4,462 relating to accrued income also receivable from WSC. These amounts remained practically unchanged from the preceding year, notwithstanding that related audit adjustments were proposed in this respect during the previous year's audit. Moreover, in the year under review, the Council also made an unexplained adjustment of €3,601, by debiting WSC Connections Reimbursements and crediting Other Debtors.

According to independent information provided by the Corporation, only the balance of €1,145 is payable to the Council, out of which the amount of €900 is being contested by the former. These discrepancies resulted from the fact that, at times, amounts receivable were accounted for twice. In view of this, the Council approved a set of audit adjustments proposed by LGA to address these errors and rectify the situation.

*LGA's recommendations have been noted and the Council will ensure that amounts receivable will be appropriately accounted for in the future.*

As highlighted in the previous year, the Council is not adhering to the fundamentals of accrual accounting and the matching concept. During 2011 and 2012, after obtaining the necessary approvals from the then Ministry of Finance, the Economy and Investment (MFEI), and DLG, the Council entered into a PPP agreement with the local football club and band club to acquire the use of sports facilities and musical services, for periods of ten and five years respectively. Besides the fact that the Council erroneously calculated the prepaid portion of these agreements (total of €10,700), the adjustment was directly posted against the long-term liability recognised on account of amounts due to a contractor for road works carried out under a different PPP agreement. Moreover, the Council also had a number of incorrect entries in the Prepayments List, resulting in a net understatement of €1,314. These errors were eventually rectified through audit adjustments.

*LGA's comments have been noted.*

As at year-end, a private company owed the Council the amount of €3,340 on account of a waste recycling agreement signed between the two parties. For over a year, no considerable payments were effected, but on 12 March 2014, the former paid the amount of €1,000. From independent verification and public information made available, this debtor appears to be in financial distress. However, the Council failed to recognise a provision for doubtful debts with respect to the receivable balance of €2,340. In this respect, LGA proposed an audit adjustment, which the Council implemented accordingly. It was also noted that both the Central and Regional Committees owe the Council over one year's worth of administrative reimbursements on LES fines collected by the latter, amounting to €1,172 and €978 respectively.

*LGA's recommendation has been noted.*

Regular reconciliations between the petty cash balance in the Nominal Ledger and the actual cash count were not being carried out. As a result, Financial Statements, as approved by the Council on 28 February 2014, showed a negative petty cash balance of €220. In this respect, LGA has performed a backdated cash count, which revealed that such balance should have actually been €65.

Notwithstanding the fact that Local Councils are non-taxable entities, the Council has a withholding tax mandate of 15% on interest received from a current account held with a financial institution.

*LGA's recommendation has been noted and will be adhered to. As regards the withholding tax, the Executive Secretary informed the respective bank accordingly.*

No regular reconciliations were carried out between the Suppliers' Ledger and the actual Suppliers' Statements. This led to discrepancies between the amounts recognised in the Financial Statements and the balances due to the respective suppliers as per latter's statements. In addition, since the amounts invoiced for tipping fees were in excess of those allocated for such purpose, the balance of €4,086 payable to the respective service provider is currently on hold.

Invoices amounting to €34,132 were recorded as accrued expenditure, even though these were dated in 2013. Audit testing carried out also revealed that accrued expenditure of €1,700 was unaccounted for. This was eventually incorporated in the books of account through an audit adjustment. Furthermore, whilst reconciling the current year additions of PPE, it transpired that during 2012 paving works in *Triq Karmnu Zarb* were over accrued by €2,959. Since this amount was not actually invoiced during 2013, the appropriate cost of €20,197 was reinstated by means of an audit adjustment.

*The Council will be taking the necessary measures to implement LGA's recommendations. The Accountant will be adopting a policy to accrue for all invoices received after the cut-off date. Currently, posting of invoices in the Council's accounting system is performed by the administrative staff.*

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 was clean and free of damages. However, although these temporary deposits should have been posted as Other Creditors, they do not feature anywhere in the Nominal Ledger.

*LGA's recommendation to properly account for deposits relating to certain permits has been noted. The Accountant will liaise with the Executive Secretary to install the required system and the related controls.*

Through the PPP scheme, the Council entered into a contract covering road resurfacing works amounting to €317,318, of which €126,928 was immediately settled, with the balance being recognised as a liability payable over a period of eight years. During 2013, the Council honoured the repayment commitment for the year, amounting to €24,643. However, the amount of €24,463 was set off against Deferred Income rather than the respective creditor balance. The remaining balance of €180 was left reeling as a fixed asset addition for the year under review.

Further to the above, a variance of €23,860 was noted between the repayment commitment for 2014 as recognised by the Council (€15,866), and that calculated by LGA (€39,726). Part of this discrepancy (€14,837) relates to an opening balance adjustment.

Moreover, as already highlighted the Council irrationally posted adjustments of €24,433, relating to a PPP agreement entered into with the local football club and band club, against the account pertaining to road resurfacing works. Thus, the long-term portion of the PPP road resurfacing liability was understated by the same amount. On the other hand, the annual cost release of €1,800 on account of the PPP agreement signed with Gharghur Football Club and *San Bartilmew* Band Club was completely omitted. Following LGA's recommendation, the Council rectified these errors by means of audit adjustments. However, the Financial Statements remained erroneous and misleading in view of the incorrect disclosure of the long and short-term portions of Deferred Income. Whilst as per LGA's calculations non-current deferred income on grants should have been €185,688, and the amount attributable to the long-term PPP liability totalling €58,206, deferred income as disclosed in the Statement of Financial Position was €221,299. Meanwhile, the short-term portion of the grants released is €13,928, contrary to the amount of €107,132 as disclosed in note 14 of the Financial Statements.

*The Council's Accountant took up the recommendations and will account for the long-term Payables and accounting estimates relative to road resurfacing works.*

The conclusion of the previous year's audit process, produced a substantial number of proposed audit adjustments which the Council passed in the Nominal Ledger for 2013, all of them dated 1 January 2013. Consequently, substantial variances were noted in some of the Nominal Ledger opening balances for the financial year 2013. Discrepancies of €8,438, €12,039 and €3,601 were noted in the Creditors' Control, Other Creditors and Other Debtors accounts respectively, while variances of €151 were noted in both the bad debts and retained funds accounts. The Council did not provide any explanations, and LGA found it difficult to trace the logic behind these discrepancies, particularly in the two Nominal Accounts, which did not even feature in the closing audited Trial Balance for the previous year. The necessary audit adjustments as proposed by LGA were posted by the Council to rectify the situation.

Posting errors and negative balances were also noted in the list of expenditure Nominal Accounts. Furthermore, the Bus Shelters, Other Repairs and Upkeep, and Engineering Services Nominal Accounts were characterised by negative balances brought about by erroneous accrual estimates in previous years or by misposting of adjustments. LGA proposed a set of audit adjustments to rectify some of these errors.

*LGA's comments have been noted.*

In sitting number 23 held on 26 February 2013, the Council claimed that it is a member of the *Majjistral Action Group*. It further stated that a local band club has benefited from a grant of €12,000 under the *LEADER* project, and this was confirmed through independent verification. However, no information was available as to whether the Council has ever paid any membership fees to this effect.

*The Council's membership within the Majjistral Action Group is supported by DLG and this proved to be highly beneficial for the Council.*

## Ghasri

The new contracts for refuse collection, street cleaning and public convenience were entered into on 1 April 2013, whilst that relating to bulky refuse was signed two months later, implying that the Council was running on expired contracts for some time during 2013. Invoices issued by the suppliers during this period amounted to €2,371 for refuse collection, €3,332 for street cleaning and bulky refuse<sup>28</sup> and €657 for public convenience.

*Although the previous contracts were expired, the Council extended the agreements mentioned by LGA until the new ones came into force. The respective calls for tenders were issued during 2012, however the new contracts were signed in early 2013. Nevertheless, the Council agrees that in the future remedial action should be taken well in advance to ensure that new contracts are in place by the time the previous ones expire.*

Testing on depreciation revealed that the charge for the year on the Constructions assets category was incorrect. The variance of €1,014 was rectified by way of an audit adjustment. Additionally, some electronic equipment listed on FAR could not be physically identified with the result that LGA could not confirm whether it was still in use.

*The recommendation put forward by LGA was accepted by the Council and the necessary audit adjustment was posted. FAR will be reviewed so as to remove any assets which are not in use.*

Included in the list of accounts receivable is a balance of €2,070 due from a waste recycling company, which has been outstanding for a number of years and has not yet been provided for. The aforementioned company also disputed the amount of €1,560 invoiced by the Council during the year under review, covering administrative work in connection with the collection of recyclable refuse, on the basis that the contract expired and no new agreement was signed with the latter. In view of this, an audit adjustment was approved by the Council to reverse the related transaction from the books of account.

*Although the Council agrees that the recovery of the amount of €2,070, due with respect to the years 2011 and 2012 is doubtful, it will continue to send regular supplier statements and insist on its recovery. On the other hand, amounts invoiced during the year under review were in line with the previous agreement between a number of Gozitan Councils and the company. The same agreement was still in force during 2013 on the same terms and conditions, even though it was valid until the end of the year 2012. Whilst remedial action was being taken to sign a new contract, LGA's proposed amendments were taken on board by the Council.*

The Council exceeded the budgeted expenditure under Repair and Upkeep, Professional Services, as well as Community and Hospitality, by €33,434, €2,025 and €1,586 respectively.

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

## Għaxaq

During the year under review, the Council reversed the amount of €1,140, receivable from the ex-Mayor in respect of honorarium overpaid in prior years. LGA was once again informed this year by the Executive Secretary that the overpayment was set-off in full in 2012. The report circulated by DLG's Monitoring Unit also indicates that the balance for excess honorarium as at 31 December 2012 was nil. Notwithstanding this, the Schedules of Payment in 2012 showed that the Mayor received his full honorarium at the time.

*The issue of the Mayor's honorarium overpaid in 2012 shall be again investigated by the Executive Secretary and the matter closed definitely in line with the findings.*

In the case of two tenders reviewed by LGA, covering street sweeping and cleaning services, together with the cleaning and upkeep of public convenience, the bid-bond and performance bond, were not provided for audit purposes, whilst the schedule of offers was not underlined. LGA was informed by the Executive Secretary that no bid-

<sup>28</sup> Street cleaning and bulky refuse services were provided by the same contractor.

bond was provided by the winning bidders because they were the previous contractors for the services concerned and the Council had the performance bond at its disposal. However, the performance bonds of both contractors were expired at the time of submission of their bid.

*The documentation for tender GHLC 02/2013 is in order and is available for review. The Council wishes to point out that LGA did not ask to see such documentation and is not correct when stating that this was not provided<sup>29</sup>. Tender GHLC 03/2013 related to two public conveniences. One of them is operational and all documentation relating to that site is in order and available for review. The documentation relating to the other site will be completed when the public convenience becomes operational and the part of the tender relating to it becomes effective. The Council ensures that all procedures and regulations relating to tenders and quotations are adhered to at all times, with particular emphasis on bid and performance bonds as well as contract documentation.*

Notwithstanding that the contract agreement with the Accountant expired some years ago, the Council failed to issue a new call for quotations and continued to use the services of the same service provider. During the year, the amount of €1,397 was incurred by the Council in this respect.

*The Council noted LGA's observation regarding the expired contract with the Accountant. A public call for offers shall be made soon.*

As already reported last year, an annual fee of €309 is paid for an internet key which is kept by the Executive Secretary. Once again, the Council is recommended to evaluate the necessity of this expense in the performance of its duties and terminate the service if it is not considered essential.

*The internet key is used during the performance of Council duties and is needed when work needs to be carried out from a location where internet is not available. The Council has re-evaluated the need for the key and decided that it is to be retained.*

Albeit prior recommendations, most of the cheques mailed to contractors were issued before being approved in the Council's meeting.

*The Council is now issuing payments after these are approved during a Council meeting.*

To date, the Council has not yet compiled a FAR. This contravenes the Local Councils (Financial) Procedures, 1996, as well as Memo 1/2014. Furthermore, in the absence of a FAR, the Council is computing depreciation manually rather than through the month-end facility in the accounting package.

*The Council is still in the process of re-compiling FAR. The data available is not complete and it is very improbable that all missing data can be retrieved. Certain details, like suppliers and location of the asset may not be established.*

*As a consequence, the depreciation charge is not calculated through the month-end routine in the accounting programme but manually through the use of a spreadsheet. However, the Council accepted the adjustment as recommended by LGA. The depreciation expense will be calculated automatically when FAR is updated.*

While testing fixed assets additions, it transpired that rubber tiles installed in *Gnien Hal-Ghaxaq* were incorrectly classified as a construction asset. Thus, an audit adjustment of €3,647 was approved by the Council to reclassify the cost and the depreciation of this asset with Urban Improvements.

*The Council accepted the recommended reclassification of assets made by the Auditor and shall ensure that in the future, assets are classified properly.*

The Council did not record PPP resurfacing works amounting to €196,142, as certified by the Contracts Manager, as well as €1,536 due to the contractor responsible for the construction of *Gnien Hal-Ghaxaq*. Proposed adjustments were passed by the Council in the books of account to recognise these unrecorded assets and liabilities, as well as the depreciation charge of €11,159

<sup>29</sup> NAO confirmed with LGA that the performance bond was not provided and that the schedule of offers was not underlined.

thereon. A further adjustment was passed to properly disclose the amount of €177,549 as non-current liabilities representing payables falling due after more than one year.

*The non-recording of PPP resurfacing works which the Auditor noted, came about due to a misunderstanding as to the completion date of the works by the Accountant. The Council shall ensure that in the future all assets are recorded in a timely manner. Meanwhile the Council confirms that LGA's recommendation with respect to the classification of long-term payables has been taken up and the Financial Statements adjusted accordingly.*

Significant misstatements in the Creditors' List, arising due to the lack of proper recording of transactions, remained undetected by the Council, since it is not carrying out regular reconciliations with Suppliers' Statements. For example, the payment of €16,079 forwarded by DLG to WasteServ Malta Ltd on the Council's behalf, in respect of outstanding excess tipping fees, was completely omitted from the books of account. Furthermore, the Council did not record invoices for tipping fees amounting to €8,829, while a difference of €207 brought forward from previous periods was again identified. Following LGA's recommendation, the necessary audit adjustments were incorporated in the Financial Statements.

*The Council shall take up LGA's recommendation and where possible, request statements from Creditors on a monthly basis. The exceptions noted by LGA with respect to creditors' balances are the direct consequence of the errors mentioned in other sections of the Management Letter. However, the Council has taken up LGA's recommendation and has adjusted its Financial Statements accordingly.*

Included within the General Income account was a receipt of €8,829 relating to tipping fees. Following queries raised by LGA, the Executive Secretary confirmed that the Council did not receive such income. Thus, an audit adjustment was proposed to reverse this entry, and was correctly passed in the audited Financial Statements.

*The receipt for tipping fees recorded in the books of account of the Council was a result of misinterpretation of the Memo issued by DLG as guidance to the tipping fees issue. The*

*recommended audit adjustment has been accepted by the Council.*

The Council issued two payments of €2,846 and €5,130 respectively dated 10 January 2014, but which were posted in the accounting system on 31 December 2013. These creditor balances were rectified through the audit adjustments proposed by LGA.

Included in the Creditors' List was an aggregate of €691 debit balances, which have been reclassified to Other Debtors by means of an audit adjustment.

*The debit balances in the Creditors' List were the result of a posting error. The error is being corrected. In the meantime, the Financial Statements were amended to reflect the reclassification recommended by LGA.*

Testing on cut-off procedures adopted by the Council at period-end revealed that the latter failed to provide for accrued street light repairs and fuel allowances payable to the refuse collection contractor. On the other hand, accrued tipping fees, as recorded in the books of account, were overstated by €8,839. An audit adjustment to reverse this excess was proposed by LGA and incorporated in the audited Financial Statements.

*The Council shall ensure that accrued expenditure is properly accounted for.*

Similarly, the Council's provision covering the 2013 performance bonuses of the Executive Secretary and the Clerk was overstated by €384. The Council agreed to adjust this difference by means of the proposed audit adjustment. Contrastingly, the gross emoluments of a Councillor, as declared in the FS3, were understated by €476.

*The audit adjustment recommended by LGA to amend the accrual for the performance bonus has been posted and reflected in the Financial Statements. With respect to the difference in gross emoluments, the Executive Secretary has been asked to look into the matter and ensure that accurate returns are submitted to IRD.*

Included in the Council's Creditors' List is an overdue balance of €18,221 payable to a service provider. This amount is being disputed by the Council because of latent defects in the work

carried out by the contractor. Notwithstanding that during the preceding year the Executive Secretary claimed that the contractor agreed to re-perform the works during 2013, this was not the case.

*The Council intends to address the situation with respect to the disputed amount due to this contractor by the end of the coming financial year.*

No stock list was provided to LGA to confirm the inventory held at year-end, with a carrying amount of €2,263. Furthermore, as highlighted in previous Management Letters, the Council's inventory comprises books which are primarily held for free distribution, and therefore unlikely to have any realisable value. In view of this, the Council should expense these stocks in line with Memo 7/2004.

*The Council shall take up LGA's recommendation and carry out a proper verification of the inventories reported in its Financial Statements. It also intends to write-off the value of books held in stock, as these are no longer held for resale.*

In 2012, the Council, in collaboration with *Kunsill Malti għall-iSport*, held a sports activity entitling the former to a grant of €3,666, which grant has not been received to-date. Included with Receivables is also the balance of €2,211 due from WSC which has been long outstanding.

*The Council shall contact Kunsill Malti għall-iSport so that the issue is addressed without further delay. Furthermore, the Council shall step up its effort to collect the long overdue amounts from WSC.*

While testing the bank reconciliation of a current account, it transpired that €13,462 of the unrepresented cheques were dated 10 January 2014 but posted in the accounting system on 31 December 2013. An audit adjustment to revise the bank balance, creditors and accruals at year-end was incorporated in the audited Financial Statements. Meanwhile, the bank reconciliation of another current account includes a cheque, amounting to €1,257, which was not expected to feature since it was presented to the bank on 31 December 2013.

*The error occurred since cheques issued in January 2014, but included in the unrepresented*

*cheques list as at 31 December 2013 as noted by the Auditor, were included in the Schedule of Payments for December 2013. The Council shall ensure that bank reconciliation statements are properly prepared on a monthly basis and any discrepancies followed up.*

A bank confirmation letter revealed that a bank account xxx779 is idle. It is suggested that Council closes this bank account for security reasons.

*The Council shall also take up LGA's recommendation and close the idle bank account.*

As at year-end, the Council's tribunal pending payments for the pre-pooling period increased by €3,215. During audit work it was noted that the Council's tribunal pending payments as at 31 December 2013, for the pre-pooling period increased by €3,215 over the previous year. This implies that during the year under review, the tribunal has adjudged contraventions issued up to 31 December 2004, *i.e.* more than eight years later. While the Council has correctly not taken into account the additional debtors, this casts doubt on the integrity of the data being 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 position to determine if this amount is correct. It is thus recommended that the Council seeks explanations from the responsible contractor about the inconsistencies reported by the LES system, which is the source from which LES transactions are derived.

*The Council shall seek clarifications regarding the amounts shown as pre-pooling tribunal pending payments. Furthermore, no accruals will be taken for income, if the source of information is considered as unreliable.*

Further to the above, receipts totalling €116 covering the payment of three contraventions issued between 2003 and 2004, remained unaccounted for. In addition, a discrepancy of €1,385 was encountered between income from LES Administration Fees as recognised in the accounting records, and the amount disclosed in the report generated from the system. Such variance resulted from the fact that the Council records income transactions on a cash basis rather

than accrual basis. An audit adjustment to account for the omitted invoices was incorporated in the audited Financial Statements. The Council also failed to implement a prior year recommendation to record the invoices issued to Regional Committees in 2012.

*The Council shall try to trace all receipts recorded in the LOQUS system and ensure that those contraventions paid at other Local Councils are remitted to the Council. It is also confirmed that only cash receipts were recorded by the Council as income from LES administration fees, and no reference was made to LOQUS report 483.*

*The Council shall implement the Auditor's recommendation and account for receipts on an accrual basis.*

While a grant accruing to the Council under the PPP scheme based on works performed amounted to €103,759 by the end of the financial year under review, only an accrued grant receivable of €61,826 was provided for in the unaudited Financial Statements. Following LGA's recommendation the Council approved an audit adjustment to increase accrued income by €41,933. It also transpired that a grant of €9,452 due from DLG on PPP civil works was reversed against deferred income. Since the grant has not been received to date, an adjustment to restate accrued income and deferred income was proposed, and is incorporated in the Financial Statements.

*The errors in the accruing of the grants receivable were a consequence of the error related to the PPP works. The Council shall ensure that in the future, accounting for grants receivable is accurate.*

As a consequence of the above, the Council's release of grants to income was understated by €9,659, while the current portion of deferred income, as disclosed in the unaudited Financial Statements, was also understated by €4,844. Audit adjustments to correct the difference in the release of grants, and the reclassification of deferred income into current and non-current portions, have been included in the audited Financial Statements.

*The discrepancy in the release of income from grants is once again a direct consequence of the error in the PPP works completed. With respect to the reclassification of current and non-current*

*portion of deferred income, the audit adjustment recommended by the Auditor has been accepted and incorporated in the Financial Statements.*

The Council has not yet completed the PPP resurfacing project which was scheduled for completion by 31 December 2012. It is thus recommended that a formal approval for extension is obtained from DLG to ensure that the total grant of €181,253 available for this project remains valid.

*The Council shall review its financial situation in order to assess whether the PPP project can be completed without further delay.*

The Council's Financial Statements indicate that anticipated Capital Commitments over the next financial period amount to €78,456. This contradicts the financial budget which estimates a capital expenditure of €123,000 for the same period.

*The discrepancy between the Capital Commitments shown in the Financial Statements and the annual budget was the result of uncertainty about the budgeting of PPP project. The correct amount is that shown in the Financial Statements. The fact that the budget is prepared on a cash basis also contributes to the discrepancy.*

### Hamrun

The Council's tribunal pending payments for the pooling period up to 31 August 2011 increased by €31,158 over the previous year, implying that contraventions issued before 31 August 2011 have been adjudged guilty in 2013, *i.e.* more than two years later. Although the Council has not taken into account these additional debtors, this casts doubt on the integrity of the data being generated from the IT system. Moreover, Licensing and Testing Department (LGA) was not given any plausible explanation or evidence supporting this increase and thus, no audit adjustments were proposed in this respect.

Included in the accounting records is a balance of €8,561, that has been brought forward since 2009, receivable for contraventions collected by LCA and Licensing and Testing Department (LTD) on behalf of the Council.



Since no audit procedures could be carried out to confirm the aforementioned amounts and their recoverability, a qualified audit opinion was issued in this respect.

Further to the above, a discrepancy of €187 was noted between income from LES administration fees as recorded in the books of account and the amount disclosed in report 483 generated from the LOQUS system. However, due to the immateriality of the amounts involved, no audit adjustment was passed.

*Points not addressed.*

Two overdue debtor balances, in aggregate amounting to €3,095, were found to have been settled in 2013, with the receipts recorded as income rather than against the respective Debtors' Account. The proposed audit adjustment was passed in the Financial Statements to correct these errors.

*Payments were received by the Council and the related amounts have been settled.*

Included with receivables is also a long outstanding balance of €10,700 due from WSC in respect of trenching works carried out during 2011. On the other hand, the aggregate sum of €9,235 payable to 10 service providers has been brought forward from previous years.

*The Council is in contact with WSC to settle this balance. As regards the long outstanding payables, LGA's recommendation will be followed and the Council will also undertake an exercise to clear the balances due and adjust the books of account accordingly.*

Although the Council has a FAR which agrees to the Nominal Ledger, the said register is kept on a spreadsheet whose format is not in line with the Local Councils (Financial) Procedures and Memo 1/2014. Furthermore, it was again noted that the Council's assets (where applicable) have not yet been tagged. In addition, it transpired that while the total NBV as per Nominal Ledger agreed to the corresponding figure disclosed in the Financial Statements, discrepancies were noted in the figures disclosed for certain asset categories.

*The Council noted this recommendation and the register is being kept accordingly. Furthermore, most of the assets within the new Council Administrative Office have been tagged. Council will do its best to continue the tagging exercise of other assets.*

Once again depreciation of Council premises and car park was calculated using the reducing balance method at a rate of 1%, 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. Moreover, as already highlighted in previous audits, the Council set the start date for depreciation on the car park construction works as 26 October 2006, even though it only became operational from the beginning of 2012.

*The Council agrees with LGA's recommendation and will amend the depreciation rates to reflect the 30-year period lease agreement.*

The Council did not take on board LGA's previous recommendation to instruct the bank not to withhold tax on bank interest received, in view of the fact that it is not a taxable entity. As a result, a bank account was again charged a final withholding tax of €119, almost wiping out completely the interest paid on the same account, amounting to €128. Furthermore, the said bank interest was not recorded in the books of account, thus resulting in a difference in the reconciliation of the same bank account. An audit adjustment was reflected in the Financial Statements in view of the said variance.

*The Council has instructed the bank not to withhold tax from the bank account.*

Notwithstanding that the Council was in possession of most of the Suppliers' Statements, regular reconciliations were not being carried out. Debit balances included in the Creditors' List, totalling €587, were reclassified to Other Debtors in the Financial Statements by means of an audit adjustment.

Likewise, expenditure of €2,850, covering street lighting repairs for November and December, was incorporated in the books of account through an

audit adjustment, as the Council failed to provide for such expenses.

The Council was applying the straight line method for the release of grants to income. Thus, this was not amortised in accordance to the depreciation charge, as per the provision of IAS 20, resulting in a discrepancy of €3,400. Moreover, in the unaudited Financial Statements, the Council reported €18,462 as the current portion of deferred grants. This is materially different from the figure of €7,723 calculated by LGA. The Council amended the final set of Financial Statements as per LGA's proposed audit adjustments.

A dispute with a contractor was disclosed as a Contingent Liability in the Financial Statements. However, the disputed amount of €4,770 was included in the Creditors' List as at year-end, and has also been recorded in the books of account in prior periods. Thus, since the amount was accounted for by the Council, there is no Contingent Liability arising from this dispute.

Although the accounting function has improved considerably over the prior year, a number of audit adjustments and reclassifications have been proposed again this year. For example, a grant of €3,000 provided by DLG, in respect of the Hamrun Chocolate Festival, was incorrectly recorded in Cultural Activities income account, whilst bank interest received of €165 was posted against the LES Debtors account. Moreover, the amount of €18,428 paid by DLG to WasteServ Malta Ltd was erroneously disclosed as income received in terms of Section 55 of the Local Councils Act instead of Supplementary Government Income. The Council also incorrectly classified a grant receivable of €3,000 with prepayments, rather than accrued income.

It also transpired that the current portion of the bank loan, as disclosed in the unaudited Financial Statements (€95,832), was overstated by €39,031 when compared to the calculations carried out by LGA (€56,801). The interest on the bank loan was also overstated by €119. Further investigation revealed that this relates to the final withholding tax suffered on bank interest posted to this account by mistake. In addition, the interest rate of 4.5% on bank borrowings, as reported in the unaudited Financial Statements, did not tally with the

prevailing rate of 4.3% for the year under review, as set out in the bank's confirmation letter. The necessary adjustments were passed in the final set of Financial Statements to address all these shortcomings.

Whilst going through the Cash Flow Statement, LGA noted that a grant of €25,000 received during the year, was not included therein.

*Points not addressed.*

### **Iklin**

During the year under review, the Council completed all the works relating to a PPP scheme project consisting of resurfacing works on two streets, namely *Triq il-Hwawar* costing €71,017, and *Triq Fredrick Borg* costing €29,107. Notwithstanding this, the latter was still recorded as not yet completed. Furthermore, a portion of the related grant received on the two projects was not released to the Statement of Comprehensive Income. Adjustments to reclassify this asset under Special Programmes, charge depreciation thereon, and amortise a portion of the respective grant were proposed by LGAs and reflected in the audited Financial Statements.

In 2013, the Council signed an agreement with MEPA for the embellishment at *Triq il-Hwawar*, for which a grant of €23,529 is receivable from the latter. The Council however, failed to accrue for this grant, which was then incorporated in the books of account by means of an audit adjustment.

*Audit adjustments passed as proposed by LGA.*

The NBV for Special Programmes reported in FAR is understated by €15,562 when compared to that recorded in the unaudited Financial Statements, whilst that for Construction is overstated by the same amount. Meanwhile, NBV for Construction as disclosed in the unaudited Financial Statements is understated by €283 when compared to that recognised in the Nominal Ledger. The same applies for the NBV of Special Programmes, which is understated by €905. On the other hand, the NBV of Street Lights is overstated by €1,188.

*There is no difference in the values of the FAR. The only difference is between the asset categories, which will be reclassified accordingly.*

No explanation was provided by the Council, in view of a difference of €26,689 encountered between the additions as disclosed under the Special Programmes category in the unaudited Financial Statements, and those recorded in the Nominal Ledger.

*The item mentioned refers to the re-classification of category between Construction and Special Programmes as pointed out in the Financial Statements.*

Similar to the previous year, long-term deferred income includes an amount of €18,670 relating to the construction of a car park and football ground. Although this grant was received more than 10 years ago, the project is still in its initial phase, and the only expense incurred, amounting to €11,800, relates to permits. According to the Executive Secretary, the Council was waiting for the Land Department to issue a call for tenders. However, if the project is approved, this will be under the responsibility of Central Government and not the Council. Consequently, the latter is once again advised to seek clarification 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 Council will continue to follow LGA's recommendations on this issue.*

A review of the bank reconciliations prepared for a savings and term deposit accounts revealed discrepancies of €61 and €128 respectively between the book balance and the respective bank statements. It was also noted that the Council failed to account for interest receivable of €51 from a fixed deposit account, while, a final withholding tax was charged on the said investment income, despite that Local Councils are non-taxable entities.

*Bank reconciliations are carried out on a monthly basis and reconciled to the bank statements at the end of every month. The interest on the fixed account had not been received as at year-end. As regards the final withholding tax, LGA's recommendation was noted.*

The Council is still making use of two contracts entered into in 2006 and 1995 respectively, covering the rental of a garage at the quarterly

rate of €453, and the maintenance and cleaning of parks and gardens at a monthly charge of €100, notwithstanding that they expired years ago.

The rent expense disclosed in the books of account exceeded the amount stipulated in the contract, since rent covering the period April to June 2012 was accounted for during the year under review.

*The Council has a rental agreement covering the use of a garage by the Iklin Local Council to serve as a Council hall to hold locality meetings and other activities. With respect to the contract covering 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.*

*The discrepancy in the rent expense related to the period covering April to June 2012, which was paid during 2013.*

The Council did not manage to obtain monthly Suppliers' Statements for all suppliers. Upon comparing WasteServ Malta Ltd's statement with the accounts, a difference of €1,818 was noted. This related to one of the monthly invoices which was not recorded. An adjustment was correctly passed in the audited Financial Statements.

*Audit adjustment was passed as proposed by LGA. Furthermore, the suppliers are being requested to send in statements. The administration would do its utmost to be in line with the procedures.*

Capital commitments disclosed in the Financial Statements are overstated by €91,087 when compared to those reported in the budget document approved by the Council.

*The note in the Financial Statements clearly shows the restoration of rubble walls under Measure 323, which will not come out of Council funds. It also includes the approved expenditure but still not contracted for, with respect to the construction of the new premises which are not forecasted to be coming out of the Council's funds in 2014. Therefore, these are not included in the 2014 budget.*

## Isla

In line with the previous years, the Council did not have the audited report pertaining to the administration and management of the five-a-side football ground, notwithstanding that such report should be prepared on a quarterly basis. Furthermore, only €125 has been recognised in the Financial Statements as income from the hire and use of the ground. Considering the extensive investment undertaken by the Council on this project, with the aim of providing a source of revenue to the Council apart from being a recreational facility for the locality, the income generated therefrom seems to be trivial.

During the year under review, the Council recognised as income the full amount of €66,000, received from EU funding as a pre-financing payment of 50%, for a project with a three-year duration commencing in 2013. This implies that income was not apportioned according to the project's stage of completion in accordance with IAS 18. Moreover, the information provided to LGA was not sufficient to determine the percentage completion of the project. Since there was no practical acceptable audit procedures that could be performed to obtain reasonable assurance on the amount of misstatement in relation to this income recognition, a qualified audit opinion was issued in this respect.

In breach of the Local Councils (Financial) Procedures, certain expenditure was not supported by appropriate documentation. Furthermore, as highlighted in **Appendix G**, a number of payments, collectively totalling €32,570 were not substantiated by fiscal receipts. In addition, the following shortcomings were noted:

- a. No Payment Voucher was provided for audit purposes, in respect of expenditure amounting to €15,432, out of which €14,549 was also not covered by a fiscal receipt.
- b. No supporting documentation was provided in relation to the payment of €2,720, covering general maintenance works.
- c. Procurement of aluminium doors and partitions for €2,392, and frames for €260, were not covered by an invoice, while a fiscal receipt was also not provided.

- d. No purchase request was traced with respect to expenditure of €5,047. Furthermore, €3,121 of the said amount was also not substantiated by a purchase order.

LGA was unable to find any minutes of Council meetings duly sanctioning the disposal of assets with a value of €50,233.

Whilst the cost of Construction and Urban Improvements in the Financial Statements is overstated by €1,631 and €673 respectively, the cost of Special Programmes is understated by the same amount *i.e.* €2,304. A difference of €4,575 was also noted in the accumulated depreciation of Urban Improvements. This variance related to a 2012 audit adjustment, whereby it was proposed that the lights of *Gardjola Garden* be depreciated at 100%. Since FAR was not updated accordingly, during 2013, depreciation charged on the asset was overstated. This error was rectified through an audit adjustment proposed by LGA.

On the other hand, no depreciation was recognised in respect of the nylon netting purchased during 2011 for the football ground, at a cost of €2,760. A number of assets were classified in the wrong category, with the consequence that these are being depreciated at the wrong rate. It was also noted that disclosed under the category of Urban Improvements in FAR, is an asset described as 'Opening Balance Adjustment', with a cost of €5,031, without any other indication as to what this asset might be.

Though Capital Commitments of €20,000 for sailors' memorial, as well as €4,068 for improvements to the lighting system near the public convenience, were included in the annual budget for 2014, these were not disclosed in the Financial Statements. Following LGA's recommendation, the Council approved to amend accordingly.

As already highlighted in the preceding years, the Council is experiencing some difficulties with respect to the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, the amount still due as at 31 December 2013 totalled €112,964, against which a provision for doubtful debts was adequately recognised. Meanwhile, the Council failed to provide for a balance of €2,390, receivable from a waste

recycling company, which currently appears to be in financial distress, as well as other amounts totalling €1,479, that have been outstanding for more than one year. According to the Council, €900 out of the latter balance, is not actually due, as this is to be off-set against credit balances included with payables.

The Council did not properly apply the concept of accrual accounting. The amount of €26,634, receivable for Small and Medium-sized Enterprises Innovation and Internationalisation Support Clusters project, was recognised as accrued income instead of receivables, despite that the project termination date as per certification was 31 May 2013. Likewise, invoices amounting to €4,962, dated in 2013, were incorrectly accounted for as accrued expenditure rather than as payables. In addition, while accruals for bulky refuse were understated by €1,014, that for telephone communication was overstated by €204. Eight invoices, collectively amounting to €533, were omitted from the books of account. The Council approved the necessary audit adjustments and the Financial Statements were adjusted accordingly.

A difference of €1,394 between a supplier's confirmation letter received and the respective balance recognised by the Council, revealed that no proper and regular reconciliations were being undertaken. Neither the reconciliation of the amounts payable to the aforementioned service provider, nor documentation substantiating the recognition of €5,504 accrued expenditure, were provided by the Council for audit purposes.

During 2012, the Council received a grant of €4,320, financing the acquisition of new lights in *Gardjola Gardens*, depreciable at the rate of 100%. The amount of the grant released in 2012 was understated by €4,074. While LGA had proposed an audit adjustment, the Council failed to post it, resulting in an overstated deferred income opening balance in 2013. Although, the adjustment was eventually posted in the 2013 accounts, rather than adjusting the opening balance, the Council accounted for the difference against the increase in grants for the year, with the latter being disclosed at €2,585 instead of €6,659. Thus, despite that the closing balance of deferred income is correct, the adjustment was not presented correctly.

Actual expenditure incurred in relation to Operations, Maintenance and Administration expenses, exceeded the budgeted amount by €87,904. On the other hand, whilst income received under Bye-Laws and General Income, was €143,655 more than that budgeted, actual amounts received from Government and Investment were €99,140 less than those anticipated. Meanwhile, the Council over budgeted capital expenditure by €25,425, with the actual expense amounting only to €24,032 as compared to the budgeted amount of €49,457.

In the twinning arrangement report submitted by the Council to DLG, it was declared that no expenditure was incurred in relation to twinning activities. However, audit testing showed that an amount of €2,398 was actually incurred during the year under review. LGA brought this to the attention of the Executive Secretary, and a fresh report was submitted to DLG, indicating the actual expenditure incurred on twinning arrangements.

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

### Kalkara

No official receipts were issued by the Council in respect of income received from five different Government entities, aggregating to €32,345.

*Point not addressed.*

Administrative fees receivable from Regional Committees for the months of August till December 2013, were not recorded in the books of account, implying that income was being recorded on a Cash Basis. Following LGA's proposed audit adjustment, the Financial Statements were amended accordingly.

Furthermore, whilst LES Debtors as disclosed in the Financial Statements were overstated by €9,472, the related provision recognised thereon was understated by €4,332, when compared to the amounts recorded in the reports generated from the IT system.

The Financial Statements also include an additional LES Receivable of €10,174, which was brought forward from previous years and for which the Council did not provide any supporting documentation. A qualified audit opinion was issued in this respect.

The Council failed to account for the amount of €2,467 paid to WasteServ Malta Ltd by DLG on behalf of the Council. A deduction of €120 related to a local area wireless technology was also omitted from the books of account. The necessary audit adjustments were proposed by LGA, and the Council rectified the records accordingly.

*The Council took note of this issue and adjusted the Financial Statements accordingly.*

When compared with the annual budget for 2013, material variances were noted in the categories of Capital Expenditure (€58,125), Contractual Services (€10,439), Materials and Supplies (€7,106), Professional Fees (€4,381) and Social Services (€3,967).

*Point not addressed.*

Instances have been encountered whereby expenditure incurred was not supported by adequate documentation. As highlighted in **Appendix G**, payments totalling €135,256 were not covered by a VAT fiscal receipt, out of which the amount of €129,708 was neither substantiated by a proper invoice or other supporting documentation. In addition, no purchase request or purchase order forms were issued for items of expenditure aggregating to €6,694.

*The Council is very aware that a VAT fiscal receipt or a proper tax invoice should always be obtained, and is surprised that the items mentioned in the Management Letter had no proper receipts. In fact the former is of the opinion that such fiscal receipts were misplaced and no ample time was provided to look for such documents.*

A review of three tenders which were in place during 2013 revealed that not all tender documents were available at the Council's premises. In fact, the related contracts were not presented for audit purposes. Furthermore, the respective Bills of Quantities included a number of services, but no tender value was specified. Nonetheless,

during the year under review the Council was invoiced the amounts of €51,855, €72,774 and €13,816, covering the upkeep and maintenance of footpaths and pedestrian streets, the collection of mixed household waste, as well as the supply of decorative lanterns respectively.

*Point not addressed.*

Although the Council maintains a FAR, it is not in line with the terms of the Local Council (Financial) Procedures and best practice. Fixed Assets are not recorded with a detailed description, and are also not classified in their proper asset categories, thus resulting in a wrong depreciation rate. Furthermore, while the cost of Fixed Assets as per FAR is understated by €120,472 when compared to the amounts recognised in the Financial Statements, accumulated depreciation is overstated by €123,631. In addition, the Council is accounting for depreciation by means of a journal entry at the end of the year, rather than through FAR on a monthly basis. As a result, no practical procedures could be performed to obtain reasonable assurance on the existence and completeness of the fixed assets recorded in the Financial Statements, with a NBV of €189,834, as well as on the correctness of the depreciation charged thereon. A qualified audit opinion was issued in this respect.

*The Council fully agrees with LGA's recommendations and will be updating FAR. Unfortunately the former has only recently fixed the computer and also reinstalled the accounting system, as it was having difficulties with the respective software.*

Financial Statements showed a nil balance with respect to Capital Commitments. However, the 2014 annual budget issued by the same Council showed a forecast of €12,000.

*Point noted.*

The Council maintained a specific Nominal Ledger account for Assets not yet Capitalised, with respect to a number of ongoing projects. However, detailed information was not provided for the year-end balance of €48,032, as well as the progress of each project.

LGA was also not provided with an Architect's certification to substantiate a payment of €12,690, for the supply and installation of a metal railing in respect of the *Bighi Housing Project*.

*The respective observations have been noted.*

Included with receivables is a balance of €1,238, outstanding for more than one year, and for which no provision has been recognised. It also transpired that while the Council's list of Trade Receivables as per Debtors Ledger amounts to €2,331, the balance disclosed in the Financial Statements and the Debtors Control account in the Nominal Ledger is €2,528.

*Point noted.*

Cut-off procedures adopted by the Council at year-end were not correct, resulting in erroneous recognition of Accrued Expenditure, Prepayments and Accrued Income, with the first two being understated by a net amount of €349 and €248 respectively. Moreover, four invoices dated in 2014, totalling €1,980, were posted against the Suppliers Ledger rather than recognised as accrued expenditure. Following LGA's recommendations, the Council revised the Financial Statements accordingly.

Similarly, accrued income of €8,032 receivable from UIF MEPA scheme, as well as €2,000<sup>30</sup> covering the leasing of a tract of land to Kalkara boat yard, remained unaccounted for at year-end. On the other hand, a receipt of €9,760 was included in the accrued income account despite that this was already accounted for in the opening balance brought forward.

*The necessary adjustments were carried out.*

It transpired that the Council is not carrying out regular reconciliations with the actual Suppliers' Statements. For example, the balances payable to Automated Revenue Management Services (ARMS) Ltd and WasteServ Malta Ltd as disclosed in the Financial Statements were understated by €6,936 and €13,610 respectively. Further testing revealed that the Council failed to recognise in its books the amount of €37,047, of which €9,678

was paid by DLG directly to WasteServ Malta Ltd as a settlement of disputed tipping fees, with the balance related to invoices covering previous years' tipping fees. Another balance of €3,041 representing invoices issued by ARMS Ltd in the preceding years was also omitted from the Council's records. Prior year adjustments were carried out to incorporate these amounts. Additional audit adjustments were proposed during the course of the audit in this regard.

Instances were also noted whereby three invoices aggregating to €273, raised by two separate service providers remained unaccounted for. Following LGA's proposed audit adjustments, the Council corrected the Financial Statements.

Debit balances, totalling €2,108, were noted in four creditors' balances, whilst a discrepancy of €674 was identified between the list of Trade Payables and the amount recognised in the Financial Statements as per Creditors' Control account.

*Issues raised by LGA were noted and the necessary adjustments were approved by the Council.*

A review of two separate bank reconciliations revealed variances of €2,431 and €111 respectively, between the Council's Bank Balances as per bank statements and the respective figures in the Nominal Ledger. The Council also failed to reverse three cheques, aggregating to €1,069, which were not presented within six months, and have therefore become stale. This consequently resulted in creditors being understated by the same amount. Moreover, a cheque of €90, which was issued in 2013 but cashed in 2014, was not accounted for in the books of account as a reconciling item. This implies that bank reconciliations were not carried out properly.

Furthermore, notwithstanding that the Council does not maintain a petty cash system, included in the Financial Statement is a petty cash balance of €163.

*As far as the Council is concerned, bank reconciliations were done properly through the accounting software and LGA never had any*

<sup>30</sup> In line with the agreement in place, the total income generated amounted to €2,500 of which €500 was received on 16 December 2013. No Bye-Law is in place to cover this source of income.

*issues during their audit. Though there was a valid explanation for the cheque of €90, the amount is immaterial. The recommendations put forward by LGA were noted and the necessary adjustments were carried out.*

While, the Council recognised the amount of €69,190 as Deferred Income in respect of Government Grants received for a number of projects, no supporting documentation or grant workings were provided for audit purposes. Moreover, the aggregate amount of €61,430 received during the year under review was posted against the cost of the related assets, thereby understating both Deferred Income and PPE by the aforementioned amount.

In addition, the Council did not post correctly the adjustments proposed by LGA, with the consequence that it credited directly the tangible assets rather than the Deferred Income liability account. The release to the Statement of Comprehensive Income in relation to these grants was also misstated, however, it was not practicable to quantify the amount of understatement. Furthermore, it transpired that no movement was recorded in long-term Deferred Income at year-end, when compared to that of the preceding year, whilst no short-term portion was recognised, implying that such liability was not being apportioned properly. A qualified audit opinion was issued in this regard.

*Observations were noted.*

The opening balances in the accounting records were not in agreement with the approved and audited Financial Statements of 2012. Variances were noted in the Cash and Cash Equivalents (€89), Payables (€2,633) and Retained Earnings (€2,722). These discrepancies were rectified through an audit adjustment proposed by LGA. In addition, an audit adjustment proposed in the preceding year was included in the Financial Statements for 2013. A prior year adjustment was proposed in this respect. The Executive Secretary failed to provide all the necessary documentation required for audit purposes, even though this was requested on a number of occasions both prior, throughout, and after the conclusion of audit fieldwork.

*Point not addressed.*

## Kerċem

The total cost of assets, as well as the related accumulated depreciation plus grants thereon, as recorded in the Financial Statements, were overstated by €431,456 and €173,706 respectively, when compared to the figures disclosed in FAR.

Furthermore, as was also the case in the previous years, none of the additions procured during 2013, amounting to €70,178, were included in FAR, thus implying that the register is not being updated.

FAR still contains a number of audit adjustments without reference to any particular asset. It was concluded that the Council does not know what assets these adjustments refer to, but only recalls that these relate to prior years' audit adjustments. Although this issue was already highlighted in previous years, it is still persisting. The way the entries were made is defeating the whole objective of maintaining a FAR, as these 'Adjustments' are just a balancing figure.

Consequently, depreciation is being calculated manually rather than through FAR. Furthermore, due to a discrepancy between the closing NBV as per 2012 Financial Statements, and the 2013 opening NBV, the depreciation charge for Urban Improvements and Construction was understated by €3,314, whilst in the case of Special Programmes, this was overstated by €1,545. These variances resulted mainly due to Government Grants not being taken into account when calculating the depreciation charge.

Restoration works, amounting to €16,950, were capitalised rather than expensed in the Statement of Comprehensive Income, with the related Government grant of €15,000 being amortised over the useful life of the asset. Meanwhile, the Council failed to accrue for the cost incurred on works carried out in three streets, as well as Architect's fees relating to capital projects, amounting to €28,837 and €3,299 respectively. The necessary audit adjustments were passed in the books of account.

*PPE has been an issue for the Council for a number of years. It is the intention of the Council to tackle the FAR problem and to compile, reconcile and update the latter. 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, as mentioned in the Management Letter, are showing as 'Adjustments'.*

*Furthermore, any requirements, mainly in relation to amortisation of Government grants emanating from IAS 20 will be adhered to.*

Instances were encountered whereby transactions were recorded on a cash basis. Income of €1,550, relating to the Sport scheme 2013, was not accrued for notwithstanding that the related sports activities were carried out during the year under review. On the other hand, a refund of €545 received under the Community Inclusive Employment Scheme (CIES) for December 2012, was incorrectly recorded as income for the year instead of written off against the opening accrued income. This implies that the Accrual Concept of accounting was not complied with at all times. Following LGA's recommendation the Financial Statements were adjusted accordingly.

Unlike other Councils who are claiming refund of the gross salary of the employees falling under the CIES, the Council is only requesting refund of the net salary. In view that no clear guidance was given regarding the amount that can actually be claimed, and the difference of €863 is not material, no adjustments were proposed in this respect.

*Audit adjustments referring to 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 Accrual Concept.*

Liabilities of €3,022, of which €1,160 and €1,789 related to the construction of rubble walls and street lighting services respectively, carried out during 2013, were only recorded through the audit adjustments proposed by LGA.

*Whilst appreciating the requirements for accrual basis when preparing the accounts, one has to keep in mind that these are prepared in the first week of 2014, 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*

*2013 would have not 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.*

The Council was awarded a grant of €60,997<sup>31</sup>, with respect to works planned to be carried out on three streets under the PPP scheme, of which the amount of €20,332 was received in 2011. However, during the audit, the former stated that resurfacing works on one of the streets, bearing an estimated cost of €79,775, were not going to be carried out. Clarification was sought from DLG as to whether the deferred funds allocated on this street, amounting to €26,344, are still going to be received by the Council. These could be utilised to fund the works carried out on other streets since the related costs far exceeded the funds received. However, no response was received by April 2014.

*Point not addressed.*

Included with receivables is the balance of €3,070 due from a waste recycling company, out of which the amount of €2,070 relates to 2012. Considering that the respective debtor is currently facing financial distress, the recoverability of such balances is doubtful. However, no provision has been made as the amounts are not considered material.

*Immaterial amounts mentioned in the Management Letter will be tackled in 2014 and any balances will be written off. Debtors will be assessed at the end of the year to verify whether to provide for them. However, it is important to note that this process is very subjective, as updated third party information may be issued between the time that the Financial Statements are prepared, and the audit, which information may have a material effect on the recoverability of these debit balances.*

The sales invoices, issued by the Council to the aforementioned debtor during the year under review, were not in line with the new agreement in place. Consequently, the related amount of €1,320, as well as accrued income of €270 was reversed, whilst the amount of €1,000 was incorporated in the books of account by means of an audit adjustment.

<sup>31</sup> This amount was recorded in the books of account.

Instances were encountered whereby transactions were not recorded in their appropriate account. For example, the amount of €1,300 relating to funds for restoration works was incorrectly accounted for in the General Income account. Similarly, the payment of €4,850 from WSC which had been accrued for in the preceding year was correctly reversed from the Accrued Income account, but the contra entry was mistakenly posted in three parts in different accounts for no specific reason. An expense of €1,000 covering the cleaning and maintenance of parks and gardens, was posted incorrectly in an income account. Meanwhile, the Government allocation for the year was recorded net of €120 even though no deductions were effected during the year under review. Year-end bank loan balances and deferred income were not properly classified between current and non-current portions. A variance of €724 was also noted between the amount payable as recorded in the books of account, and that shown in the respective Suppliers' Statements. Following LGA's recommendation the Council approved the necessary audit adjustments to rectify the aforementioned shortcomings.

The Executive Secretary was paid €1,062 less than her gross salary entitlement. Consequently the performance bonus for 2013 was also understated by €106.

*All the proposed audit adjustments were posted in the books of account and thus the Financial Statements reflect the effect of these adjustments. Furthermore, the reclassification between short-term and long-term portions in the case of bank loans and deferred income was included in the Financial Statements.*

The Council has exceeded the budgeted expenditure under a number of headings, mainly Repairs and Upkeep (€5,644), Professional Services (€2,948), Community and Hospitality (€2,791), as well as Materials and Supplies (€2,064).

*Point noted. The variance between the budgeted and actual expenditure was mainly material in Repairs and upkeep, Professional Services and Community and Hospitality.*

## Kirkop

In 2011 the Council qualified to benefit from Measures 313 and 323, covering 'the encouragement of tourism activities' and 'the conservation and upgrading of the rural heritage'. The eligible grants amounted to €600,000 and €176,853 respectively, (both Vat excl.). While these amounts receivable were recorded as accrued and deferred income upon signing of the agreement in 2011, the reimbursement of the VAT element and top-ups made by the Paying Agency, amounting to €92,438 and €437,985 respectively, were erroneously treated as income for the year. Following LGA's recommendation the Council approved to reverse the total VAT element cited above, from the cost of construction works, whilst the top-ups were partly (€394,489) reversed against accrued income, with the remaining balance (€43,496) included in the deferred income.

Although construction works related to these projects should be capitalised, the Council is treating the related invoices paid by the Paying Agency as an expense.

The project under Measure 313 covered construction works at *Pjazza Żerniq*, while that financed under Measure 323 involved the restoration, conservation and interpretation of existing catacombs, and the provision of access to the site for the general public. Contract agreements were entered into on 21 November and 26 October 2012 respectively, both covering a period of six months. However, by year-end 2013, works were still in progress, and through an adjustment proposed by LGA, the amounts of €335,527 and €87,532, (both VAT excl.), representing verified works, were reclassified to Assets under Construction rather than treated as an expense. Following the extension of the contract period, the related performance bonds were duly extended until 28 May 2014 and 27 April 2014 respectively, however the extension letters were not signed by the respective contractors.

Measure 323 also involves the restoration, conservation and interpretation of existing *Hajt tal-Matla*, including the provision of access to site for the general public along *Triq il-Fdal*

*Paleokristjan.* This project was completed and certified by the Architect in June 2013. However, the Council erroneously expensed the amount of €59,956 (VAT excl.) paid by the Paying Agency to the contractor. In view of the above LGA proposed an adjustment, which the Council approved, to capitalise the amount, whilst an additional adjustment of €3,411 was proposed to incorporate depreciation charge thereon on a monthly reducing balance method.

A further adjustment of €20,233 was proposed to transfer a portion of the grants, which are directly attributable to the depreciation charge of the assets, to revenue, on assets that were completed on or before 2013.

Interest received on Measure 313 and Measure 323 bank balances, aggregating to €607 and €164 respectively, was recognised as income. Since this finance income is repayable to the Planning and Priorities Co-ordination Department (PPCD), following LGA's recommendation, the Council approved to reverse these transactions.

*Proposed adjustments have been carried out.*

Albeit prior recommendations to account for Government Grants using the Income Approach, as instructed by the Department in Memo 1/2014, the amount of €42,000 received by the Council in October 2013 with regards to *Pilot* project on works carried out in *Triq il-Gudja*, was entirely recognised as income for the year in the unaudited Financial Statements. Since works carried out are of a capital nature, the Council approved an adjustment to reverse the income and recognised the amount received as deferred income. Furthermore, in view that the project was completed by year-end, part of the Deferred Income was released to Other Government Income in accordance with the depreciation rate charged on the asset.

*Proposed adjustments have been carried out by the Council. Moreover, the Council will liaise with the Accountant so that income from Government Grants will be accounted for using the Income Approach.*

During 2010, Kirkop Local Council, together with five other Councils, published their letter of intent to participate in the proposed project entitled '*Empowering Pyrotechnicians for Longevity and a Safer Quality of Workplace*'. Whilst 85% of this project was to be financed by the European Social Fund (ESF), the other 15% was to be paid by the six participants to the Treasury Department within MFEI. On 1 December 2010, the Council was informed that its application to act as the lead partner was accepted for the co-financing, on condition that the application was accepted by the Managing Authority within PPCD. On 24 October 2011, the project was formally approved and on 28 July 2012, a contract was signed between PPCD and the beneficiaries of the project. The agreement stipulated that the participants will contribute their 15% share, equivalent to €6,874, while PPCD will pay the contractors once the Council records the respective invoices into the system, specifically designed for the management of structural funds. The following shortcomings were encountered during the years with respect to the said project:

- a. Kirkop Local Council did not contribute its 15% share like the other participants. Being the lead partner and administrator of the project, the Council did not feel the need to give its share. However, this exception was not included in the contract.
- b. On 13 January 2012, a call for tenders<sup>32</sup> for the provision of a project coordinator, researcher, and training provider was issued. The first tender was adjudicated in favour of Malta European Mobility, whilst the other two tenders were both awarded to *Cooperazione Sud per l'Europa*. Although the Procedures stipulated that the Schedule of Offers for two of the aforementioned contracts should have been signed by two Councillors and the Executive Secretary, these were only signed by the former Mayor and Executive Secretary.
- c. The contractors were not presented with a Letter of Acceptance, indicating the commencement date. This letter was also to include a request for the submission of the Performance Bond, equivalent to 10%

<sup>32</sup> The three contracts were signed on 16 February 2012, for a two-year period, i.e. 16 February 2012 to 15 February 2014.

of the contract value, within seven days from the date of the Letter. However, in the absence of such Acceptance Letters, the contractors did not furnish the Council with the Performance Bonds before the respective services were provided. The Performance Bonds in respect of the tenders for the services of project coordinator and training provider were only delivered in December 2012, whilst that for the service of a researcher was never received.

- d. The Council also breached the terms of the Grant agreement when it failed to input contractors' invoices in the system. As a result PPCD did not honour the payments due to the respective contractors. Consequently, the amounts of €5,030 and €8,236 were paid to Malta European Mobility and *Cooperazione Sud per l'Europa* respectively by the Council itself via bank draft. Both payments included the 15% share of the Council that was supposed to be paid to the Treasury Department. Moreover, bank charges of €60 on both payments were also borne by the Council.
- e. Due to the several problems encountered, in a meeting held on 8 January 2013, the Council decided that the project is to be terminated with immediate effect. This request was accepted by PPCD, and in fact, the respective Performance Bonds were released.
- f. However, since the project formed part of Malta's targets of disbursement by the end of 2013, PPCD highlighted that the Council will still be held accountable for its actions should Malta fail to achieve the said targets.
- g. During a meeting held on 27 August 2013 the Council decided that the balance held in the Pyrotechnics bank account, amounting to €21,105, should be divided between the five contributing Councils.

*Points not addressed.*

In August 2011, the Council entered into a contract agreement with the National Agency for the *Leonardo da Vinci* mobility project, under the Life Long Learning Programme 1 with a grant amount exceeding €25,000. In the same month, €30,620 were forwarded from the European Union Programmes Agency (EUPA) to the Council's bank account, opened exclusively for this project. The aim of this project was to give Maltese participants the possibility to increase their professional skills and know-how in the agriculture industry.

- a. The Council breached the terms and conditions of the respective agreement with EUPA, thus it was obliged to pay the Agency the amount of €11,742. This amount was settled by December 2013.
- b. LGA was only provided with the final report submitted by one of the intermediaries, representing five of the 14 participants of the agriculture course. Thus, the former was not in a position to verify whether the other students completed the training activities successfully, hence corroborating the final payment made to each one of them, which was to be effected on presentation of the report.

*The Council tried several times to obtain the final reports from the intermediaries, but to no avail.*

On 6 September 2010, the Council signed a contract agreement with EUPA in connection with the Kirkop Youth Rural Academy, with the aim to bring together six mixed-ability youth groups from different organisations for seven days to promote the environment. Upon breaching the terms and conditions of the contract, through a legal letter sent in 2013, the Council was obliged to pay the amount €5,608, which payment was effected on 22 October 2013.

*Points not addressed.*

Notwithstanding that LGA was presented with the final report on the *LitusGo*<sup>33</sup> project, which included the project objectives, approach, outcomes and results, partnerships, plans for

<sup>33</sup> *LitusGo* project entitled 'Training Mediterranean Local Authorities and Civil Organisations on Integrated Coastal Zone Management and Reaction to the Impacts of Climate Change'.

the future, and contribution to EU policies, the Auditor was still not presented with the technical books that were agreed to be issued after project completion.

*Point not addressed.*

During 2013, the Council paid €1,177, representing its share of co-financing to a local computer training company and the respective project administrator, to cover 'Opportunities Close to Home' project. The project's aim was to promote an equal and inclusive labour market. However, in January 2014, PPCD issued an irregularity report on this project and is claiming back €6,202, due to lack of supporting documentation, lack of information on the tender document, as well as ineligible participants amongst others.

In the Council's opinion, these irregularities were not substantiated and thus a detailed reply, together with a number of attachments to corroborate their arguments, was sent to PPCD. However, up to the time of audit, no response was received from the latter.

*The Council replied to the irregularity report and is awaiting the final report.*

All the projects mentioned above were terminated during 2013 for various reasons, one of these being lack of financing. It is recommended that before entering into contract agreements, the Council should carefully read the terms and conditions of the agreement and its financial implications. Furthermore, if it does not have the labour and financial resources to be able to implement the projects, the Council should refrain from signing any agreement in order to avoid penalties for breach of contract.

*The projects in question were started under the Council's sixth legislation. The present Council is being very attentive with projects to avoid such situations.*

With the aim of reconciling a creditor balance with the respective supplier statement, the Council credited the amount of €7,301 against fixed assets. Similarly, an opening accrual of €1,000 covering the procurement of a gate for Council premises was reversed against a payment of €220.

Consequently, these journal entries resulted in a negative balance for additions, in the unaudited fixed assets schedule.

*In 2012 the Council accrued €1,000 to cover a cost related to a new gate. However, actual price was much lower than the amount accrued. This resulted in a difference of €780 due to the fact that Council was notified with the actual cost of gate during 2013.*

The amount of €7,779 receivable from a contractor, which has been due for more than five years, is still being netted off from trade payables, notwithstanding prior recommendations. Moreover, in view that 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 be able to carry out the necessary reconciliations.

*Point not addressed.*

Accounting records showed an amount of €5,973 payable to ARMS Ltd as at year-end. However, the Executive Secretary claimed that all invoices were paid by the end of the year. The supplier's statement was thus specifically requested by the latter, wherein it was confirmed that the Council's balance with ARMS Ltd at year-end stood at €3, representing interest on arrears. Consequently, an adjustment of €5,970 was passed in the books of account to eliminate the additional balance.

Similarly, a discrepancy of €256 was noted between the Supplier's Statement and the liability recognised in the Council's books with respect to waste disposal fee.

*As regards ARMS Ltd, the balances were adjusted accordingly. On the other hand, the balances payable in respect of waste disposal will be checked and if necessary, adjusted during the current year.*

The Accruals' List included the amount of €8,651 brought forward from prior years, in respect of which, the Council once again failed to provide LGA with an explanation or supporting documentation substantiating this amount. This led to a qualified audit opinion in this respect.

*It was noted that the amount of €8,651, has been pending from previous years. The Council will try its best to get information from previous Auditors so that this amount could be adjusted accordingly.*

Notwithstanding previous year's recommendations, the amount of €629, relating to LES due to other Councils, has been pending for more than eight years, and was still included in the books of account as at 31 December 2013. Furthermore disclosed in the Creditors' List is a debit balance of €2,000.

*These balances will be investigated and adjusted during the current year. Furthermore, from the current year, all purchase invoices and payments will be shown in the Purchase Ledger on accrual basis.*

LGA were not provided with a FAR, implying that albeit prior recommendations, no action was taken in this respect. Consequently, a difference of €3,867 was noted between the depreciation charge as per LGA's workings and that presented in the Financial Statements. Furthermore, the assets have not yet been tagged.

*Following the implementation of FAR, depreciation will be calculated using the month-end facility of the accounting software as suggested.*

*FAR issue has not been tackled as yet since there were various changes in Executive Secretaries. However, the Council will start working on the asset register this year. Tagging of fixed assets will be part of the above exercise.*

Alternative audit procedures carried out on Trade Receivables revealed differences in the amounts recorded as due from three Regional Committees. However, since third party confirmation letters were not received from these debtors, LGA could not identify the nature of these shortcomings.

*The Council will liaise with the Accountant to check these differences.*

Income receivable from DLG in respect of costs incurred with regards to *Irkotta Fest* and library books, was not accrued for. The Council approved an audit adjustment of €3,500 to account for such funds.

*Point noted and adjusted.*

As at 31 December 2013 the Council was owed the amount of €6,010 from a waste recycling company. There have been no receipts from this debtor for the past few years and it is doubtful whether there will be any since this entity is in financial difficulties. Until the time the situation is clarified, LGA proposed an adjustment to make a provision for doubtful debts against this balance, which was taken on board by the Council.

Likewise, the amount of €2,599 receivable from WSC has been outstanding for more than one year.

*The Council will look into this matter and discuss if it is viable to send a legal letter to recover the amount owed. The amounts due from WSC will be followed up.*

Included in the Financial Statements is prepaid expenditure totalling €6,463, of which €1,697 comprises amounts due from other Councils, which amounts have been outstanding for a number of years. From the balance of €4,766, only €1,610 was supported by a record, indicating that this covered prepaid insurance and rent. No explanation was forthcoming for the remaining difference of €3,156. Furthermore, the Financial Statements indicate that the figure for prepayments and accrued income was left unchanged from last year. No adjustment was proposed since LGA could not trace the difference. Thus a qualified audit opinion was issued in this respect.

*With regards to opening prepayments, amounting to €3,156, it was noted that this amount has been pending from previous years. The Council will do its best to get information from the previous Auditors so that this amount could be adjusted accordingly. Furthermore, it will liaise with the Accountant to determine the nature of these differences and also adjust accordingly.*

A variation of €21,105 was identified by LGA in the bank reconciliation for the bank account related to *Progett Piroteknika*. The amount in the Council's ledger was €21,106 while that in the bank letter was €1. It transpired that the Council did not reverse income regarding the aforementioned project, when these funds were distributed between the participants during the

year under review. An audit adjustment to reverse the entry was approved by the Council.

The bank confirmation letter covering two bank accounts used for Measure 313 and 323, with a balance of €296,635 and €38,849 respectively, highlighted that these accounts are ‘blocked’ since they are restricted for the use of these projects. However, this was not disclosed in the note regarding bank balances.

*The Council will discuss this matter with the Accountant and adjust accordingly. Unpresented cheques will be checked and reversed if these become stale. Meanwhile, proposed adjustments were carried out.*

Despite that no budget was prepared by the Council for 2014, note 14 to the Financial Statements shows Capital Commitments amounting to €158,430 (2012: €158,430).

*Point noted. The new Executive Secretary was appointed in February 2014 and is working on this year’s budget.*

On 24 August 2011, a Court case was registered against the Council by an insurance company, whereby the latter is claiming 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 Transport Malta. However, notwithstanding that the case was deferred for 29 May 2014, no Contingent Liability note was included in the Financial Statements.

*The Court case refers to an accident in Hal-Kirkop tunnels. Since this is an arterial road, these fall under Transport Malta’s jurisdiction.*

## Lija

In spite of prior recommendations to issue a new call for tenders, 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 €9,565 was paid by the Council to the respective contractor during the year under review.

Furthermore, while a tender covering the services of a contracts manager was awarded during 2013, the relevant contract was not provided for audit purposes.

*Point not addressed.*

It was also noted that three contracts covering the provision of refuse collection (€21,600), street sweeping and grass cutting (€11,210), as well as the cleaning of public convenience (€4,990), were not dated. In the latter case, the agreement was also not signed by the Mayor.

*The mentioned contracts have now been dated and the contract with respect to the cleaning of public convenience will be signed by the Mayor as recommended by LGA.*

Unlike prior years, the Council did not apply for a grant to cover the crib activity. However, it has erroneously accounted for it. This error was rectified in the audited Financial Statements through a proposed adjustment of €6,000, reversing the transaction. In addition, another audit adjustment of €1,461 was proposed and accepted by the Council, to correct the overstatement in the release of deferred grants to income.

*The recommendations made by LGA regarding grants to the Local Council have been noted and the necessary adjustments have been made and reflected in the audited Financial Statements.*

The amount of €9,084 paid by DLG to WasteServ Malta Ltd on behalf of the Council, in respect of tipping fees incurred during prior years, was recognised in the books of account by means of an audit adjustment as the latter failed to record this transaction. A further adjustment of €1,646 was proposed in view of unrecorded expenses in previous years.

Similarly, an invoice of €2,750 raised by the Council to WSC, as well as a grant agreement of €2,300 relating to live streaming project, were also omitted from the books of account. Likewise the Council failed to provide for prepaid maintenance on the public terminal access. Meanwhile, a prepaid opening balance of €1,387 was incorrectly

reversed. All the necessary adjustments, as proposed by LGA, were reflected in the final set of Financial Statements.

*The adjustments recommended have been made and reflected in the audited Financial Statements.*

Revenue of €29,370 received by the Council during the year under review, in connection with a PPP project, was incorrectly accounted for as income for the year, even though this was already recognised as accrued income in the preceding years. Following the necessary adjustments, the transaction was duly reflected in the audited Financial Statements.

*Accrued income was adjusted as recommended by LGA.*

As in previous years, the list of accrued income includes a balance of €1,404, for which no adequate explanation was provided by the Council.

*Point not addressed.*

Included in the Creditors' List are long outstanding balances, aggregating to €126,134, which have been brought forward from preceding periods and are payable to eleven suppliers.

*The long outstanding trade creditors mentioned by LGA will be investigated in order to establish the actual amounts due, as the case may be.*

The Council failed to obtain Suppliers' Statements from for all suppliers as instructed by DLG. Thus, the necessary reconciliations were not carried out. Consequently, a discrepancy of €4,527 was noted between a creditor's balance as recorded in the books of account, and the respective Supplier's Statement. The Council was unable to provide LGA with an explanation of the unreconciled amount.

*The Council will start to request Suppliers' Statements from all suppliers, as far as this is possible, in order to reconcile these with the amounts showing in the accounts. The former will also look into the invoices of the concerned third party in order to reconcile the amount mentioned by the Auditors, and other amounts that may be due for the works relating to PPP project.*

The Council also failed to reverse opening accruals of €10,093 pertaining to a cultural event and refuse collection. Likewise, eight cheques totalling €2,584, which have become stale, were still included in the bank reconciliation provided for audit purposes.

*The recommendation made by the Auditor in relation to the accruals has been noted and further attention will be taken. The adjustments proposed by LGA were reflected in the audited Financial Statements. Stale cheques will be identified and reversed, and the necessary action will be taken.*

In the absence of a FAR, depreciation was calculated manually through a spreadsheet. Furthermore, notwithstanding that total NBVs as disclosed in the Nominal Ledger and unaudited Financial Statements tally, certain discrepancies were encountered for particular individual asset categories.

*A FAR will be constructed in the coming year. During the year under review, the Council used the accounting software to record its fixed assets. However, half way through the year, the program crashed and the data was not recoverable. The assets were kept on a spreadsheet until such time that these are incorporated in the accounting package. Once this is done, the monthly depreciation can be charged through the accounting system, and the assets reconciled with the Nominal Ledger records.*

Since the annual budget for 2014 was not yet prepared and approved by the time of audit, LGA was unable to ascertain whether Capital Commitments of €12,000, as disclosed in the Financial Statements, were correct.

*The Council included the Capital Commitments in the unaudited Financial Statements, even though until the date of preparation the budget was not approved. The recommendation made by the Auditor on this point has been noted.*

A review of the minutes revealed that the Council approved to carry forward unused leave of all the employees. However, no information relating to the number of hours carried forward was disclosed therein. In line with the Local Councils (Human



Resources) Procedures, leave carried forward shall be availed of before 31 March of the following year. Furthermore, in the case of Executive Secretaries, being public officers, requests to carry forward unused leave are to be approved by Director (DLG). In such cases, no approval is given, to carry forward more than 50% of the yearly entitlement, except for grave humanitarian reasons.

*Point mentioned by LGA was noted and the necessary action will be taken so that the situation does not repeat itself.*

The unaudited Financial Statements provided to LGA at the commencement of the audit were different from the set approved and sent to NAO. The former was informed that the signed copy was not the correct version and the Council approved the new version on 15 March 2014.

*Point not addressed.*

### Luqa

Architect fees of €2,249, paid in relation to the family park project, were not covered by a contract agreement.

*The Council shall endeavour to observe the Local Councils (Tendering) Procedures.*

Meanwhile, though the provision for the laying of tiles and painting at Day Care Centre was covered by a call for quotations, this procurement, bearing an estimated cost of €4,200, was not minuted, thus implying that this was not discussed during Council meeting.

*Point not addressed.*

Notwithstanding the Council's reply to last year's Management Letter, stating that it would carry out an exercise to adjust the fixed assets records, once again no FAR was provided to LGA. In the absence of such record, the Council is computing depreciation manually, using a spreadsheet, in breach of the pertinent regulations. Furthermore, as in the preceding year, a significant difference was noted in NBV reported for Urban Improvements and Construction, when comparing Fixed Assets in the Nominal Accounts with the corresponding figures in the unaudited Financial Statements.

*FAR has been updated and the Local Council has made an effort to get the details of certain assets, but some of these were acquired during the term of the previous Executive Secretary and their details were not kept. The depreciation is being calculated manually on a monthly basis. The Council will make an effort to reconcile the Nominal Ledger with the Financial Statements by revising the categories, mainly Construction and Urban Improvements.*

Costs of €124,871 and €10,000, incurred in relation to works carried out on the family park project, and the procurement of a lift for the Day Care Centre respectively, were capitalised, despite that the related projects were not completed by year-end. Besides the necessary audit adjustments to correct this error, an additional adjustment of €37,058 was passed to reverse the depreciation charged on these assets. It was also noted that payments on account, amounting to €21,038, relating to construction works of a water reservoir at *Hal Farruġ* recreational park, remained unaccounted for. Thus, an audit adjustment was proposed to record the related invoices against capital expenditure as Asset under Construction. However, the Council has incorrectly recognised the said adjustment under Construction.

Likewise, additions of €26,407 in relation to the family park project, should have been classified as Assets not yet Capitalised, rather than as Urban Improvements. Furthermore, the signed Financial Statements show that fixed assets additions, as disclosed under Assets not yet Capitalised in the fixed assets schedule, are overstated by €2,595, whilst those recognised under Construction are understated by the same amount.

A discrepancy of €23,632 was also noted between the capital expenditure of €100,013, recognised by the Council with respect to the playing equipment and the construction of footpath for the family park project, when compared to the cost of €76,381, as certified by the Architect. An audit adjustment to eliminate the overstatement in fixed assets was proposed by LGA and reflected in the audited Financial Statements.

*Points not properly addressed.*

In breach of the Local Councils (Tendering) Procedures, payments of €50,000 and €20,000, relating to the family park project and *Triq Mikelang Sapiano* resurfacing respectively, were made to the contractors before the work was certified by the Architect.

*The Council issues payment upon Architect's certificate.*

During 2013 the Council paid the amount of €31,638 for the resurfacing of *Triq Mikelang Sapiano*. However, the contract entered into between the Council and the contractor expired in 2011. Although the Council claimed that the contract was renewed, a copy of the valid agreement was not provided to LGA. The latter was only presented with a copy of the guarantee, extended up to 1 January 2015.

Although the total cost incurred on PPP resurfacing works at *Triq Anton Falzon* amounted to €47,034, only the sum of €31,638 was recognised in the books of account, resulting in a discrepancy of €15,396. Out of this amount, €1,411 relating to the contract management fee was expensed. The necessary adjustments were approved by the Council and reflected in the audited Financial Statements. However, an invoice was not received from the contractor up to 31 December 2013, and thus the amount due to the latter should have been accrued rather than shown as creditor. No reclassification adjustment was proposed in this respect.

Other instances were encountered whereby expenses of a capital nature, relating to professional fees on *Triq Mikelang Sapiano* and the family park project, electronic equipment, as well as live streaming equipment, amounting in aggregate to €12,816, have been expensed. Audit adjustments to capitalise the items and record the applicable depreciation were approved by the Council.

*Points not addressed.*

Sample testing carried out revealed that payments, totalling €44,475, were effected prior to being approved by the Council. Instances were also noted whereby purchases were supported with invoices which are not addressed to the Council. Examples include Christmas staff dinner (€300),

hotel accommodation in Rome (€576), evening meal in Rome (€322), bus transport and calls (€207) as well as mid-day meal in Rome (€175).

*Most of the payments mentioned relate to the salaries of the Council's employees, which do not require an approval, while other payments relate to goods and services, which procurement would have been already approved during a Council meeting. As regards the invoices not addressed to the Council, these relate to the Council's delegation in Italy, where the latter is not known amongst the retail outlets. However, these purchases have been recorded properly in the accounting records.*

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 regards to petty cash top-ups, as staff is still topping up petty cash personally when the Council runs out of petty cash.

*The petty cash schedule will in future be presented to the Council for approval before issuing the petty cash cheque. An appropriate record is already kept by the Local Council regarding petty cash expenditure, where receipts are all kept and photocopied for record purposes, while an overview of each month is also kept.*

A grant of €20,000, obtained from the Department to cover some of the costs incurred on the resurfacing of *Triq Id-Daqqa Kahla*, as well as others of €2,300 and €2,000 receivable for live streaming equipment and locality day respectively, were not recorded in the Council's books of account. Adjustments to record these grants and the related amortisation were reflected in the audited Financial Statements.

The grant awarded to the Council in relation to the family park project amounted to €294,756. However, only the amount of €120,847 was recorded in the Council's books. According to the Executive Secretary, this represented the amount of grant already utilised. Thus, following LGA's recommendation, an audit adjustment of €173,909 was approved by the Council to account for the entire grant.

*Audit adjustments proposed by LGA are reflected in the audited Financial Statements.*

During the year under review, the Council completed two streets covered by PPP scheme, namely *Triq Andre Vassallo* costing €26,609, and *Triq Anton Falzon* costing €47,034. As already highlighted above, the cost incurred on the latter street was understated by €15,396 in the books of account. This had a direct impact on the portion of deferred income released to the Statement of Comprehensive Income. Further testing also revealed that only one of the grants was being amortised. Thus, an audit adjustment was passed to correct the portion of grant released.

*Recommendations made by LGA were noted and the adjustments were reflected in the audited Financial Statements.*

Payments to long-term PPP creditors are not being effected in line with Memo 45/2010, wherein it is stipulated that the Council shall pay the respective contractor over a period of nine years.

Still included in the list of Deferred Income is an unutilised grant of €1,152, pertaining to the embellishment of square and construction of a ramp in the area of the housing estate.

*In line with the recommendation forwarded by LGA, the Council will need to establish whether the excess funds will have to be refunded.*

As a result of the above misstatements, the current portion of Deferred Income was overstated by €14,870. Audit reclassification was proposed so that the said item is properly classified between the current and non-current portions.

*Point not addressed.*

Income from LES administration fees was understated by €1,292 when compared to Report 483 from the LOQUS system. No adjustment was proposed to correct this misstatement. Furthermore, LGA was not in a position to test the custodial receipts from Land Department, since the Council failed to provide copies of the said receipts.

*The recommendation made by LGA has been noted. The Council needs to investigate and establish*

*the correct amount that is due to it. With respect to custodial receipts, the Land Department has changed the procedure for sending and requesting the invoices. The Local Council still keeps part of the invoice sent to the payer.*

The sum of €9,946 received from Pre-Regional Debtors was included with income. Since this amount should have been credited against LES Debtors, an adjustment was approved to debit income, and decrease LES Debtors, as well as the related provision for doubtful debts. However, a particular LES report generated from the IT system indicates that during 2013, only the amount of €198 was received by the Council. This casts doubt on the integrity of data being generated from this IT system. Thus, a qualified audit opinion was issued in this respect.

Furthermore, whilst as per report generated by LOQUS, balances due to the Council with respect to Pre-Regional LES Debtors amounted to €410,219 as at 31 December 2013, only the amount of €403,640 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 €10,994 was also approved to fully provide for all LES Debtors. These adjustments were correctly incorporated in the final set of Financial Statements.

*The Local Council has made an effort to obtain true information regarding pending amounts from LOQUS.*

Since the bank statements of two bank accounts were not provided for audit purposes, LGA was not in a position to verify the bank balances of €2,168 and €892 respectively, as recorded in the books of account. Additionally, by the conclusion of the audit, the bank confirmation certificate was not received. A qualified audit opinion was issued in this respect. A discrepancy of €360 was noted in the bank reconciliation of another bank account. Further to the above, it was noted that included in this record are four stale cheques, amounting to €7,117.

*The respective financial institution has been requested on several occasions to provide the Council with a bank statement, however, this is very difficult to obtain. The bank reconciliations are made on a regular basis. The stale cheques*

*mentioned by LGA will be looked into, and where necessary, these will be re-issued to the respective suppliers.*

During the preceding year, it was highlighted that the Council failed to prepare a reconciliation between the amount of €7,778, owed to a capital creditor, as recorded in the books of account, and the related Supplier's Statement. The same situation cropped up during the year under review, implying that previous recommendations were not taken on board. For the second consecutive year, LGA was not provided with any explanation or documentation supporting this balance. Since the latter was unable to obtain direct confirmation of the balance from the respective creditor, and satisfactory audit procedures to test this balance could not be performed, a qualified audit opinion was issued.

*It is the obligation of the supplier to submit a statement and not the Local Council.*

The list of creditors once again included the balance of €16,599 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 agreed to redo the work. Up to year-end, the Council settled the amount of €25,000, thus leaving a balance of €16,599. Although the Council has recorded this outstanding balance in its books, LGA was unable to verify whether this amount was actually accounted for when the works were done between 2003 and 2006.

*This issue has been partially resolved. The Local Council shall be discussing how the remaining balance shall be dealt with. Communication was made with the contractor and a meeting is expected to be held.*

The Council failed to recognise in its accounting records, the amount of €26,246 that DLG forwarded to WasteServ Malta Ltd on its behalf, as a settlement of the tipping fees incurred in previous years. This transaction was then recorded by means of an audit adjustment. However, following the posting of such adjustment, a

variance of €8,534 was noted between the amount payable, as disclosed in the Council's books of account (€27,992), and the related Supplier's Statement (€36,526). Since no explanation was provided in view of this discrepancy, LGA had no option other than to issue a qualified audit opinion in this respect.

*Point not addressed.*

In addition to the above, included within Payables are balances of €4,202 due to three different suppliers, which have been long outstanding.

*The related payments were settled.*

Testing carried out revealed that cut-off procedures carried out at year-end were inappropriate, as the Council failed to provide for performance bonuses, salaries, as well as accountancy fee, amounting to €4,489, €1,437 and €480 respectively. These accrued expenses were then incorporated by means of an audit adjustment.

*Adjustments recommended by LGA have been reflected in the audited Financial Statements.*

A discrepancy was noted in the fair value of the available-for-sale security held by the Council, as disclosed in the Financial Statements. An adjustment of €1,698 was approved to record the fair value of the said investment as at 31 December 2013 in accordance with the respective price list published by the Malta Stock Exchange.

*The adjustment proposed by LGA has been reflected in the audited Financial Statements.*

Capital Commitments of €68,000 were included in the budget for 2014. However only €40,000 were recognised in this respect in the Financial Statements.

*Point not addressed.*

### Marsa

As already reported during the preceding years, FAR maintained by the Council, which so far has been prepared on a spreadsheet, is not in line with best practice and with Local Councils (Financial) Procedures. In addition to the limitations arising

from this adopted approach, including the measurement of depreciation, a number of assets were incorrectly categorised, with the result that an incorrect depreciation rate was applied and recognised in the Financial Statements. Whilst LGA is of the opinion that there may be material misstatements in the depreciation provision and charge for the year, amounting to €67,021, no practicable procedures could be carried out to determine the exact amount of misstatement. A qualified audit opinion was issued in this respect.

*As indicated in LGA's recommendation, the Council has already compiled a FAR and, as planned, this is to be integrated within the system in the following year. Moreover, adjustments in the fixed asset categories will be performed when FAR is integrated within the accounting system.*

An architect's certification was not available to substantiate two payments, totalling €29,951, which were advanced to a particular contractor in relation to works carried out on the new Local Council offices.

*Point not properly addressed.*

Capital Commitments of €314,625 were included in the budget for 2014, however, only €104,047 were recognised in this respect in the Financial Statements.

*LGA's comments were noted.*

In its unaudited Financial Statements, the Council recognised LES Debtors of €95,908, with respect to LES contraventions adjudicated prior to 31 August 2011, against which an equivalent provision for doubtful debts was disclosed. However, as per report extracted from LES computerised system, contraventions still payable to the Council stood at €96,085, implying that both LES Debtors and the respective provision for doubtful debts were understated by €177. Following LGA's recommendations, the Council approved the necessary adjustments.

Discrepancies were also noted between the administration fees on LES fines invoiced to the Regional Committees, amounting to €2,426, the amount actually receivable by the Council as per reports extracted from the system, being

€2,542, and the balance of €2,549 recognised in the Financial Statements. Such LES income was incorrectly disclosed in the Financial Statements as General Income.

*The Council approved and posted the adjustment proposed by LGA, even though the difference between the amounts was deemed immaterial. Moreover, albeit the difference in the administration fees on LES fines invoiced is also immaterial, the Council will ensure to carry out a reconciliation in the subsequent year and disclose such income as receivable from LES rather than General Income.*

Irrespective of the letter, dated 5 March 2013, informing the Council that it will receive the amount of €4,000 in relation to the cultural activity which was going to be held in October 2013, such income was still omitted from the accounting records. Likewise, the Council failed to recognise the grant of €10,000 received in 2014 under the Localities Accessibility scheme, with respect to the lift purchased during 2013, which will come into operation in 2014. The Council approved the necessary adjustments to disclose this accrued income in the Financial Statements.

*LGA's recommendations have been adhered to, however, it is to be pointed out that the Council records its income receivable only after formal approval from DLG is received, in which case this is granted upon the presentation of the related fiscal receipts. Since the cases referred to by LGA were not yet approved, the Council did not accrue for the amount during the current financial year.*

The Council has disclosed the amount of €6,422 due from WSC as a Contingent Asset, despite that no agreement has yet been reached with the latter. The foregoing balance was also recognised as a receivable and was fully provided for.

An invoice amounting to €2,950 has been accrued for rather than treated as a Creditor. Deficiencies were also noted in the split of the bank loan between short-term and long-term portions, with the consequence that the amount disclosed with current liabilities in the Financial Statements was overstated by €12,670. Following LGA's recommendation, the Council carried out the necessary amendments.

*The adjustments proposed by LGA have been posted accordingly. The difference between the current and non-current portions rests on the fact that the Council's loan repayment amount included both capital and interest, whilst LGA implied that the amount must be portioned as capital and interest separately.*

The Council has exceeded the budgeted expenditure for Operations, Maintenance and Administration Expenses by €74,511. Moreover, although income from Central Government and that raised under Bye-Laws was budgeted at €667,399 and €9,000 respectively, actual income earned amounted to €523,007 and €1,370 respectively.

*Variances identified by LGA were compensated for and offset by increases and decreases in other expenditure and income categories.*

### Marsascala

Notwithstanding that the Council maintains a FAR to record Fixed Assets in its possession, a number of assets have been incorrectly categorised with the consequence that an incorrect depreciation rate has been applied and recognised in the Financial Statements. Following LGA's comments in the draft Management Letter, the Council reclassified computer software costing €2,708, which was initially recorded under Plant, Machinery and Equipment category to the Intangible Assets category.

Variances have also been noted in certain fixed asset categories between FAR and the Financial Statements. For example, the cost and depreciation of Urban Improvements, as disclosed in FAR, were overstated by €288,383 and €89,563 respectively, when compared to the balances recorded in the Financial Statements, whilst those of Construction Works were understated by €288,012 and €89,856 respectively. In total, both the cost and depreciation as per FAR tallied with the amounts disclosed in the Council's Financial Statements.

*The variances identified by LGA will be investigated and adjusted accordingly.*

As highlighted in the preceding year, it is evident that the Council is experiencing difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. LGA noted that, included in the Financial Statements, there is still a substantial amount of fines pending from January 2000 onwards, amounting to €340,427, for which a full provision for bad debts has been made.

*The Council is of the opinion that the long outstanding list of LES Debtors is not due to any fault that can be pinned on the Council itself. Nevertheless, in collaboration with the Joint Committee, the Council has tried to chase all LES Debtors individually. However, this had a minimal positive affect. The Council, as instructed by DLG, had accounted for a full provision for bad debts in respect of such debtors.*

Included with Receivables was an amount of €3,983 due from another Local Council, in respect of a deposit paid for the funding of a joint project during 2009. In view that from the information provided during the audit, there are significant doubts on the recoverability of such amount, LGA recommended that this balance will be provided for. Thus, the Financial Statements were adjusted accordingly.

*Point not properly addressed.*

The Council failed to record prepaid expenses with respect to the purchase of streaming hours for the period January to September 2014, and IT courses for the period January to May 2014. Accrued Income recognised by the Council in respect of funds receivable for an activity held was overstated. Similarly, an invoice of €1,500, issued in 2014 for services rendered in 2013, was not recognised as an accrual. The Council also failed to account for an invoice for cleaning services relating to the month of December. This implies that proper cut-off procedures were not applied by the Council. These errors were rectified by means of audit adjustments proposed by LGA.

*LGA's comments have been noted and the Council shall do its utmost to ensure that such shortcomings are not repeated.*

The Council's petty cash float as at year-end amounted to €738, thereby exceeding the maximum threshold by €505.

*In the Council's opinion, it is primetime that the Local Council (Financial) Regulations are updated since the set limit of €233 is very small.*

Overall expenditure incurred exceeded the budgeted amount by €3,125. Moreover, actual income for 2013 amounted to €812,138 albeit this was budgeted at €982,760. According to the Executive Secretary, the variance in income arose due to the fact that some projects were not undertaken in 2013.

*The Council takes great care every year to ensure that it adheres to the budget funds and guidelines. Measures 125 and 313 were projected to commence during 2013, however, several matters cropped up during the application stage and such projects were not undertaken during the current year. Nonetheless, apart from the said projects, the Council managed to stay in line with most of the budget.*

Testing carried out revealed that payments, aggregating to €3,423, were effected prior to being approved by the Council.

*The Council can issue urgent payments provided that these are clearly shown in the Schedule of Payments. This is a common practice amongst all Local Councils. For example, the Council does not wait for the Council meeting in order to get the approval to obtain €70 worth of fuel for the van since otherwise this would mean that Industrial Project and Services Ltd (IPSL) workers cannot use the said van for entire weeks before the Council meeting. Moreover, it is the Council's policy to pay utility bills once these are verified, in order to ensure that the Council does not pay interest for any prolonged payments.*

A Contingent Liability, arising from a pending case before the Small Claims Tribunal that was filed by an insurance company, was only disclosed in the Financial Statements following LGA's recommendation. The case is still uncertain, however if it had to be decided against the Council, the cash outflow is not expected to be more than €1,000.

*The Council will endeavour to get as much information as possible concerning the claim, although the amount in question should be a small one.*

#### Marsaxlokk

The Council has not applied proper controls to ensure correct cut-off recognition for its income. Instances were encountered whereby income receivable, amounting to €3,000 was completely omitted from the Financial Statements. On the other hand, revenue of €4,500, received in relation to accrued income brought forward, was treated as income for the year instead of settled against the respective opening balance. Whilst a rent prepayment brought forward was not reversed, the Council also failed to recognise as prepayment, an overpayment made to IRD during the current year.

Inaccuracies were also noted in the accounting of accrued expenses. The accruals pertaining to electricity and telecommunication costs have been both understated, whilst band services provided by the local band club have been completely omitted from the books of account. The necessary audit adjustments were posted to rectify these errors.

*Following LGA's recommendation with respect to revenue recognition, prepayments, accrued income and accruals, the Council has revised its Financial Statements, and it shall do its utmost to ensure that these shortcomings will not be repeated.*

As already reported in prior years, an agreement was entered into in October 2009 between the Council and the local football club, for the renting of the football ground for a total charge of €16,400, covering seven years. Notwithstanding that rent cannot be prepaid for more than one year, and that the agreement should not have been longer than three years, the Council paid this one lump sum in advance. In addition, as also expressed in the previous year, LGA is sceptical of the value being derived from such a long-term agreement, as well as from the nature of the service being provided. The substance of such an agreement is considered as a donation in kind, provided by the Council to the football club. This has also to be seen in the light that in the year in which the Council entered into this agreement, it incurred a deficit of more than €8,000. The incurrence of further expenses

related to this agreement, including insurance as well as repairs and maintenance costs, cannot be overlooked. Furthermore, the accounting treatment for the recording of such financial asset is not in line with the requirements of IAS 39.

*This issue was already tackled during the audit of 2009, which is the year when the agreement with Marsaxlokk Football Club was signed. As stated in the Management Letter of the same year, the main reason for the agreement with the football club was to promote sport in the locality. A tender could not be issued since there was only one football club in the locality. LGA's recommendations were noted and no other such long-term agreements have been entered into since then.*

FAR is not being maintained in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Furthermore, a number of assets have been incorrectly categorised with the consequence that an incorrect depreciation rate was applied and recognised in the Financial Statements. Whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, amounting to €33,447, no practicable procedures could be carried out to determine the exact amount of misstatement. A qualified audit opinion was issued in this respect. It also transpired that capital expenditure amounting to €1,100 in respect of Assets not yet Capitalised was written off immediately to the Statement of Comprehensive Income as professional fees. Following LGA's recommendation, the Council has revised its Financial Statements in this respect.

*During 2013, major works were performed by the Council with the aim of updating FAR. Moreover, the points highlighted with respect to depreciation are currently being implemented. The situation shall be rectified by the end of the year, and the Auditor's recommendations shall be implemented, where possible. The instance mentioned by LGA, with respect to capital expenditure, related to Architects' fees covering the preparation of the tender for the playing field. The point made by LGA on this matter has been noted.*

The amount of Capital Commitments as disclosed in the unaudited Financial Statements was understated by €12,475 when compared to the

amount approved in the budget report for 2014. Following LGA's recommendation, the Council updated the disclosure accordingly.

*The issue was rectified following LGA's recommendation.*

The excess honoraria, paid to the ex-Mayor in 2010, was being set off against the Councillor's allowance that should have been paid to the latter. Despite that by year-end this was fully refunded, included within Trade Receivables there was still the amount of €488 receivable from the said individual, whilst Councillors' allowance was understated by the same amount. The Council adjusted the Financial Statements accordingly.

In line with the prior years, the Council recognised an amount of €2,808 as Other Receivables. This amount has been coming from previous years and, although LGA was informed that it relates to a Garnishee Order, no proof of recoverability was provided.

No provision for doubtful debts was recognised with respect to a balance of €1,170, receivable from a private company responsible for recycled waste, even though the latter appears to be in financial distress. Following LGA's recommendation, the Council has posted the necessary provision by means of an audit adjustment.

*The last amount paid to the ex-Mayor should have been deducted from the amount owing by his good-self to the Council. An entry was posted in the Debtor and Councillors' Allowance accounts. Other adjustments were also carried out following LGA's recommendations.*

For another year, included in the books of account are long outstanding balances of €12,854 and €932, payable to two contractors. No proper evidence has been provided to confirm that these balances constitute a legal obligation. Notwithstanding LGA's recommendation in the previous reports, to seek legal advice on the matter, no such action was taken by the Council. A qualified audit opinion has been issued in this regard.

*Point not addressed.*



The Council has exceeded budgeted expenditure for Utilities and Professional Services by €1,174 and €4,998 respectively.

*While preparing the budget, the Council takes great care in ensuring that proper financial projections are made. However, instances arise which require unplanned resources thereby resulting in variances from the projected budget. The Council shall do its utmost to reduce the instances where actual costs vary from those projected.*

### Mdina

As already highlighted in previous years, FAR provided by the Council is not in line with best practice and in terms of the Local Councils (Financial) Procedures. A number of deficiencies, including, generic descriptions and uncommon reference between the description of the asset in FAR and the related transaction in the Nominal Ledger have been noted by LGA. Furthermore, the reconstruction of FAR could not be carried out due to missing documentation and Nominal Ledger history with respect to financial years covering 1994 to 2007. Consequently, LGA was limited in the procedures it could perform to confirm the physical existence of the items of PPE having a NBV of €133,800. In addition, whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, amounting to €26,545, there were no practicable procedures to arrive to the exact amount of misstatement. Thus, 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 latter presented a FAR updated and reconciled with the Nominal Ledgers. As one can appreciate, FAR was reconstructed as accurately as possible when considering that it is a highly time-consuming exercise that involves a certain cost. Moreover, the Council is correctly updating FAR upon purchase of capital items and correctly posting the depreciation from the accounting software on a monthly basis as per terms listed in the Local Councils (Financial) Procedures. However, to improve FAR further, LGA's recommendations will be abided by.*

*The Council has in place a system of back-filing, to store its records. However, one has to understand*

*that the majority of its assets were acquired and not purchased. Thus, the estimated value, which was kept on the computer program is based on an estimate. The Council is also committed to maintain all the required documentation for the new assets purchases.*

Notwithstanding that the Council has been occupying its offices since 1994, no rental agreement has ever been in place. In addition, this rental expense was never paid by the Council, and the latter has been accruing for this since 1994. During the year under review, a tentative agreement was proposed by the Land Department, however, the Council objected to the proposed agreement due to a clause which made the latter liable for the structural damages of the building. As at year-end, accumulated accrued rent stood at €44,166. Despite that this issue was already highlighted in previous years, no action was taken to rectify this matter.

*This issue was already replied upon during the preceding years. According to the Council, it 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. The Council always denied this and eventually Heritage Malta never insisted on this claim. During 2014, the Council received a contract from the Land Department, and the Council's Lawyer advised not to sign the agreement, as there was a clause, which binds the Council to make good for any damages of the building. Since the property is of a historical importance and is not in optimal condition, the Council's Lawyer advised not to sign such an agreement due to liabilities that it may cause in the future. The Council submitted its concerns about such a clause to Government Property Division, and is awaiting its reaction.*

Insurance services were still being provided to the Council albeit the pertinent contract has expired. The insurance cost for 2013 amounted to €2,513. In addition LGA was not provided with a signed agreement covering the installation of new playing equipment for Howard Garden playground, bearing a cost of €4,195.

*LGA's recommendations have been noted.*

Following previous years' recommendation, the Council submitted a Bye-Law to DLG for 'Use of Facilities'. However, since this Bye-Law has not yet come into force, income arising from the rental of Mdina Square for public activities, and the use of the Council Hall, aggregating to €2,000, is still considered as uncovered by the required legislation in line with Article 61 of the Local Councils Act.

*There is a Legal Notice through Subsidiary Legislation 65.27 in place, with respect to the income derived from the motor vehicle entrance and parking permits.*

Instances have been identified whereby expenditure of a capital nature was recorded as recurrent expenditure and *vice-versa*. The Council had capitalised the replacement of parts for security cameras, amounting to €2,914, whilst the purchase of medieval festival costumes and commercial umbrellas in 2010 and 2011, amounting to €7,812, have been included as revenue expenditure. Given that the Council is still making use of such costumes and umbrellas, these should have been treated as assets. The Financial Statements have been rectified following LGA's recommendation. However, the capitalisation of medieval festival costumes and commercial umbrellas was not undertaken by means of a prior year adjustment, but reflected against the Statement of Comprehensive Income. A qualified audit opinion was issued in this respect.

Litter bins, costing €1,040, purchased in 2012 but invoiced in 2013, were accounted for as repairs and accrued for in the 2012 Financial Statements. These were then recognised as capital additions and fully depreciated in 2013, thus resulting in double accounting. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Likewise, expenditure relating to the 2012 Christmas lunch for residents, amounting to €2,193, has been accounted for by the Council during the current financial year, even though the receipt was dated in 2012. Income relating to activities held during 2013 was also recognised in books of account upon receipt, during 2014. In addition, various streams of income have been incorrectly categorised by the Council. Rental expenditure of €600, invoiced by the Government

Property Department in 2013, for the period 20 December 2010 to 30 December 2012, in respect of the tools room at *Howard Garden* was not accrued for. The said amount was then fully recognised during the year under review. The Council approved the necessary adjustments.

*The Council has noted LGA's recommendations and has made the necessary reclassifications in the Financial Statements to outline a better presentation.*

Audit verifications carried out on a long outstanding receivable of €3,494 from the Malta Tourism Authority (MTA), revealed that the respective invoice was erroneously issued twice, and thus the respective balance had been actually settled. This error was rectified by means of an audit adjustment. On the other hand, the Council failed to recognise LES Receivables, together with an equivalent provision for doubtful debts thereon, in respect of pending payments on contraventions, aggregating to €12,752.

A balance of €3,457 assessed as a bad debt has been written off during the current year. However, €1,307 of this amount has not been approved by means of a Council resolution.

*The Council has noted LGA's comments and would like to clarify that this year it carried out a verification exercise, whereby any debts deemed as unrecoverable were written off through Council resolution. As regards LES receivables, this has a nil effect on the Financial Statements.*

At year-end, the Council accrued for grants receivable of €5,000 under the Special Initiatives scheme, for the planting of trees and hedges in *Howard Garden*, despite that capital expenditure incurred in this respect, amounted only to €3,290. In view of this, an audit adjustment was approved by the Council to reverse the over-accrued balance, as well as to properly account for such grant under the Income Approach.

Discrepancies were noted between amounts payable as recognised in the accounting records and the respective Suppliers' Statement. Furthermore, from the cut-off testing carried out, it was noted that accruals for expenditure have not been correctly accounted for. In fact instances have been noted whereby accrued expenditure,

totalling €2,590, was completely omitted from the Financial Statements, whilst accruals for water and electricity, cleaning of public convenience and Council's premises, as well as telephone charges were overstated by an aggregate of €3,967. Meanwhile, rent payable to the Land Department was under-accrued by €646. Following LGA's recommendations accrued expenditure was adjusted accordingly.

*It is the Council's practice to reconcile the suppliers' balances with the Suppliers' Statements, which in fact most balances were duly reconciled. Notwithstanding this, the few variances identified, will be followed up in the next financial year.*

*The Council would like to highlight the fact that certain information and the accruals mentioned in LGA's report were not available by the time of the Financial Statements preparation. The proposed set of audit adjustments were correctly accounted for and the Council will ensure that it correctly accrues for all expenditure in line with the concept of accrual accounting.*

The Council 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. In addition, no disclosure has been undertaken by the Council in respect of a bank guarantee of €12,000 in favour of MEPA, which should have also been disclosed as a Contingent Liability in line with the applicable financial reporting standards.

*LGA's recommendation has been noted.*

In a number of categories, expenditure incurred exceeded the budgeted figures for 2013 prepared by the Council itself. The major variances encountered related to Hospitality and Community Costs (€17,274), Cleaning and Maintenance of Public Gardens (€7,514), Professional Services (€7,351), Other Support Services (€4,448), Office Utilities (€4,006), Rent (€3,255), Street Lighting (€3,183) and Insurance (€1,321). On the other hand, although Other Income was budgeted at €25,164, only €18,663 was actually earned by the Council.

*Point not properly addressed.*

## Mellieha

The Council is not honouring the accrual accounting and the matching concept. Income received from a waste recycling company, covering excess tonnage of recyclable waste collected in the locality during 2012, has been erroneously accounted for in the year under review, with the consequence that revenue for the previous year was understated by €9,628, whilst that of the current year is overstated by the same amount.

On the other hand, the sum of €2,300 received from Government under Memo 17/2013 was recognised as income for the current year, even though the live streaming process, to which this grant relates, is not yet in place. Meanwhile, a deposit of €1,165, refunded to the Council during 2012, was still showing as a receivable during the year under review, as the payment was incorrectly accounted for against administrative charges.

Accrued income receivable in respect of an EU project, bank interest receivable, as well as amounts receivable from LCA in aggregate amounting to €1,664 remained unaccounted for. The Council also failed to account for a prepayment in respect of a website hosting invoice.

*Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.*

*The amount of €1,401 in respect of the foregoing EU Project was not recognised during the period 1 October 2013 to 31 December 2013, because the claim for these funds was not yet approved by the Managing Authority by the time of the preparation of the Financial Statements. Thus, the grant was not yet effective and for this reason, it was not accounted for in the Financial Statements of 2013. As for the grant in respect of live streaming of the Council's sittings, it is to be pointed out that the project commenced during 2013 but was finalised in 2014. Moreover, the Council did not have the relative documentation in hand during the preparation of the Financial Statements with respect to LES income for the month of November 2013. Nonetheless, LGA's comments have been noted and the necessary corrections were posted in the Financial Statements.*

*Recommendations put forward with respect to the withdrawn bank guarantee of €1,165 in favour of MEPA, which was effected during 2012, were noted. The necessary correction was posted in the updated Financial Statements.*

Likewise, accounting for accrued expenditure has not been complete, thus resulting in unaccounted liabilities. The Council failed to accrue for rent of €1,250 in respect of leased property. Two items aggregating to €370, which should have been accrued for, were also completely omitted from the books of account. It further transpired that seven invoices, dated in 2013 and totalling €189 were accounted for as Accruals rather than Creditors, whilst a further three invoices, amounting to €121 and dated in the same year, were omitted from the Suppliers' Ledger. The necessary audit adjustments were proposed by LGA and the Council adjusted its Financial Statements accordingly. However, the Council did not account for the necessary adjustment in respect of the omitted invoices totalling to €121.

*The Council did not accrue for the mentioned rentals because no invoice was ever received in this respect and the applicable contracts do not clearly stipulate whether such rent will become due or otherwise. On the other hand, the amount of €200 with respect to EnergEthica project was not accrued for, since the services were provided during 2014. The funds awarded in relation to this project were not recognised in 2013, since the amount of the grant was not yet confirmed by the Managing Authority. The Council confirms that the amount of €121 was included with accrued expenditure at the end of year and therefore it is of the opinion that the proposed adjustment in this respect should not be posted to avoid double accounting.*

Although there was no urgent motive to issue three payments totalling €3,347, one to the Directorate for Lifelong Learning, another to a local bathroom supplier, and one to an individual in respect of a transport expense claim, such payments were still effected before being approved at the Council's meeting.

*The payment made in favour of the Directorate for Lifelong Learning had to be effected due to a deadline set by the said Directorate. This was subsequently included in the Schedule of Payments*

*submitted and approved during the second Council Sitting held on 17 April 2014. Moreover, the payment made to the local bathroom supplier was effected upon delivery of items since such supplier did not accept any credit arrangements. Finally, the payment made to the ETC Community Work scheme employee involved reimbursement of expenses incurred for the use of a private vehicle, in connection with Council work. The relative claim was endorsed by the Executive Secretary and the Mayor, and the payment was raised in the Schedule of Payments submitted for approval during the Council Sitting number 73 held on 10 August 2012.*

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, which in this case is equivalent to €5,015, the amount incurred by the Council in this respect was of €8,590, thereby exceeding the allowed threshold by €3,575.

*Point not properly addressed.*

Upon reconciling FAR with the Nominal Ledger, a number of discrepancies were noted in certain fixed asset categories. For example the cost of road resurfacing as recognised in FAR is €47,302 more than that recorded in the Nominal Ledger. Likewise, the accumulated depreciation with respect to Special Programmes as disclosed in FAR, is overstated by €1,149,879, whilst that in relation to Lamps and Traffic Improvement is understated by €485. Furthermore, in view that the depreciation is calculated through FAR, any variances arising in the cost of assets may lead to an incorrect depreciation provision calculated and recognised in the Financial Statements.

*Since this is the first year that this observation has been raised by LGA, the Council has embarked on an exercise to reconcile the balances of the accumulated depreciation as per Nominal Ledger and FAR. It is however to be stated that the depreciation computation is automatically carried out on a monthly basis by the software available.*

The Council's Assets not yet Capitalised as disclosed in the Financial Statements amounted to €2,436,448. Albeit the list of the said assets provided for audit purposes is in agreement to

this amount, it included a balance of €59,987 with respect to *Triq l-Armier*, which was already finalised and capitalised in the previous year. Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.

*The amount relating to road resurfacing of Triq l-Armier was capitalised in 2013, further to LGA's adjustments. Monthly depreciation was also calculated and posted in the updated Financial Statements.*

A discrepancy was encountered between LES Debtors of €16,595 reported in the unaudited Financial Statements, against which a full provision for doubtful debts was provided, and LES report extracted from the system which totalled €18,819. An adjustment was approved by the Council to increase both the amount receivable and the related provision for doubtful debts by €2,224.

*The amount of contraventions may change either due to additional penalties being imposed or due to the acceptance of petitions and any other cancellations or waivers. An adjustment has been posted in the Financial Statements in order to tally the amount to that as per LES report 622.*

No provision for impairment has been recognised in respect of two balances of €20,224 and €7,545, receivable from a waste recycling company and WSC respectively, even though such amounts have been long overdue. Following LGA's recommendations, the Council recognised a provision for doubtful debts in respect of such amounts.

*Note has been taken of the long overdue balances and the respective provision was recognised in the updated Financial Statements.*

Included in the bank reconciliation is a stale cheque of €1,415.

*Note has been taken and the records were adjusted accordingly.*

The Council received a number of Government grants in respect of various capital projects undertaken during the current year. Workings provided by the Council relating to such grants

indicate a split between Current and Non-Current Liabilities, of €99,858 and €1,799,573 respectively. However, the Council failed to recognise the Current Liability portion in its unaudited Financial Statements. Moreover, grants received in relation to PPP agreement amounted to €215,574, however, the calculation of the release of grants to the Statement of Comprehensive Income was based on the amount of €490,207, resulting in an incorrect portion of the grants released, that was impracticable to quantify.

Additionally, the grants recognised under Measures 313 and 323 amounted to €916,284. However, upon analysis of the claims submitted by the Council, it transpired that the total amount claimed was of €793,768, resulting in an overstatement of €122,516. In its audited Financial Statements, the Council adjusted the amount of Government grants as at year-end to €1,967,679, split between Current and Non-Current portions of €99,858 and €1,867,821 respectively. Still, LGA is of the opinion that the amount of Deferred Income is overstated by €188,612 and has therefore qualified its audit opinion in this respect.

Further to the above, the Council recognised an amount of €282,027, payable to the supplier of PPP scheme. However, the discounted amount due under the agreement should have amounted to €189,712. An audit adjustment of €92,315 was proposed in this respect. The amount due as adjusted by the Council resulted in a total liability of €230,823 thereby ending with an overstatement of €41,111. A qualified opinion was issued in this respect.

*The matter with respect to the Government grants was discussed during the audit, and after obtaining the opening balances of such grants and deferred income from the previous Accountants, revised workings were forwarded to LGA. Various reconciliations about the Measures 313 and 323 were provided to the latter during the audit to explain the transactions effected during the year. Basically, the Council receives the funds from the Paying Agency in a separate bank account which balance, as at year-end, was €85,485. During the past two years, the Managing Authority has been paying contractors involved in the Selmun Heritage Trail, on behalf of the Council, mainly from the specially designated bank accounts.*

*However, the Council had to make some other payments from the operating bank account of the Council to cover expenses not eligible under the specified measures.*

*With respect to the amount payable to the supplier of PPP scheme, the adjustment proposed by LGA has been posted in the Financial Statements. During the course of the audit, upon confirmation of PPP creditor balance, a variance was noted, which was not included in the proposed audit adjustments. The said variance will be investigated in 2014 and if necessary, adjustments will be made to the creditor balance.*

Variations were encountered between the amounts disclosed in the Trial Balance and those recorded in the Financial Statements. Whilst a net negative balance of €13,447 was recognised in the Trial Balance with respect to Current Liabilities, the Financial Statements showed a nil balance. Meanwhile Non-Current Liabilities, as disclosed in the Trial Balance were overstated by €13,446 when compared to those accounted for in the Financial Statements. Discrepancies in the items of Non-Current and Current Liabilities, as well as items of PPE, were also encountered between the opening balances in the Council's Nominal Ledger and the approved audited Financial Statements for the year ended 31 December 2012, which were then adjusted by means of an audit adjustment.

*The Financial Statements are prepared after exporting the data from the accounting system into an extended Trial Balance, which then in turn is used to prepare the Financial Statements. Some adjustments are posted in the extended Trial Balance and will then be posted in the accounting system after the Financial Statements are approved by the Council. Furthermore, some accounts are grouped with others to be presented in the Financial Statements in line with IAS 1. The variances identified by LGA were only in the classification of the Liabilities. The amounts in the Financial Statements were correct.*

*Discrepancies in the opening balances were reconciled and adjusting entries were posted and thus the Financial Statements were corrected.*

## Mgarr

In breach of the Local Councils (Financial) Procedures, the Council did not prepare purchase requests and purchase orders for seven items of expenditure, aggregating to €3,600. Two payments, totalling €7,022, were also not supported by a Payment Voucher. Moreover, expenditure relating to patching works and street light maintenance, of €7,304 and €4,011 respectively, was not supported by an invoice, whilst, the fiscal receipts provided in respect of the said patching works as well as for fuel were undated. In addition, as highlighted in **Appendix G**, €30,910 worth of expenditure was not supported by a fiscal receipt. Similarly, the tax invoice provided in respect of the rubble wall restoration, amounting to €4,366, did not qualify as such.

*Whilst noting the Local Council (Financial) Procedures, one has to keep in mind that certain requests would be required urgently, and thus it would be practically impossible to issue purchase requests and purchase 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 purchase orders. In fact, significant improvement has already been registered in 2013. As for the Payment Vouchers, LGA's comments have been noted and the Council regrets any human error in this respect.*

The contract agreement and tender documents including bid bond, and performance guarantee, covering the supply of concrete in connection with Measure 125, were not provided for audit purposes. As per comparative list of bids, forwarded to the respective service provider through an email by the Council, this service was to be provided for a total cost of €29,172. However, the awardance of this tender was not included and confirmed in the minutes.

*During the audit, the respective tender file was being used to prepare the claim under Measure 125 and was not readily available. Mentioned tender was included and confirmed in the minutes of 3 September 2013.*

It also transpired that the accounting system currently adopted by the Council is a hybrid one between cash and accrual accounting. In fact, all expenditure is being accounted for as a bank payment and thus recorded at bank payment date rather than at invoice date. LGA also noted that, in certain instances, the Council issued only one cheque to settle several invoices, which were subsequently recognised in the books of account with the same payment date, instead of being separately recorded with the appropriate invoice dates. Consequently, in the case of fixed assets purchased during the year, the depreciation charge was incorrectly calculated as from the date of payment rather than the date of purchase.

*With respect to the posting of transactions, the majority get posted through the Creditors Control module, and thus are posted with 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 through a bank payment. However, these transactions did not effect the end of year cut-off and thus any expenses pertaining to 2013 were recorded in the said year, whilst ensuring that any invoices not yet paid as at year-end were included in the Creditors Ledger.*

Likewise, income was being recorded upon receipt rather than when it falls due. Indeed, during the year under review, the Council recognised income in respect of temporary permits and a tender, both issued in 2012, together with Government income in relation to the energy scheme 2010. Meanwhile, LES income for December 2013, and which was invoiced by the Council to the Regional Committees in February 2014, was incorrectly recorded as receivables rather than as accrued income. It also transpired that some of the transactions in the Sales Ledger are being posted as journal entries rather than as sales invoices. The Council is issuing its sales invoices manually and there is no system in place to ensure that such invoices are issued and duly sent to the debtor.

*Invoices to the Regions for the 10% commission are issued directly from LES system, and thus it is impossible that these are issued from the accounting system. However, such invoices are then inputted in the accounting system to recognise both the income and also the balance receivable from the debtors. Invoices for December 2013*

*were posted against the debtors instead of against accrued income, since the transactions related to 2013.*

Several instances were noted whereby income received, as well as certain expenditure incurred, were not classified in their correct Nominal Account. Furthermore, variances between the opening balances as recognised in the Nominal Ledger, and the closing balances as disclosed in the approved audited Financial Statements of the preceding year, for Office Furniture and Fittings, as well as Office Equipment categories, were also encountered. In this latter case, an audit adjustment was passed to rectify the opening balances of the fixed assets category.

*Reclassifications resulting from the reversal of accruals, were noted. No other discrepancies were noted in the opening balances. The related reclassification adjustments were approved by the Council and incorporated in the audited Financial Statements.*

Ten payments, aggregating to €39,142 were encountered which were made prior to the approval of the Schedule of Payments in the Council's meeting. Moreover, details included on the Schedule of Payments were not always consistent with those on the cheques issued and the related Payment Vouchers. For example, cheque number 10128 for €1,817, issued to CIR was incorrectly included in the seventh Schedule of Payments as a payment of €30 issued to an individual. The amount paid to CIR was then recorded in the same Schedule of Payments as being paid by means of cheque numbers 10127 and 10129, which amounted to €1,817 each.

*The Council does its utmost to ensure that cheques are issued after being approved in the Council's meetings. However, one has to appreciate that there may be situations where payments would need to be issued urgently. Such payments are still approved through the Council's first meeting after the cheque was issued. Moreover, the mentioned human errors, with respect to inconsistent details between the Schedule of Payments, cheques and Payment Vouchers have been corrected.*

A FAR is not being maintained by the Council, in line with the requirements of the Local Councils (Financial) Procedures. As a result, depreciation

is not being calculated and posted through the FAR 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, Assets not yet Capitalised, which are being recorded under the Construction category, are depreciated at the rate of 10%, despite that no depreciation charge should be charged until the project is completed and capitalised. On the other hand, an item under the category Office Extension is not being depreciated, even though a depreciation charge of 1% should be applied to buildings and building improvements. In view of these shortcomings, existence and completeness of Fixed Assets disclosed in Financial Statements, having a NBV of €822,305, as well as accuracy of depreciation calculated thereon, could not be ensured. Thus, a qualified audit opinion was issued in this respect.

*It is acknowledged that at the moment FAR is not in place. However, the Council is currently working on a project to create it. Consequently, depreciation is calculated through a spreadsheet and then posted in the accounting system on a periodic basis. Once FAR is brought up-to-date, it will be maintained in line with the requirements of the Local Councils (Financial) Procedures. It is also the intention of the Council to include a detailed description of the assets in FAR.*

The incorrect treatment adopted for the calculation of the depreciation charge, had counter implications on the amortisation of deferred income. The disclosure note with respect to deferred income was also incorrect. Though the Council adjusted its Financial Statements in respect of the grants released, it failed to update the corresponding disclosure note.

*LGA's comments have been noted. However, one has to clarify that it is common practice that the depreciation does not always agree to the release of grant to the Statement of Comprehensive Income, as the amount of the total grant may be different from the amount of the total cost of the asset. The necessary audit adjustments have been accounted for.*

The Council has included as revenue expenditure an accessibility ramp amounting to €11,637 when this should have been capitalised in line with the requirements of IAS 16. Conversely, a deposit

of €1,700 made in respect of the refurbishment of windows and doors has been capitalised, rather than accounted for as an expense in the Statement of Comprehensive Income. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

*LGA's comments have been noted and the proposed changes were reflected in the Financial Statements.*

The Capital Commitments note in the Financial Statements failed to disclose the upgrading of the playing field project for which, during a meeting held on 21 November 2013, the Council has approved the utilisation of UIF funds, amounting to €118,900, and the installation of security cameras in the bring-in site area, for which no cost estimation was provided. Both commitments were also excluded from the annual budget for 2014.

*No definite Capital Commitment was in place as at year-end. The Council's intention is to use UIF funds for these projects, as stated during the Council meeting of 20 February 2014. However, it is important to note that this sitting was also the same one for the approval of the Financial Statements and thus, by the time of the preparation of the accounts, the Council did not have any Capital Commitments. Mentioned tender for the security cameras was issued following an urgent call by the Councillors, after an act of vandalism at the bring-in site area, and this was not included in the budget.*

The Council failed to recognise the amount prepaid with respect to the air-conditioner maintenance agreement amounting to €684, while prepayments in respect of insurance and rent were overstated by €445. Included in the accrued income of €61,180, receivable in respect of PPP project, is still the amount of €20,393 that was received during the preceding year. Similarly, an amount of €3,936 due from a waste recycling company, in respect of 2011, was accounted for as accrued income, even though the Council has issued an invoice and recognised the balance as a receivable. Conversely, road reinstatement works, accrued for in 2012 and not yet received, amounting to €2,100, were not accrued for in the year under review. Likewise, the Council failed to accrue for bank interest receivable. Audit adjustments proposed by LGA



were posted in the Council's Financial Statements accordingly.

*The Council has accounted for a considerable number of prepayments during the closing-off of the year and the preparation of the Financial Statements. The differences mentioned by LGA are immaterial, yet these were adjusted in the updated Financial Statements. The Council prepares the Financial Statements on the accrual basis; hence, the accrued income noted by LGA in the Management Letter was omitted by oversight. Nonetheless, one has to appreciate that all other accrued income was correctly accounted for.*

No provision for doubtful debts has been recognised with respect to a balance of €7,365, receivable from a waste recycling company, even though the latter is in financial distress. In this respect, LGA have proposed an audit adjustment, which the Council has posted accordingly.

*LGA's comments have been noted and the provision was accounted for in the revised Financial Statements.*

A discrepancy of €1,394 was noted between the administration fees on LES fines invoiced to the Regional Committees (€1,725) and the respective amount recognised in the Financial Statements (€331). Moreover, as per LES report, the value of tickets collected by the Council amounted to €1,742, thus resulting in further discrepancies of €1,411 and €17, between the said report, and the amount recognised in the Financial Statements and invoiced by the Council respectively.

Whilst the amount recognised in the Financial Statements in respect of LES Debtors amounted to €20,214, against which an equivalent provision for doubtful debts was also recorded, the balance of LES contraventions payable to the Council amounted to €1,828, thus resulting in an overstatement of €18,386.

The Council is not obtaining monthly statements from its suppliers as required by Memo 08/2002 and is not carrying out regular reconciliations with Suppliers' Statements. Furthermore, the Council

did not provide LGA with satisfactory explanations in respect of two variances, amounting to €2,602 and €1,642 respectively, between the payable amounts as recorded in the Council's Ledger, and that as confirmed by the respective supplier.

It also transpired that two invoices, dated in 2013 and totalling €913, were omitted from the Suppliers' Ledger whilst a further invoice dated in the same year and amounting to €239 has been accounted for as Accruals rather than Creditors. Likewise, whilst accrued expenditure of €659 in relation to handyman services was completely omitted from the books of account, accruals provided for by the Council for utilities were understated. Accrued expenditure with respect to road and street cleaning was also overprovided.

At times, the recognised accruals were not classified in the correct Nominal Account. Furthermore, an opening accrual of €4,410, relating to the use of seminary premises, was incorrectly reversed, partly against course fees and partly against overseas subsistence and accommodation. Following LGA's recommendation, the Council adjusted the Financial Statements to incorporate the invoices and provision for accrued expenditure that it originally failed to record.

*LGA's comments have been noted. The Council does its utmost to reconcile available Suppliers' Statements to the respective balances in the accounts. The highlighted balances will be analysed in 2014 to ensure that any variance is adjusted. The mentioned invoice was posted as an accrual rather than creditor because it was an estimate and not an actual invoice. The audit adjustments and necessary reclassifications were posted in the Financial Statements.*

### Mosta

In addition to the shortcomings highlighted further up in the report, the following were also noted.

The Financial Statements included a rent expense of €15,956 for the year under review, covering various properties exploited by the Council. However, upon scrutiny of the respective rental

<sup>34</sup> In line with the Local Councils (Tendering) Procedures, a guarantee equivalent to 10% of the awarded contract value, is to be submitted within seven days from the acceptance of a contract.

agreements, it transpired that the expense should have amounted to €34,791. No explanations were provided to LGA in view of these discrepancies.

A performance guarantee<sup>34</sup> was not provided for a contract bearing a bill of quantities of €12,400, whereby the respective contractor requested the Council to convert the bid bond (€1,165) originally submitted with the tender bid.

Furthermore, in view that no documentation was provided for audit purposes, with respect to an aggregate balance of €8,669 paid to four different service providers, LGA could not ascertain that such procurement was covered by a call for quotations.

In breach of the Local Councils (Financial) Procedures, expenditure not supported by appropriate documentation has been identified by LGA. No invoice was provided to support payments made to four suppliers, aggregating to €89,066. Moreover, two payments in aggregate amounting to €1,460, covering bulky refuse services and the provision of a stage in Mosta Square, were not substantiated by a proper invoice. Meanwhile, no purchase requests and purchase orders were issued in respect of three expenditure items, totalling €810. The purchase order provided for one of the Council's payments did not tally with the amount as per the Nominal Ledger. An instance was noted whereby a payment of €901 was issued prior to being approved in a meeting. The Council has also failed to provide LGA with a copy of the adverts for quotation in respect of goods and services exceeding €1,165, acquired from four different suppliers.

Sample testing carried out on recurrent expenditure revealed that no proper internal control system is in place. For example, a reversal of €5,571 was identified, when in fact, there was nothing to be reversed. Likewise, a reversal of €22,747 in respect of an invoice posted twice was also noted, however, such invoice was accounted for in 2011, implying that the entry should have been recorded against prior year balances. On the other hand, an invoice relating to refuse collection services, provided during November 2013, was misplaced and omitted from the books of account. Due to the lack of information provided, no audit adjustments were passed. Likewise, Youth Empowerment expenses for the period October to December

2013, totalling €1,680, were not accrued for. These were then incorporated in the accounting records by means of an audit adjustment. It also transpired that, albeit a portion of the invoice pertaining to two login accounts in the permit system related to 2014, the amount was accounted for in the year under review. An audit adjustment was approved in this respect. Another instance was noted whereby the related expenditure was recorded in the wrong Nominal Account.

Reimbursements for elevator expenses in respect of 2012 and 2014, in aggregate amounting to €1,969, were accounted for in the current year. An audit adjustment was proposed to account for the 2014 portion as Deferred Income.

Finance Income as recognised by the Council was understated when compared to the bank letter. Part of this variance relates to under accrued interest receivable which was accounted for through an audit adjustment. It also transpired that the Council recognised a portion of rent receivable, as Income raised under Local Council Bye-Laws, despite that no Bye-Law is in place to cover such income. Conversely, income received from the organisation of courses was not disclosed as income raised under Local Council Bye-Laws, but as General Income.

The Capital Commitments note, as disclosed in the Council's Financial Statements, states that the Council is currently paying its obligations on the two phases of PPP schemes, which amounts are provided for in the said Financial Statements. It further emphasised that apart from such obligations, the Council is not aware of any Capital Commitments. However, this is not representative of the Capital Expenditure projected for 2014, in line with the approved budget document, implying that there was no need for the Council to disclose such statement.

As at year-end, the Council recognised the amount of €81,457 as Trade Debtors, in respect of which a provision for doubtful debts of 23% was recognised in previous year. Notwithstanding that €49,021 of the remaining debtors have also been long outstanding, only the amount of €18,516 was provided for. In addition, no details were provided to LGA, clearly indicating which debtors' balances such provision covers. The Council also recognised a balance of €9,507 as receivable

from a waste recycling company, €7,387 of which forms part of the aforementioned long outstanding amount. In view of the fact that the said company is in financial distress, an audit adjustment to fully provide for the balance receivable was proposed by LGA. Furthermore, the amount recognised as receivable from the Executive Secretary, was overstated. The Council approved to rectify this error through an audit adjustment.

The amount of €30,092, disclosed with Other Receivables in the unaudited Financial Statements, does not reflect the provision provided in the previous year on some of the pending balances, as the related provision has been incorrectly recorded under Receivables. The amount disclosed in the Financial Statements under Other Receivables, is also inaccurate. Moreover, the amount of €2,425 was recognised as receivable from the Mosta Health Centre, when such amount relates to steel works which should have been expensed by the Council. Furthermore, no information was made available with respect to a balance receivable from *Ċentru Hidma Soċjali*, which amount was fully provided for in previous year. The necessary audit adjustments were proposed by LGA and the Financial Statements were revised accordingly.

A variance was identified between the amount recognised in the Financial Statements in respect of LES Debtors and that as per LES report. In fact, the amount disclosed in the Financial Statements, against which the Council has accounted for a full provision for doubtful debts, amounted to €47,695, whilst that as per LES report was of €49,185. Following LGA's recommendation, the Council adjusted its Financial Statements accordingly.

The Council is not honouring the fundamental concept of accrual accounting, thus providing an incomplete and misleading picture of its financial position. In fact, various shortcomings were identified in the accrued income and prepaid expenditure balances as disclosed in the Council's books. Income relating to 2013, but received in 2014, amounting to €1,512 was not accounted for, whilst interest receivable has been under accrued. Prepaid rent in respect of *Tat-Tarġa Battery*, the Council's office and the garage occupied by the Council were under stated, while the prepayment in relation to the Day Care Centre was overstated. These errors were rectified by means of audit adjustments proposed by LGA.

Notwithstanding the fact that Local Councils are non-taxable entities, the Council failed to inform its bankers to refrain from charging withholding tax on its investment income, arising on one of its bank accounts. In this respect, an amount of €162 was incurred during the year under review.

Significant misstatements in the Creditors' List, arising due to the lack of proper recording of transactions, remained undetected by the Council, since no regular reconciliations are being carried out with Suppliers' Statements. Such errors included balances due to creditors being overstated. Other instances were noted whereby payments effected were not recorded with the consequence that the related balances were still disclosed as due. Included in the Creditors' List were also two negative balances arising from the fact that the Council recorded only the related payment without accounting for the respective invoice. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these shortcomings.

A balance payable to a local Architect, amounting to €32,625 was found not to be fully payable to such supplier. In fact out of the aforementioned balance, the amount of €31,307 was partly payable to another service provider. Furthermore, confirmation letters received from another two creditors confirmed that the actual amounts payable were €2,608 and €586 more from those recognised in the Council's books of account. No explanation for such variances was provided by the Council.

From an analysis of the post year-end payments, it was noted that, invoices totalling €4,415, issued and paid during 2013, were completely omitted from the books of account. Other invoices, aggregating to €2,528, issued in 2014 but relating to 2013, were not included in the list of accruals as at year-end. Such omissions were corrected through audit adjustments proposed by LGA. Furthermore, an additional five invoices, aggregating to €1,210, were incorrectly accounted for as accrued expenditure rather than creditors. It also transpired that the amount provided for by the Council in respect of signs was overstated by €1,167, which was then adjusted for, in line with LGA's recommendation.

A variance of €36 was identified between the list of deposits withheld upon application for construction works and the respective amount recognised in the Council's books of account. In fact, according to the Nominal Ledger, the balance due by the Council to the applicants amounted to €33,231 whilst that as per list of deposits is of €33,357. Included in the list of deposits is the amount of €16,211 relating to pending permit deposits which have been issued prior to 2011, thereby it is very likely that the work has been finalised and the respective deposit forfeited. Furthermore, LGA noted that the Council has utilised these funds for its own operations, and the bank account hosting these deposits had a negative balance of €3,678.

The Government grants in respect of capital projects have been incorrectly included in the Financial Statements with PPE rather than with current and non-current liabilities. Furthermore, it transpired that an amount of €498 was released to income in respect of the President's Creativity Award Scheme, notwithstanding that the related grant was of a revenue nature and thus the full €5,000 received in this respect, should have been included in the Statement of Comprehensive Income. The necessary audit adjustments were proposed by LGA and rectified in the Council's Financial Statements accordingly.

Amounts incurred with respect to Capital Expenditure and Administration Expenses have exceeded the budgeted amount by €417,698 (68%) and €224,642 (105%) respectively. Moreover, albeit Bye-Law and LES Income was budgeted at €22,000 and €14,000 respectively, actual earnings amounted to €475 and €12,076.

Testing carried out revealed that the opening balances of the Council's Nominal Ledger did not tally with the approved and audited Financial Statements for the previous year. Variances of €12,253, €10,044, €2,000 and €209 were noted in Refuse Collection Expenditure, Receivables, Retained Earnings and Payables respectively. An audit adjustment was proposed by LGA and the Council adjusted its Financial Statements accordingly. Likewise, comparatives included in the Financial Statements did not tally to the previous year audited Financial Statements.

Shortcomings were encountered in the processing of the raw accounting data available to finalise the

accounts, whereby fundamental reconciliations were not properly undertaken. Unknown balances were not appropriately identified. Payables, as well as Cash and Cash Equivalents as disclosed in the Trial Balance were both understated by €19,613 and €17,612 respectively, when compared to the unaudited Financial Statements, whilst the Statement of Comprehensive Income was overstated by €2,000. Further casting errors and misstatements in the Financial Statements were also noted.

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

### Mqabba

The Council adjudicated the tender for the acquisition and installation of security cameras to the service provider who submitted the lowest bid, amounting to €2,892. However, the actual value of the works performed, and invoiced, by the contractor amounted to €6,261. Notwithstanding that this constitutes a variation of more than 10% in the contracted work, the Council failed to issue a fresh call for tenders, in breach of the Local Councils (Tendering) Procedures.

*The Auditor's impression that the contractor submitted a tender of €2,892 to install a security camera is wrong. The tender T5/2013 was expressly issued by the Council for the provision of two separate security camera units in two different locations. Indeed the cost of one of them was €2,892, and the other €3,369, for which the Council recouped the full cost from a local Government scheme. The two different systems were installed in two public gardens, Misrah il-Fidwa and Ġnien Tfal ir-Rahal. There was no need to issue any fresh calls, as suggested by LGA, and the Council has ample proof for anyone to go through the literature as provided from its offices.*

LGA came across an unrecorded invoice of €9,861 from a contractor for the excavation of a trench in *Triq il-Parroċċa*. It transpired that this work was performed solely to remove the wiring and cables that were previously installed on the façade of the band club. Furthermore, out of the said amount, €4,696 was not certified by the Contracts Manager and therefore is in dispute. The certified part of the invoice (€5,165), was incorporated in the Financial Statements through an audit adjustment.

However, the Council failed to disclose the disputed amount as a Contingent Liability in the audited Financial Statements, in line with LGA's recommendation.

*This trench, which was partly not certified by the Council's Architect, was excavated in front of various clubs and the Council concluded to eliminate many overhead wires and cables in the most sensitive part of the village, i.e. the village square. The overstated amount claimed by the contractor was around €4,000. It is a normal procedure that only certified amounts are recorded in the books of account.*

A grant of €6,662, received in line with Memo 63/2011 for the acquisition of two security cameras in *Misraħ il-Fidwa* and *Tfal ir-Raħal* gardens, was erroneously fully recorded as income for the year. Meanwhile, the amount of €2,569 received from the European Agriculture Rural Development Fund (EARDF), for the launch of a website and the publication of leaflets providing information about the Heritage Trail, was accounted for as deferred income, despite that such items are not expected to yield long-term future economic benefits. The related costs were treated as a revenue expenditure. Following LGA's recommendation, the Council approved the necessary audit adjustments to match the grant with the related expense. In view that following the recording of these adjustments, the overall release of grants to income was overstated by €942, an additional adjustment was passed to eliminate the resulting difference accordingly.

The cost of the website, totalling €985, which was partly financed by the aforementioned grant, was capitalised during the preceding year. Since this website does not meet the definition of an intangible asset according to IAS 38, an audit adjustment of €723, to write off its book value, was proposed by LGA and approved by the Council.

*The Council had no objection to record the amount of €6,662 as deferred income. In line with LGA's recommendation, the Council also matched the grant received for the website and publication of leaflets with the related expense. However, in the Council's opinion, LGA's comments that these items are not expected to yield long-term future economic growth, are absolutely against the spirit of EARDF funds that are intended to boost*

*the tourism in the village. An exhaustive list of deferred income is also being compiled.*

During the preceding audit, the amount of €8,757 was transferred from Deferred Income to Other Creditors, following a request for refund raised by the Paying Agency, this related to works which fell outside the scope of EARDF financing agreement. In 2013, the foregoing amount was deducted directly from the funds available for the project, but the Council failed to reverse this balance from Other Creditors. This error was rectified through an audit adjustment proposed by LGA.

*The amount mentioned by LGA was for works incurred by the Council's contractor to deviate telephony lines and poles in connection with the development of Diamond Jubilee Square junction. These works were excluded from the already signed contract with the Paying Agency and as such, the expenses were never recognised as part of the project itself.*

*The Council is claiming that the telephony works incurred, during the process of embellishment of the site, were directly related to the reconstruction of this very important junction at Diamond Jubilee Square. The Paying Agency is claiming that these works have to be incurred by the Mqabba Local Council, and as such, the contractor is claiming €8,757 and, reasonably enough, is one of the Council's creditors.*

Notwithstanding several recommendations, the Council has not yet compiled a FAR, in breach of Local Councils (Financial) Procedures. Moreover, the Council continued to calculate depreciation manually, and computing it on an annual basis instead of a monthly basis. As a result, depreciation charge on construction was overstated by approximately €5,207. Proposed adjustments were agreed to by the Council and incorporated in the audited Financial Statements.

*FAR is kept separate to the books of account. There is a difference from the books, which the Council is investigating, as it comes from the previous years. The approximately €5,000 overcharge in the depreciation, came about from the manually computed depreciation on an annual basis, instead of monthly computations. In line with the previous years, the Council recommends that the*

*depreciation method is revised from a reducing balance method to a linear method. This method never exhausts all the asset costs over numerous number of years, and it consequently complicates the exercise.*

The Council posted a cheque, amounting to €1,354, as a journal entry rather than a purchase payment in the cashbook. Since the cheque remained unrepresented at year-end, this created a discrepancy in the bank reconciliation provided by the Council. In addition, the Council also had a credit balance of €6,218 included with Cash and Cash Equivalents, which, according to the Executive Secretary, comprises unreconciled bank discrepancies. While €3,109 of this latter amount was written-off to income during the year, LGA was once again unable to carry out audit procedures on these amounts, and consequently cannot establish the existence and valuation of the balance at year-end. Furthermore, a variance resulting from the incorrect posting of bank interest receivable, was noted between the book balance of the savings account and the bank confirmation letter. This error was rectified by means of an audit adjustment. Meanwhile, a further discrepancy was encountered between the cash count and the subsequent reconciliation to Petty Cash account in the General Ledger.

*The uncashed cheque, entered as a journal entry, caused a discrepancy that the Council was aware of, in the bank reconciliation. The payment is actually making good for transactions, which the latter knows exactly what they stand for. Since it was for invoices issued in 2011 and 2012, the invoice was kept in the respective files and not with the 2013 invoices. The Mqabba Local Council shall not pass other similar entries in such a manner but strictly from the cashbook processes, by correctly allocating payment to invoices. With respect to the unreconciled balance, this has been coming over for a number of years. The accumulated balances are being treated prudently by the Council. In fact, the amount of €3,109 was written-off to income during the year in review, following a Local Council meeting's decision. This will be totally cleared in three years' time, by treating the remaining over the next two years. Interests receivable were erroneously passed as a credit and this caused the difference highlighted by LGA. However, in line with the financial regulations, bank reconciliations are carried out*

*on a monthly basis. Cash counts are normally carried out at the end of the day, however the Council is trying to identify the difference of €27.*

It was once again noted that the Council did not obtain statements at, or near, year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Moreover, LGA's reconciliation to Suppliers' Statements revealed that creditor balances of two service providers were understated by €55,747 and €1,240 respectively. In the former case, the Council did not pass an invoice of €45,886 issued by the contractor in 2013, but which had been accrued for last year, and was still included as accrued expenditure during the year under review, and a further invoice of €9,861, of which €4,696 is in dispute. On the other hand, the difference of €1,240 relates to contract management fees incurred in 2012, but which had already been accrued for last year. The Council did neither reverse this accrual, nor post the corresponding invoice. Audit adjustments have been incorporated in the Financial Statements transferring the amounts of €45,886 and €1,240 from accrued expenses and recording the certified amount of €5,165 in the creditor account.

*The Council did its utmost and has sufficient proof of requesting Suppliers' Statements at the end of important periods and at year-end. Thus, it sincerely cannot understand how LGA came to the conclusion that the Council is not requesting Suppliers' Statements. However, most of the time suppliers do not bother to issue statements on time. With the limited amount of human resources, the Council is spending a lot of time requesting not only statements, but also invoices and fiscal receipts. In fact, the latter has set up a plan to select the right suppliers and ignore the others that are failing to comply with their fiscal obligations.*

*For accounting purposes, accrued expenditure and invoices have the same effect on the Statement of Comprehensive Income. The amounts pertaining to the contractor in question were recorded as accrued expenses, since these two suppliers do not quote invoice numbers in their bills (or rather requests for payment). However, the Council does not have any objections to post them as an invoice in the books.*

In its reply to the preceding year's Management Letter, the Council highlighted that the Żurrieq Joint Committee never requested payment of a long outstanding balance, and that the issue resolved itself since this balance was not included in the Suppliers' Statement. During the year under review, the Council wrote back the balance of €10,356 due to the said Joint Committee, presenting it under General Income in the Financial Statements. LGA however, did not find any evidence substantiating that such decision was approved by the Council.

*The provision of €10,356 was made several years ago, with no real invoice sent to the Council. In this regard, this long outstanding creditor, which is a now dissolute body, never existed and it was all provided for just in case during the years the Council was faced with an embarrassing situation, which now turned up to be resolved by itself. The Żurrieq Joint Committee is not claiming any of this outstanding debt.*

Included with Receivables is a long outstanding balance of €3,450 due to the Council from WSC, in respect of trenching works carried out in 2009 and 2010.

*The Council is doing its utmost to collect the outstanding receivables, especially from WSC, in connection with the trenches and the terms agreed upon in the past agreements.*

The Council continued to provide for accrued rent of €1,165 *per annum* on the premises it currently occupies, even though there is no rental agreement in place, and thus no contractual obligation to pay such amount. 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 2013, the balance for accrued rent totalled €17,179. 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.

*The Council has nothing to add to the comments made in the previous years. The latter should not*

*do anything more than what it had been warned about by the Attorney General. The suggestions received from LGA will surely prejudice the case against the Council and this will render the latter without any title in its own Council offices. The accrued rent is simply a provision being made for prudence sake, as the Council feels that it is more appropriate to continue making such a provision in the Statement of Comprehensive Income.*

Disclosed under Other Creditors are two stale and cancelled cheques in aggregate totalling €900. Conversely, a debit balance of €286 in the Creditors' List was reclassified to Other Receivables in the audited Financial Statements.

*The Council shall be reversing the cancelled cheques and is investigating the validity of the stale cheques. If these need to be re-issued, the Council shall re-write the cheques. On the other hand, cheques that are unlikely to be cashed will be reversed against the relevant expense account. Meanwhile, the debit balance of €286 which was reclassified to Other Receivables is also being analysed.*

Incorrect recording of receipts from Regional Committees as income, amounting to €683, as well as omission of invoices issued during the year, totalling €109, resulted in an overstatement of €574 in the Council's income from LES administration fees. Audit adjustments to rectify these mistakes were approved and incorporated in the Financial Statements. Furthermore, a difference of €715 was noted between balance receivable from pre-pooling contraventions, amounting to €96,014, and tribunal pending payments as per Report 622, standing at €96,729.

*LES administration fees were overstated by €574 because of the incorrect recording of receipts. What the Auditor failed to note is, that although invoices are issued in time, i.e. on the first week of the following month, Regions are failing to pay this management fee on time, and this is affecting the Council's cash flow. Notwithstanding this, the Council is doing its utmost to reconcile the related amounts with the respective reports extracted from the IT system.*

*Though the difference of €715 on the pre-pooling regional debtors of almost €100,000, is less than 1%, this is being investigated. However, it is to*

*be noted that since the amount is being provided for as a bad debt, Trade Receivables will always result to nil.*

Contracted Commitments of €2,596 as well as authorised capital expenditure of €21,530 for the coming financial year were omitted from the unaudited Financial Statements.

*Future capital expenditure as contracted commitments should be disclosed in the Financial Statements for everyone to know better the Council's financial situation. However, at the time of submitting the Financial Statements, the Council was not sure of such commitments. This was only consolidated when the Auditors came to do their fieldwork and thus the Financial Statements did not disclose these amounts.*

### Msida

Notwithstanding that the contract agreement and the performance bond covering the provision of Christmas light decorations expired on 29 December 2012, the Council did not send a formal letter of extension to the supplier, instructing him to provide the service again for Christmas 2013, but continued to procure such service under the expired contract. The amount of €5,980 due to the respective service provider was wrongly classified as accrued expenditure rather than payables.

*The Auditor was misinformed on the matter as a formal letter of extension was sent to the concerned contractor.*

Likewise, the procurement of contract management services, collection of bulky refuse, and the maintenance of road signs and markings, was still being effected under contracts that expired on 31 November 2013, 31 August 2013 and 25 October 2012 respectively. The monthly estimated charge incurred under the aforementioned contracts amounted to €566, €1,017 and €404 respectively. It also transpired that the Council has other active contracts in place, whose respective performance bond has expired.

*The issue of tenders for these contracts is in process, while expired performance bonds are also in the process of being renewed.*

During the year under review, the Council paid a contractor the amount of €5,539 for the supply and delivery of extra paving blocks. These additional supplies amount to 11% of the original contract sum, which stood at €52,320 as per an agreement entered into on 28 December 2012. In view of the fact that this extra payment exceeds €4,659, a fresh call for tenders should have been issued in line with the Tendering Procedures.

*No reply provided.*

Although LGA was presented with a FAR, items included therein lacked a detailed description. Moreover, the assets were not tagged. As a result, LGA was unable to physically trace selected items.

*Where possible, FAR has been updated as advised. However, certain assets date back as early as 1994 and could not be adequately identified. As a result, no remedial action could be taken. With respect to tagging of assets, the Local Council will commence the tagging immediately.*

Depreciation for the items falling under the Construction category was understated by €13,438. LGA was however unable to ascertain what the difference pertains to, as the Council is using the accounting software for the calculation of depreciation. A qualified audit opinion was issued in this respect.

*The difference will be investigated.*

Included with Fixed Assets is the amount of €123,648, covering construction works in connection with embellishment works in *Ġnien Misraħ San Ġużepp*. This amount is supported by an undated Bill of Quantities provided by the contractor. However, the certification, which is to be provided by the Council's Architect, could not be traced by the Secretary.

*Point not properly addressed.*

Notwithstanding that it has been highlighted in previous Management Letters, the Council is still making several payments on account to the contractor, hence making it difficult to match the payments with the invoices and reconcile the balance. Moreover, this also increases the possibility of incorrect payments to the contractor.



*No further payments are being made on account to this particular contractor since the contract has expired.*

Albeit previous recommendations to transfer the Council's motor vehicle in the name of the present Executive Secretary and/or the Council, it is still registered in the name of a previous Executive Secretary. It was also noted that the name of this latter individual is shown on invoices sent to the Regional Committees by the Council, which invoices are not even signed by the present Executive Secretary.

*This was to be amended, but since the Executive Secretary resigned, it was put on hold. Action will be taken, and invoices sent to Regional Committees will show the Executive Secretary's name.*

An invoice of €4,398 issued by WasteServ Malta Ltd was recorded twice. Another invoice amounting to €1,567, and dated 31 December 2013, covering maintenance and upkeep of gardens was erroneously recorded as an accrual. Proposed adjustments have been accepted by the Council and are included in the audited Financial Statements.

Included in the Schedule of Payments for January 2014 are three invoices, aggregating to €12,522, which were issued by the Council's former Architect in respect of services provided during 2013. An audit adjustment was approved by the Council to incorporate this expenditure in the books of account, as it remained unaccounted for at year-end.

*Matters have been attended to.*

Any receipts the Council receives on fines issued before 1 September 2011, known as pre-regional, should be deducted from the Tribunal Pending Payments. Thus, the respective balance should decrease or at least remain the same. However, by the end of 2013, such balance increased by €11,282 from the previous year. Therefore, it is clear that the reports generated from the system are not correct, casting doubt on the integrity of the data being generated therefrom. Moreover, the contractor responsible for LES could not provide LGAs with any explanation as to the reason for the increase in debtors.

Further to the above, the unaudited Financial Statements showed income from contraventions amounting to €17,573, comprising €6,291 being income from fines issued pre-regional and the aforementioned increase in LES Debtors of €11,282. Thus, the Council approved the proposed adjustments to reduce LES Debtors and the provision for doubtful debts by €17,573.

*No adequate reply provided.*

The Council was depositing income after accumulating a batch of receipts. Monies aggregating to €746, that were received from permits and tender documents between 23 and 30 January 2013, were deposited a fortnight later, i.e. on 13 February 2013. Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the regulations.

*The Council is making deposits twice weekly through staff from a security services company. This was brought to LGA's attention who was also informed that if the bank takes long to process these deposits, this is not the Council's fault.*

Included with Trade Debtors is the amount of €7,850 due from a waste recycling company which was not effecting regular settlement. Thus, an adjustment was approved to provide for this amount as a doubtful debtor. LGA was also informed that amounts due from other Councils and LES pre-regional contraventions, were received in full as at year-end. Thus, the balance of €11,448 featuring under this title with Trade Debtors category, consists of unidentified deposits which have not been reconciled in previous years.

*The Council shall be looking into this matter.*

The former Mayor and the Executive Secretary are still shown as the representatives of two bank accounts, which were inactive during the year under review.

*Point not addressed.*

**Mtarfa**

Testing carried out revealed that the Council is accounting for transactions on a cash rather than

accrual basis. For example, expenditure of €3,446, €1,387, and €1,095 relating to utilities expenses in respect of the Mtarfa Clock covering the period 2010 to 2013, sports activities held between 2010 and 2011, as well as waste disposal services carried out in 2011 respectively, was recorded in the accounting system during 2013, once the payment was effected. Likewise LES income of €814, as recognised in the accounting records, represents previous year's balances which have been settled during the year under review. On the other hand, the amount of €799 invoiced to the Regional Committees during 2013, was omitted from the records, and accounted for by means of an audit adjustment.

Accrued expenditure at year-end was understated by €1,562. It also transpired that accrued income of €2,397, receivable in respect of certain initiatives undertaken by the Council, was completely omitted from the books of account. The necessary adjustments were reflected in the audited Financial Statements.

Included in the latter balance is the amount of €254 which the Council received during 2014, with respect to an agreement dated 11 March 2011, signed by Director (DLG), whereby it was stipulated that the former will receive the amount of €2,151 in respect of Sports Activities 2011. However, since the Council was unable to provide information as to whether any of the amount committed in 2011 was already received, or any further funds are expected to be received, no additional adjustments were passed in this respect.

Likewise, LGA was not provided with any supporting documentation or explanations as to whether accrued income of €1,208 and €1,098, receivable from WSC and LES respectively, is still due to the Council.

*The Council acknowledges that accounting regulations require expenditure to be recorded in the financial year in which it occurs. However, the instances identified by LGA were not considered material to restate past figures and were hence accounted for in the current financial year. The Council will ensure that all accounting regulations are adhered to in the future, whereby accrued income is reported accurately in the Financial Statements and the list of accruals as at year-end is complete. The deadline for the submission*

*of the draft Financial Statements prevents the Council from accruing for those invoices which are submitted late by the suppliers.*

The lack of proper accounting coupled up with the fact that the Council did not carry out regular reconciliations of Suppliers' balances, led to a number of misstatements in the recording of payables. For example, whilst three invoices totalling €499 were not accounted for, another invoice of €3,960 was recorded twice. In another instance, an invoice of €513 was incorrectly posted in the Supplier's Ledger as €482, thus resulting in a credit balance in the debtor's account.

An over accrual of €794 was recognised as expenditure for the cleaning services of a public convenience. In addition, the Council is still not distinguishing between accruals and creditors. As a result, invoices aggregating to €4,023, that were received before year-end, were recorded as accrued expenditure, whilst invoices received after year-end for services provided during the preceding year, amounting to €2,191, were accounted for as creditors. Furthermore, no supporting documentation was provided to substantiate accrued expenditure of €6,599, in relation to an asset which was not yet completed by year-end. Following LGA's recommendation, the Council approved the necessary adjustments and amended the Financial Statements accordingly.

Notwithstanding that during the year under review, DLG paid the amount of €11,165 to WasteServ Malta Ltd on behalf of the Council, only the amount of €3,434 was recognised in the latter's accounting records. The Financial Statements were adjusted accordingly. However, a discrepancy of €5,637 was still noted between the amount of €5,826 payable to WasteServ Malta Ltd as included in the accounting records, and the balance of €11,463 as confirmed by the latter.

A claim that was adjudicated against the Council was recognised in the Financial Statements as a Contingent Liability of €1,563. Following LGA's recommendation, the Council accounted for a provision, however, the Contingent Liability note was still inappropriately disclosed in the Financial Statements.

In view of the above shortcomings, LGA could not obtain reasonable assurance that Trade Payables,

Accruals and Contingent Liabilities of €54,486 as recorded in the Financial Statements were not materially misstated. Thus, a qualified audit opinion was issued in this respect.

*The Council shall ensure that accounts with outstanding balances are reconciled with Supplier Statements periodically. The Creditors' List has now been reviewed, and incorrect entries were reversed. Moreover, the Council will ascertain that all invoices dated up to year-end are included as Creditors.*

*Comments raised by LGA in respect of the amount paid by DLG to WasteServ Malta Ltd have been noted and the respective adjustments were passed.*

*Following LGA's recommendation, the Council has also accounted for the Contingent Liability arising from the adjudication of the pending court case.*

Since the information and evidence provided by the Council to substantiate deferred income of €147,573 was not sufficient as indicated hereafter, LGA had no option other than to qualify the audit opinion.

- a. Although in line with the documentation provided for audit purposes the Council was entitled to receive €50,000 from Transport Malta and €60,600 from DLG with respect to the PPP scheme, only the latter amount was received and recognised in the books of account. However, the Council claimed that this might need to be partly refunded, since the actual cost incurred was much lower than that anticipated. **Table 7** refers. Queries raised by LGA in view of the substantial net discrepancy of €35,150, remained unanswered.

- b. The amount of €53,690 receivable from the Housing Authority, as recognised in the books of account, and the nature of works to be carried out by such funds could not be ascertained by LGA, as the Council failed to provide the related agreement.

A discrepancy was also noted in the deferred income recognised with respect to the Playing Field project, as the Council failed to record the amount of €36,818, which was paid directly to the contractor by DLG. Following LGA's recommendation, the Council approved the necessary adjustments to increase the cost of PPE, as well as Deferred Income by the aforementioned amount. Additional adjustments were passed to recognise depreciation charge and the release of income to the Statement of Comprehensive Income. However, depreciation posted by the Council on the said asset amounted to €2,560, whilst that of the grant released was €1,803, thus creating a further variance of €757.

The amount of €1,000 invoiced to a private company, in respect of a two-year agreement, covering the period 1 January 2013 to 31 December 2014, was fully recognised as income for the year.

*The adjustments proposed by LGA have been posted accordingly. The Council shall strive to have proper documentation supporting grants and other commitments from third parties, so that these will be appropriately reflected in the books of account.*

Whilst accumulated depreciation of Computer Equipment, as well as Plant and Machinery, as recorded in FAR, is overstated by €1,663 and €189 respectively, in the case of Office Furniture, this is understated by an immaterial amount of €14.

**Table 7: Variances between estimated and certified costs**

Details	Amount originally communicated to DLG	Certified amount	Variance
	€	€	€
<i>Triq Bonello</i>	100,000	49,033	50,967
<i>Triq l-Anzjani</i>	10,600	26,418	(15,817)
<b>Totals</b>	<b>110,600</b>	<b>75,451</b>	<b>35,150</b>

It was also noted that certain assets have been categorised incorrectly, for example, a printer and a computer system costing €496 and €759 respectively, have been categorised under Office Equipment rather than Computer Equipment. Moreover, the Council was unable to locate the existence of a computer system purchased in 2005 and a mobile phone purchased in 2000, despite that these are both recorded in FAR.

During a meeting held on 21 March 2012, the Council agreed to dispose of a number of assets. While these assets were removed from FAR, such action was not reflected in the books of account, resulting in an overstatement in the Financial Statements.

Irrespective that refurbishment works carried out in the old barracks area were certified as complete on 5 September 2013, the related cost of €23,740, was still included in the list of Assets not yet Completed. It also transpired that Architect fees of €3,960 in relation to the aforementioned project were accounted for twice. Moreover, the amount of €10,427 included in the Special Programmes account actually relates to Assets not yet Completed, and thus should be reallocated to such account. Following LGA's recommendations, the Financial Statements were rectified by the Council.

*The Council shall be reviewing FAR so as to properly categorise all assets and rectify the errors noted by LGA. Such review will consist of checking the Cost, Accumulated Depreciation and NBV, and also identify those assets that have been disposed of or are obsolete. The revised FAR will then be reflected in the books of account. LGA's recommendation with respect to Assets not yet Completed will be implemented during 2014.*

A variance of €4,524 was also noted between LES Debtors as disclosed in the Council's unadjusted Financial Statements, and the pending contraventions payable to the Council as per the reports extracted from the LES computerised system. Even though the amount has been long impaired, LGA proposed an audit adjustment to recognise the omitted balance and fully provide for it in the Financial Statements. Accordingly, the Council has undertaken the necessary adjustment to rectify the matter, however, the provision for

bad debts on LES Debtors was disclosed as €486 rather than €5,010.

*LGA's recommendation has been noted.*

Notwithstanding the possibility that the amount of €4,600 receivable from a private company, is not recoverable, no provision for doubtful debts was recognised by the Council. Following LGA's recommendation, the Financial Statements were rectified accordingly, however, no separate note was disclosed in respect of the said provision.

*All receivables shall be verified before being included in the Financial Statements. The audit adjustment proposed by LGA in this respect has been accounted for.*

An amount of €11,650 brought forward from previous years was again recognised in the Financial Statements as Accrued Income. This amount relates to a grant that had been committed by the Housing Authority, but which was not yet released, since the latter is still waiting for some clarifications from the Council.

*LGA's comments have been agreed to and the Council shall take up the matter with the Housing Authority without further delay.*

Following an analysis of the Personal Emoluments paid by the Council during the year under review, various shortcomings were identified. The double payment of the 2012 performance bonus, as well as the June 2013 Government bonus to the Executive Secretary, resulted in a total overpayment of €2,281. On the other hand, the pro-rate honoraria paid to the current Mayor for the period April to December 2013 was understated by €534. Likewise, the previous Mayor was also slightly underpaid. It was also noted that the salary being paid to a Clerk does not correspond to a particular scale and notch of the Government pay scales, as determined in the employment contract. However, though requested, the Council failed to provide specific details in this respect. Following LGA's recommendation, the Council approved to reverse the overpaid amount from the expense account and recognise it as a prepayment.

*The Council shall ensure to pay the correct amount of Mayor's remuneration in the future.*

*Moreover, the overpayments made to the Executive Secretary were the result of an erroneous manual calculation. The Council has now purchased a payroll system with the intention of eliminating calculation errors of this nature.*

Payments aggregating to €36,568 were not covered by a fiscal receipt in terms of the VAT Act. Moreover, another amount of €3,446, representing utilities expenses for the period 2010 to 2012 with respect to Mtarfa Tower Clock, was only substantiated by a single invoice amounting to €328.

*LGA's remarks have been noted. Nevertheless, it is to be pointed out that, at all times, the Council asks for proper tax invoices and VAT fiscal receipts, however, these are not always provided by the suppliers.*

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 (€1,172), whichever is the highest, expenditure paid by the Council in respect of this event totalled €6,394, against which it received €350 in sponsorships. Thus, the maximum threshold was exceeded by €2,544.

*It is true that expenditure incurred in respect of Jum il-Lokal exceeded the set threshold, however, the activity consisted of more than one event. In view of this, the Council shall endeavour not to exceed the maximum threshold in the future.*

The Council is still reimbursing €90 per month to an employee of IPSL, for using his personal vehicle to carry out work on behalf of the Council. This fixed monthly reimbursement was established by the Council and is not covered by an agreement or by the actual mileage being reimbursed in line with prior years' recommendations.

*The said employee is providing the claim in the form of an invoice. The majority of the expense relates to fuel and vehicle wear and tear, however, it also includes a portion in relation to the use of employee's own workshop and utilities.*

Whilst Capital Commitments as per Financial Statements amount to €27,000, only €9,700 was projected in the annual budget for 2014.

*The Council will ensure that Capital Commitments as at year-end are properly recognised in the Financial Statements.*

Actual expenditure incurred in respect of Operations, Maintenance and other expenses, as well as Personal Emoluments, exceeded the estimated budget by €42,401 and €9,139 respectively. Moreover, whilst only the amount of €10,000 was budgeted for capital expenditure, €89,920 was actually spent.

*The Council shall strive to keep to budgeted expenditure.*

As already noted during the preceding year, the Council's accounting system is accessible only from the Accountant's office, while no back-up is kept at the Local Council.

*There was a technical difficulty in restoring the data on the accounting system due to a different version being used by the Council's Accountant. A copy of the said system will be regularly refreshed on the Council's computer as soon as the technical issue is resolved.*

### Munxar

The three-year agreements with the Director for Tourism and Economic Development, for the cleaning of the public conveniences, street sweeping and cleaning, as well as 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 €6,710, €4,642 and €548 respectively were expensed in this respect.

The service of street sweeping in Xlendi, is being provided under a tender that was issued in 2011 for a one-year period. Despite that neither the tender document nor the contract mention the possibility of renewal, the latter is being renewed annually. From the expiry of the said contract, to-date the Council was invoiced the total amount of €11,777, of which, €5,866 relates to 2013. On 23 October 2013, a new tender was published, and was adjudicated to the same contractor, being the cheapest bid.

*The Council is aware that the contracts for cleaning of public conveniences, street sweeping and cleaning, bulky refuse collection, and upkeep and maintenance of soft areas have expired. The matter will be discussed further, taking into consideration LGA's recommendations.*

Testing carried out revealed that transactions were being accounted for on a cash basis instead of the required accrual basis. For example, the Council failed to accrue for income receivable, totalling €31,650, of which €28,464 related to grants still due under Measure 313, with respect to several projects falling under this scheme, that were completed during the year under review. The remaining balance of €3,186 related to activities for which the Council was given funds as per Memos 49/2012 and 38/2012. Meanwhile, the amount of €4,053 received during 2013, with respect to activities organised during the preceding year, was incorrectly recorded as income rather than settled against the accrued income brought forward. Furthermore, the payment covering the annual rent up to December 2014, for a Kiosk at Xlendi Bay, was fully expensed. On the other hand, prepaid rent brought forward from the preceding year was not reversed, even though no invoices were issued during 2013 in this respect. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly.

*The points raised by LGA were noted and the necessary adjustments for the funds receivable under the various funding schemes were accounted for as recommended by the latter. The prepayment on the rent paid was also adjusted for.*

The Council failed to recognise a provision for accrued expenditure with respect to rent payable, Christmas decorations, and utility costs for the last period of the year. Following LGA's recommendation, the Council approved an audit adjustment of €9,421, to account for the aforementioned expenses. An additional adjustment was passed in order to record an invoice, that was dated in 2013, but received after year-end, and remained unaccounted for. Further testing also revealed that invoices totalling €4,639, covering 2013 but dated in 2014, were incorrectly recorded within accounts payable instead of accrued expenses.

Likewise, a project costing €64,325, relating to the Visitors Centre within the Xlendi underground flour mill in Munxar, which was ready by the end of the year under review, was neither capitalised nor accrued for. Given that such project should have been accounted for by way of an accrual, an audit adjustment was posted to reflect the cost of this project. Consequently, the omission of this transaction also had a direct impact on the depreciation charge for the year, as well as on the deferred income relating to the respective grants. These were also incorporated in the books of account by means of an audit adjustment.

The same situation was noted with respect to two other projects, relating to the supply and fixing of pedestrian guardrails and construction of pavements at *Triq il-Kantra*, ix-Xlendi, and the creation of a pedestrian zone within il-Munxar Church Square, both of which were still in progress at year-end. No invoices were received by the Council. However, the latter failed to provide for the expenses incurred up to 31 December 2013. Thus, an audit adjustment of €32,100 was incorporated in the accounting records to recognise such liability and the respective asset under construction.

*The invoices received at year-end will, in future, be treated as accruals if these are not dated in the year under review. The other recommendations made by LGA have been noted and the recommended adjustments made and reflected in the audited Financial Statements.*

Depreciation of €2,299 was recorded in respect of *Tal-Kantra* project, notwithstanding that the related furniture was not yet installed in place by 31 December 2013. Following LGA's recommendation, the Council approved to reverse the transaction.

On the other hand, two projects costing €35,654, relating to the resurfacing of a rural track, and the subsequent installation of furniture at *Tal-Ponta*, both fully completed by March 2013, were still categorised as Assets under Construction at year-end. However, depreciation was charged on these same projects before March 2013, *i.e.* when these were still in progress.

Restoration works, undertaken during 2013 on the underground mill, were erroneously capitalised, even though it was clear that the works were of a revenue nature. In view of this, audit adjustments of €165,142 and €12,607, were passed to expense the related costs and reverse the depreciation charged thereon. Further testing also revealed that funds granted to the Council in view of such works were still recorded as Deferred Income as at year-end. Thus, an additional adjustment was approved to release grants of €165,142 to the Statement of Comprehensive Income to match the related expense.

Project management fees paid in relation to an Eco-Gozo project were expensed. Such fees, amounting to €854, were reclassified to PPE through an audit adjustment. The related depreciation charge was also incorporated in the books of account following LGA's recommendation.

*Recommendations forwarded 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.*

Some of the electronic equipment included within FAR was not being used as it was replaced. LGA was informed that Council's staff did not have sufficient time to carry out an exercise to write off the assets no longer in use. This is now planned to be carried out during the next financial year.

*The Council intends to carry out an exercise in order to write off the fixed assets that are no longer in use.*

Several variances were encountered between FAR and the Nominal Ledger before the relevant audit adjustments were passed. The cost of assets in the books of account was overstated by €38,782, whilst the accumulated depreciation was understated by €3,881, implying that the resulting NBV was overstated by €42,663. It also transpired that an invoice of €26,839 was incorrectly recorded in FAR as €2,851. In addition, two audit adjustments, of €3,881 and €14,794 respectively, netted off against the cost of the assets, were both omitted from FAR. Consequently, since the depreciation is calculated on FAR figures, another

adjustment of €1,357 was passed with respect to the depreciation charge.

*The recommendations made by LGA regarding the classification of fixed assets and the updating of the FAR in line with the Nominal Ledger have been noted. The Council has made the adjustment as recommended by LGA.*

Reconciliation of the amount payable to WasteServ Malta Ltd as recorded in the books of account, with the related Supplier's Statement, revealed a discrepancy of €2,015. This variance represents the amounts not accounted for by the Council in the preceding years, in view that the balances invoiced by the supplier exceeded the amounts allocated for tipping fees. The Council took on board LGA's recommendation and adjusted the Financial Statements accordingly.

*The account relating to WasteServ Malta Ltd has been reconciled.*

Whilst going through the Debtors' List it was noted that a balance of €1,498 receivable from MEPA, as well as an amount of €1,680 forming part of a total balance of €2,070 due from a waste recycling company, have been long outstanding. This shed doubts on their recoverability.

*Point not addressed.*

Accounting for grants was not carried out in line with IAS 20. Instances were noted whereby funds received in the previous year were being amortised even though the related projects were either still in progress or not yet initiated by year-end. Thus, the amount of €5,216, representing the said amortisation was reversed. Furthermore, in several cases, the amortisation was not started on the date when the related capital project was actually completed. Consequently, several adjustments, amounting to €21,271, were approved to correct these errors.

Funds totalling €7,085 were fully written off to the Statement of Comprehensive Income, despite that these related to a project of a capital nature.

*The points raised by LGA regarding the deferred income and its amortisation have been noted. In the future, more attention will be given to the*

*points mentioned, in order to avoid repeating the same mistakes.*

Rental income covering a one-year period from 8 December 2013, derived from the renting of the Xlendi Kiosk to a local commercial bank, was fully recognised as income for the year. Furthermore, included in the Deferred Income account there was still the opening balance covering 1 January to 7 December 2013. Thus, an audit adjustment was passed, representing the difference between the opening and closing deferred income.

Included within the income Nominal Accounts were invoices totalling €5,550, issued to WSC for road reinstatement works. The Council confirmed that, up to the time of audit, it had not carried out any works, but it was planned to do these works in the future, following a call for tenders. Thus, it was agreed to defer this income until the works are carried out so that the expenses, which will eventually be incurred, could be matched with the related income.

*The recommendations made by the Auditors have been noted and further action will be taken to ensure that the matters mentioned are resolved. The audit adjustments were reflected in the audited financial statements.*

Payments amounting to €3,247 were issued prior to being approved in Council's meetings.

*Salaries are statutory payments set in the conditions of employment. It is normal procedure to pay employees salaries at the end of each month. As stated by LGA, these were approved in the December Council meeting.*

Budgeted expenditure with respect to Community Services was exceeded by €6,963.

*This budget was exceeded due to activities held during the year. In the future, the budget will be revised according to actual expenditure to avoid such instances.*

#### Nadur

In the preceding years, LGA brought to the attention of the Council the expiry of the agreement for the collection of commercial and household waste. This contract expired on 31 August 2008, however in line with the instructions provided by DLG, the Council continued to extend the said agreement. Although the tender was issued in 2010, a new contract was only signed on 14 June 2013, since one of the respective bidders filed two appeals. This implies that the total amount of €17,091 expensed during the year under review for services rendered, from the beginning of the year up till 13 June 2013, was invoiced to the Council under an expired contract. LGA acknowledged the Council's corrective action, but also highlighted the importance that immediate action is taken in the future, so as to ensure that a new contract is in place by the time the other one expires.

*As explained during the preceding year, the tender for household waste collection could not be stopped otherwise there would be chaos. The previous contract could not be renewed since there would have been new conditions attached. The tender that was issued was at appeal stage by one of the suppliers, so this froze the tendering process for the Council. The latter did what it felt was the best for the locality without jeopardising its position with the previous and the prospective contractors.*

During the year under review, the Council issued a tender for the upgrading of alleys, covering the full year of 2013. This was awarded to the cheapest bidder and the works were carried out as stipulated

**Table 10: Variances between Actual and Budgeted Expenditure**

Item of Expenditure	Amount exceeded
	€
Contractual services	45,174
Repairs and upkeep	18,299
Office services	4,732
Information services	2,463



in the tender document. However, it was noted that the contract having a value of €14,014, drawn up following the awardance of such tender, was not signed by the service provider as the Council failed to furnish the latter with a copy of the said agreement.

*The tender for the upgrading of alleys has been signed and is in order.*

The Council has exceeded the budgeted expenditure in certain categories as indicated in **Table 10**.

*The budget was not revised during the year. The reason for this was to measure expenditure and income against the original budget, which was approved by the Council.*

Expenditure of €2,008 and €1,074 incurred in relation to the repairs of pavements and tiling, as well as repairs of passageways and pavements respectively, was capitalised despite that the works carried out were of a revenue nature. On the other hand, a contract management fee of €4,870 relating to the project of the Community Centre which has not yet started, was expensed in the Statement of Comprehensive Income, rather than deferred to be eventually capitalised with the related costs upon commencement of the project. The necessary audit adjustments were proposed by LGA to correctly categorise the aforementioned expenses. Reallocation adjustments of €947 were also recommended to transfer costs from one asset category to another. An additional adjustment of €756 was passed to reallocate materials from the Urban Improvements category under PPE to the Sundry Materials and Supplies account.

*The recommendations made by LGA, relating to the recurrent expenditure that was capitalised and assets relating to the previous year, were noted and the necessary adjustments made. The adjustments in respect of other items related to PPE were also accounted for and reflected in the audited Financial Statements.*

Additions of €56,370, capitalised under the Construction category, represented amounts invoiced during the year under review but which were already accounted for in the preceding year by way of an accrual, as these related to works that were carried out during 2012. Thus, an audit

adjustment was approved by the Council to reverse this transaction.

The depreciation charge for the year, expensed by the Council, was overstated by €19,410. Part of this discrepancy resulted from the fact that the accounting policy, to fully depreciate playground equipment in the year of purchase, was not adhered to.

*The recommendations made by the Auditors were noted. The necessary adjustments and reclassifications were reflected in the audited Financial Statements.*

The opening balances of the different categories of PPE within the books of account did not tally to the balances disclosed in the Financial Statements. This necessitated the proposal for a reclassification adjustment whereby the cost of Construction and Office Furniture and Fittings was debited by €28,961 and €1,600 respectively, whilst that for Urban – Street Paving, Plant and Machinery as well as Urban – New Street Signs, were credited by €23,324, €4,913 and €2,324. An additional adjustment was also passed to correct the opening balances with respect to accumulated depreciation. Whilst accumulated depreciation for Construction and Computer Equipment was increased by an aggregate amount of €9,829, that for Property, Office Furniture, Urban Improvements and Urban Street Signs was decreased by the same total.

Cut-off procedures were not carried out properly. Street lighting works worth of €5,975, carried out during 2013 but which were not yet invoiced by year-end were not accrued for. Likewise, the amount of €1,102 invoiced by the mechanical and electrical contractor for works carried out during 2013 remained unaccounted for. Meanwhile, an invoice of €4,754 dated in 2014 was incorrectly recorded in the books of account with a 2013 date. Besides that this resulted in an incorrect classification between accounts payable and accrued expenditure, this invoice was posted again as a year-end accrual, thus resulting in double accounting. In addition, an amount of €3,977 relating to Christmas decorations purchased during 2012 was accounted for as an expense during the year under review, as it had not been previously accrued for. These errors were rectified through the audit adjustments proposed by LGA.

*The recommendations made by LGA have been noted and the adjustments were accounted for and are reflected in the audited Financial Statements.*

The above shortcomings clearly indicate that the Council failed to carry out regular reconciliations between the Suppliers' Statements. Other variances were noted between the amounts disclosed in the books of account and the related statement. The amount of €13,819 had not been accounted for as yet, since this balance was in dispute, due to the fact that the works carried out by the service provider were not deemed satisfactory by the Council. After deducting this balance, an unexplained discrepancy of €666 still remained. This issue was already highlighted in the preceding year.

Reconciliations were also not being carried out between amounts invoiced by the contract manager with respect to the different roads under PPP scheme. Although the net discrepancy between the Council records and the Supplier's Statement amounted only to €233, the discrepancies, when worked out on a road-by-road basis rather than in total, were much higher. This implies that there is no agreement on what is actually due on each specific road.

A variance of €13,265 was also encountered between the balance payable to WasteServ Malta Ltd as recorded in the Council's books of account, and the respective Supplier's Statement. This discrepancy represented an amount of €2,364 relating to November 2013 tipping fees not accounted for, as well as €10,901 relating to variances not recognised by the Council during preceding years, on the basis that the amount invoiced by the supplier was in excess of the allocation provided for such expense. Following an agreement reached with DLG, these variances were paid through supplementary funds being allocated to tipping fees and posted accordingly by way of audit adjustments.

*The Council tries to get Suppliers' Statements, however if suppliers do not cooperate this is not possible. During the last years, amounts of disputed invoices claimed by WasteServ Malta Ltd had been covered by way of note as a Contingent Liability. The recommended adjustments have been reflected in the audited Financial Statements.*

A number of invoices were posted in incorrect account categories. In fact, several adjustments aggregating to €11,941 were passed in this respect. Meanwhile, an invoice relating to sponsorship income of €2,500, in view of an activity that was to be held in 2014 was recorded as revenue for the year instead of treated as deferred income. This error was rectified by means of an audit adjustment.

In line with the agreement in place, expenditure incurred under PPP scheme is payable over a number of years. However, such payables were not properly split between current and non-current liabilities. The non-current liability of €159,871, as recorded in the unaudited Financial Statements, was left the same as that of the preceding year. Thus, audit adjustments, to reallocate a net amount of €23,970 from long-term to short-term liabilities, were approved by the Council.

*The recommendations made by the Auditors have been noted and further attention will be given to the year-end posting. The adjustment to revenue was accounted for and reflected in the audited Financial Statements.*

The amount released to the Statement of Comprehensive Income was overstated by €3,195. This was adjusted for by means of an audit adjustment. It also transpired that during the year under review the Council received the final amount of €40,355 in relation to PPE projects completed during the preceding years, which were never accounted for. Thus, an audit adjustment of €4,800 was incorporated in the books of account to recognise the amortisation of these grants that should have been accounted for in the previous years. Likewise, an additional adjustment of €2,069 was approved by the Council to release income received with respect to restoration works expensed during 2012. Another audit adjustment was passed to reverse deferred income released in the preceding year covering Eco-Gozo project, since DLG did not accept all the costs forwarded by the Council as being eligible for the grant.

*LGA's recommendations regarding the deferred income and the amortisation of assets have been noted and the recommended adjustments were accounted for and reflected in the audited Financial Statements.*

Further testing carried out revealed that Receivables were not accounted for properly. For example whilst Opening Prepayments with respect to insurance and rent amounted to €274 and €1,584 respectively, the incorrect amounts of €786 and €620 were reversed. A receipt of €396, for a sports initiative undertaken during 2011, was erroneously posted against receivables despite that this was not accrued for in the preceding years. The Council also failed to provide for the amount of €1,543 receivable in line with Memo 122/2011. The amount received by the Council from UIF was €644 less than the original balance agreed upon with MEPA, as disclosed in the agreement dated 1 October 2013. Following LGA's recommendation the Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

*The amounts receivable mentioned by LGA were not all evident at the time of preparing the unaudited Financial Statements. The necessary adjustments were made and reflected in the audited Financial Statements.*

Included within the Debtors' List is a long outstanding balance of €222 due from WSC, as well as €1,000 due from a waste recycling company which currently is facing a financial distress. This casts doubt on the recoverability of the related amounts.

*The amount due from WSC will be looked into and the necessary action to be taken will be decided by the Council. The Council was never notified that the waste recycling company was in financial difficulty and that the recovery of funds due was doubtful.*

### Naxxar

Instances have been identified whereby the Council is still procuring the provision of refuse collection and insurance services contracts that have expired on 31 August 2009 and 5 May 2013 respectively. The accounting records indicate that total expenditure incurred by the Council during 2013 for such services amounted to €81,436 and €2,131 respectively.

*Rightly so, LGA highlighted three contracts for which a tender had not been issued and/or*

*awarded during the year under review. A tender for the collection of household waste was issued in November, whilst a call for quotations for an insurance cover was issued recently. As regards the maintenance of street lighting, Councils were instructed to renew the current agreement and it was only recently that the Councils were directed to issue a call for tenders. In fact, discussions in view of this tender are being held on a Regional basis.*

The composition of FAR maintained by the Council is not in line with best practice and in terms of the Local Councils (Financial) Regulations. Due to the untagging of assets to the respective fixed asset code, an attempt by LGA to physically reconcile fixed assets items with FAR was rendered futile. In addition, a reconciliation of the amounts in the Nominal Ledger to those in FAR revealed that both the cost and the depreciation of certain categories in the Financial Statements are different from those in FAR. Furthermore, various assets are being depreciated at the wrong rate, besides that a full year depreciation charge has been accounted for all the assets, even those completed and certified in December 2013. Thus, whilst LGA is of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive at the exact amount of misstatement. In view of this, a qualified audit opinion was issued.

The Council has written off, from its Financial Statements, the cost together with the related accumulated depreciation in respect of street signs, both totalling €49,838. This is not in line with the accounting policy that should be adopted by the Council, whereby street signs are to be accounted on replacement basis. On the other hand, amounts incurred for the procurement of computer software aggregating to €1,160 and €1,800 respectively were expensed instead of capitalised.

*Process has already started to tag all tangible assets, but due to much pressure of other urgent and important work, the Council has fallen behind its schedule to finalise this task. An exercise was also to be carried out during 2014 so as to ensure that depreciation in FAR is being taken correctly as per accounting policy. All the other points were noted.*

Balances totalling €80,030, included within Trade Receivables, have been long outstanding. Out of this amount, €51,859, which is receivable from MEPA, has been fully provided for by the Council. However, no provision for doubtful debts has been accounted for with respect to the remaining overdue balance of €28,171, but in view of the possibility that the amount of €4,860 owed from a private entity will not be recovered, the Council approved LGA's recommendation and provided for such balance.

*A provision for doubtful debts had been recognised in the Financial Statements. In the meantime, the Council has just received confirmation that the amount of €51,859 will be released by MEPA to the Council in the coming days.*

The Council failed to recognise accrued income of €34,984 for work undertaken during the current financial year, in respect of *Triq Castro*. In addition, accounting for accrued expenditure was either incomplete or fully omitted, with the result that total expenditure for 2013 was understated by €2,374. These transactions were incorporated in the books of account by means of audit adjustments.

*By the time the accounting year is closed off, the Council would have not received all the invoices. More information would obviously be available by the time of audit. However, the Council will continue to do its utmost to accrue for all the expenditure.*

Audit testing carried out on grants revealed that both the Deferred Income of €298,524, as well as the release to the Statement of Comprehensive Income of €25,241, as recognised by the Council were misstated. A number of adjustments, having a net effect of €1,605, were passed to increase Deferred Income and decrease the consequent release accordingly.

*LGA's recommendations were noted and the respective adjustments were approved accordingly.*

Notwithstanding that the Council reconciles its creditors' balances on a frequent basis, two instances were noted whereby the balances as recognised on the Creditors' List were understated by €16,132 and €1,200 respectively. The omitted liabilities, together with the related expenditure,

were then accounted for through the audit adjustments proposed by LGA. An invoice dated January 2014, amounting to €1,165, was also incorrectly accounted for in the Suppliers' Ledger, rather than as an accrual. Meanwhile, expenditure of €1,095 incurred upon the installation of a solar water heater in December 2012, was recognised in the books of account during 2013.

*LGA's recommendation was noted and the necessary adjustments were approved.*

One of the Council's sources of income is the hiring of facilities falling under its responsibility. Notwithstanding that the respective Bye-Laws were not in place, during the year under review, the Council collected €501 from the hire of the Council hall and the football ground, as well as from the hosting of courses. On the other hand, income of €869 derived from advertising, which activity is covered by a Bye-Law enacted in 2011, was incorrectly disclosed under General Income in the Financial Statements.

*Charges for the rental of Council hall and football ground are basically to cover expenses incurred by the Council, as no profit is actually made. As a matter of fact the amounts involved are minimal. Notwithstanding this, the Council is in the process of enacting the necessary Bye-Laws as recommended.*

Meanwhile, revenue of €7,406 derived by the Council during the preceding financial year has been accounted for in 2013.

*Point noted.*

Capital Commitments of €143,400 were included in the budget for 2014, however only €53,500 were recognised in this respect in the Financial Statements.

*The Financial Statements show a true picture of the actual Capital Commitments made. These are based on actual decision taken by the Council and not on the budgeted figures.*

The Council failed to disclose Contingent Liabilities filed by two insurance companies, in respect of damages aggregating to €7,300, caused to their insured vehicles as a result of an accident. On the other hand, the Council has included a

contingency of €16,000, with a private company, when such balance was already recognised as a liability. Furthermore, included with Contingent Liabilities there is still a Court case, which the Council lost and settled for €9,098. Following LGA's recommendation, the Council adjusted the Financial Statements accordingly.

*The Council adhered to LGA's recommendations and made the necessary adjustments.*

Professional fees budgeted for 2013 were exceeded by €11,355.

*LGA's recommendation was noted.*

### 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 Council informed LGA that the main scope of the agreement was to pool the administration expenditure of the Żejtun Joint Committee, rather than pooling funds. However, a copy of the said agreement was never provided to LGA, despite that the latter requested it several times during the past years.

*Point not addressed.*

Various shortcomings were noted in the recording of income. For example, bank interest receivable, as accounted for in the books of account, is understated by €365. Meanwhile, an amount of €2,300 received from Central Government under Memo 17/2013, was recognised as income for the year, despite that the live streaming process to which such grant relates was not yet in place by year-end. In addition, a penalty of €1,910 imposed on the Council for the late submission of the audited Financial Statements for the year ended 31 December 2011, was netted off against the Government allocation for the year. The Council approved the necessary audit adjustments to rectify these errors.

It was also noted that whilst the amount recognised in the Financial Statements as Income received under Local Council Bye-Laws totals €5,546, in actual fact, only €473 falls under this category. Furthermore, a review of the Council's minutes revealed that during 2013, two parties, one for the

elderly and one for children, were organised and a fee of €5 and €2 respectively was charged to each person attending such parties. Nonetheless, no income was recognised in the Council's books of account in this respect.

*Recommendations were noted and the necessary adjustments were taken up by the Council.*

Irrespective that the amount of €5,557 was incurred for telecommunication services, LGA was not provided with quotation details covering the related expense.

*The Council is in fact making its utmost to abide with the Tendering and Procurement Procedures and will certainly try to improve on the documentation of the said procedures. However, one needs to recognise the fact that the Council is heavily involved in development projects which require a considerable amount of purchasing.*

No purchase order forms were provided to LGA for 24 items of expenditure, amounting to €6,137. In addition, the rent expense accounted for by the Council with respect to the use of Government property and Paul Boffa Garden amounted to €4,635, however, after scrutiny of the respective agreements, it was noted that this should have been recorded as €3,098. A number of misposted transactions were also identified by LGA.

*Though no purchase order forms were provided for a stated list of purchases, from now on the Executive Secretary is personally seeing that all purchases are covered by a purchase order.*

As already reported in the preceding year, the Council is not maintaining a FAR to record the value, depreciation and location of its assets. Consequently, LGA could not perform satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets having a NBV of €526,740, as well as on the accuracy of the depreciation of €76,254 charged thereon. Hence, a qualified audit opinion was issued in this respect.

*The Council was established in 1995 and has never maintained a FAR. It is now virtually impossible to trace the details of the fixed assets purchased over all these 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 LGA and NAO will accept 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, but no reply was ever received.*

*LGA did not report finding any discrepancies in the calculation and inclusion of depreciation in the accounts. The manual method of including depreciation is because 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.*

A discrepancy of €258,000 was encountered between Capital Commitments as disclosed in the Financial Statements (€270,000) and those included in the Council's budget for 2014 (€12,000).

*LGA's remark that the Financial Statements disclosed a Capital Commitment of €270,000 is correct, but it is pertinent to say that these commitments and contracts were entered into only at the end of the financial year, which is why only the sum of €12,000 was actually spent by the end of the financial year. However, the contracted works were actually carried out during the first month of the current year (2014) when all committed projects were successfully completed.*

In its Financial Statements, the Council disclosed the amount of €32,577 as Assets not Capitalised. Upon analysis of this amount, it transpired that, the said balance relates to three separate projects, namely, Hybrid project (€24,038), Fort project (€6,461) and Youth project (€2,078), none of which is of a capital nature. Hence, audit adjustments were proposed by LGA to appropriately reflect the expenditure incurred and grants received in respect of these three projects.

*LGA's proposed adjustments were accepted and entered in the accounts, even before the final Financial Statements were referred to NAO. The recommendations on the treatment of Assets not*

*yet Capitalised have also been noted and will be acted upon in future.*

As highlighted in the prior year, the logbook of the Council's motor vehicle was issued in the name of the Executive Secretary and not on the Council.

*The Council has discussed this with Transport Malta and it was agreed that in future the road license will be issued in the name of the Paola Local Council.*

The amount of LES Debtors disclosed in the Financial Statements, against which the Council has accounted for a full provision for doubtful debts, amounted to €110,341, whilst that as per LES Report was of €144,957. This resulted in a variance of €34,616. Following LGA's recommendation, the necessary audit adjustment was proposed by LGA and the Financial Statements were corrected accordingly.

*The Council has made the necessary adjustments regarding the provisions for doubtful debts as recommended by LGA.*

As at 31 December 2013, amounts receivable from WSC, covering works carried out in 2009, as well as between August and December 2010, totalled €19,000. However, only the amount of €11,646 was disclosed in the Financial Statements. Hence, both Receivables and Retained Earnings were understated by €7,354. Although this issue was already highlighted in the previous years, no action was taken by the Council to rectify the matter. A qualified audit opinion was issued in this respect.

The Council is not aware of the amounts mentioned by LGA as being due from WSC, nor has it received any documentary evidence of such amounts to enable it to adjust the accounts. In fact the Council has been in contact with WSC and adjusted the accounts in line with the agreed arrangements between the two parties.

No provision for doubtful debts has been recognised in the Financial Statements, with respect to a long outstanding balance of €2,329. Due to the lack of documentation available, LGA was unable to ascertain that the foregoing amount is still receivable by the Council.

*The amount of €2,329 in Trade Receivables referred to by LGA, was paid as a deposit on a Court case, which has since then been resolved.*

The list of unrepresented cheques provided to LGA in respect of one of the Council's bank accounts included several journal entries, with referencing such as 'JV' and stale cheques, aggregating to €3,812. In addition, a cheque of €240 issued during 2014 was also included in the list of unrepresented cheques as at year-end. This implies that the Council is not verifying the transactions inputted in the reconciliation on a regular basis. Furthermore, a variance of €84 was noted between the petty cash balance as recorded in the Nominal Ledger and the cash count carried out by LGA during the audit visit.

*LGA had checked the petty cash balance and never made any comment or remark that there were any discrepancies. Whilst proper bank reconciliations are in fact being carried out, through the accounting program, the list of stale cheques will be written off only on the approval of the Council. However, further attention will be given to this effect.*

Disclosed under Non-Current Assets is an amount of €77,205 as an 'Investment Fund'. According to the Local Councils (Financial) Procedures, a formal approval from DLG is required before any monies are deposited into such investment vehicles. However, the Council was not aware of these requirements and thus, this provision was not adhered to. Furthermore, disclosure of such assets in the Financial Statements was not in line with the provisions of IAS 24 and IFRS 7. This disclosure is required because the major owner of the entity offering such funds is the Government of Malta, and this is thus considered as a related party transaction. Such issues were already highlighted in the preceding years' Management Letters.

*The investment fund was closed in June 2014 and the balance was transferred to a bank account.*

The only balance included in the Creditors' List as at year-end was a negative amount of €748 in respect of WSC. However, cut-off testing revealed that three invoices, issued in 2013, were omitted from such list, thereby understating the Payables balance as at year-end by €5,759. The

necessary audit adjustment was proposed by LGA and posted by the Council accordingly.

*Upon the compilation of the Financial Statements, three invoices had not yet been brought to the attention of the accounting staff. In fact, the relevant cheques were all issued and reported to the Accountant in February.*

Meanwhile, a discrepancy of €1,901 was noted between the list of Accrued Expenditure as provided by the Council (€12,776) and the amount included in the Financial Statements (€14,677). According to the Council, €1,000 of such amount relates to the electricity provision of December 2012, whilst the remaining balance of €901 pertains to accrued expenditure brought forward from prior year. However, no supporting documentation was provided by the Council to validate such explanation. It also transpired that seven balances, aggregating to €4,593, were accounted for as accruals albeit the respective invoices were issued in 2013.

*LGA listed several invoices that were treated as accrued expenditure when these should have been included as Creditors. Only those invoices that were included in the list of proposed amendments, submitted by LGA were in fact corrected in the Financial Statements.*

The Council did not provide any documentation to support the balance of €12,023, brought forward from previous year in relation to ESF, the movements made during the year under review, as well as the closing balance of €2,655 as recorded in the Financial Statements. Thus, a qualified audit opinion was issued in this respect.

*Whilst the sum of €2,655 received by the Council in respect of ESF was accounted for in the accounts accordingly, LGA was correct in remarking that the relevant documentation, that is usually received when such bank deposits are made, was not traced.*

Included with Payables is an amount of €941, relating to a deposit guarantee retained by the Council, in respect of works carried out by contractors to ensure that any latent damages would be covered. However, testing carried out revealed that a deposit of €2,000 was originally paid by a

private company, whereby upon completion of works, the amount of €1,059 was paid back to the latter. This, implies that the balance of €941 is non-refundable, and thus through an audit adjustment was reallocated to income.

*As proposed by LGA, the balance of €941 remaining in the contractors deposit guarantee account was transferred to revenue and the accounts amended accordingly before the Financial Statements were approved by the Council and referred to NAO. The Council will be opening a new account, entitled Guarantees, to be able to account for such deposits better.*

The Council recognised an amount of €1,937 in respect of balances due to WasteServ Malta Ltd. However, according to a statement provided by the said company, the amount receivable from the Council as at year-end is of €10,604. Moreover, the Council failed to account for the waste disposal fee for the months of May, and August to December, amounting to €29,392, as well as the amount paid on its behalf by DLG of €18,788. Audit adjustments were proposed by LGA to rectify the aforementioned shortcomings, which were appropriately posted by the Council.

*The Financial Statements were amended according to LGA's recommendation.*

The split between the Current and Non-Current portion of Government grants as disclosed in the Financial Statements in respect of two projects and the photovoltaic panels under Energy 2010 Scheme was incorrect. Furthermore, the Council also failed to recognise the grants released to the Statement of Comprehensive Income for the year, thus resulting in overstated liabilities of €22,206, and understated income by the same amount. The necessary audit adjustments were proposed by LGA and appropriately undertaken by the Council.

*The necessary adjustments were taken up by the Council.*

During the year under review, a prior year adjustment of €22,018 was recognised in the Financial Statements to amend previous year items which have been omitted or incorrectly accounted for. Besides that the related disclosures were not carried out in line with the applicable IFRSs, no details were provided in respect of some prior

year adjustments. In addition, certain adjustments passed were not appropriate. Following LGA's recommendation, the Council adjusted the Financial Statements.

*The Council accepted LGA's recommendations regarding the treatment and disclosure of prior-year adjustment. In fact, the presentation of the Statement of Changes in Equity has been changed as suggested by LGA.*

It also transpired that the comparative figures included in the Council's Financial Statements do not agree to the prior year audited amounts. However, the variances do not reflect the aforementioned prior-year adjustment effected by the Council.

*LGA's recommendation to carry out the year-end routine has been noted and will be carried out at the end of the current financial year. This is a procedure that would require only a few minutes to carry out. However, there is nothing wrong with the previous method of carrying out a closing entries routine, which should not cause the loss of the ability to generate reports.*

### Pembroke

Although a FAR is being maintained by the Council, a number of assets were incorrectly categorised with the consequence that an incorrect depreciation rate was applied. Furthermore, Computer Equipment, which is no longer utilised, has not been disposed of accordingly, and is still showing in the Council's books of account. LGA is of the opinion that there may be material misstatements in the depreciation provision and charge for the year. However, there were no practical procedures to arrive at the exact amount of misstatement. As a result, a qualified audit opinion was issued in this respect.

Moreover, notwithstanding previous year's recommendation, the Council failed to abide with the requirements of Memo 150/2010 and continued to recognise litter bins as capital expenditure in FAR, instead of expensing them immediately to the Statement of Comprehensive Income.

*Points were noted. However, the Council could not understand why LGA is commenting on assets that have been in the books of account for a number*



of years. Furthermore, in the Council's opinion, since the buildings are being rented out, it is more appropriate to depreciate any renovations at the rate of 10% rather than that of 1%. As regards litter bins, these are being accounted for in line with the related Memo.

The purchase and installation of a telephone system and a security camera, amounting to €1,058, have been accounted for as revenue expenditure rather than capital expenditure. Similarly, the amount of €10,822, relating to the procurement of lamps and pelican lights has been expensed, instead of capitalised and fully depreciated in the same year, in line with the Council's depreciation policy. Following LGA's recommendation, the necessary audit adjustments were approved.

Capital Commitments for the forthcoming year, amounting to €10,750, were not disclosed in the unaudited Financial Statements. The final set of accounts was adjusted accordingly following LGA's recommendation.

*Points raised were noted.*

Included in the Debtors' List is the amount of €4,200, receivable from WSC, for road reinstatement works, which balance has been long outstanding. Since the latter informed the Council that payment will not be effected, as the amount is being contested, LGA recommended that this balance is to be provided for. The Financial Statements were adjusted accordingly.

*Recommendations put forward by LGA were noted and the related adjustments were carried out.*

Expenditure incurred during the year under review, for which the respective invoices, dated 2013 have been received by the Council, has been accounted for with accruals rather than creditors. Furthermore, the Council failed to account for a creditor balance, invoiced in September 2013. Likewise, accrued bank interest receivable on a fixed bank account, remained unaccounted for.

*Though the raised invoices were dated in 2013, these were issued very late, to the extent that the Financial Statements were already compiled. The Council does not have any control on this issue.*

Disclosed as a Contingent Liability is the amount of €4,165, of which the balance of €1,407 relating to a dispute with a private entity, was already accounted for as part of the Council's liabilities.

*Point noted.*

### Pieta`

An annual amount of €8,658 is being incurred for the cleaning and maintenance of parks and gardens under a contract that was originally entered into by MRRA, but which was later assigned to the individual Councils. Notwithstanding that the contract expired, a new call for tenders for the provision of such services was still not issued during the year under review, despite recommendation in previous years.

*The related shortcomings have been noted.*

The contract for refuse collection, bearing a cost of €53,218 expired on 7 November 2014. However, the respective performance bond has expired on 8 November 2011 and was never renewed.

*The Council will ask the contractor to rectify this matter.*

Besides that the Council's personal accident insurance is on a worldwide basis with a consequential higher premium, it also included employees who no longer work for the Council.

*The Council will amend the policies as per LGA's recommendations.*

Though a FAR was presented for audit purposes, it transpired that this is still not maintained to the standard required by the Procedures. Furthermore, despite that the total NBVs as recorded in both FAR and the Financial Statements are in agreement, the totals of certain individual asset categories differed. The most significant divergences were noted in Urban Improvements and Office Equipment, where the difference amounted to €18,872 and €16,370 respectively. Other significant variances were noted between NBVs in the Financial Statements and the Nominal Ledger, with the latter exceeding the former by €30,285 in the Construction category. On the other hand, NBV

for the Office Equipment category as recorded in the Financial Statements was €30,266 more than that disclosed in the Nominal Ledger.

Depreciation charge for the year, as disclosed in the Financial Statements, differed from the independent workings calculated by LGA, by €7,027. This variance resulted from the fact that certain assets under the Urban Improvements category were depreciated at the rate of 100% instead of 10%. Other discrepancies were the direct result of the differences found in asset categories as explained above.

Included under the Construction category in the Fixed Assets Schedule was a negative addition of €9,141. Following queries raised by LGA, the Executive Secretary claimed that this was an adjustment to tally the construction cost with the books of account. The same applies for the negative balance, amounting to €16,257, shown as grants transferred during the year.

*Recommendations by the Auditor were noted and will be adhered to.*

As already noted in previous years' reports, the Debtor's Ledger at year-end contains an outstanding balance of €37,594 receivable from WSC. This is made up of trenching works performed prior to 2007, amounting to €36,806, for which no supporting documentation is available, as well as €788 worth of invoices raised during the year under review. In view that the Executive Secretary indicated that these balances will most probably not be recoverable, the provision for doubtful debts in this regard was increased by €25,994 through an audit adjustment, to fully cover the amount due.

*Point not addressed.*

The Council has still not yet 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, the Council has again failed to disclose this amount as a Contingent Liability note in the Financial Statements.

*As explained in the Management Letter, the dispute with WSC is about a water and electricity bill for a fountain at the ex-Torpedo Depot garden which was never devolved to the Local Council. The dispute is still ongoing but it is in the Council's interest that a solution is sought in the least possible time.*

Likewise, the Council failed to include a note stating that an amount of €2,400 in bank account xxx044 has been blocked by the bank to cover the guaranteed amount. Furthermore, notwithstanding prior recommendations to instruct the bank not to withhold tax on bank interest received, since Councils are exempt from income taxation, the Council was still charged final withholding tax of 15% on two bank accounts.

*The Council has informed the bank not to withhold tax on interest receivable from these two bank accounts.*

The aggregate amount of €2,329, receivable from four Regional Committees, has been outstanding for more than a year. Furthermore, disclosed within Receivables, are deposits of €2,912 due from Qormi Tribunal which have been outstanding since 2007 and which are not supported by official documentation. This amount increased by €328 during the year under review. Though the Council claimed that this increase related to a reclassification of MEPA refunds, no evidence to this effect was provided for audit purposes. Included with these unsubstantiated amounts is also a refund of €189 from VAT Department.

*Most of the balances mentioned have already been received. Comments regarding the refund from VAT Department were noted.*

The Creditors' List still included balances due to four service providers, totalling €10,478, that had been pending for several years. Further analysis also revealed that the list does not agree to the Nominal Ledger by €154.

*Points not addressed.*

Discrepancies of €8,549 and €1,998, were also encountered between the payable balances, as disclosed in the respective Suppliers' Statements,

and the amount recorded in the books of account. However, since the related creditors' reconciliations were not carried out, the Council was unable to provide LGA with explanations of the overstated amounts. In view of this, a qualified audit opinion was issued.

*The Auditor's comments were noted. The differences, which were noted, will be addressed as per LGA's recommendations.*

Whilst as per report 483 generated from LOQUS system, between 1 January and 31 December 2013, the Council received the total amount of €3,423 from pre-regional tickets, only the balance of €2,362 was actually deposited in the Council's bank account in this respect, resulting in a discrepancy of €1,061.

It also transpired that LES reports generated from the IT system, are reporting higher amounts due to the Council, in respect of fines issued prior to 1 September 2011.

*Point not properly addressed.*

Other Creditors, as disclosed in the accounting records, still include a Joint Venture account of €1,351. LGA was informed by the Council that an old prepayment relating also to the parking in St. Lukes Hospital was reversed against the creditor balance relating to the same joint venture. A deposit of €2,121, in respect of the issue of a new tender which has been in dispute since 2011,

is also included. This relates to an appeal which is still ongoing. Both balances are still pending since no final decision has yet been taken. As was highlighted in previous recommendations, the Council is once again recommended to monitor this matter and disclose any issues and developments in the notes to the Financial Statements.

The Council failed to deposit cash on a timely basis. For example receipts of €1,120 received from the Land Department between 8 October 2013 and 1 November 2013 were deposited on 25 November 2013.

*Point not properly addressed.*

Whilst the Trial Balance provided for audit purposes indicated a profit of €88,318, the related Financial Statements depicted a loss of €18,889. In view of this substantial divergence, the audit fieldwork had to stop until the books of account were properly updated and agreed to the unaudited Financial Statements after its re-approval. LGA was then provided with an updated set of Financial Statements on 22 April 2014, showing a loss of €18,225. The major changes in the Statement of Financial Position are shown in **Table 11**.

Notwithstanding the amendments made, a variance of €791 was still noted between the Trial Balance and the Financial Statements. Further analysis revealed that an invoice, relating to the administration expense of publications, was not posted in the accounting system, even though this

**Table 11: Major Changes in the Statement of Financial Position**

Item	Unaudited Financial Statements version 1	Unaudited Financial Statements version 2	Difference
	€	€	€
Property plant and equipment	615,422	624,602	9,180
Receivables	125,219	96,657	28,562
Cash and cash equivalents	145,595	126,592	19,003
Trade and other payables – <i>non-current liabilities</i>	115,001	78,508	36,493
Deferred income	156,453	167,683	11,230
Trade and other payables – <i>current liabilities</i>	276,217	262,431	13,786

<sup>35</sup> The contract initially covered up to 31 October 2007, but was then extended until end of April 2008. However, following DLG's approval, the respective contract was then extended for a further four months.

was disclosed in the Financial Statements. Thus, an audit adjustment was approved to incorporate this expense in the accounting records.

*These shortcomings emerged due to problems that the Council had with its accountancy services. With the proper guidance from the new service provider, it is being envisaged that a better presentation of the Financial Statements is given.*

## Qala

Following the expiration of the extension<sup>35</sup> of the contract for the provision of services of open skips and household waste collection, the Council was invoiced the total amount of €109,467, of which, €33,040 related to the year under review. However, in view that the respective invoices are not in accordance with the contract terms, the balance of €6,161 is considered to be in dispute. A new call for tenders was issued in 2013 but the new agreement was only signed on 21 February 2014.

*Though the contracts for the services of open skips and household waste collection had expired, a new call for tenders was issued a while later. The Council is always aware of the contracts that are about to expire and new call for tenders are issued in advance to ensure that a new contract is entered into by the time the old contract expires. The Council's administration will continue to do its best to adhere to the procedures in all its aspects and continue building on the recommendations made by LGA.*

As already reported in prior years, the Council's FAR is still not up-to-date. Consequently, depreciation is being calculated manually. This method of carrying out the calculations is resulting in variances, due to the fact that depreciation on various items has not started on the correct date. Through an audit adjustment, depreciation was reduced by €2,160. Instances were also encountered whereby assets were not categorised under the appropriate category, thus resulting in further incorrect depreciation charges for the year.

In view that FAR is not being updated with the depreciation charge of PPE, amounts disclosed therein do not tally with those recorded in the books of account. A discrepancy of €43,430 was

noted between the cost of assets as recognised in the aforementioned documents before the recognition of audit adjustments, arising from the fact that Assets under Construction are not being registered in FAR. Consequently, accumulated depreciation recorded in the register is €232,736 less than the total Government grants and Accumulated Depreciation recognised in the Financial Statements.

The credit entry of the depreciation charge calculated by the Council, with respect to Special Programmes, was erroneously posted in the Accumulated Depreciation account of Plant and Machinery. Thus, a reallocation adjustment of €27,429 was passed to correct this error. An additional adjustment of €21,841 was also effected between the Accumulated Depreciation account of Special Programmes and that for Construction.

By means of an audit adjustment, the cost of €43,411, relating to two roads which were accrued for during the prior period, was reallocated from Assets under Construction to Construction. This decision was taken following the fact that no progress was made on these roads which were not fully completed, but yet were opened for the public. Accordingly, depreciation charge of €4,148 in respect of such assets was also incorporated in the books of account through an audit adjustment.

Meanwhile, two invoices aggregating to €54,923, with respect to works carried out at the recreation park at *Triq Imġarr*, were capitalised despite that the related project was still in progress and was estimated to be completed in June 2014. Likewise, professional fees of €1,150 incurred with respect to the Belvedere project, which by year-end was not yet underway, were also capitalised. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these errors.

*FAR on the accounting software used by the Council always agreed with the Nominal Ledger found on the same software. Also, the classifications in the latter are the same as those found in FAR. The Council has reviewed the cost totals of each fixed asset category in FAR against the cost totals of each asset category in the Nominal Ledger, and found that these tallied. Postings to the appropriate depreciation accounts were always made by month-end in the accounting package. However, during the last three years, depreciation*

*was calculated manually due to errors in a certain year that the accounting package was creating.*

*The total accumulated depreciation in FAR does not agree with that in the Nominal Ledger since in previous years LGA made adjustments regarding depreciation to the Nominal Ledger accounts. When such adjustments are made, FAR needs to be reconstructed completely in order to agree with the adjustments made to the depreciation and consequently NBV of assets. A reconciliation exercise will need to be carried out whereby FAR will need to be reconstructed and brought in line with the Nominal Ledger.*

*The Council has taken note of LGA's recommendations on other issues mentioned.*

A number of invoices were not provided to the Council on time, with the consequence that certain expenditure was left unaccounted for. Included in the current year's list of additions, there was the cost of a glass door, supported by an invoice dated 13 August 2012, for the amount of €440.

Testing revealed that accrued income receivable under Measure 313, as recorded by the Council, is overstated by €1,929 and thus had to be corrected through an audit adjustment. It was also noted that the amount of €1,680, invoiced during 2013 to a waste recycling company, was still disclosed with accrued income in the books of account. The Council failed to recognise income of €1,000 receivable from the aforementioned company, in line with the new contract entered into between the latter and the Council. Following LGA's recommendation the necessary audit adjustments were passed.

*The Council would like to point out that it always accounts for income as it accrues and not when it is received as reported in the Management Letter.*

LGA reiterated last year's concerns regarding the fact that the accrued expense of €1,200 with respect to road reinstatements, chargeable to WSC for 2007, was still pending. Included with Receivables is also an amount of €2,070 due from the waste recycling company mentioned above, in respect of services provided by the Council during 2012. Additionally, up to time of audit, accrued income of €10,000 with respect to Memo 65/2011 had not been received by the Council. According

to DLG, the delay resulted as the Council failed to forward all the necessary information. On the other hand, the Executive Secretary claimed that although the Department was contacted on several occasions following the submission of the necessary documents regarding this matter, no conclusion had been reached.

*The Council will keep on following the issue regarding the €10,000 accrued for under Memo 65/2011. Likewise, issues with respect to the invoices submitted to the waste recycling company and WSC will also be followed.*

Electricity costs of the leisure park, amounting to €1,802, were not accrued for. On the other hand, invoices aggregating to €8,672 issued by a private entity during 2013 were recognised as accrued expenditure. These errors were rectified by means of an audit adjustment. It also transpired that invoices worth €5,566, dated 2012 but which were omitted from the books of account, were incorporated in the accounting system during the year under review using the date 1 January 2013.

*Sometimes it is impossible to remember every single order for works and services which were made and still not invoiced by the time of drawing up the Financial Statements.*

The amortisation of certain assets was being incorrectly calculated and accounted for. An audit adjustment of €4,549 was posted to this effect. Moreover, the grant with respect to the acquisition of photovoltaic panels, amounting to €6,700, was reallocated from income to deferred income through an audit adjustment, as the respective expenditure was capitalised to PPE.

The Council exceeded its budget in the categories Repairs and Upkeep, as well as Community and Hospitality, by €3,947 and €4,963 respectively.

*Points not addressed.*

As already highlighted in preceding years, employees still do not have a signed contract of employment in line with their present conditions of work. No contract was drawn up for the new clerk who started working with the Council in July 2013.

*The Executive Secretary does not have a current signed contract as she is no longer employed on a definite contract, but in line with the letter received from DLG she is now on an indefinite agreement. There was no instruction whatsoever regarding contracts and the Council cannot just draw up a contract. There has to be standard contracts for each different employee for all Local Councils. Previous contracts were signed with the conditions of work. Work conditions are also controlled by the collective agreements.*

### Qormi

Upon the expiration of the contract on 31 December 2012, the Council still continued to use the services of the same service provider for the upgrading of the playing field, on the basis that the works were not finalised on the agreed date. The total amount of €51,433 was paid to the said contractor.

*This was not a contract for services, which can be replaced by another contractor, but it was a contract for the provision and installation of playing field equipment. The expiry date of the contract was the date by which the works had to be completed (31 December 2012). The works were finalised in mid-January 2013. Thus, LGA's recommendation to issue a fresh call for tenders does not make any sense, when the playing equipment had already been purchased and most of which already installed by the contract closing date.*

The Council spent €6,779 on Locality Day. Thus, once again the maximum allowable limit stipulated in Memo 122/2010, stating that such expenditure should not exceed €3,500 or 0.5% of the annual Government allocation (which in this case amounted to €5,010), whichever is the highest, was exceeded, in contravention of the said Memo.

*The Local Council noticed that the expenditure for the Locality Day has still exceeded this threshold, and action will be taken so that in the future, such expenditure is kept within the thresholds.*

As highlighted in prior audits, the Council continued not to record tipping fees charged by WasteServ Malta Ltd in excess of Central

Government allocation. Instead, it has opted to disclose the difference, amounting to €52,159, by way of a Contingent Liability. A qualified audit opinion was issued in this respect.

Furthermore, during the current year DLG also advanced the sum of €52,124 to the said company on behalf of the Council, in settlement of pending invoices issued between 2009 and 2011, not covered by the allocation. Since these excess amounts were not recorded in prior periods, the Council accounted for this payment by recording an amount of €52,124 as expenditure and the corresponding income with 'Supplementary Government Income'.

*The Council has followed all instructions as issued by DLG and stressed by LCA. The Council feels that this matter is clear and the only payment it has to forward to WasteServ Malta Ltd is the total allocation as supplied by Central Government for tipping fees, and not a cent more. Moreover, the instructions issued were always to settle the amount allocated for tipping fees only.*

*In fact, during the current year, DLG settled the pending invoices for the period between 2009 and 2011, and this fact consolidates the Council's argument that such funds are not to be considered as part of its Trade Creditors because they do not belong to the Council's credit. The settlement of invoices by DLG confirms the Council's position. Thus, the Council has no difficulty in reconfirming its position.*

The Council was awarded a grant amounting to €247,938, relating to *Tal-Blat to Tal-Ħlas* Heritage Rural Trail. However only part of the grant, amounting to €143,123, was recognised in the books of account. This related to the amount of grant already utilised, on the basis that the project, which commenced during 2013, was not yet completed by year-end. On the other hand, a grant of €4,000 receivable in relation to *Skema dwar Inizjattivi Sportivi fil-Lokalitajiet 2013*, which event spanned between October 2013 and May 2014, was fully disclosed as income for the year, rather than apportioned accordingly on the basis of the accrual concept. Audit adjustments to rectify these misstatements were correctly incorporated in the audited Financial Statements.

**Table 12: Differences between FAR, Nominal Ledger and Unaudited Financial Statements**

Details	NBV as disclosed in		
	FAR	Nominal Ledger	Unaudited Financial Statements
	€	€	€
Urban improvements and construction	1,049,902	1,089,109	1,010,599
Special programmes	962,344	922,978	1,001,712
Plant and machinery	37,263	37,386	37,160

*The audit adjustments put forward by LGA were taken on board and are reflected in the audited Financial Statements. The Council will also ensure proper accounting of the accrued income.*

An amount of €21,853 related to outstanding balances owed to the Council for more than two years, of which €13,099, are due by WSC.

There have been no payments over the past few years, from a waste recycling company that owes the Council a total balance of €13,278. It is doubtful whether the entity in question will pay its dues since it is in financial difficulties. In view of this, the Council approved LGA's recommendation and recognised a provision for doubtful debts against such receivable.

*The Council is currently carrying out the necessary confirmations with WSC to assess the recoverability of the amount. As pointed out by LGA, the Council will then write-off or recognise a provision, if it is found that the amount will not be fully recovered. As regards the amount of €13,278 due to the Council, the latter has already started legal procedures in order to recoup such debit from the entity concerned.*

Differences were noted between the amounts of individual asset categories, as disclosed in the Nominal Ledger, FAR, and the Fixed Assets Schedule in the unaudited Financial Statements. **Table 12** refers.

*Even though this point is a matter of reclassification and has a nil effect on the Statement of Financial Position, the mentioned recommendation will be implemented.*

A review of the minutes revealed that the Council purchased five coins of Grand Master La Pinto

from Central Bank of Malta, amounting to €220, to give as gifts, but which the Council failed to record as stock not held for resale with a nil value.

*The Local Council took note and action will be taken to be in order with LGA's recommendation.*

### Qrendi

Capital Commitments for construction works, amounting to €105,500, were not disclosed in the Financial Statements.

A discrepancy of €283,199 was noted between the cost of Fixed Assets as recorded in FAR, which is kept in spreadsheet format, and the unadjusted cost reflected in the Financial Statements. LGA was informed that 2013 additions were not included in FAR.

A pedestrian pavement, which was completed and wholly certified in April 2013, was not reclassified from Assets under Construction. Following LGA's recommendation, the Council approved an adjustment of €114,881 to reclassify the asset to Construction and increase depreciation by €8,335.

The Council adopted the Capital Approach instead of the Income Approach, to record the amount of €83,850 received during the year under review, in respect of two grants which it had qualified for during the preceding years. Likewise, VAT element of €7,851 on part of the income received, was also accounted for under the Capital Approach, thus deducted from the cost of the assets. In view of these shortcomings, upon the recalculation of the depreciation charge for the year on Urban Improvements, there was a net discrepancy of €2,213. The necessary audit adjustments were approved by the Council and reflected accordingly in the Financial Statements. Following LGA's

recommendation, a further adjustment of €15,981 was passed to transfer a portion of the grants to revenue, equivalent to the depreciation charge of the respective assets. This related to assets that were completed on or before year end.

On the other hand, the amount of €3,000 that was forwarded by the Department to the Council on 8 March 2013, to partly finance the Potato and Agrarian Festival that was organised by the latter, was incorrectly accounted for as Accrued Income, rather than matched with the costs incurred by the Council. This error was rectified through an audit adjustment.

The Nominal Ledger did not include the opening balances of the items of the Statement of Financial Position, brought forward from the preceding year. Such balances were then determined by deducting the ‘history balance’ from the ‘account balance’.

In line with previous years’ practice, the Council again effected bank reconciliations covering only up to 24 December instead till year-end. This resulted in discrepancies in three accounts, in aggregate amounting to €595. Furthermore, stale cheques, amounting to €1,361 and dated between November 2011 and June 2013, were still included in the bank reconciliation of one of these bank accounts. It was also noted that the Council instructed the bank to deduct the 15% withholding tax on a savings account, notwithstanding the fact that Local Councils are not taxable entities.

Despite prior years’ recommendations, the Financial Statements still disclose Special Needs Creditors of €22,781. These funds were originally received for the building of a coast guard room at *Wied iż-Żurrieq*, however they were never utilised for this project. The Council is once again recommended to look into the balance, and if the funds were used on other projects, the books of account are to be adjusted accordingly by writing off the respective amount as a grant expended using the income approach.

An outstanding dispute with WSC, in respect of a claim of €21,000 for works performed in previous years, was neither recorded in the books

of account, nor disclosed as a Contingent Liability in the Financial Statements. The Council ignored previous recommendations to this effect. Thus, a qualified audit opinion was issued.

Two other balances totalling €33,865, included with Trade Payables, have been outstanding for more than one year. Another five balances, aggregating to €1,857, are also long overdue. Included in the latter balance is the amount of €364 covering a bank guarantee which was released in 2012, but is still showing on the bank reconciliation as a stale cheque.

*Points not addressed.*

Two contractors failed to reply to letters sent by the Executive Secretary, in confirmation of the extension of their respective contracts. Acceptance was confirmed by the said contractors through the renewal of the performance bonds. However, there was no evidence that the same terms and conditions of the original contract were accepted.

*The Council always insisted with the contractors that they should reply to the extension letter by stating if they want an extension to their contract or not. Unfortunately, there are contractors who still do not send a confirmation or rejection of the extension letter.*

During the year, the Council incurred an expense of €804 covering air tickets and mementos in connection with a preliminary meeting with a delegation from the Council of *Ficulle* in Italy, with the prospect of initiating a twinning process. However, LGA was neither provided with DLG’s approval for such twinning program, nor with a travel report as required by the related Procedures.

*The travel report was submitted during Council meeting number five which was held on 17 July 2013<sup>36</sup>. This report was given its due importance and was part of the agenda for that particular meeting.*

A reconciliation carried out by LGAs revealed a discrepancy of €530, between invoices issued to the Regional Committees and the income

<sup>36</sup> LGA confirmed that during the said meeting the Council discussed only the funds that will be spent on this twinning activity.



receivable from the same Committees. The difference arose because the Council is only recording as income, invoices still outstanding at year-end. Additionally, amounts received in 2013, relating to invoices raised during the prior period, were recorded as income instead of netted off against debtors.

The provision for doubtful debts, as disclosed by the Council in view of Tribunal Pending Payments, was overstated by €2,341. This was adjusted following LGA's recommendation.

*Points not addressed.*

### Rabat (Malta)

A discrepancy of €631 was noted between the administration fees on LES fines invoiced to the Regional Committees (€5,949) and the respective amount recognised in the Financial Statements (€5,318), resulting from the fact that July invoices remained unaccounted for. The necessary audit adjustment was proposed by LGA and the Council amended its Financial Statements accordingly, however, it failed to separately disclose these receipts in the Statement of Comprehensive Income.

*The Council's Accountant failed to notify the Executive Secretary with the report for the month of July. The Council will be monitoring the invoices on a monthly basis so as to avoid having the same situation in the future.*

The amount of €10,999 received in relation to the project 'Constructing a Resilient Future' was accounted for in 2013, even though such sum was received during December 2012 and the project was finished during the same year. It also transpired that the system being used with respect to income recording does not entail a proper audit trail. In fact, the Council was unable to provide LGA with a breakdown of €1,400 included in the respective Nominal Ledger Account. Consequently, the related receipts could not be traced. Various instances were also encountered whereby income was not categorised under the correct Nominal Account. Similar shortcomings were noted in the posting of expenditure. The fee

covering legal services provided during the month of April was accounted for twice, which was then reversed by means of an audit adjustment.

*The Council's Accountant will be advised to follow the provisions of IAS 18 and ensure that all income, which falls under any one of the Council's Bye-Laws, is separately recognised in the Financial Statements. Furthermore, the Council will study alternative solutions so that the income recording and cash transactions will be linked to the accounting system to avoid any comments in the future.*

Testing carried out on Personal Emoluments revealed that the tax withheld from two of the employees' gross salary was overstated. Furthermore, the basic weekly wage declared in the Payee Statement of Earnings (FS3) of one of the employees is €190, when according to the latter's salary scale this should be €152 per week.

*The issue of personal tax deductions was tackled with the service provider in order to rectify the position in the payroll software. On the other hand, as regards the weekly wage reported in the Payee Statement of Earnings (FS3) of one of the employees, the Council is in disagreement with the observation made by LGA. The employee in question is on scale 13 and works for 25<sup>37</sup> hours a week. The proportion paid, is in line with the weekly wage stipulated in the Government pay scales.*

As highlighted in **Appendix G**, no VAT fiscal receipt was provided for goods and services totalling €47,033, acquired by the Council during the current financial year.

Moreover, the fiscal receipt (€4,000) issued by an Architect failed to cover the full payment of €4,720, whilst the Payment Voucher issued by the Council for the payment of a photovoltaic system was exclusive of VAT.

*LGA's observations have been noted and the Council will do its utmost to see that such matters will not arise in the future.*

<sup>37</sup> LGA confirmed that during audit fieldwork the Executive Secretary claimed that the respective employee worked on a 20-hour week schedule.

No agreement covering the rental expense of €1,100, paid for the use of the Rabat Scouts premises, was made available to LGA.

*Point not properly addressed.*

As highlighted in the prior year's Management Letter, the Council has to date prepared a form of FAR on the accounting system. However, the register is limited since it does not provide all the necessary details, and thus, it is not in line with best practice and in terms of the Local Councils (Financial) Procedures. In every asset category, the Council inputted an opening balance of assets capitalised in previous years. Moreover, a number of assets had no description or were shown simply as adjustments, whilst certain assets were recorded under the incorrect asset category with the consequence that these are being depreciated using an incorrect depreciation rate.

The cost of Special Programmes and Urban Improvements as disclosed in FAR was understated by €73,047 and €255,928 respectively, when compared to that recorded in the Nominal Ledger. These discrepancies partly relate to grants for items of capital expenditure within these categories that were not reflected in FAR. In addition, included in the category of Special Programmes in FAR are litter bins amounting to €16,611. In breach of Memo 150/2010, signage boards costing €623 procured during the year under review, were also capitalised and fully depreciated. Thus, an audit adjustment was passed to account for such items on a Replacement Basis.

Although the Council has correctly identified its software as an Intangible Asset in the Financial Statements in line with the requirements of IAS 38, in FAR, Intangible Assets are not separately identified but have been incorporated under Computer Equipment. Additionally, whilst FAR lists three items of computer software, which when aggregated have a NBV of €677, Intangible Assets as disclosed in the Financial Statements had a NBV of €499.

In view of the aforementioned 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 €1,886,837, as well as on the accuracy

of the depreciation charged thereon. A qualified audit opinion was issued in this respect.

*The major discrepancies between FAR and the Trial Balance relate to the grants received against items of capital expenditure. The Council will do its utmost to identify the said assets and rectify FAR. Moreover, the Council will also request its Accountant to take the necessary steps to reconcile FAR, to amend the depreciation rates and categories, and to insert a new category for the Intangible Assets. As regards the issue of street signs, the Council accepted the audit adjustment and the Financial Statements were adjusted accordingly.*

Whilst Capital Commitments as recorded in the Financial Statements stood at €510,261, those forecasted in the annual budget issued by the Council for 2014 amounted to €700,652. Upon verification, it transpired that the amount disclosed in the budget relates to a project which has been approved as at year-end and contracted in 2014, whilst that disclosed in the Financial Statements relates to a project which was already contracted for in previous years, but which was still not complete and therefore not provided for at year-end. The Council eventually adjusted its Financial Statements to reflect the omitted Capital Commitment of €700,652.

*LGA's observations and recommendations have been noted.*

As at year-end, the Council did not recognise any LES Debtors and the respective provision in its Financial Statements. As per LES report, contraventions payable to the Council amounted to €43,231.

*Whilst this figure is in line with LES report, there is no mention in the agreement that these amounts due are to be assigned to the Council. However, the latter will instruct its Accountant to verify LES Debtors balance and to account for the provision for doubtful debts.*

The Council also failed to account for an appropriate provision for doubtful debts in respect of a balance of €4,100, recorded in the Financial Statements as due from a waste recycling company, which is in financial distress. In this

respect, the Council has accordingly taken up the audit adjustment proposed by LGA.

*No further comments were submitted by the Council.*

As at year-end, the Council has recognised supplier payables amounting to €266,041, out of which €197,518 has been long outstanding. No sufficient evidence was provided to determine whether the recognition of such payables was correctly accounted for and recognised in the Financial Statements in line with the requirements of IFRSs. Since no satisfactory audit procedures could be performed to obtain reasonable assurance on the accuracy of the amounts recorded, LGA had no option other than issuing a qualified audit opinion.

*It is to be pointed out that some suppliers do not send a statement at month-end, and therefore the Council could not provide LGA with such statements.*

Review of the accruals as accounted for by the Council revealed that an aggregate amount of €1,294 was omitted from the books of account, whilst telecommunication costs were over-accrued. Likewise, the prepayment recognised with respect to insurance costs was overstated.

The Council also failed to recognise net creditor balances of €2,375, whereas items totalling €2,802 for which an invoice was received in 2013, were included with accrued expenditure rather than recognised as Trade Payables. In addition, the Suppliers' List as at 31 December 2013 included three negative balances, resulting from the fact that the invoices were not accounted for against the related payment. Similarly, a credit balance was also encountered in the Debtors' List.

A discrepancy of €167 was noted between the list of refundable deposits and the amount recognised in the Nominal Ledger. The Council claimed that the variance relates to a deposit made for filming an activity in the locality, which amount will not be refunded back.

Audit adjustments were proposed by LGA, which the Council accordingly reflected in its Financial Statements, thus rectifying the aforementioned errors.

*LGA's comments have been noted. It is to be pointed out that two of the invoices, which were not accrued for, were after the date of approval of the Financial Statements. Moreover, with regard to the omitted Creditor balances, it was noted that two of the said balances, aggregating to €1,027 were recorded correctly in 2013. The issue behind such balances was that these have been recorded as due from one supplier. In view of this, in the next financial year, the Council will partially reverse the audit adjustment proposed by LGA in this regard. With respect to the contractor's deposit guarantees, a reconciliation will be carried out as proposed. Audit adjustments proposed by LGA were approved and reflected in the Financial Statements.*

A variance of €3,939 was noted between the Liability as per Government grants workings provided by the Council (€147,402) and the total Liability as recognised in the Financial Statements (€143,463). The amount of €6,441, received as a grant, was amortised to the Statement of Comprehensive Income. However, this was understated since the Council failed to release income in relation to *Tas-Santi* and *Tal-Isbal/Tat-Tarġa* projects, which grants amounted to €60,000. It also transpired that, even though such projects were completed in 2011 and 2012 respectively, the grant was never released to income. Furthermore, the accumulated grant, released in respect of other projects, was not in proportion to the accumulated depreciation charged. Variances were noticed in respect of all grants, thus resulting in an incorrect Deferred Income Liability. A qualified audit opinion was issued in this respect.

*The Council updated the information with respect to grants received during the years, so as to correctly release the grants to the Statement of Comprehensive Income in the future. Moreover, the Council's Accountant will be instructed to account for such grants in line with the Income Approach.*

The Council disclosed as a Contingent Liability the fact that as at year-end, it had various claims from third parties, amounting to €28,350, in respect of works carried out in the locality, which claims are not being accepted by the Council. From the documentation provided, it was noted that the claims not yet accounted for in the Council's books of account as at year-end amount

to €25,490. However, audit evidence indicates that there is a high probability that the balances will have to be settled, in fact, DLG has already requested the Council to settle some of the claims raised by the suppliers. As a result, provisions are understated by €25,490, and the Contingent Liability disclosure is not appropriate. A qualified audit opinion was issued in this regard given that the Council failed to account for the adjustments proposed by LGA.

*DLG instructed the Council to verify the works by obtaining a certificate from the Architect. This procedure was followed, however, the Architect did not provide certification for a substantial amount of invoices received and verbally claimed that he is of the opinion that such invoices cannot be certified. The matter is being discussed with DLG and thus, the Council believes that it is not deemed appropriate to include these amounts in the accounts, since this will automatically render the claims as accepted dues by the Council.*

The Council also failed to disclose as a contingency the fact that it has an appeal against MEPA, which could result in a fine amounting to €3,059. Conversely, the Council disclosed as a Contingent Asset, a claim of €26,366 against the Joint Committee in respect of LES pending payments. However, no documentation was provided to show that a probability exists that the Council will receive the said amount. Furthermore, the report provided in support of such balance represented contraventions issued in 2013, during which the Council was part of the Regional Committee. Following LGA's recommendations, the Council adjusted its Financial Statements by reflecting the appeal against MEPA and removing the Contingent Asset note.

*The Council took note of LGA's comments.*

The Council has exceeded budgeted expenditure for Operations and Maintenance costs by 22% (€159,959).

*LGA's recommendations have been noted.*

During the year under review, the Council recognised a prior year adjustment of €4,409, to reflect a grant received in 2013 with respect to Energy Saving Scheme 2010. Besides that the disclosures were not carried out in line with IAS 8,

there was no need for such prior year adjustment since the capital asset relating to this grant was only installed and capitalised in 2013. It was also noted that this amount was recognised as a grant of a revenue nature rather than of a capital nature. Though the Council approved the adjustment proposed by LGA, to reverse the prior year adjustment and appropriately recognise the capital grant received, the Council failed to adjust the comparative figures accordingly, with the result that both Receivables and Retained Earnings as recognised in the Financial Statements are overstated by €4,409.

### Rabat (Gozo)

Payments for the procurement of goods and services were not always made following a call for tenders. For example, services given by the National Orchestra (€10,266), 3D renderings (€6,500), hiring of a public address system (€7,250) and sundry repairs and maintenance works (€16,588) 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 already 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 Local Council several years ago. Notwithstanding this, no fresh call for quotations has been made.

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.*

Notwithstanding that the last signed contract for the provision of refuse collection, dated 1 July 2007, was valid only for three years, during the year under review the Council was still procuring this service under the terms and conditions of this agreement, which by now was well expired. The amount of €61,031 was paid during 2013 for this service. Likewise, the amounts of €24,250 and €8,851 were incurred by the Council for road and street cleaning services, as well as cleaning

of public convenience respectively, following the expiration of the related contracts in July 2013.

Although the Council has issued tenders for the provision of the above-mentioned services, the new agreements for the refuse collection and cleaning of public convenience were only signed in the beginning of 2014, whilst that for the road and street cleaning was still unsigned by the conclusion of the audit.

*It is true that sometimes, because of the urgency of matters, the Council did not issue quotations for certain services. However, the points raised by LGA were noted and the Council will be preparing the necessary paperwork in line with the Financial Procedures.*

Over the past years, the Council received a total amount of €401,515 worth of Government grants that were at the time accounted for under the Capital Approach in accordance with IAS 20. However, only €121,278 of these grants was deducted from the cost of the respective items of PPE, implying that depreciation was calculated on a depreciable amount that was overstated by €280,237. As per LGA's calculation, depreciation charge for the current year is overstated by approximately €17,000. Furthermore, from the limited information provided, it is estimated that accumulated depreciation till end December 2013, is overstated by €128,750. The audit report was qualified in this respect.

Further to the above, accumulated depreciation for Urban Improvements, as disclosed in FAR, is understated by €105,097 when compared to that recognised in the books of account. The Council explained that due to glitches in the software, the system is not calculating depreciation of this category, and thus it was calculated on a spreadsheet, and then posted manually in the accounts. However, depreciation was calculated on a yearly basis, rather than on a monthly basis in accordance with the policy adopted by the Council.

*The technical problems within the module of FAR on the accounting package persisted even though efforts were made by both the Council and the service provider. This problem was again discussed at length with LGA. Due to the present financial situation, the Council is not*

*in a position to finance the cost of rebuilding FAR. The depreciation records are being kept on spreadsheets temporarily for those categories which encountered software problems.*

In a number of other instances, a full year depreciation charge was accounted for, despite that the assets were acquired part way through the year.

*Point not addressed by the Council.*

While the Council is now updating FAR with the total cost of completion of the projects, assets' records created in previous years were not amended, and thus are still reflected as payments on account to the suppliers. As a result, projects are split under different assets. A typical example is the cost of the project of St. George's Square, which is still being disclosed in FAR under several different assets, all having a different asset code and different commencement dates for depreciation.

*The Council will be giving more attention in order to improve the presentation and workings of FAR. However, the Council prefers that FAR continues to be updated with payments on account.*

Due to unresolved disputes, the Council was never invoiced for road resurfacing works carried out years ago, bearing an estimated cost of €50,000. The Council has not accrued for such costs, with the consequence that the value of PPE is understated by the same amount. The accumulated depreciation on these assets to-date would be approximately €20,000. The said costs have been included in the Financial Statements under Capital Commitments. In view of these shortcomings which were already highlighted in the preceding year's Management Letter, LGA had no option other than issuing a qualified audit opinion.

Furthermore, paving slabs costing €9,030 which were still not fixed in place, as well as Architect's fees amounting to €14,806 with respect to projects not yet commenced, were capitalised rather than recognised as Assets under Construction. Furthermore, depreciation was also calculated on the Architect's fees, which was then reversed through an audit adjustment, whilst reclassification adjustments were carried out accordingly. Another

adjustment was passed to incorporate in the books of account the VAT element of €2,665 on the Architect's invoice, which remained unaccounted for.

No supporting documentation was provided for audit purposes with respect to a settlement payment of €1,701 forwarded to the contractor for works carried out at *Taċ-Ċawla* Housing Estate.

Notwithstanding that a motor vehicle, bearing a cost of €2,273, was scrapped, this was still included as an asset in the books of account, with depreciation being charged thereon. Following LGA's recommendation, the Council approved the necessary adjustments to reflect the disposal of such asset.

*Points not properly addressed by the Council.*

The Council did not renew its insurance policies during the year, in view of the fact that the insurance company did not honour a claim for third party damages. Consequently, the Council's assets, which originally cost €2,234,259, were not insured.

*The Council will ensure that PPE will be covered by an insurance policy once the dispute is settled with the company.*

The valuation of the stock of books recorded by the Council at year-end was overstated by €2,039, due to an error in the cost taken for the books sold or donated during the year under review. An audit adjustment was passed in this respect.

*The Council noted that some of the donated books were not accounted for. Every effort will be made in order to improve the stock control procedure and avoid discrepancies.*

For another year, included within Accrued Income is an amount of €65,550 receivable from WSC, of which approximately €65,300 is contested by the latter, on the basis that the number of jobs included in the claim made by the Council are over-estimated. Although a note on the subject matter has been included under Contingent Liabilities in the Financial Statements, no provision has been made to cover this disputed amount, even though its recoverability is doubtful. Consequently, the

audit opinion issued by LGA was qualified in this respect.

Likewise, disclosed within the list of Accrued Income are also two amounts of €93,286 and €38,636, receivable from MEPA on St. George's Square and Kennedy Square respectively, which are long overdue. Even though the related agreement with respect to the former balance was signed in 2009, the Council is still not in possession of any confirmation of the amount receivable. As for the other amount, MEPA does not want to release funds before it obtains clearance from Transport Malta. Notwithstanding that the Council is chasing the latter, no clearance has yet been obtained.

*The Council is still insisting that the amount of €65,550 is due, in fact a judicial letter was sent to WSC.*

*Every effort is being made by the Council to obtain a written confirmation regarding the amount due of €93,286 committed by MEPA on certain projects.*

As at year-end, the balance in an account held with a local commercial bank stood at €13,499. The total value of cheques issued but not presented to the bank was €93,972, implying that the book balance was driven to an overdrawn balance of €80,473. In turn, this indicates that the Council may be overspending. This situation was already highlighted in the preceding year.

*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.*

Testing carried out on the cut-off procedures adopted by the Council, revealed that €17,931 worth of liabilities remained unaccounted for. Consequently, the latter approved the necessary adjustments to increase both accrued expenditure as well as creditors, by €14,105 and €3,826 respectively.

*Some invoices mentioned by LGA were presented to the Council after February 2014, though these were dated before December 2013. By the time, the accounts for financial year 2013 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 if necessary. Though certain progress has been registered in this area, there is still room for further improvement.*

Reconciliations between the Purchase Ledger accounts and the statements received from the suppliers were not carried out. This was evident from a number of variances identified by LGA in these two records, most of which have been adjusted for following LGA's recommendation. Invoices worth €32,619 were not booked in the accounting records, whilst €3,929 were accounted for twice. Meanwhile, credit notes totalling €432 received from a particular service provider were incorrectly recorded as invoices. Moreover, in view that a payment of €2,260 was incorrectly posted as an expense rather than against the supplier account, an additional adjustment was passed to offset the said expense against the amount due to the contractor, and to correct the Financial Statements accordingly.

Amongst the discrepancies noted, was an understatement of €16,137 encountered in the amount payable to WasteServ Malta Ltd as recorded in the Council's books of account. This variance was not investigated, as the Council had to ask the supplier for the respective invoices to ensure that these were valid and approved. As this exercise was still ongoing by the conclusion of the audit, no audit adjustments were proposed

to this effect. However, if this variance had to be accounted for, most probably the operations and maintenance expenditure over the years would have increased by the aforementioned amount, thus resulting in higher deficit for the respective years effected. This issue was disclosed in the Financial Statement as a Contingent Liability. A qualified audit opinion was issued in this respect.

In order to match the payments effected, the Council sometimes posted invoices in batches. This makes it difficult to reconcile the accounts, as well as to identify any double postings. This is also resulting in having one date for a whole batch of invoices, rather than posting each invoice with its respective date. In addition, in many instances, the invoice number was not recorded in the transaction details. Although these weaknesses have been highlighted for a number of years, the Council has taken no action.

*The Council would like to point out that there are several suppliers who never send a statement in order to reconcile, even though various pressure is done by the former.*

An analysis of the deferred income revealed that the amount amortised during the year under review was overstated by €852. The Council also failed to account for the 85% of the initial expenses incurred for ERDF projects, which were to be covered through funds received from EU. The only expenditure recorded in this respect was that paid from the Council's funds, which was still

**Table 13: Variances between Actual and Budgeted Expenditure**

<b>Nature of expenditure</b>	<b>Amount exceeded</b>
	<b>€</b>
Community and hospitality	80,466
Repair and upkeep	69,888
Contractual services	19,146
Office services	8,715
Travel	4,141
Transport	4,053
Professional services	3,463
Incidental expenses	2,743
Materials and supplies	912

incorrectly recognised as a revenue expenditure rather than capital expenditure. Thus, following LGA's recommendation, the Council approved to increase both Assets under Construction and Deferred Income by €20,803 and €17,683 respectively, whilst decreasing amounts expensed in the Statement of Comprehensive Income by €3,120.

*Point not addressed.*

Several invoices were posted in the wrong Nominal Account. Reallocations, amounting to €16,216, were passed in the books in order to ensure that the expenditure is appropriately categorised. Likewise, Government funds of €9,000, receivable for the New Year's Eve activities were posted as sponsorships. This was then reallocated to the correct account by means of an audit adjustment. In addition, instances were encountered whereby items of income and expenditure were netted off.

Budgeted expenditure under certain categories has been exceeded by the amounts shown in **Table 13**.

*Action will be taken by the Council on all the queries mentioned by LGA. The former will also not exceed budgeted expenditure.*

As already highlighted in the preceding year, 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. Meanwhile, for the Christmas and New Year's Eve activities, the Council 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 sponsorships from shops and kiosks in order to help organise several activities, such as New Year's Eve, and other financial help during the feasts of St. Mary and St. George, in order to partly finance street cleaning costs.*

VAT was paid by a soft drinks company on the sponsorship fee for the end-of-year event when the Local Council is outside the scope of VAT.

The Council did not advise the company about this and just accounted for VAT element as additional income. Furthermore, Government funds of €9,000 receivable for the New Year's Eve activities, were posted as sponsorships. An adjustment was passed to reclassify these amounts to other Government funds.

*Point not addressed.*

Upon the change from definite to indefinite contracts, 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.

*Clarifications are being made with DLG in order to check about the need of contract of employment.*

During the year under review, the Council engaged an employee under the scheme *Impjieg Inklussiv fil-Komunita'*. However, no social security contributions were deducted from the respective employee's wage with the consequence that no payments were forwarded to IRD in this respect, not even the employer's share. Notwithstanding this, no correspondence to this effect was made available for audit purposes.

*No information was forthcoming from the responsible Department even though the Council sought information about this employee.*

**Safi**

Notwithstanding that in reply to the prior year's Management Letter the Council stated that work will commence on an exercise to draw up a FAR, to-date, this has not been prepared. In addition, in the absence of such FAR, the Council is computing depreciation manually through a spreadsheet, contrary to Local Councils (Procedures) Regulations, 1996.

Although the total NBVs, as recorded in both FAR and the Nominal Ledger are in agreement, the totals of two individual categories, namely New Street Signs and Urban Improvements, differed by €6,989.

*The Executive Secretary, along with the Accountant, is preparing FAR. Whilst regretting*



*the time this has taken, the Executive Secretary takes responsibility for this. This was due to the fact that other priorities and activities have taken their time to be concluded, and after initially starting FAR, it was paused and not re-started when the Council was over-burdened with other commitments.*

*The matter with respect to the depreciation charge will be discussed with the Accountant. The Council has compiled an inventory list of fixed assets owned by the Council, and is cross-checking these with what is actually included in the accounting system. Once the discrepancies are identified, the necessary adjustments will be posted in the books of account. In the meantime, as per Local Council Policy, depreciation is being computed using the reducing balance method. The discrepancy in NBV is certainly a case of reclassifying Urban Improvements under New Street Signs, which issue will be reverted following a consultation with the Accountant. All the other recommendations were noted for future reference.*

The Council also failed to accrue for both the cost of €2,419 incurred for the procurement of a live streaming equipment, and a related grant of €2,300 receivable from DLG. Similarly, the amount of €4,221 which was received in January 2014, being part of the membership fee paid to Kirkop Council, for the Pyrotechnics project amounting to €6,800, which was terminated in 2013, remained also unaccounted for. Furthermore, the opening balance of the membership fee of €4,583 paid in respect of the aforementioned project, was also incorrectly reversed. The Council also failed to provide for prepaid insurance.

Accrued expenses of €1,842 relating to refuse collection were incorrectly posted against the Bulky Refuse account, as a result of which, expenses amounting to €134 relating to bulky refuse were not accrued for. On the other hand, the amount of €2,740 was incorrectly accrued for as refuse collection.

Adjustments to correct all the above have been proposed by LGA and are correctly reflected in the audited Financial Statements.

The grant receivable on the sports scheme, amounting to €1,500 was not recorded, whilst that relating to *Milied Safi* was over accrued by €2,000.

The proposed adjustment of €500 to record these misstatements has been passed in the final set of accounts.

Included in the Accrued Income List was an amount of €500 receivable from *Gal Xlokk*. However, when provided with the agreement entered into between the Council and *Gal Xlokk* organisation, it was noted that the amount receivable should read €1,500. Upon further investigation, LGA was informed by the Executive Secretary that according to verbal communication with *Gal Xlokk*, this amount will not be received. In the absence of any written correspondence, no adjustment was proposed to eliminate this transaction.

*With respect to the amount refunded by Kirkop Local Council, in view of membership fees paid for the Pyrotechnics project, the mistake was noted during the audit and as LGA can confirm, this was taken care of during their visit. It was a misjudgement which was dealt with.*

*The Council regrets the discrepancies encountered between the Accruals List and the Nominal Ledger. The necessary audit adjustments were incorporated in the books of account.*

An amount of €2,497 received from pre-regional Debtors was recognised as income for the year instead of set-off against LES Debtors. Consequently, income from LES Administrative Fees as recorded by the Council did not tally to the amount disclosed in the Report 483 generated from the IT system, by the aforementioned amount. An audit adjustment was approved by the Council to debit this income against LES Debtors, as well as to decrease the provision for doubtful debts recognised thereon.

An additional adjustment of €11,331 was credited against LES Debtors to rectify a discrepancy of €13,828 that was encountered between pre-regional LES Debtors, as illustrated in the report extracted from IT system as at 31 December 2013, and the amount recorded in the books of account. Likewise, Provision for Doubtful LES Debtors was decreased by a further €2,889.

A report titled Pre-Regional Tickets, generated from the IT system, indicated that during the year ending 31 December 2013, the Council received more cash than that shown by other reports printed

from the same system. This casts doubts on the integrity of the related system, thus LGA issued a qualified audit opinion in this respect.

*The Council shall be seeing how this discrepancy occurred. Adjustments as proposed by LGA were accepted and duly posted in the books of account. Attention will be paid when LES income is received in order to post in the correct account.*

The Council is entitled to receive the sum of €1,500, relating to the rental of the football pitch. In view that this amount has been outstanding since 3 June 2012, the latter is recommended to hold discussions with the lessee to determine whether the agreement is to be terminated.

*Point not properly addressed.*

In the Creditor's Ledger is a balance of €1,570, payable to a service provider, which has been long outstanding.

*This overdue balance is surely an oversight as the respective contractor has confirmed that there are no balances due.*

The Council is still making use of the contract for the rental of the football ground which was entered into in 2008 for a period of four years. A monthly charge of approximately €127 was incurred during the year under review, against this expired contract.

*Point not addressed.*

Invoices relating to tipping fees for the period September to November were not recorded in full, leaving an unrecorded balance of €354, as the Council opted to accrue only for the amount of €9,832 allocated by Central Government. Furthermore, when comparing the statement provided by WasterServ Malta Ltd with the Nominal Ledger, LGA noted a difference of €3,928, for which the Council was unable to provide an explanation. Thus, a qualified audit opinion was issued in this respect.

*DLG took care of the issue of accrued payments with WasteServ Malta Ltd, as tipping fees allocated by Government were less than the actual amount invoiced. The issue for not recording the*

*full amounts being invoiced will be tackled with the Accountant.*

A pledge of €6,000 in favour of a third party was not disclosed as a Contingent Liability in the unaudited Financial Statements. Furthermore, no indication was given that the same amount held in a bank account has been blocked by the bank to cover the guaranteed amount. Following LGA's recommendation, the Financial Statements were amended accordingly.

*Point not addressed.*

### San Ġiljan

Audit testing carried out on fixed assets additions revealed that, in breach of the Local Councils (Tendering) Procedures, the contractor was paid an amount of €40,000 for resurfacing works carried out at *Triq Spinola*, before these were certified by the Architect. Furthermore, the Council accounted only for the amount paid to the contractor and the contract manager respectively (€55,720), rather than for the full cost (€60,740) of the project. It also transpired that the contract management fees of €2,088 were expensed instead of capitalised. Thus, an audit adjustment of €5,020 was passed to capitalise the full cost of the project. A further adjustment was approved by the Council to charge depreciation thereon.

*Points noted and the necessary adjustments were made accordingly. As regards to the payment issued to the contractor, the cheque was issued with the date prior to the certification date by oversight. However, this was not given to the contractor before the certification date.*

In 2011, the Council qualified for a grant from the Housing Authority, up to a maximum of €70,000 for the maintenance of the common inside areas in the Housing Estates. Up to 31 December 2013, the Council only received €61,185, with the remaining balance of €8,815 still pending. During the year under review, costs incurred by the Council on the Housing Estates amounted to €26,017. However, erroneously only portion of the grant, totalling €2,486, was released to the Statement of Comprehensive Income. Thus, an audit adjustment of €23,531 was passed so as to

release the full amount of grant to income, to be matched against the related expenditure.

In 2012, the Council entered into a new agreement with the Housing Authority for a further grant of €75,000 for the outside maintenance and upgrading of Housing Estates. By year-end, the Council incurred an expenditure of €56,275, which was properly matched against an equivalent grant income in the Financial Statements, thus leaving an unutilised grant of €18,725, which has been deferred to next year. However, the Council issued an invoice of €2,000 to the Housing Authority in connection with the same works, and recorded an equivalent amount as income. This implied that both accrued income and income for the year were overstated by the aforementioned amount, thus an audit adjustment was passed accordingly.

*Comments made by LGA were noted and the related adjustments were reflected in the Financial Statements.*

The Council has shown a grant receivable of €4,299 in the Financial Statements, which transaction was erroneously accounted for twice in the books of account. This grant was receivable from MEPA for the repairs and maintenance of *Saver Garden*. The Council approved and passed an adjustment to reverse one of the entries.

*Point noted.*

As a result of the several shortcomings mentioned, the current portion of deferred income was overstated by €4,734. Furthermore, grant released to income relating to PPP scheme was overstated by €2,831. On the other hand, the amortisation of UIF in relation to the construction of a ramp for better accessibility, was understated by €577, as the Council started to release the grant as from October upon payment, despite that the project was completed in August. These errors were rectified by means of audit adjustments.

*The necessary action was taken.*

The personal accident group insurance policy has not been updated by the Council, and as at time of audit, it still included a person whose employment with the Council had been terminated for over a year.

*The insurance brokers were informed prior to the renewal of the policy. A credit note was issued and the payment effected does not include the person who terminated employment with the Council. All documents were available for LGA during the audit.*

Once again the Council incurred costs, amounting to €18,500, for *Lejlet Lapsi* and despite LGA's prior years' recommendations, it failed to provide clarifications from DLG as to whether such event falls under Memo 8/2011. Thus, LGA was unable to confirm whether expenses incurred on this event are in conformity to standing regulations.

*Festa Lapsi is an activity which the Council applied for through a scheme issued by DLG, by means of Memo 38/2012. This activity was also approved by the latter and all procedures were followed.*

The Council disregarded LGA's prior recommendations, and is still paying a fixed quarterly amount of €187 as reimbursement to the Executive Secretary, for making use of her own car and mobile phone for Council's purposes. Although the Council stated in previous Management Letter replies that the said amount was approved by the Council, LGA's recommendation to seek proper guidance and approval from DLG was never taken up by the former.

*As stated in previous years, the reimbursement of expenses to the Executive Secretary is a Council decision and is approved by the latter.*

Travelling expenses of €8,604, covering all expenses related to a visit to Moscow by the Mayor and the Executive Secretary, in connection with the European Countries against Drugs conference, as well as a visit to China by the Mayor, could not be validated as the post travel reports were not provided.

*The Mayor and the Executive Secretary travelled to Moscow as Council representatives and not as Government Delegates. To the Council's knowledge, the former have no obligation to submit any reports to the Director responsible for Corporate Services. All the information was provided for audit purposes and the rates of subsistence allowance paid were in accordance*

*with the per diem allowance for duty travel overseas. The Council has sought guidance from DLG on this issue, however no reply was received.*

A balance of €24,931 has been long overdue, with a substantial amount from this balance due from a waste recycling company. No payments were received from this debtor during the past few years, and it is doubtful whether there will be any, since this entity is in financial difficulties. During 2013, invoices amounting to €3,665 were issued by the Council to the foregoing debtor, covering administration fees totalling €2,165, with the remaining balance relating to a sponsorship of €1,500 for the Lapsi feast. However, no correspondence substantiating the debtor's approval for the said sponsorship was provided to LGA.

*To the Council's knowledge all the debts mentioned by LGA are recoverable by the Council.*

A discrepancy of €14,641 between the books of account and the bank statement for a particular bank account was identified by LGA. The latter was informed that the said amount was received from the Sliema Joint Committee on 5 April 2013 but it failed to post this transaction. An adjustment was proposed and the Council included the said amount in the audited Financial Statements.

*Bank reconciliations are always done on a monthly basis. However, the discrepancy arose due to the fact that transactions entered in the accounting system can be reconciled although not yet posted.*

Included with Payables is a long outstanding balance of €5,732, relating to services provided during November and December 2012. It was however noted that, subsequent invoices issued by the same service provider were settled.

*This amount relates to incorrect contractor invoices which were corrected by the Contracts Manager.*

Although the Council did request monthly statements from all suppliers, it did not manage to obtain all of them. As a result, in such cases, creditors' balances as per books of account could not be tallied to statements. When performing alternative procedures on a particular creditor, LGA

noted that the outstanding balance of €14,731 due to the said creditor, included an invoice amounting to €744, due to another service provider.

*The Council requests a statement from every supplier when issuing payment. Furthermore, the amount of €744 was due to be paid by the contractor in the course of his works. Since the latter failed to pay this amount to the Council, it was set off against the amount due to the former by the latter.*

The Council did not accrue for two invoices, amounting in total to €1,317. On the other hand, an invoice addressed to WasteServ Malta Ltd, amounting to €4,583, was posted twice. Whilst proposed adjustments were correctly reflected in the books of account, in the latter case, an unreconciled balance of €982 remains, for which no explanation was provided to LGA.

*The adjustments were made as recommended.*

The balance of long-term payables disclosed in the unaudited Financial Statements was incorrect. Following LGA's recommendation, this was adjusted to show an amount of €11,294. In addition payments effected by the Council were not in line with the provisions of Memo 45/2010, stipulating that the Council is to pay the PPP contractor over a span of nine years.

*With regard to Triq Claire E. Engel, the Council was not completely satisfied with the result of works carried out under PPP project. Thus, the first two payments were made according to the Council's decision.*

Capital Commitments as disclosed in the Financial Statements (€263,304) are overstated by €262,404 when compared to those recorded in the annual budget (€900). In addition, included in the €263,304 is the amount of €7,560 relating to the repayment of loans, which amount should not be included with Capital Commitments but disclosed with contractual maturities in the liquidity risk note.

*The budget did not include the Capital Commitments of €254,844 as these relate to the previous year commitments. This amount was not included in the funds available and in the expenditure of the budget.*

A review of the minutes revealed that the Council bought two tablets, amounting to €1,459, for the benefit of the Mayor and Executive Secretary. In reply to a request to physically inspect the said devices, LGA was informed that the Mayor's tablet was not within the Council's premises. The Executive Secretary also confirmed that no record is kept highlighting the instances when these tablets leave the Council's office, in breach of the Local Councils (Financial) Procedures and Memo 120/2010.

*The Council approved unanimously, during the meeting held on 27 February 2014, that these two tablets can be used by the Mayor and the Executive Secretary at any time, anywhere outside the premises of the Local Council.*

Financial Statements do not disclose the fact that certain Council's fixed assets are hypothecated in favour of a bank as security for loans, in line with the requirements of IAS 16.

*Point not properly addressed.*

### San Ġwann

Although in last year's reply the Council stated that it had agreed to find someone to compile FAR, which was to be completed by the end of December 2013, still no FAR was provided to LGA during the audit. In the absence of FAR, the Council is computing depreciation manually through a spreadsheet, contrary to standing procedures. It also transpired that it is being calculated on an annual basis rather than a monthly basis. This has resulted in an overstatement of €8,149 in the depreciation charge for the year. It was also noted that a display board is being depreciated at the rate of 10% instead of 100%. No audit adjustment was however proposed to correct this discrepancy since it is an accounting estimate, based on the estimated useful lives of assets.

A reconciliation of the amounts disclosed in the unaudited Financial Statements with that recorded in the Nominal Ledger revealed that whilst total NBV as recognised in the aforementioned documents tally, discrepancies were noted with respect to certain individual asset categories.

The Council has entered into an agreement with San Ġwann Parish Church to hire the hall as a Day Care Centre, at the rate of €1,600 *per annum*. The Council did not issue a call for quotations. LGA was also not provided with any rental agreement.

Included within the Debtors' List are receivables of €13,445 due from the five Regional Committees, which have been outstanding for more than one year, out of which the amount of €10,329 is due from the Central Regional Committee. Another balance of €7,936 is due from a waste recycling company, against which no payments were received from this debtor during the past few years. It is also doubtful whether there will be any, since this entity is in financial difficulties. LGA proposed an adjustment to recognise a provision for doubtful debts against such balance, which has been correctly reflected in the audited Financial Statements.

Meanwhile, disclosed within Other Creditors' List is a balance of €839 relating to deposits paid by contractors on permits, which amount has been outstanding for more than three years. Likewise, included in the list of deferred income is an unutilised grant of €141 pertaining to *Misraħ il-Lewża* project.

The Council still has balances of €11,300 and €7,694, included as Accrued Income and Debtors respectively, receivable from WSC for trenching works carried out in 2010. Though testing revealed that the latter balance is understated by €233, no adjustment was proposed in this respect as the Council was unable to provide an explanation for such difference. The Accrued Income also includes an amount of €1,149, relating to a grant receivable for expenses incurred during the Pope's visit in 2011, but which has not been received up to the conclusion of the audit.

A grant receivable of €2,000, relating to carnival activity was incorrectly classified with Prepayments in the unaudited Financial Statements, while another grant of €731, receivable under an ETC scheme, was classified with Debtors instead of Accrued Income. Meanwhile, as already highlighted in previous year, prepaid honorarium was overstated by €267. The necessary adjustments were approved by the Council.

Through a bank confirmation letter, it was established that the Council has a current and savings account, with one of its representatives stated as the former Executive Secretary. A final withholding tax was also charged on interest received by the Council on a separate bank account.

The Council did not request monthly statements from all suppliers. Moreover, when comparing creditors' balances in the books of account with the Suppliers' Circularisation Letters, LGA identified unreconciled differences, which, for the 12 creditors selected, totalled €4,282. No explanation was provided by the Council for any of the differences identified.

The Council disclosed Capital Commitments with a nil balance in the Financial Statements. However, LGA was unable to confirm that such disclosure is appropriate, as the budget for 2014, which should have been approved by the Council not later than 15 February, had not been prepared and approved by the time of audit.

LGA came across a Court case against the Council, by a supplier who is seeking the payment of an outstanding invoice of €7,000 for road paint supplied in 2011. The Executive Secretary claimed that the Council is withholding this payment because the related purchase was made by direct order without the Council's knowledge and prior approval in meeting. While the Council has consistently sought DLG's guidance on this issue on numerous occasions, a reply was only given subsequent to 11 reminders, and after the Council received correspondence from the supplier's lawyers informing it that the case has been taken to Court.

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

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

## San Lawrenz

Notwithstanding that the contracts for the cleaning and attendance of public convenience and bulky refuse collection, entered into in 1994, by now had expired, the Council was still using the services of the same supplier. A total of €4,161 was invoiced during the year in this respect.

*The Council is aware that the contracts mentioned have expired and will discuss this further, taking into consideration LGA's recommendations.*

Architect fees, amounting to €4,683, were directly procured from the open market, despite that the related expenditure merited a call for tenders.

*The amounts that exceeded the threshold were unavoidable since the commitment had already been made.*

Following the signing of a new contract for refuse collection services, the rates per collection were updated accordingly as from May 2013. However, for the months of May and June 2013, the supplier invoiced the Council with the old rates, with the result that the latter was overcharged the amount of €758. Following discussions, the service provider confirmed that a credit note will be issued in this respect and by means of an audit adjustment, the Council reversed the aforementioned amount from its books of account.

*No further comments were received.*

Some invoices relating to services provided, or items procured during the year under review, were either completely omitted or not fully provided for, resulting in unrecorded liabilities. In fact, the Council failed to provide for accrued expenditure amounting to €19,996. Invoices totalling €9,914 that were received during the year, were also not recorded in the books of account.

The Council failed to adopt proper cut-off procedures. For example, an estimate of €14,000 for waste separation bins was incorrectly recorded with payables instead of accruals. On the other hand, invoices, amounting to €1,351, relating to street lighting were accrued for despite that these were dated and received during 2013. Additionally, the latter amount was overstated

by €1,656. Likewise, the December photocopier lease of €187 was accrued for, notwithstanding that this was received in 2013. These errors were rectified by means of an audit adjustment.

*The Council was not aware of these accruals when the unaudited Financial Statements were being prepared, thus they could not be included. The accruals mentioned by LGA have been accounted for. Additionally, the recommendations made by LGA on payables have been noted and further attention will be given to the points identified, in order to ensure that liabilities are recorded correctly.*

Similarly, upon the receipt of the Architect's valuation report, relating to works carried out with respect to Measure 323, the Council did not accrue for all the work completed by year-end, with the consequence that both Assets under Construction, as well as accrued expenditure, were understated by €85,541.

Another instance was noted whereby the Council accounted only for the payments, amounting to €58,300, out of the €61,270 invoiced by the supplier with respect to a project under the Measure 313 Scheme. The resulting variance of €2,970 was then incorporated in the books of account by means of an audit adjustment.

Upon the finalisation of the Culvert project in 2012, the full cost was capitalised and the amount of €31,350, which was not yet invoiced, had been accrued for. However, the incorrect accounting treatment, adopted by the Council in this regard during 2013, resulted in an overstatement of €8,650 in both the amount payable, as well as the cost of the related project. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these errors.

*The points raised by LGA have been noted and will be looked into in further detail. In the future more attention will be given to the points raised by LGA, in order to ensure that Accruals and Creditors are recorded correctly. Likewise, more attention will be given to the invoicing of projects and asset classification. The audit adjustments recommended by LGA were all carried out and reflected in the audited Financial Statements.*

Costs relating to finished Panacea project were reclassified through an audit adjustment since these were completed in March 2013 but were still being classified as Assets under Construction. Furthermore, the costs relating to the foregoing project, which also included expenses of a revenue nature, were merged in a single asset account, whilst the full figure was entered as a one-line item in FAR.

Besides leading to lack of traceability, this course of action implied that some assets were depreciated at the wrong depreciation rate, given that the same rate was applied to all assets irrespective of their nature. In line with LGA's recommendation, an audit adjustment amounting to €100,376, was posted to reclassify all the different project to the respective Nominal Accounts and to write off the expenses of a revenue nature.

Notwithstanding that only 85% of the certified costs<sup>38</sup> incurred on the Panacea project are co-financed by the Italia-Malta Programme, the Council recognised the full expenditure as refundable, with the consequence that accrued income was overstated by €15,731.

*All the recommendations made by LGA regarding the Panacea project have been noted and the recommended adjustments were made and reflected in the audited Financial Statements. The fixed asset records for this project will be depreciated according to their classification.*

The costs for the Architect services, relating to a capital project under Measure 323, were being written off to the Statement of Comprehensive Income, consequently overstating expenditure whilst distorting the cost of the capital project and the depreciation charge for the year. On the other hand, professional fees relating to restoration works were capitalised rather than treated as revenue expenditure. The Council approved to increase assets under construction by €7,759 and decrease fixed assets, as well as engineering services expenditure, by €950 and €6,809 respectively.

*The Council will identify the professional fees that relate to capital and revenue projects, and will*

<sup>38</sup> Whilst total certified costs aggregated to €132,766, the amount of €79,923 was already received, thus resulting in accrued income of €32,927.

*classify them accordingly during the posting of expenses.*

Following recognition of the abovementioned deficiencies, an audit adjustment of €25,060 was proposed by LGA to reduce depreciation charge from €56,938 as calculated by the Council, to a final charge for the year of €31,878. The Financial Statements were rectified accordingly.

The amounts disclosed in FAR did not tally to balances recorded in the Nominal Ledger and unaudited Financial Statements. Both the cost of assets and accumulated depreciation thereon as recognised in FAR were understated by €585,644 and €48,595 respectively, when compared to the other documents, thus leading to an understated NBV of €537,049.

*The FAR will be reviewed in order to make the necessary amendments as required.*

Testing carried out revealed that receivables were not accounted for properly, with the consequence that income, as recorded by the Council, was overstated. For example the final settlement of €1,875 received during the year under review, in relation to a co-financing agreement – *Town for Citizens Scheme*, entered into by the Council in 2009, was incorrectly recognised as income for the year, rather than set off against the opening accrued income. This error was rectified by means of an audit adjustment.

*The necessary adjustments for the funds receivable under the various funding schemes and other receivables were accounted for as recommended by LGA.*

A settlement of €300 received from WSC during the year under review was erroneously treated as income for the year, instead of netting it off against receivables brought forward. Furthermore it was noted that the Council accrued for another €5,400, in respect of invoices issued in 2013, of which the amount of €650 was already disclosed with receivables brought forward, thus resulting in double accounting of the said amount. The necessary audit adjustments were approved by the Council. Following LGA's recommendation, the latter also recognised a provision for doubtful debts, since the amount confirmed by WSC as

due to the Council at year-end amounted solely to €650.

*The matter relating to WSC will be looked into by the Executive Secretary so as to reconcile the amounts receivable from the Corporation, and the necessary adjustments made to reflect the correct amount.*

Besides that minor discrepancies were noted in the bank reconciliations provided for audit purposes, unrepresented cheques, aggregating to €2,683, which were technically stale by year-end, were not investigated and were still included therein.

*The recommendation made by LGA regarding bank reconciliation statements has been noted and although this was done on a regular basis during the year, due to the high pressure of work at year-end, the discrepancy in the reconciliation was not found. This was resolved at a later date. The unrepresented cheques will be investigated further by the Council in order to identify whether these are still due.*

Various shortcomings were this year again noted in the calculation of the amortisation with respect to both projects which were completed in the year under review, as well as those which were still in progress.

- a. An audit adjustment was passed to reverse the total amount of €42,957, which had been released to the Statement of Comprehensive Income, with respect to projects that were either not yet completed or has not yet started by year-end.
- b. In the case of the Panacea project, a full year amortisation was accounted for, despite that the project was completed and ready for use in March 2013. Furthermore, instead of fully releasing the deferred income portion relating to expenditure of a revenue nature, erroneously the Council amortised the funds relating to the capital asset. Thus, a net adjustment of €38,136 was approved by the latter to increase deferred income released to the Statement of Comprehensive Income.
- c. Notwithstanding that the Eco-Gozo project was fully complete and ready for use in December 2013, a full year's amortisation



was recognised by the Council, which was then reduced by €1,503 through an audit adjustment.

- d. Bank receipts with respect to particular projects were recognised as income for the year, notwithstanding that the related projects were still ongoing at year-end. The Council approved the necessary audit adjustments to decrease income by €302,272, increase deferred income by €301,498 and reverse bank interest of €774 as this was withdrawn.

Inconsistencies were also noted in the policy adopted by the Council in recording funds receivable. For some projects, the full amounts of funds receivable were recognised as deferred income upon the signing of the agreement, whilst any amounts outstanding were accrued for. In other instances the Council only deferred the actual funds received, whilst it did not account for any outstanding amounts unless the project has been completed, even though the costs already incurred exceeded the funds received. In other cases the Council deferred the actual funds received, whilst it accrued and deferred funds in line with the progress of the project.

*The recommendations made by LGA in respect of deferred income as well as income receivable under Measures 313 and 323, have been noted and further attention will be given to this matter in the future. The funds will be treated as deferred income until these are utilised and will then be amortised as recommended. The adjustments recommended by LGA have been made and reflected in the Financial Statements.*

The Council had been granted €6,000 for the niche restoration, against which it incurred a total expenditure of €2,581. In line with the specific instructions provided that any unutilised funds are to be refunded, the annual allocation advanced to the Council during the year under review was reduced by €3,419. However, at year-end these excess funds were still disclosed with Payables in the Council's books of account. Thus, an audit adjustment was passed to reclassify this amount from payables to income.

*The recommendation regarding the grant for niches has been noted and the necessary adjustment made and reflected in the audited Financial Statements.*

Testing carried out revealed that previous year's audit adjustments, relating to unaccounted for accounts payable of one-off suppliers, were being accumulated in a supplier account named Events Creditors, which at year-end had a running balance of €1,914. This accounting treatment is making it difficult to trace the actual supplier and reconcile with any statements sent by the latter. Furthermore, such payable balances may be overseen and any payments to these service providers in the following years may be accounted for again as an expense.

*The recommendation made regarding the opening of individual supplier accounts has been noted. The account mentioned was opened to account for the audit adjustments made in the previous year, since the creditors could not be identified at the time. The intention was to reverse these creditors and enter the actual invoices when these were received. The adjustment recommended by LGA has been made and reflected in the audited Financial Statements.*

The Council failed to account for the amount of €1,674 which DLG paid directly to WasteServ Malta Ltd on its behalf, as a settlement of unpaid tipping fees due to the fact that the amount invoiced by the latter exceeded the allocation provided for such services. Besides that this resulted in understated income, the expense that such funds intend to cover remained also unaccounted for. Following LGA's recommendation, the Council approved the necessary adjustments.

The Council created an account relating to income derived from the Panacea project, which is made up of two elements, mainly donations of €482 received from people visiting the Panacea Centre, which receipts are not backed up by a Bye-Law, and re-imburement of expenses amounting to €871, which were paid twice by the Council. Not to inflate the income and expenditure, an adjustment was passed to reverse the latter amount.

*Recommendations put forward by LGA were noted and further action will be taken to ensure that matters mentioned are resolved. The audit adjustments have been made and reflected in the audited Financial Statements.*

A refund of €1,736, received with respect to an overpaid amount effected by the Council

with respect to Youth Exchange expenditure, was incorrectly recorded as income instead of reversed against the related expense. An audit adjustment to this effect was approved by the Council. Additionally, invoices adding up to €2,200, relating to services provided during 2012-2013, were fully expensed during the year under review. Meanwhile, support services of €893 were disclosed in the payroll accounts despite that the concerned individual was not on the Council's payroll records. The related amount was then reclassified to other support services account through an audit adjustment.

*The audit adjustment in relation to the youth project was recorded and reflected in the audited Financial Statements.*

A review of a sample of Payment Vouchers revealed that besides that these are not always being signed by both the Mayor and the Executive Secretary, they lacked certain specific details.

*The points raised by LGA have been noted and corrective action will be taken.*

Contrary to that laid down in the Financial Procedures, the Council failed to prepare an annual budget for 2013.

*The budget was prepared late by the Council due to the pressure of work.*

### Sannat

Notwithstanding that the agreement covering the provision of management services expired some years ago, the Council continued to renew the said contract year by year. Despite that this was done on the basis that certain projects which fell under the responsibility of the said service provider were still in progress, it was noted that even new projects were given to the same supplier. By the time a new tender became effective in July 2013, the respective contractor had already invoiced the Council the amount of €5,861.

The Council continued to procure the provision for the collection of bulky refuse from the Public Cleansing Department, against a contract that was drafted years ago, upon the inception of Local Councils. LGA was not provided with a copy of the related agreement.

*The recommendations made by LGA were noted and further attention will be given by the appointed Executive Secretary to tackle the issues raised in the Management Letter.*

The cost, total accumulated depreciation, as well as the resulting NBV, as disclosed in the Nominal Ledger and Financial Statements, were overstated by €256,927, €59,367 and €197,560 respectively, when compared to the figures illustrated in FAR.

Three projects, namely the open space at *Triq Skerla*, the playing field in *Triq Marżiena*, and the construction of *Tal-Bidwi* park, were fully completed during 2013. However, the related costs, aggregating to €95,113, remained classified as Assets under Construction. On the other hand, €33,340 incurred for light fittings at *Tal-Bidwi* park were capitalised, even though these were not yet installed by year-end. The necessary audit adjustments, including the accounting for the related depreciation charge, were approved by the Council and incorporated in the final set of Financial Statements. An additional adjustment of €3,718 was passed to account for the manufacturing of various items as replicas of different traditional features, which were not yet ready and in place by the end of 2013.

Other costs relating to the construction of *Tal-Bidwi* park, which was completed but not paid by the end of the year, were not accrued for and capitalised. These costs, which amounted to €30,251, were also adjusted for with the result that the depreciation charge for the year and the deferred income relating to relevant Government grants were also effected.

Meanwhile, expenditure of a revenue nature, totalling €6,857, was erroneously capitalised, when this should have been expensed in the Statement of Comprehensive Income. This situation was rectified by means of an audit adjustment.

The yearly depreciation charge, as calculated manually by the Council, was incorrect. Besides that the wrong depreciation rate was applied for certain assets, an instance was encountered whereby additions, amounting to €11,541, for the provision and planting of landscaping, trees and shrubs, were capitalised under one category, on the basis that specific grants were received for such project, even though in reality the Council has

different depreciation rates for trees and plants. Following the re-calculation of the depreciation by LGA, the Council approved to increase the charge for the year by €66,971 through an audit adjustment.

*FAR was updated during 2011. However, the categories will be reviewed in order to comply fully with the Nominal Ledger. The various points raised by LGA have been noted and further attention will be given to the recording of assets.*

Grants of €49,777 received during the year under review, in relation to a playing field project in *Triq Marżiena*, and a new lamp post at *Triq Sannat*, were incorrectly recognised as income for the year, even though the balance of €13,870 was already recognised as accrued income in 2012, when the project was completed. Following LGA's recommendation, the necessary audit adjustments were approved by the Council.

*Points raised by LGA in view of the various receipts of funds during the year have been noted. The adjustments recommended by LGA were made and reflected in the audited Financial Statements.*

Several unpaid expenditure was not accrued for at year-end, and was only incorporated in the accounting records by means of an audit adjustment. For example, no accrual was provided for the project relating to *Triq il-Falkun*, which works were completed by January 2013. This resulted in an understatement of €38,767 in both capital expenditure and liabilities. In addition, expenditure totalling €8,993, including engineering services, Christmas decorations, as well as payroll expenses, remained also unrecorded.

Similarly, the Council failed to accrue for funds of €12,050 granted by MEPA in respect of the playing field project, and €5,040 receivable under PPP scheme. Both projects were completed by year-end. Likewise, in breach of the matching concept, accrued income of €1,575, in relation to activities organised by the Council in line with Memo 49/2012 and Memo 38/2012, was also not recorded in the books of account, implying that the related income was not matched with the corresponding expense. Following LGA's recommendation the Financial Statements were adjusted accordingly.

*Whilst the recommendations forwarded by LGA have been noted, the necessary adjustments were made and reflected in the final set of Financial Statements.*

In view of the above-mentioned shortcomings, an audit adjustment of €60,918, to decrease deferred income and increase the amortisation released to the Statement of Comprehensive Income, was proposed by LGA. The Financial Statements were adjusted accordingly.

*The amortisation of deferred income was initially calculated based on the entries in the Deferred Income Account and the level of completion of the projects. This was adjusted as recommended by LGA since the calculation was also affected by other necessary audit adjustments.*

The Council failed to account for the amount of €5,410 that DLG paid to WasteServ Malta Ltd on its behalf. Invoices received after year-end were recorded within the accounts payable, rather than recognised as accrued expenditure and *vice-versa*. This implies that the Council is still not distinguishing between amounts payable and accruals.

On several occasions, the VAT element was posted twice, once in the expense account and once in the VAT Control Account, thus resulting in both expenditure and liabilities being inflated by €1,945. Certain expenses were also accounted for in the wrong Nominal Account, with the consequence that several reclassification adjustments, amounting to €4,308 were proposed by LGA, and approved by the Council.

The invoice issued by the contractor who was awarded the tender for the provision of benches was €666 higher than the amount quoted. Following LGA's recommendation, the Council reversed the said amount from its accounting records and informed the supplier accordingly.

*The unrecorded payment to WasteServ Malta Ltd was an oversight and consequently an adjustment was approved in this respect. Recommendations made by LGA in view of the recording of accruals and creditors have been noted.*

No remedial action was taken by the Council, in line with previous year's recommendation, to capitalise borrowing costs of €10,018, incurred in relation to the construction of the new Council's premises. Furthermore, as already highlighted during the preceding year, included under Construction is the cost of €196,657 relating to the works carried out on the aforementioned premises, which project was only finalised late in May 2012. However, since depreciation started being calculated on the project while it was still in progress, total accumulated depreciation is overstated by €32,810, whilst the charge for the year is understated by €3,465. 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.*

Testing carried out on bank balances revealed that both the receipts and the equivalent expenditure of €30,114, relating to Measure 323, were completely omitted from the books of account. Furthermore, the interest earned on the saving and fixed accounts, amounting to €112, was also not accounted for. A cheque of €1,000, dated in 2013, was also not recognised in the accounting records, since the Council withheld payment, as it did not have the necessary funds to meet the liability. The necessary audit adjustments were approved by the Council.

*The recommendations made by LGA have been noted and the necessary adjustments were made. The Financial Statements were adjusted accordingly.*

Payments relating to December 2013, January and February 2014 salaries and allowances, as well as other minor expenses aggregating to €354, were issued prior to approval.

*Salaries and Councillors' allowances are statutory payments set in the conditions of employment and in the Local Councils Act respectively. It would not be reasonable not to pay employees' salaries at the end of the month if a Council meeting is not held at that time. The other small 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 Hospitality and Communitarian Services, Repairs and Maintenance, as well as Transport, was exceeded by €23,129, €1,117 and €754 respectively.

*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 in the recording of the financial data in the accounting system.*

### San Pawl il-Baħar

As from 2004, one of the Council's employees should have been granted wage increases, which until 2013 have aggregated to €9,328. In this respect, during the year under review, the Council obtained clearance from DLG to effect payment of such increments, and an audit adjustment was posted to accrue for such increases.

Another incremental increase that should have been granted to another employee in December 2013 was not effected, with the consequence that the performance bonus was incorrectly calculated on the salary scale prior to the increment. Following LGA's recommendation, the accounting records were adjusted accordingly.

*LGA's comments have been noted and adjustments were posted by the Council during the course of the audit.*

Procurement of goods and services was at times effected either through a direct order or under an expired contract. In fact, the Council effected payments, aggregating to €44,797, with respect to patching works and bulky refuse services, provided during 2012 under an expired contract. On the other hand, during January 2013, an Architect invoiced the Council the sum of €1,767 despite that the related contract commenced during February. Printing costs of €2,709, with respect to the Council's magazine, were also incurred under an expired contract.

*The Council took note of LGA's comments and suggestions.*

An open air activity, including a concert by the Queen Tribute Band, costed the Council the amount of €6,155. Besides that this activity was provided

free of charge to the public, no sponsorships were obtained to cover the related costs, thus rendering the activity as a form of donation.

*The activity was organised as part of a Social and Cultural fund. Moreover, many locals and tourists enjoyed such activity while it generated welfare to the locality.*

Instances have been encountered whereby expenditure incurred, totalling €135,137, was not substantiated by an appropriate invoice. On the other hand, on three instances, no Payment Vouchers were prepared in respect of expenditure aggregating to €38,597. In addition, as highlighted in **Appendix G**, payments totalling €92,543 were not supported by a fiscal receipt.

As per the agreement in place, the daily rental expense of a garage in Burmarrad stands at €11 plus VAT, thus amounting to a yearly charge of €4,738. However, the Council has expensed only the amount of €3,825, wrongly claiming that the difference of €913 relates to VAT. Expenditure of €15,458 and an accrual of €16,000, incurred with respect to patching works and refuse collection services carried out at Buġibba and Qawra during the month of December 2013, have also been posted in the incorrect nominal account.

*Auditor's recommendation noted for future transactions.*

Memo 8/2011 stipulates that expenses incurred in respect of *Jum il-Lokal* should not exceed €3,500 or 0.5% of the Government annual allocation whichever is the highest, (which in this case is equivalent to €6,177). However, the amount expensed by the Council in this respect amounted to €6,374.

*LGA's comments have been noted and will be adhered to in future activities.*

Upon reconciliation of FAR with the Nominal Ledger, discrepancies of €2,637 and €935 were noted in the cost and depreciation of Computer and Office Equipment respectively. Furthermore, software purchased in 2012, for a total cost of €4,215, was incorrectly recorded in both the Financial Statements and FAR, as Computer Equipment instead of Computer Software.

An invoice of €9,920 in respect of the purchase of concrete was partly capitalised while the remaining balance of €8,679 was written off in the Statement of Comprehensive Income. Since there was nothing in the invoice which clearly distinguished that part of the concrete was utilised for the construction of a capital asset, with the remaining balances being utilised for repairs and maintenance, LGA proposed an audit adjustment to reclassify the cost of €1,241 and its effect on depreciation, to ordinary maintenance. However, this adjustment was not reflected in the Financial Statements. Conversely, the cost of two water heaters (€600) has been expensed rather than capitalised, however, in this case, the Council rectified its Financial Statements following the proposed audit adjustment. Other instances have also been encountered whereby items in FAR contained a generic description, thereby defeating the scope of maintaining such FAR.

A physical inspection on the assets recorded in 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. Moreover, although the disposal of several fixed assets, undertaken during the year under review, was formally approved during a Council meeting, it is of concern as to how all street signs in the Council's records were disposed of. The Council confirmed that, in the locality, there are still signs that were purchased more than four years ago. In view that street signs are to be accounted for on a replacement basis, an audit adjustment was proposed by LGA to reinstate the amount written off, however, this was not incorporated in the Financial Statements.

*LGA's recommendations with respect to the upkeep of FAR have been noted. The software mentioned by LGA is actually computer equipment. The concrete, amounting to €1,241, was capitalised since it pertained to Thalassalejn project that has not yet been completed. With regard to the water heaters, the Council reflected the proposed audit adjustment. Moreover, as for street signs, a disposal was made in this regard, since these are being accounted for on a replacement basis.*

Besides that the Architect's certification, provided in respect of the resurfacing of *Triq il-Konventwali*, was not signed, it did not include any details as

to who issued the certification. Additionally, the amount certified was not in agreement with the amount recognised in the Nominal Ledger. Likewise, the Architect's certification, provided for works carried out in *Triq Dawret* was not signed, whilst no certification was provided for the valuation of works and to support payment with respect to works performed in *Triq Gulju*.

*The Architect's certification, although not physically signed, was received by the Council through e-mail and was therefore considered to be signed electronically.*

A 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.

*PPP scheme provides for contractually stipulated payment terms over a period of eight years. In the budget for 2014, only the current portion of this commitment has been included. However, in the notes to the Financial Statements, and rightly so, the whole amount payable over the eight years, has been included as a Capital Commitment. As such until PPP Scheme is in force, the note to the Financial Statements and the budget cannot be reconciled. Nonetheless, in the future, the note to the Financial Statements will explain further the payment terms within this scheme and the amount committed in the budget of the subsequent year.*

At the end of the financial year, the Council held Inventories, which consisted mainly of books held for re-sale costing €8,125. However, as per the 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 and subsequently to replace the books lost, in case of theft, fire or any other accident. Further testing revealed that there were items included as Inventory, with a value of €5,838, which do not appropriately fall under IAS 2. An audit adjustment was posted in this respect, thereby reducing the value of Inventories in the Financial Statements to €2,287. Moreover, during a physical stock count carried out by LGA, six books were found missing when compared to the amount included in the stock list as at year-end. The Council was unable to explain if these books were sold or distributed

for free during 2013, or whether the variance represented a cut-off movement of books given complementary during 2014, up till the date of the audit visit.

*LGA's comments have been noted. With respect to the six missing books, these were used during 2014 up to the date of the audit visit.*

Included with Receivables is an amount of €92,650 that has been outstanding for more than one year, out of which a balance of €65,412 is receivable from WSC for reinstatement works, while €3,640 is due from a waste recycling company, which according to independent documentation, appears to be in financial distress. Additionally, this latter balance increased by a further €100 during the last months. Audit adjustments were proposed by LGA to account for a full provision for doubtful debts on these outstanding balances, however, the Council refused to reflect such adjustments in its Financial Statements.

With respect to the road reinstatement agreement with WSC, it is understood that the Council has opted for reinstating the trenches with hot-rolled asphalt itself and then seek reimbursement of €50 per trench from the Corporation. Whilst the Council had invoiced the Corporation the amount of €3,400 for the period January to October 2013, it failed to account for any estimates on account of income receivable during November and December of 2013. However, due to the lack of reliable documentation, it was impracticable for LGA to reasonably quantify the receivable amount, thus no audit adjustments were proposed in this respect.

*The amounts due from WSC are all backed up by proper sales invoices, duly filed in the sales invoices files. The Council is chasing WSC for the balance of amounts due.*

The Council is not carrying out regular reconciliations with Suppliers' Statements. As a result, variances of €10,200 and €328 were noted between the balances payable to two suppliers, as recognised in the Creditors' Ledger and the respective Suppliers' Statements. Although an audit adjustment was posted to rectify the overstatement of €328, no reason was provided by the Council as to why the related creditor's balance was understated by €10,200.

It also transpired that the Council has not adequately accrued for all expenditure pertaining to the financial year under review. In fact, eight items aggregating to €23,199 have been omitted from the list of accrued expenditure, whilst eight invoices, dated in 2013 and totalling €3,666, were not included in the list of creditors as at year-end. Conversely, the accrual for telecommunication expenses was overstated by €100. The necessary audit adjustments were approved by the Council and the situation was rectified accordingly.

*Certain suppliers do not have the proper accounting set-up to provide statements on a regular basis. Furthermore, the Council promptly remits payments within 30 or 60 days, and ensures periodic checks with suppliers to ascertain that no payments or claims are outstanding or disputed. With regard to accrued expenditure and payables, the audit adjustments proposed by LGA were posted in the Financial Statements.*

The Council failed to account for the amount of €9,028, in respect of amounts receivable from the Northern Joint Committee concerning increments granted to one of the Council's employees seconded with the same Committee. Moreover, income of €1,805 in respect of an employee, working with the Council under the Community Inclusive Employment Scheme, and bank interest of €51, were omitted from the books of account. Audit adjustments in respect of the said omissions were approved by the Council and included in its Financial Statements.

*The audit adjustments proposed by LGA with regard to the income relating to the Community Inclusive Employment Scheme, and the income receivable from the Northern Joint Committee, have been posted.*

Grants were recorded on a cash basis rather than on accrual basis. In fact it transpired that the grant receivable from DLG in respect of PPP (Batch 1) was not recorded in full, with the consequence that the amount released to the Statement of Comprehensive Income was understated by €24,961. Further testing also revealed that the workings of the Deferred Income disclosures were also incorrect. Following LGA's recommendation, the Council has correctly reflected the grant calculations. However, the Non-Current Deferred Income disclosure in the Financial Statements was not adjusted.

*The Council adjusted its Financial Statements accordingly.*

As highlighted in the previous years, on 5 September 2008, the Council entered into a contractual agreement with a third party over a lease, by way of temporary emphyteusis for 21 years up to 18 September 2029. The lease entitles the Council to acquire (at €233 *per annum*) the upper basement level, known as level zero, forming part of a block of buildings to be named Blue Waters. The Council is bound to exclusively use this property as a public car park.

Notwithstanding that this matter has now been ongoing for more than four years, no action has ever been taken. Despite that the Council's future intentions for this acquisition are proper and diligent, clearance and approval from DLG has not been obtained. Additionally, if the future intention of the Council is to hire this property in the form of parking spaces to third parties, it should also seek legal advice on issues of VAT chargeable to the same third parties, as well as consider setting up a Bye-Law in this regard. According to the Council, the process to enact a Bye-Law has started in 2014 to regulate the possibility of renting third party property that has been assigned to the Council.

*LGA's comments have been noted and the recommendation will be acted upon. However, MEPA compliance certificate has still not been issued due to an objection relating to access to and from the car park by persons with disability. The owners of the complex and their Architect have now presented plans to rectify this deficiency, after which it is hoped that this matter will be settled as soon as possible.*

Though bank reconciliations are carried out on a regular basis, this was not the case for current account xxx852. Consequently, a discrepancy of €972 was encountered between the book balance and the related bank statement.

An analysis of another bank account revealed that whilst a stale cheque of €304 was not reversed from the accounting records, another three cheques, totalling €1,612, which were still unrepresented by year-end, were not included in the list of unrepresented cheques. Furthermore, the bank statement of a fixed account held with another commercial bank was not provided for

audit purposes. In addition, in breach of Memo 15/2013, a copy of the internet banking facility agreement, entered into in mid-October 2013, was only submitted to DLG late in February 2014 when the audit was in progress.

*Recommendations forwarded by LGA were noted.*

The amount of €1,468 attributable to the cost of an activity, which was organised in the Council's name with the latter's approval, was deducted from the annual allocation forwarded to the Council by DLG. Notwithstanding that the Council claimed that it is contesting such deduction, no correspondence with any Government Authority, showing either the contestations or that the amount will eventually be refunded, was provided for audit purposes.

*LGA's recommendation will be taken into consideration and in future all correspondence with Government Authorities will be kept in file for future reference.*

Some items of expenditure incurred during 2013 exceeded the budgeted amount. The differences identified related to Administration and Other Expenditure (€357,560) and PPP additions (€238,784). Moreover, General Income was budgeted at €60,060. However, only €50,879 was generated by the Council, thereby resulting in an adverse variance of €9,181.

*LGA's recommendation has been noted.*

From an independent search carried out by LGA it was established that the Council has a pending Court case with a private entity, which the Executive Secretary was not aware of. This can result in a situation where the Council would not be able to defend itself during the proceedings thereby leading to negative financial consequences, as the Council would be automatically found guilty and held liable for damages.

By the conclusion of the audit, the Council's lawyer failed to provide to LGA a confirmation of all ongoing litigations undertaken by the Council.

*LGA's recommendation has been noted.*

## Santa Lucija

Whilst the annual budget for 2014 includes budgeted capital expenditure of €90,966, Capital Commitments as disclosed in the Financial Statements amounted to €206,924. The latter includes also road resurfacing works of €96,895 forming part of PPP programme, which was already included in the Financial Statements as long-term payable.

*As clearly stated in the Management Letter and well explained during the audit, the Capital Commitments in the Financial Statements included the total estimated cost for the resurfacing of Triq il-Ġnien, which will be carried out under PPP scheme. Payment will be settled over a period of 10 years. On the other hand, budget for the year 2014 reflects the part of the cost to be settled in year 2014. This situation was also explained in a note in the Financial Statements. In these circumstances it is improbable that the budget and Capital Commitments noted in the Financial Statements will agree. However, the Council noted and comprehended the recommendation put forward by LGA.*

Notwithstanding LGA's recommendations in previous years, contract management fees, as well as engineering fees, aggregating to €1,932 were once again expensed rather than treated as capital expenditure.

*The Council noted LGA's comments regarding the capitalisation of Architects and contract management fees for road resurfacing and will abide accordingly.*

The amount of €1,700, received by the Council in connection with the installation of photovoltaic panels, was mistakenly recognised in full as Other Government Income. LGA proposed to reverse the amount to Deferred Income, which will then be released to Other Government Income in accordance with the depreciation rate of the asset over the useful life. Adjustments were approved by the Council.

Upon recalculating the Deferred Income released to the Statement of Comprehensive Income a discrepancy of €940 was encountered. This



variance mainly pertains to the amortised Deferred Income on *Triq Ġuljetta Lopez*, which was completed in October 2013.

*The Council noted and approved the adjustments proposed by LGA regarding the recording of income from Government grants.*

The amounts of €6,602 and €5,280 receivable from WSC and a waste recycling company respectively, in respect of invoices raised during 2012, were accrued for, when these should have been included with Receivables. Furthermore, two part-payments totalling €5,521, received from the aforementioned debtors, were erroneously recorded as income. These same principles were applied by the Council with respect to invoices issued to Regional Committees, but which were not yet paid until year-end. This implies that the Council is still not distinguishing between Accrued Income and Trade Debtors. Following LGA's recommendation, the necessary audit adjustments were passed.

Included with Receivables is a balance of €2,100 against which no payments were received from the respective debtor during the past few years, since the latter is facing financial difficulties. In view of this, LGA proposed, and the Council approved, an adjustment to make a provision for doubtful debts against this balance.

*As regards income received from the waste recycling company and WSC, the Council has noted and approved the adjustments proposed by LGA and will abide by the respective recommendations. It should be noted that the Council is doing its utmost to recover the money due from the aforementioned debtors.*

LGA was not provided with a stock list as at year-end. The list provided was as at 27 March 2014. Furthermore, after adding the books that were sold during the period January to March 2014, LGA identified a difference of €980 between the stock actually held and the stock list. It transpired that during the year, books were given out as prizes. However, these were not accounted for, as there was no movement in the stock figure reported in the Statement of Financial Position, when compared to the preceding year.

*When looking into the matter regarding stock, the Council noticed that the amount of stock as shown in the Financial Statements for the year 2013 was still as at December 2012. This was probably an oversight. Throughout the year the Council records stock movements with great care and the Accountant will be updated with the data at year-end so that this will be correctly reflected in the Financial Statements.*

During the year under review, the Council entered into an agreement with the Council of *Sacile* (Italy) for the Resources Anti-Crisis: Town twinning, Innovation, Openness and Networking (REACTION) project. The Council's role was to select and provide the necessary support for a total of 13 participants who took part in international seminars held in Croatia, Austria, Romania and Italy. Maximum amount for travel cost is €350 for each event, consisting of flight and local transport costs incurred for the journey to and from the departure airport. Lodging costs of the delegates, comprising two nights accommodation, on full board basis were covered by the project. Notwithstanding this, the Council<sup>39</sup> agreed to give participants a subsistence allowance, amounting to 50% of that established for Class A public officers, which additional subsistence allowance amounted to €2,220 in total. This goes against the provisions of MFEI Circular No. 5/2012 – 'Travel on Official Duty' which states that the subsistence allowance shall be reduced to 20% when full board and lodging are provided.

The aforementioned circular further states that a report on each visit is to be submitted by the delegate to the Director responsible, by not later than one month after the visit. However, no such travel report was drawn up. In view of this lack of information, LGAs were unable to confirm that the amount recorded as travelling expenses is correct and in line with travel guidelines issued by the Government.

*With reference to the subsistence allowance for travelling expenses for two events related to REACTION project, the Council had approved 50% subsistence allowance for each of the four members of the Council delegations for the two events held in 2013. When taking this decision*

<sup>39</sup> The Council paid the costs of the flight €368 and subsistence allowance of €2,220.

*the Council took into consideration that the delegation had to travel two whole days to and from the destination. During travel, meals were not provided by the organisers. The subsistence allowance also had to cover any extra costs related to accommodation as that provided by the organisers was not adequate. However, the Council noted LGA's comments regarding the matter and the extract from regulations will be kept for future reference. It should be noted that, as explained during the audit, participants for these events often have to spend more time in travelling, than for the actual participation of these events. The Council will therefore take everything into consideration and prepare a brief report on each event, and if it results that the subsistence allowance was more than the participants were entitled to, they will be asked to reimburse the Council.*

### Santa Venera

The contract agreement with respect to embellishment works of *Misraħ Santa Venera* was extended by a further year. However, whilst the contractor duly extended the performance bond, the extension of the contract was not formalised in writing. Though the contract expired on 28 May 2013, the works were completed in full three months later, *i.e.* August 2013. The total invoiced works amounted to €132,049.

*LGA's remark has been taken on board and in fact the extension of contract agreement was drafted.*

A copy of the updated insurance policy was not provided for audit purposes. The Executive Secretary claimed that it remained unchanged from 2012. This implies that the policy also covers persons who no longer work with the Council.

*Contrary to what it is being remarked regarding the health insurance, the Council duly amended the list of its members and informed the insurance broker on 19 April 2013.*

Albeit prior recommendations, FAR has not been updated and lacks certain descriptive details. Furthermore, the embellishment of *Misraħ Santa Venera*, financed by the Urban Improvement Fund, was incorrectly classified with Construction in the Financial Statements. The Council approved to show the cost of these works and the depreciation

charge for the year, amounting to €134,509 and €5,105 respectively, with Urban Improvements.

The Council incorrectly recognised as income for the year, the full UIF grant of €140,207, granted by MEPA in relation to the aforementioned project, out of which the balance of €66,930 was received during the current year. Though this resulted in an Accrued Income of €73,277, erroneously the amount of €80,070 was disclosed in the unaudited Financial Statements, thus leading to an over-provision of €6,793. Following LGA's recommendation, the necessary audit adjustments were approved, to reverse the overstated Accrued Income, as well as to release the amount of €4,959 to the Statement of Comprehensive Income.

Similarly, prepaid income of €960 in relation to 2014 street advertising was incorrectly recognised as revenue earned during the year under review. The Financial Statements were adjusted accordingly to rectify this error and reflect such balance as Deferred Income.

On the other hand, in breach of instructions laid down in Memo 1/2014, stipulating that grants from Government are to be treated under the Income Approach, the Capital Approach was applied with respect to the grant of €105,762 receivable under PPP scheme. By means of audit adjustments the Council recognised this grant as Deferred Income and released the amount of €7,543 to income.

*The Council will be taking into consideration LGA's comments and eventually the necessary adjustments will be carried out by its Accountant. Issues relating to the accounting procedure of grants will be also discussed with the latter. As regards the accrued UIF grant receivable, the Council believes that this was a genuine error and which was duly rectified. Council also notes the recommendation to defer any income not actually received.*

The Council has not passed proposed audit reclassifications on deferred income and long-term PPP creditors, aggregating to €204,094, with the consequence that these were incorrectly presented with Current Liabilities in the audited Financial Statements, even though these are expected to be released after more than one year. A qualified audit opinion was issued in this respect.

Likewise, LGA's recommendation, to present FSS tax and NI payable of €1,899 separately as Non-Financial Liabilities, was not taken on board. Consequently, this amount has been incorrectly disclosed with Accruals and Deferred Income in the audited Financial Statements, despite that these are preferential creditors and thus require separate disclosure.

*Points not addressed.*

In July 2011, the Council received a credit note of €4,720 from a company, which at the time was providing architect and civil engineering services. However, the respective contract expired in August 2011, and following a new call for tenders the contract was not awarded to the same company. Thus, the credit note has no value as it cannot be set-off against services over the short-term. Despite prior years' recommendations, the Council has still not requested a cash refund and the said credit note is still included in the Financial Statements with Other Receivables.

An adjustment was passed to reclassify an overpayment of €1,145 made in favour of ARMS Ltd, which was disclosed as a debit balance in the Creditors' List rather than Other Receivables. Meanwhile an overdue balance of €2,600 receivable from WSC, in respect of trenching works carried out in 2010, was not yet settled by year-end.

Likewise, included in the Creditors' List are long outstanding payables, totalling €2,665. Furthermore, as in prior years, the Council failed to obtain statements as at year-end from all suppliers, to confirm the year-end balances and to ensure the completeness of the books of account. As a result, the double accounting of an invoice of €1,145, whereby the acquisition of a security camera was recorded in 2012 and again during the year under review, remained undetected by the Council, to the extent that the respective supplier was overpaid. In addition, a variance of the same amount was noted between the assets disclosed in FAR and the accounts. Audit adjustments to reverse the fixed asset addition, the respective creditor balance, and the related depreciation charge, were proposed by LGA.

*The Council has taken note of LGA's suggestion, and thus, shall seek a cash refund from the*

*company so as to set off the credit note. If no agreement is reached, the Council shall pursue with a legal advice.*

*This year the Council did its best to obtain statements from a number of suppliers, especially those with outstanding balances of particular amounts. In fact, from an outstanding balance of €175,995, as at December 2013, the Council obtained statements covering circa €146,530, which sums up to 83% of total balance. Meanwhile, the Council has already decided to set-off long outstanding payables, months ago, but for some reason these are still featuring in the books of account. However, to mitigate the related risk, Creditors' List will be reviewed on a quarterly basis. In the meantime, the necessary adjustments as proposed by LGA were approved by the Council.*

Capital Commitments of €133,000, as disclosed in the audited Financial Statements, incorrectly represent the amount due to PPP contractor at year-end, rather than the capital expenditure that the Council is anticipating during the subsequent financial year and which have not been provided for in the current Financial Statements. A review of the annual budget for 2014, revealed an estimated capital expenditure of €92,124, of which €2,500 was already contracted for.

*Point not addressed.*

As reported in previous Management Letters, 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 various divergences from IFRS, Financial Statements also contained casting and cross-reference errors, lack of updated accounting policies, incorrect presentation of income, as well as the non-disclosure of the maturity analysis of deferred income. Moreover, expenses in the Financial Statements have not been classified consistently with last year's presentation. Furthermore, the Statement of Cash Flows was not prepared correctly, due to the fact that cash receipts from grants have not been reflected, while payments to acquire PPE have not been adjusted for the effects of capital creditors and accruals. In view of this, the Statement of Cash Flows does not represent the Council's actual cash inflows and outflows. The Council has also two accounts for

each of Central and South Regional Committees in the Customers' Ledger.

*The Council feels that this matter needs to be clarified between LGA and the Council's Accountants since the Financial Statements were always presented in the same format. Such format is approved also by DLG. However, the Council shall be seeking advice from the Department to ensure full conformity with IFRS 7. The Statement of Cash Flows will be rectified by the Council's Accountant.*

The Council's Financial Statements highlight a Contingent Liability of €709 as at reporting date, comprising performance bonus due to the ex-Executive Secretary, notwithstanding that the said amount had already been recorded by the Council and was reflected with Accruals. Therefore, there was no related contingency. On the other hand, similar to previous years, the Council failed to disclose a Contingent Liability of €3,007 in favour of a third party.

*As regards the Contingent Liability of €3,007, the amount in question has never been claimed by the concerned party, and thus the Council should consider to reverse the said amount.*

The Council also failed to disclose the fact that it is facing a judiciary protest by a third party, who is alleging that he was unfairly not appointed Executive Secretary back in August 2011. According to the minutes of the Council, the adjudication board had recommended the aggrieved party for the post, but the Council selected a different individual. The related compensation could not be quantified at this stage.

*At this stage, the Council cannot quantify the amount that is being sought.*

The Council does not have the minutes of the third meeting held sometime between April and May 2013. In some instances, the Council uploaded signed minutes of meetings, which minutes were subsequently amended. Furthermore, it was noted that, while according to minutes the Council approved to make calls for quotations, none were actually made and a direct order was placed.

*With respect to the missing minutes, the Council has approached the then Executive Secretary so as*

*to rectify the matter. For the other observations, the Council needs further clarifications with possible examples.*

On 10 December 2012, the Council entered into an agreement with the European Union Programmes Agency (EUPA), wherein a maximum grant of €21,251 was allocated to the former for a project under the Youth in Action Programme. LGA noted that while the respective agreement was only signed by the then Executive Secretary, the pre-financing grant of €17,001, advanced to the Council by EUPA, was deposited in the bank account of a third party. This is not in line with the terms of the agreement which specifically states that the grant shall be payable to the beneficiary's bank account.

*The Council acknowledges the mistake carried out by the former administration. Having said that, the Council, through its Accountant, is vetting and auditing both the report and the receipts provided by EUPA and the concerned third party. Moreover, Council is aware that such agreements should be made on its behalf, and consequently signed by both the Mayor and Executive Secretary.*

### Siggiewi

Many of the weaknesses highlighted have already been drawn to the attention of the Council in previous Management Letters, but to-date no steps have been taken to rectify them. This implies that, the Council is acting negligently by not implementing the controls stipulated in the Procedures, which are instituted primarily to protect and control Council's assets and liabilities. Amongst these repetitive weaknesses are the following:

- a. The Council does not prepare a bank deposit sheet, highlighting receipts that have been deposited in the Council's bank account. Thus, the Council is not keeping any control over monies received and has no procedures in place to establish if all income is received and deposited. A qualified audit opinion was issued in this respect.

*The Council would like to emphatically states that there is no serious deficiency in this matter, since it does prepare the*

*mentioned report with the record of what receipts have been deposited in the Council's bank account. Regretfully, the Auditor once again did not ask for this report, which was at full disposal should it have been asked for. The Council thus denies that it had not taken steps to remedy this serious deficiency.*

- b. LGA was not in a position to determine whether custodial receipts, such as cash collected on behalf of the Land Department and Trade Licensing Unit, were deposited intact and at least twice weekly, since the Council does not keep copies of the receipts issued. Furthermore, the bank deposit advice is kept in a separate file with no referencing to the invoice. It is reiterated that the Council is to exercise proper control over custodial receipts, by keeping copies of receipts for payments made at the Council and attaching the bank deposit advice.

*Both the Land Department and Trade Licensing Unit have informed the Council that there is no requirement to keep custodial receipts. The Council strongly declares that Procedures are being adhered to.*

- c. The Council has not implemented the recommendation mentioned in previous years, to separately identify the assets making up the Civic Centre project, and allocate them to the appropriate asset category according to their nature. The Centre is currently included under Council Premises in the Financial Statements. Such distinction is necessary not only for the fair presentation of the Council's assets in the Financial Statements, but also to ensure the correct computation of the depreciation charge.
- d. For another year the Council failed to provide documentary evidence substantiating additional works of €68,861 that were carried out over-and-above the contracted value. As already highlighted in the preceding year's Management Letter, the Council had accrued for capital expenditure

of €440,983 on the Civic Centre, out of which only the balance of €372,122 was traced to tender agreements. In addition, whilst the passenger lift costing €22,800, as well as alterations and finishing of €250,431, were certified by the Project Manager in 2012, the remaining accrued expenditure of €167,752<sup>40</sup> was not yet certified because of variations from the tender agreement, which the contractor still needs to rectify. Considering that the latter has not made any rectifications after more than a year, the Council is strongly urged to settle this issue over the next financial year. In view that no practicable alternative procedures could be carried out to ensure the completeness and existence of these amounts, LGA had no option other than qualifying the audit opinion. Moreover, as already highlighted in preceding Management Letters, the Council should have not recorded the uncertified part of the Civic Centre project. It was also noted that no depreciation has been charged on the Civic Centre.

- e. Notwithstanding the above, up to December 2013, the Council paid the contractor the sum of €35,576 in excess of the Project Manager's certification.
- f. A previous audit report has been 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. Thus, this year's audit opinion is again qualified on the same basis.

*The Council took note to the comments and recommendations made by LGA.*

- g. In a previous Management Letter, it was reported that the Council had just one debtor

<sup>40</sup> Included in this amount is the balance of €68,861 representing additional works over-and-above the tender.

account for all five Regional Committees. In 2013, the Council followed LGA's recommendation and opened a debtor account for each Regional Committee. However, the Council has not transferred the opening balance on this account to the respective account for each Regional Committee and continued posting to the global account, which at year-end had a balance of €1,250.

*The Council takes note of the recommendation put forward by the Auditors and will allocate the opening balance accordingly. It is to be noted that although the opening balance was in one account, the items description clearly identifies the Regional Committee from which the amounts are receivable.*

The Council issued two tenders during 2013, in relation to the construction of an outdoor gymnasium; one for the supply of gymnasium equipment and the other for civil works around the area. The tenders were awarded to two different bidders, for the amounts of €30,581 and €50,685 respectively. Due to variations from the original plans and tenders, the expenditure on the equipment and civil works increased to €38,342 and €61,141 respectively, representing a total variation of €18,217. Furthermore, no evidence was traced in the minutes of the Council evidencing approval of this significant variation.

*While it is correct to state that the significant variation in the contract is not minuted, nevertheless the Council approved the payment of this variation. The Council states that there is sufficient evidence that it has been discussed and approved.*

A tender for the cleaning and clearing of surfaced urban and non-urban areas was issued in 2013 and awarded to a bidder whose offer, according to the Council's minutes, was the most advantageous. However, a review of the schedule of offers for this tender revealed that the offer by the selected bidder was the most expensive. In fact, one of the bidders appealed and the Council is waiting for the Board's decision to decide on whether a new tender should be issued or not. On the other hand, the adjudication report for this tender states that although the offer of the winning bidder is the most expensive, the tender should still be awarded

to this bidder on qualitative factors and due to his long-term working experience with the Council.

Further to the above, while reviewing the Council's file covering the tender for patching works, LGA came across an extract from the minutes for meeting 261, stating that the Council unanimously approved to award the tender to a particular bidder. However, this contradicts the signed minutes which highlight 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 indicates that these were approved without corrections. In line with section 14 of the Local Councils Act, any corrections to the minutes must be made by resolution and must be initialled by the Mayor and Executive Secretary. Any other changes would be in contravention of the said Act.

*In the process of adjudication of tenders, the Council always appoints an Adjudication Committee. The latter examines the offers and interviews the tenderers. The Committee formulates a report with its recommendations and the reasons for its conclusion. This report is discussed by the Council which either approves or rejects the recommendation. This report is attached to the minutes. With respect to the tender for patching works, the Council emphatically denies that it has contravened section 14 of the Local Councils. The minutes in question were only a draft and had still not been approved by the Council. In the draft version, it was erroneously stated that the tender was awarded to a specific bidder; when it should have read a different bidder as indicated in the properly approved minutes.*

A review of the Schedule of Payments revealed that the Council acquired a laptop costing €1,119. The laptop was never on the premises during the audit fieldwork and the Executive Secretary did not produce it for inspection. The latter explained that he uses the laptop himself 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 would like to put the Auditor's mind at rest that the Executive Secretary is complying with Memo 120/2010 which provides guidance about the use of laptops. The Council is of the opinion that it is erroneous to state that the laptop*

*was never on the premises during the fieldwork and the Executive Secretary did not produce this for inspection. When the Auditor wanted to see the laptop, the Executive Secretary stated that it was in the car since he was going to an appeal together with the Mayor. The Executive Secretary was never asked again by the Auditor regarding the matter.*

The Council is still paying the Executive Secretary's mobile phone bill. The respective payments effected during the year under review amounted to €891. This contravenes the procedures and Memo 21/2013 issued by the Department, providing guidance on the use of mobile phones by Local Councils. Furthermore, 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.

*The Council takes note of the comments put forward by LGA.*

The Council renewed its hospital insurance scheme with an insurance company, providing medical treatment and in-patient hospitalisation. Notwithstanding the substantial amount of €3,846 incurred for the personal benefit of Councillors and employees, the Council did not seek DLG's approval for this scheme as recommended by LGA in a previous Management Letter. The Local Councils Procedures state that the Council must insure its employees only against injury or death while performing Council duties. In this regard, it is reiterated that the Council obtains written approval from DLG as to whether the scheme in place is permissible.

Furthermore, under the Fringe Benefits Rules of the Income Tax Act, the provision of this health insurance constitutes a fringe benefit and is therefore subject to tax.

*As has already been stated in the replies to the Management Letter of the last two years, the Executive Secretary, after LGA's recommendation in 2011, contacted DLG, who advised that the Council should abide by the following provisions of the Local Councils (Financial) Regulations: Article 35 (4) states that Council members and employees shall be insured against third party*

*liability, while article 35 (5) states that the Council members may be insured in a health scheme insofar as such Council has a positive balance of accounts or such scheme does not result in a negative balance in the Council's accounts. Thus, it is erroneous to state that the Council did not contact DLG to obtain guidance or approval.*

*As from the current year, the Council terminated the arrangement it had with a private health insurance company, and joined the Local Councils' health scheme managed by LCA.*

Patching works and replacement of poles in *Għar Lapsi*, as well as extra works in outdoor gymnasium amounting to €7,965 and €5,154 respectively, merited a call for tenders, in line with Local Councils (Tendering) Regulations. These works were awarded by direct order to two contractors who were providing the Council with road resurfacing services and street lighting services during 2013. Furthermore, no purchase order was raised in respect of such procurement. As highlighted in **Appendix L**, additional instances were encountered, whereby certain items of expenditure were not covered by a call for quotations as required by the Local Councils (Financial) Regulations.

The Council did not have any supporting evidence for a payment on account of €20,000, advanced to the contractor who carried out the alteration and finishing works in the Civic Centre. Furthermore, while the Council's accounts show that the amount due to the same company as at 31 December 2013 stood at €93,500, it transpired that the respective invoice was not yet received as the related work had not been certified. In view of this, an audit adjustment was approved by the Council to reverse this transaction and recognise the amount in question as accrued expenditure.

*Several purchases mentioned in the Management Letter are covered by contract, and thus, there is no requirement for a purchase order. On the other hand, other purchase orders were regrettably not properly filed. The Council will thus take note of the Auditor's recommendation.*

Expenditure incurred on *Mixgħela tas-Salib tal-Għolja* and *Festa Gheneb* held during the year under review amounted to €13,547 (net of grants awarded by DLG and third party sponsorships).

The Council should seek clarifications in writing from the Department as to whether the aforementioned events are governed by Memo 8/2011 which limits expenditure on such activities to €3,500 or 0.5% of the allocation, whichever is the highest.

*Memo 8/2011 cited by the Auditor relates to dinners and/or receptions organised by the Local Councils. The latter fails to understand the connection with the Mixgħela tas-Salib tal-Għolja and Festa Gheneb. Both of these activities are cultural events and are neither tied with Jum il-Lokal nor with dinners and/or receptions.*

From €53,065 reported in the preceding period, pre-regional LES Debtors increased to €61,751 as at 31 December 2013. LGA was not given any plausible explanation or evidence neither by the Council nor the contractor responsible for the LES, supporting the increase in tribunal pending payments. The Council has not reflected this movement in the books of account and no audit adjustments were proposed to this effect.

*The Council fails to understand how the tribunal pending payments have increased from 2012, since now these fall under the responsibility of the Region and all citations are going in the Regional pool. The Council's income is only the portion related to the 10% administrative charge on the citations paid at the Council. Notwithstanding this, the Council will follow the Auditor's recommendation and will investigate accordingly.*

The Council does not have any control on monies received from pre-regional LES contraventions. 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, which are not deposited in the Council's bank account, are to be investigated and the collecting party informed accordingly with the outcome.

*The Council will follow the Auditor's recommendation and will investigate accordingly.*

LGA identified a payment of €1,000 to *Kulleġġ San Injazju* for the use of the swimming pool by the public. The Executive Secretary claimed that the agreement covers a period of five years.

However, LGA was not provided with a copy of the respective Memorandum of Understanding.

*The Council took note of the comments made by LGA.*

A net difference of €2,300 was identified between NBVs as disclosed in FAR, which is maintained in spreadsheet format, and those recorded in the assets' Nominal Accounts. The depreciation charge was also overstated by approximately €3,885. No audit adjustment was proposed to correct this difference since depreciation charge is an accounting estimate.

During the year under review, the Council approved the disposal of three air conditioners, a photocopier and a printer. However, no fixed asset disposals were traced in the Council's books of account.

*The Council took note of the variances identified by the Auditors and shall be adjusting accordingly.*

The Contract Manager for PPP resurfacing works issued two separate certifications for phase 1 tasks. The first one, issued on 27 April 2012, amounted to €103,506 (before deduction of contract management fees), while the second certificate, dated 30 September 2012, amounted to €110,323. While the Council recorded the first certification, which agreed to the contractor's invoice, the Executive Secretary could not explain why the Contract Manager issued two different certifications. The Council should seek clarifications from the Contract Manager and determine whether there is any effect on the books of account.

*The Council accepted LGA's recommendation.*

The municipality of Vittoria in Sicily has selected the Siggiewi Local Council as a partner for an EU-funded educational programme. According to an agreement dated 7 March 2011, the Council is entitled to a reimbursement of expenses incurred in connection with this programme, subject to a maximum of €52,600, and after the respective invoices are vetted by the Auditors of Vittoria.

However, LGA was unable to review the expenditure incurred in connection with this project as the Council did not draw up a report



of expenses or a narrative report. According to the Nominal Account, only €13,653 was incurred during the year under review, compared to the actual reimbursement of €33,737.

In relation to the foregoing project, during 2013, the Council received the amount of €17,737, whilst a further balance of €16,000 has been accrued for at year-end. Testing carried out revealed that the amount of €16,610 was actually received in March 2014. However the Council was unable to determine if any part of this payment relates to expenses incurred in 2014. Thus, no audit adjustment was proposed to increase accrued income by €610.

*The educational programme in question had a timeframe of three years, starting on 7 March 2011 and ending on 6 March 2014. Thus, its budget, income and expenses were spread on this timeframe. The programme was still ongoing as at end of financial year under review. However, a final report has been prepared at the end of the project, i.e. 6 March 2014, and has been sent to the auditors in Vittoria. This report will be included in the Financial Statements for year ending 31 December 2014.*

*It must also be mentioned that the Council was continuously informed by the Project Co-ordinator (Executive Secretary) regarding the progress of the project, it took all the necessary decisions, and unanimously approved the related payments.*

The Council has an overdue balance of €21,000, receivable from WSC for trenching works carried out in 2011 and 2012. In addition, a balance of €1,560 is receivable from a waste recycling company, which amount has been outstanding for more than a year. This company is in financial difficulties, and thus the amount in question may not be recoverable. In view of this, an audit adjustment was passed in the accounts to recognise a provision for doubtful debts.

It also transpired that the Council has not yet claimed the credit of €969 from CIR, in respect of excess FSS tax and NI paid back in 2009. Furthermore, included in the Financial Statements is a refundable deposit of €1,165 placed with LES Joint Committee, and another immaterial amount of €35 receivable from other Local Councils.

*The Council will carry out an exercise during the current financial year to determine the recoverability of such amounts. The resulting decision will be reflected in the books of the Council.*

A sales invoice of €5,633 issued to Enemalta p.l.c. was incorrectly booked as a purchase invoice in the Creditors' Ledger. Meanwhile, as at year-end, a creditor account had a debit balance of €2,277 due to an overpayment, which was then refunded back to the Council in January 2014. The necessary adjustments were approved by the Council.

*The Council passed the proposed adjustment in the final set of Financial Statements.*

The Council's unaudited Financial Statements state that there are no Capital Commitments at year-end. This, however contradicts the Council's financial budget estimating a capital expenditure of €30,300 in 2014.

*The Council took note of the deficiencies mentioned in the Management Letter.*

Contingent Liabilities aggregating to €17,373, covering a claim of €13,700 for unpaid amounts for diesel and indexation, and €3,673 being damages sought by a claimant in a Court case against the Council, were only disclosed in the Financial Statements following LGA's recommendation.

*The Council has disclosed a note in the final set of Financial Statements to include a reference to the Contingent Liabilities mentioned in the Management Letter.*

Significant audit adjustments were required. Amongst those highlighted in the Management Letter are the following:

- a. The Council did not record a grant of €5,000, receivable in connection with *Festa Gheneb* which was held in 2013. An audit adjustment was passed in the books to accrue for this income which was received on 10 January 2014.
- b. Although the Council made a provision of €1,000 for sponsorship income from a local bank in relation to the aforementioned activity, LGA was not provided with a copy

of the email in which the bank commits to pay this amount.

*Unfortunately, the email in which the bank committed to pay the sponsorship was misplaced. Finally the Executive Secretary managed to get a copy. Nevertheless, the Council takes note of the recommendation put forward by LGA. Furthermore, the Council revised the final set of Financial Statements to reflect the proposed adjustment.*

- c. Two grants aggregating to €25,637, receivable under PPP scheme and Special Locations scheme respectively, were erroneously recorded as Other Government Income rather than against the accrued income brought forward from the preceding year. Proposed audit adjustments were passed in the books to reverse these amounts.
- d. Another grant of €15,000 was received by the Council during the year under review, under the Special Initiatives scheme, in relation to the construction of the outdoor gymnasium. This grant was also treated as income in the unaudited Financial Statements. An audit adjustment was incorporated in the books to record this amount as deferred income since it is expected to be realised over a number of years.
- e. In view of the aforementioned adjustments, the Council's release of grants on capital projects, and the maintenance on the public access terminal, was understated by €6,761. This discrepancy was rectified by means of an audit adjustment.
- f. Income of €4,750 received from WSC in connection with reinstatement works was classified with General Income. The Council accepted LGA's recommendation to present this income under the correct category.
- g. The Council erroneously capitalised patching works costing €15,177. On the other hand, Architect fees of €13,416 concerning the Civic Centre project were expensed. The adjustments proposed in line with IAS 16, were accepted by the Council, and in the final set of Financial Statements.
- h. The Council did not account for prepayments related to rent of football ground, insurance and maintenance on public access terminal, in aggregate amounting to €2,338. Accrued rent of the Civic Centre, amounting to €1,535, and allowance due to a Councillor for the last of six months of 2013 amounting to €600, were also not taken into account. Meanwhile, opening accruals of €5,216 with respect to waste disposal were reversed against the incorrect Nominal Account. Following LGA's recommendations, the Council approved the necessary adjustments to rectify these errors.
- i. Year-end statements were not obtained from all suppliers to confirm amounts payable as disclosed in the books of account. Furthermore, the Council did not record a PPP bill issued on 28 May 2013, with an amount of €31,454, net of 5% contract management fee. Moreover, the Council erroneously recorded invoices from the supplier gross of contract management fees of €5,175. These differences were adjusted by means of the proposed audit adjustments.
- j. Included within the Creditors' List are long outstanding balances aggregating to €3,111.
- k. Long-term PPP payables of €30,747 were disclosed under Current Liabilities, whilst deferred income was not properly apportioned into short and long-term components in the unaudited Financial Statements. The necessary reclassification adjustments were passed in the books of account.
- l. Various instances were noted whereby expenditure was not posted in the correct accounts. For example, insurance of €2,169 and rent of football ground €8,000 were both recorded in the Social Activities account. These were then reclassified by means of an adjustment. Likewise, the cost of training courses provided to the public, amounting to €6,965, was also recorded in the incorrect Nominal Account.

*The Council took note of the comments made by LGA and has passed the proposed adjustments in the final set of Financial*

*Statements. As regards the long outstanding creditors, during the year the Council has undertaken a comprehensive exercise to clear out these payables. The remaining balances have all been confirmed as still payable.*

A number of the points highlighted above indicate that there are serious weaknesses in the controls of the Council, and that the latter's accounting function needs to be improved significantly.

*No satisfactory reply provided.*

### Sliema

A review of the projects undertaken by the Council revealed that for another consecutive year, the following assets have been classified as Assets under Construction, implying that due to various reasons these were still not completed by year-end. **Table 14** refers. The Council is thus recommended to discuss whether to continue or abandon the projects.

*The Council monitors the situation of these projects on a regular basis. Nevertheless, it should be acknowledged that two of the four projects mentioned by LGA are ultra vires for the Council, given that they were inherited from decisions taken by previous Councils. Yet, the Council is doing its best to come up with an optimal solution. The other two projects, pertaining to historical heritage and the playing field areas, are just awaiting special funding. The Council therefore does not see why it has to abandon these projects just because they have been pending for two years. Like any entity, the Council has limited financial resources, and therefore, it has to first address the social and civic priorities of its residents.*

A difference of €10,447 was noted between a Supplier's Statement and the supplier's account. This was mainly due to the fact that contract management fees of €7,786 were still accounted for against fixed assets, despite that these are not payable to the respective contractor. Furthermore, an additional amount of €3,038, representing works on zebra crossing, was mistakenly posted twice in the accounting records. Following the necessary adjustments, the unreconciled balance

**Table 14: Projects not completed by Year-End**

Project	Amount €	Other Details
Fairy Lights	243,571	The project was withheld following orders from the Director DLG, since the cost of the extension was more than 20% of the original contract, and thus, the Council had to issue another tender in line with the procedures.
Resurfacing in St.Helen Street	43,746	Although amount reflects the money paid to the contractor, the Council's Architect never certified the cost of this road. Hence, the Council did not capitalise the asset.
Mortimer Playing Field	3,183	Project was initiated in 2009. The Executive Secretary claimed that the playing fields in <i>Independence Gardens</i> were closed by the Health and Safety Inspectors, and therefore, the Council had to re-address its priorities. Additionally, UIF funds were fully utilised in <i>Qui-Si-Sana</i> project and little was left for absorption. This issue will be raised in the next finance committee meeting.
Dingli Circus Shelter	3,157	Project was initiated in 2009, however the current administration is seeking to finance this project from EU funds. This issue will also be raised in the next finance committee meeting.

decreased to €377, however no explanation was provided by the Council in respect of this resulting discrepancy.

*The records in question have been reconciled and a copy of the reconciliation was provided to the Auditor for scrutiny. The Council has been relentlessly chasing the supplier to send a statement, but this document was only received soon after the Financial Statements were approved. In view of this, the Council posted the adjustment proposed by LGA during the audit. Moreover, the unexplained variance of €377 is trivial, and in fact, the Council has asked the supplier to issue the necessary credit notes because after the verification of the Architect's certifications it transpired that the amount in question is not payable.*

Included in the list of un-presented cheques is one amounting to €5,852, payable to the Cleansing Services Department. Although the cheque was issued on 29 November 2013, the Council claimed that by year-end, this was still not sent to the supplier. In view of this, an adjustment was passed in the books to reverse the entry and include the amount with creditors.

*In principle, the cheque in question was being kept on hold for temporary reasons. Nevertheless, the Council respected LGA's guidance and made the necessary adjustments accordingly. The Council will also make sure that, in the future, it would cancel cheques which are not approved during Council meetings.*

As highlighted in the preceding year's Management Letter, creditors amounting to €44,586 were reversed, mainly due to the fact that the related services were either carried out without the approval of the Council, or the procurement procedure applied was not in line with standing regulations. However, since the services were still provided and the service provider can claim the expenses incurred, LGA recommended that the said amount is shown as a Contingent Liability note to the Financial Statements.

*The creditors in question were not commissioned by way of a contract agreement. The Council was informed by its legal Counsels that most of these creditors have been due for more than two years, and given the absence of a contractual agreement,*

*most of them have become statute-barred.*

On the other hand, the Contingent Liability note in the unaudited Financial Statements included an amount of €142,820 covering claims made by suppliers for services not covered by a written request issued by the Council. Since these amounts are already included in the books of account as payables, LGA recommended that these are shown only as 'other matters' or 'amounts in dispute'. In the audited Financial Statements, the respective paragraph was eliminated from the Contingent Liabilities note. However, it was not included as 'other matters' or 'amounts in dispute' as recommended.

*The Council welcomes LGA's guidance, and will follow accordingly for the forthcoming reporting periods.*

A particular contractor is both a customer and a supplier of the Council. The amount of €83,871 is due to the latter for scaffolding and tower crane permits issued in the past, while the contractor is owed the amount of €67,231 for resurfacing works completed earlier. Thus, in aggregate, it results that the Contractor owed the Council a net amount of €16,640.

In reply to LGA's query as to why the Council is not paying the contractor the amount due, the Executive Secretary stated that since the contractor actually owed the Council more, the latter is not willing to pay the amounts due to the contractor. It is thus recommended that since both debtor and creditor balances are long overdue, a meeting is set up with the contractor to discuss the pending balances and establish a way forward.

Moreover, the contractor did neither send a statement as at year-end to support the balance due, nor did he reply to the letter sent to confirm the year-end balance.

*The Council showed its willingness a number of times to come to terms with this supplier and/or debtor, but this was not reciprocated. Nevertheless, the Council will continue its efforts to set a settlement meeting with the contractor in question.*

For the third consecutive year, the Council accrued the amount of €3,170 in respect of legal services

rendered during 2011, which expense is not substantiated. Similarly, contract management fees of €14,413, were also accrued for at year-end. However, since payments could not be initiated in the absence of a proper invoice, it is recommended that the Council communicates with the respective service providers, reminding them that services should be supported by an official request for payment.

*The Council has been constantly chasing the service providers for their bills. Further attempts will be made in the coming months to settle this issue once and for all.*

Notwithstanding that an invoice supporting repair works carried out in *Triq Gafar* was issued prior to year-end, and a cheque was also issued and cashed in December 2013, this expense was still accrued for. Following LGA's recommendation, the Council approved an adjustment of €1,632 to reverse this transaction.

*The Council has accordingly taken up LGA's proposed audit adjustment.*

Accrued bank interest receivable at year-end, as recorded by the Council, was understated. An audit adjustment was passed in this respect.

*The Council takes note of LGA's recommendations, and it will make sure that in the future the bank provides the exact amount of accrued interest by year-end.*

LGA identified five payments, aggregating to €14,774, made to the Cleansing Services Department. However, notwithstanding the amount involved, the Council did not even have copies of the applicable contracts supporting these payments.

*These contracts were now deliberately terminated by the Cleansing Services Department and therefore the issue was addressed automatically.*

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.

*The Council is taking on board LGA's comments by reallocating the prepayment to general debtors,*

*and at the same time, providing in full for the equivalent amount as provision for doubtful debts.*

### Swieqi

Accrued income receivable from the Regional Committees for the period January to December 2013, as recorded by the Council, was understated by €421. Income of €2,056, received in respect of surplus of funds from the Joint Committee, has been aggregated with the income charged to the Regional Committees, when it should be shown separately in the Financial Statements.

*LGA's comments have been noted and the necessary actions will be taken, where possible.*

The Executive Secretary was reimbursed the amount of €730, in respect of fuel expenses incurred while carrying out Council's operations. Despite that a proper claim form is being raised to support such reimbursement, the Council is not maintaining an electronic logbook in terms of rule 18(5)(c) of the Fringe Benefit Regulations.

*The claim for fuel allowances is not a fringe benefit but a reimbursement for fuel used during Council related trips. Kilometres are recorded and refunded by the correct amounts as stated by Government guidelines.*

As already highlighted during the preceding year, the Council is not maintaining its FAR in the appropriate manner as stipulated by the Local Councils (Financial) Procedures. Several instances have been noted whereby the names and list of the categories in FAR do not reconcile to the respective Nominal Accounts. Moreover, the categories titled Special Programmes and *Resurf* project Madliena, which in FAR have a cost value of €1,197,371 and nil respectively, do not agree with the balance in the Nominal Accounts amounting to €276,485 and €853,959 respectively.

*The Council took note of the reclassifications indicated by LGA and will seek to adjust the respective assets. The Council wishes to highlight that these adjustments do not have any impact on the Financial Statements since these assets are classified under the correct category with the correct depreciation rate.*

Moreover, a discrepancy of €452,455 was encountered between the accumulated depreciation as disclosed in the Trial Balance and that recorded in FAR. The Council claimed that during the year under review, it had installed a new accounting software which is being used to generate FAR and since it is the first year of implementation, the system is showing the depreciation charge rather than the accumulated depreciation.

A comparison of the cost of assets as included in the current year's FAR, with that disclosed in the preceding year, revealed further inconsistencies. Whilst the cost price for item code 0250, categorised under Resurfacing, was recorded as €293,848 in the preceding year's FAR, only the balance of €84,253 was disclosed during the year under review. This implies a variance of €209,595, resulting from the fact that grants received during the previous years were deducted from the original cost of the asset. In addition, the photovoltaic systems, which were previously disclosed under Plant and Machinery, have been included with Office Equipment during the year under review.

*The newly implemented FAR software imposed certain restrictions on the type of data that could be imported. In fact, the Council could only import the asset's cost and NBV, implying that the accumulated depreciation could be easily computed manually. In the future, the Council will amend the reports generated, to include accumulated depreciation that tallies with the amount disclosed in the Financial Statements.*

*As appropriately disclosed in the Financial Statements and in accordance with IAS 8, the Council retained the Capital Approach for assets purchased prior 2010, due to the fact that it was impracticable to apply a change in accounting policy retrospectively. The Income Approach is adopted for grants received thereafter. In view of this and due to the limitation inherent in FAR, the Council was required to show the assets purchased prior 2010 net of the respective grant income received. The Council took note of the items highlighted for misclassification and will pass the necessary adjustments.*

A discrepancy of €168,000 was noted between Capital Commitments, as disclosed in the annual budget for 2014 (€156,088) approved by the

Council, and those reported in the unaudited Financial Statements (€324,088). Furthermore, included in the latter amount is the balance of €306,088 relating to resurfacing at *Triq il-Qasam*, which project bears a total cost of €373,016, of which €142,160 was already invoiced during 2013. Thus, only the amount of €230,857 was to be disclosed as anticipated future expenditure. Following LGA's recommendation, the Council agreed to decrease Capital Commitments to €248,857, and thus amended the Financial Statements accordingly.

One of the invoices received, amounting to €74,365, included a 10% retention fee (€7,437), which was not accounted for by the Council. Similarly, the second invoice of €67,795 dated 13 February 2014, was also omitted from the books of account. Following LGA's recommendations, the Council approved the necessary adjustments to capitalise the amount of €75,232, whilst increasing liabilities and accrued expenditure by €7,437 and €67,795 respectively.

*The final approved budget for 2014 shows capital expenditure of €214,088, net of the capital grant receivable for Triq il-Qasam, amounting to €150,000. Resultantly, the gross budgeted capital expenditure amounts to €364,088, which is in agreement with the notes in the Financial Statements. Moreover, the amount of €306,088 as a capital commitment for Triq il-Qasam was prepared on the assumption that only Phase 1 of the project was completed by the end of 2013. Following various discussions held with LGA, it was agreed to include also Phase 2 of the aforementioned project, and the Financial Statements were adjusted accordingly.*

*As regards the capitalisation of assets, the necessary adjustments were carried out as recommended by LGA.*

Further testing carried out on the cut-off procedures adopted by the Council revealed additional instances whereby accrued expenditure totalling €4,505 remained unaccounted for. Moreover, seven invoices totalling €9,912, dated in 2013 and paid in 2014, were not included in the Suppliers' Ledger as at year-end, whilst a further two invoices, amounting to €5,790, have been erroneously included as accrued expenditure rather than creditors. Debit balances, totalling

€1,106, have also been noted in four of the supplier accounts. One of these balances resulted from the fact that a set-off of €702, against an amount due to the Council, was not accounted for correctly in the latter's books of account. The respective supplier also failed to issue an invoice for the services provided to the Council.

These errors have been rectified by means of audit adjustments. Furthermore, following confirmation obtained from the Executive Secretary that the debit balances were incorrect, these were written off.

*The Council has noted LGA's observation and has taken the appropriate action.*

The aforementioned shortcomings substantiate the fact that the Council is not carrying out regular reconciliations with Suppliers' Statements. In fact, three instances of discrepancies between the balances payable to the respective service provider as recognised in the Creditors' Ledger, and the related confirmation provided by the said suppliers were encountered. On two occasions, the balances disclosed in the books of account were understated by €5,188 and €1,872 respectively, whilst in another case this was overstated by €617. The necessary audit adjustments were incorporated in the accounting records.

*The Council noted LGA's observations and adjusted its Financial Statements accordingly.*

Despite previous years' recommendations, the Council still did not adopt a proper accounting treatment to reinstate LES Receivables of €114,660, and recognise an equivalent provision for doubtful LES Debts, in view that these had been reversed from the accounting records by means of a prior year adjustment. However, upon the issue of the draft Management Report, the Council amended the Financial Statements accordingly.

*LGA's comments have been noted and the Financial Statements have been adjusted accordingly.*

The negative balance of €499, included in the Financial Statements, was incorrect due to various shortcomings. Amounts of €3,000 and €1,000, receivable for the upkeep and maintenance of the

ditch area in line with Memo 55/2011, and cultural activities organised during 2013 as governed by Memo 38/2012 respectively, were completely omitted from the books of account. Moreover, bank interest accrued has been posted as interest payable of €499, rather than interest receivable of €412. The December 2013 administration fee of €421, in respect of post regional tickets, was also not accounted for by the Council.

Meanwhile, upon the receipt of €2,056 in respect of LES surplus of funds relating to 2012, accrued income of €2,560, provided for in the preceding year, was reversed against income, resulting in overstated income of €504 for the year.

*LGA's observations have been noted and, where possible, action will be taken by the Council. The necessary adjustments were passed and the Financial Statements were amended accordingly.*

An amount of €7,887 receivable from three Regional Committees has been long outstanding. However, the Council is not sending regular statements to chase the balances due from such Committees.

*LGA's comments have been noted and the Council will take action accordingly.*

Variances were encountered between the current and non-current deferred income, with the former reading €67,272 rather than €71,696 and the latter disclosed as €635,147 instead of €677,026. This was brought by the fact that the increase in grants receivable, as recognised in the books of account, was incomplete, as only €35,880 was accounted for when this should have amounted to €82,047.

The latter balance is made up of €53,889, representing 40% of the invoices received by the Council for expenditure incurred with respect to the resurfacing project for *Triq il-Qasam*, which was completed during December 2013, as well as costs of €17,533 and €10,625 incurred on *Triq il-Fortizza* and *Triq il-Pedidalwett* respectively. Consequently, amortisation of deferred income, as calculated by the Council, was also incorrect. Following LGA's recommendation, the Council amended its Financial Statements accordingly.

**Table 15: Variances between Budgeted and Actual Expenditure**

Item of Expenditure	Amount exceeded
	€
Street lighting	31,467
Road and street pavements	28,424
Road markings	24,347
Parks and gardens	15,132
Bulky refuse	9,992
Community and hospitality	9,290
Rent	7,753
Telephone	6,930
Travel	6,463
Wages and Salaries	4,629
Christmas decorations	4,582
Refuse collection	4,403
Upkeep of soft areas	3,637
Water and electricity	3,592
IT development	3,390
Professional services	2,517
Other services	2,261
Council cleaning	1,456
Allowances	1,196
Patching	781
Internet and Cable	630
Uniforms	548
Bank charges	131
Training	64
Incidental expenses	42

*LGA's recommendations have been noted and the Financial Statements have been adjusted accordingly.*

Budgeted expenditure for various categories has been exceeded, as detailed in **Table 15**.

*LGA's comments have been noted. However, 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 Council's control, result in variances from budgeted figures, thereby posing both positive and negative impacts on the financial performance.*

### Tarxien

No public call for tenders was issued in respect of desks and racks for the Council's office, costing €4,700. Instances have also been identified whereby the Council procured the provision of certain services under an expired contract. Such services comprise, bulky refuse collection, printing and publishing of the Council's newsletter, cleaning and attendance of public convenience, and provision of open skips and skips on wheels. The total amount of €13,498 was incurred during 2013 upon the expiration of the related contracts. Other instances were also identified whereby no supporting documentation was provided for tenders marked as 'extended' on the tender list.



*LGA's comments have been noted. In fact, the Council has regularised the tenders that have expired and will be issuing further tenders during the coming months to be in line with the Local Councils (Tendering) Procedures.*

From the audit procedures carried out, it transpired that expenditure was not always supported by a purchase order, a Payment Voucher, proper invoice, and fiscal receipt in terms of VAT Act. As also highlighted in **Appendix G**, certain expenditure, amounting to €52,674, was not supported by a fiscal receipt. Out of the latter balance, expenditure of €5,528 was not covered by an invoice. No purchase order forms were prepared for three items of expenditure, aggregating to €2,214, whilst the purchase orders for a further eight items of expenditure, totalling €4,999, did not include an amount. It was also noted that the Council never issues purchase requests, whilst Payment Vouchers do not include any numerical sequence. Moreover, an expenditure of €2,904 was not substantiated.

*The Council has taken note of LGA's comments and is now generating purchase orders electronically.*

Invoices issued by PPP contractor during 2013 were overstated by €34,718, in view that these included 5% management fees and amounts due from a telephony company to the contractor. The respective service provider stated that credit notes will be issued. The Council has recognised such amounts as Prepayments, however, in line with LGA's recommendations, an audit adjustment was approved to reclassify the amount of €34,718 to liabilities in order to reduce the Trade Creditors amount. Meanwhile, an invoice of €2,012 for street lighting, which was posted twice in 2012, has been reversed against current year's expenditure.

Expenditure such as food, water and diaries, totalling €999, was incorrectly recognised as repairs in the Council's Financial Statements. Moreover, the Council expensed the amount of €300 for meter application, which application was eventually revoked. However, the related expenditure was not reversed from the books of account. Such errors were rectified by means of an audit adjustment proposed by LGA.

*A meeting has already been set up with the Accountant in order to classify the nominal transactions correctly.*

Some Office Equipment is being included under the category of Plant and Machinery. Moreover, the asset depreciation and amortisation calculations are not in line with the policy disclosed in the Financial Statements. For example, trees are being depreciated at 10%, despite that no depreciation charge should have been applied at all, whilst street signs and street mirrors are depreciated at 10%, when these should have been fully depreciated. Moreover, computer software is being amortised at 25% *per annum* when the applicable rate is that of 20%. In addition, purchases of street mirrors amounting to €1,543 were classified as capital expenditure instead of being accounted for on the replacement basis, in line with Memo 150/2010. Following LGA's recommendation, the Council approved an audit adjustment to re-allocate the amounts paid on street mirrors to the Statement of Comprehensive Income.

As already highlighted in the preceding year, during a physical inspection, a discrepancy between the number of photocopiers listed in FAR and those actually available at the Council's premises was encountered. One of the photocopiers, with a value of €2,213, is no longer in use and should have been written off, as recommended during the previous year's audit. However, notwithstanding the Council's reply to the preceding year's Management Letter, claiming that appropriate action has been taken, this asset has not only been kept in FAR but the Council has continued to depreciate it.

*LGA's comments have been noted and the Council will undertake appropriate actions where possible.*

A balance of €2,806 has been recognised in the Council's Financial Statements as stock of books. Audit testing carried out revealed that the books sold during the year were not deducted from the stock records. Following LGA's recommendation the stock list was updated accordingly, resulting in an immaterial variance of €52 between the amount recorded therein and the balance recognised in the Financial Statements. It also transpired that the sales receipts for the books sold have been

recognised as Income from Permits rather than disclosed separately as Income from Sale of Books.

*LGA's comments have been noted and the Council will be addressing the recommendations accordingly.*

Supplementary Government Income of €3,000, receivable under Memo 25/2013 with respect to an activity held during December 2013, has been omitted from the books of account. Inconsistencies were also noted in the recording of Accruals and Prepayments. This implies that the Council is not preparing its accounting estimates in an appropriate manner in line with Generally Accepted Accounting Principles. Audit adjustments were proposed by LGA in this regard and the Council has accordingly rectified the said errors. However, it failed to correctly account for an adjustment of €2,000 proposed in respect of monies collected from a fund raising activity in aid of voluntary organisation, which were accounted for as income and expenditure in the Council's books of account. The receipt of such funds was also incorrectly recognised as a prepayment. The posting error led the Council to understate both Receivables and Payables as disclosed in the Financial Statements by €4,000.

*The Council noted LGA's observation and adjusted its Financial Statements accordingly.*

Three invoices dated in 2013, totalling €629, were not recorded in the Suppliers' Ledger. This expenditure was incorporated in the books of account by means of an audit adjustment.

*LGA's observations have been noted and the Financial Statements have been adjusted accordingly.*

Included with Trade Creditors are two balances of €2,200 and €2,446, for amounts overpaid to the Council with regard to Youth Programmes, and for an excess grant received in relation to the *Kalamijja* project, respectively. An audit adjustment was proposed so as to reclassify the said balances to Other Payables. As highlighted in the preceding year, disclosed as Other Payables is also an

amount of €699 relating to reimbursements made during 2008, which were never claimed, and for which the Council has never provided supporting documentation. Consequently, following LGA's recommendation the Council approved to write off the related amount.

*The Council has adjusted its Financial Statements based on LGA's recommendations.*

The Council has availed itself of PPP scheme and entered into a contract for road resurfacing works, payable over a period of eight years. After initial recognition of the long-term payable, the Council has measured the amortised cost using a 5% discount rate, which was based on the medium-term Government Bonds instead of on the weighted average cost of capital. Moreover, the effective interest accounting treatment applied is incorrect since the Council has transferred to Income the total interest from 2014 onwards, amounting to €27,549. Following LGA's recommendations, the Council has adjusted its Financial Statements accordingly.

*The percentage rate used to amortise the Long-term Liabilities equates to the Council's cost of debt. Nonetheless, the Council noted LGA's observation and adjusted its Financial Statements accordingly.*

As already reported in the preceding years, in 2002, following approval sought from the then Ministry of Justice and Local Government, the Council made an investment of €46,588, by entering into a joint venture agreement with the locality's football club and a private limited company, for the management and operation of a 5-a-side football ground, namely *Kunsill Lokali Tarxien*. One fundamental condition emanating from the Memorandum specifically states that the members of the joint venture should provide audited Financial Statements on a six-monthly basis. However, this requirement is not being fulfilled. Moreover, the agreement contains no clear exit clause should the Council decide to withdraw from the joint venture. This matter poses a legal risk, which might bring the Council into a negotiation deadlock situation. In the absence of

<sup>41</sup> IFRS 10 was endorsed by the European Union on 20 November 2013 and had to be applied as from the commencement date of its first financial year starting on or after 1 January 2014. Besides that no evidence was traced, indicating that such early adoption was approved by the Council, such decision was neither disclosed in the unaudited Financial Statements.

an audited annual report as at 31 December 2013, LGA could not rely on the financial information as provided by the Council, to obtain reasonable assurance on the amount of assets and liabilities recorded in this joint venture. Thus, a qualified audit opinion was issued in this respect.

During 2013, the Council has applied the requirements of IFRS 10<sup>41</sup>, and accounted for the football ground operations as a subsidiary of the Council, rather than as a jointly controlled asset. IFRS 10 was applied on the basis that the Council controls the football ground operations, since it has a casting vote in the Board of the said ground. However, no evidence was traced to this effect. The ground is not being operated and maintained by the Council, but it is just sharing 50% of the utility bills with the other party. Thus, in these circumstances, the Council should not be deemed to be a group with a subsidiary. In applying the changes, to comply with IFRS 10, the investment in the football ground was written off as an impairment loss in the Statement of Comprehensive Income. In addition, the Consolidated Financial Statements, prepared by the Council in this respect, also failed to include proper disclosures, explaining the effect of such change on the Financial Statements, as well as on its comparatives.

Following LGA's recommendation, the Council has revised the accounting method adopted and reverted from applying IFRS 10 to account for the 5-a-side football ground. The Financial Statements and all relative disclosures were revised accordingly.

*LGA's recommendations with respect to the 5-a-side football ground have been noted and will be implemented in the future.*

### Ta' Xbiex

Although already highlighted in previous Management Letters, 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 the Financial Statements at year-end, remained unsigned.

*The Council will make sure to ask the supplier to provide it with a copy of the signed contract.*

Upon the expiration of the contracts for street and beach cleaning, as well as the cleaning of soft areas, in January 2013, the Council continued to procure the aforementioned services from the same service providers, at the monthly rate of €1,950<sup>42</sup> and €396 respectively. LGA was informed that a new call for tenders was issued in 2014.

*The Council has taken note of the comments put forward by LGA, and in the future it will abide by the latter's recommendations.*

Discrepancies were noted between FAR and the Financial Statements. NBV of assets as recorded in the Financial Statements was understated by €4,430 when compared to the amounts disclosed in FAR, which contrary to the applicable regulations, is being maintained on a spreadsheet. Furthermore, though the total NBV as disclosed in the Financial Statements tally to that recorded in the Nominal Ledger, discrepancies were noted between individual asset categories.

No depreciation was charged on Special Programmes. Moreover, the Council is computing depreciation manually rather than through the month-end facility that is incorporated in the accounting package. The Council approved the necessary audit adjustment of €7,371.

*The Council took note of the recommendations put forward by LGA and shall be investigating these to reclassify accordingly. With respect to depreciation, the adjustment proposed by the Auditor has been implemented, and thus reflected in the final set of 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 Councillors. In addition, the agent Executive Secretary confirmed that no record is kept when the laptops leave the Council's premises. Moreover, it was noted that the four laptops procured in 2009 were no longer

<sup>42</sup> This is made up of €1,655 for street cleaning and €295 for beach cleaning.

included in FAR. However, no explanation was provided for this course of action. These issues were already highlighted in the preceding year.

*The Council had in previous years decided that each Councillor and ex-Mayor should have a laptop to take with them at their premises so that the Council could communicate via email. In fact, the ex-Mayor's laptop is kept at the Council's premises locked at the Secretary's office, while the other four are still with the present Councillors. The Council has been informed by one of the Councillors that his laptop is no longer functional.*

The Council was awarded a grant, amounting to €75,000, for the upgrading and maintenance of the housing estate. Out of the aforementioned balance, only €20,683, representing the cost of works carried out in accordance with the tender, was recorded in the books. However, the actual amount certified and invoiced totalled €20,133, as less material was used than that anticipated. In view of this, audit adjustments were proposed to increase accrued and deferred income by €54,317 and €54,867 respectively whilst decreasing amounts payable by €550.

*The Council did not include the full amount of grant receivable of €75,000 as this depends exclusively on whether the Council spends that sum of money. As at today, the Council is still uncertain as to what projects to undertake to spend these funds. For prudence reasons, and not to inflate the Statement of Financial Position, the Council was only recognising the grant receivable according to the projects undertaken, since that is the trigger point for the grant to become actually receivable. Furthermore, the initial invoice issued by the supplier was for the amount of €20,683. When the work was certified, some issues were found and a new invoice was issued for a less amount, as rightly remarked by LGA. This was done after the finalisation of the accounts for the year, and therefore could not be corrected in time. The Council approved the adjustment proposed and has reflected it in the final set of Financial Statements.*

The Council also failed to release a portion of the grant related to the landscaping and junction project, which was completed by the end of 2013. The proposed audit adjustment of €5,159, to adjust

the portion of grant amortised, was correctly included in the audited Financial Statements.

*The adjustment proposed by LGA has been implemented, and thus reflected in the final set of Financial Statements.*

In breach of the standing procedures, the Council failed to deposit general income on a regular basis. For example it took the Council almost two weeks to deposit the amount of €12,000 that was received on 26 September 2013, which was then deposited on 7 October. Likewise, a receipt of €5,000 received on 6 November 2013 was deposited on 21 November.

*Due to the fact that no bank exists in Ta' Xbiex, the Council has to deposit its receipts at Gżira branch. In view of the shortage of Council's staff, deposits are effected at least once or twice weekly.*

A review of the health insurance policy concluded that irrespective of prior year's recommendations, the Council has failed to update the policy with the current Councillors during the year under review, as it still includes individuals who are no longer members of the Council. LGA was informed by the Council that this policy was updated during 2014.

*No further comments submitted.*

The Council has not resolved the issues with regard to debtors of €146,629, which have been outstanding for more than three 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 view of this, the Council has increased the provision on these debtors by a further 25%. 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.

*As rightly remarked, the Council is taking a hands-on approach and chasing these debtors by sending them a monthly statement. Further to this, the Council has approved a policy to amortise these doubtful debts over the next four years.*

The Council did not obtain a creditors' statement from almost all its suppliers. Through the alternative audit procedures carried out on a sample of creditors, it transpired that the payable balance to WasteServ Malta Ltd as recorded in the books of account is understated by €935. Similarly, the balance owed to another company was nil in the Council's books, while the company confirmed that it was owed €866. However, no explanation was provided by the Council for such discrepancies.

*The Council has taken note of the comments and will be implementing the recommendations. The Council shall also be investigating the discrepancies highlighted.*

Disclosures relating to borrowings do not include the special privilege, as well as general and special hypothecs as security for the loan. Although the omission was drawn to the attention of the Council, this has not been included in the audited Financial Statements. Furthermore, the rate of interest does not agree to the bank confirmation letter which states an interest rate of 3.5%.

*Point not addressed.*

### Valletta

Besides the issues already highlighted further up in the Report, the following deficiencies were also noted.

The Council failed to provide the necessary certifications to substantiate that works carried out on Mattia Preti Square, against which a grant of €73,610 is being released to income at 10% *per annum*, are of a capital or revenue nature. In addition, upon recalculating the amortisation of Deferred Income in line with the estimated useful life of the asset as adopted by the Council, it was noted that this was overstated by €4,065. Thus, the Council approved the necessary audit adjustment and amended the Financial Statements accordingly.

A grant receivable of €9,000 for the restoration of St. John and St. Paul niches was not accounted for, even though the grant acceptance letter was issued in 2012 and the restoration works completed and capitalised in 2013. In addition, LGA was not

provided with Architect's certifications in respect of this capital project costing €9,521, as well as the resurfacing of upper part of St. Paul's Street amounting to €92,148. Thus, it cannot be ensured that the works carried out are appropriate and within the parameters as laid out by the agreement of works between the contractor and the Council.

In 2012, the Council had issued three tenders, which were adjudicated in favour of the same contractor. The other bidders appealed such adjudication and the Appeals Board decided that all three tenders are to be reissued. In October 2013, the Council reissued the tenders, however, during November 2013, DLG instructed the Council not to take adjudication decisions until the former receives the required clarifications. In this respect, LGA was informed that DLG appointed a Board of Governance to investigate the required matters. Since the latter had not issued its final report by the time of the audit, this limited the implementation of the decision reached earlier by the Appeals Board.

Contrary to the Local Councils (Tendering) Procedures, services rendered with respect to the management of an EU project were not covered by a public call for tenders. The amount paid in this respect totalled €6,100. Meanwhile the purchase invoice covering maintenance of motor vehicle, amounting to €1,000, was not provided for audit purposes.

Included with Other Receivables is a credit balance of €26,215, relating to garnishee orders issued to the Council during 2013. This resulted mainly due to the fact that the amount refunded by the Court (€69,936) to the Council was in excess of the balance withdrawn (€43,181) from the latter's bank account, by means of a Court order. LGA was informed that probably, an overpayment was made by the Courts of Malta, yet no clear explanation or reconciliation has been provided to justify such variance.

LES Debtors and the related provision for doubtful debts as recognised in the books of account were overstated by €1,596 and €198 respectively when compared to the amounts disclosed in the computerised reports extracted from the system. The Council approved the necessary audit adjustments as proposed by LGA.

The amount of €42,017 accrued for under CVA income for the years 2012 (€16,200) and 2013 (€25,817), was not substantiated by the respective reports from the CVA computerised system. Instead, the Council claimed that the 2012 balance was estimated on the original invoice issued for the preceding year. On the other hand, the amount accrued for with respect to 2013 was substantiated by correspondence from Transport Malta, indicating that CVA income for the year totalled €56,886. However, the latter further remarked that the said amount will not be considered as payable if the Council does not provide satisfactory replies about the CVA short-term exemptions issued by the Council itself. In the case that CVA income 2013 as declared by Transport Malta is fully recovered, implies that income and receivable as recorded by the Council are both understated by €31,069. However, the uncertainty about the recoverability and any possibly litigation made it imprudent for LGA to propose any audit adjustments.

Considering the materiality of the weaknesses mentioned above, coupled up by the fact that the information and evidence provided by the Council with respect to these receivables were not sufficient to obtain reasonable assurance on the amounts recorded in the Financial Statements, a qualified audit opinion was issued in this respect.

A further accrual of €4,260 was accounted for with respect to WSC reinstatement income relating to the year 2010. However, no supporting evidence has been provided to substantiate the recoverability of the said amount. It also transpired that the service of the cherry picker (€1,361), rented in 2013, was not accrued for in the Financial Statements. In addition, expenses pertaining to the New Year's Eve activity were over-accrued (€2,527) and the water and electricity expense was under-accrued (€897). On the other hand, while the prepaid amount of €625 for the subscription of permits system was unaccounted for, the prepayment recognised by the Council in respect of insurance was overstated by €326. Following LGA's recommendation the Council approved the necessary audit adjustments.

Testing carried out on Trade Payables, totalling €561,187, revealed a significant number of misstatements arising out of the lack of proper accounting and recording. The lack of proper Suppliers' reconciliations also resulted in balances

on the Creditors' List being misstated. In one case, the balance of a particular supplier was understated by a net amount of €3,499, since the Council failed to account for an invoice and a credit note amounting to €19,780 and €16,281 respectively. In another case, the Council accounted for an invoice and a payment of €590, when the actual amount to be accounted for was €1,180. These errors were rectified by means of the necessary audit adjustments approved by the Council.

Included in the Creditors' List is a debit balance of €5,000. The Council stated that the respective purchase invoice was never received. In addition, invoices totalling €1,605, addressed to the Valletta Business Community in relation to printing services, were incorrectly entered as payable in the Council's books, despite that such invoices are to be settled by the former. Furthermore, the Council did not provide any evidence that balances totalling €251,719, due to various service providers, were actually payable at year-end. As in the case for receivables, LGA prepared confirmation letters to be signed by the Council, to be subsequently sent to each respective creditor, however, the Council never delivered such letters even though these were requested by LGA on various occasions.

During the preceding year, the Council has written off payables amounting to €51,392, which were long overdue, without a proper reconciliation to the Suppliers' Statements. Notwithstanding LGA's recommendation, a year later the Council still failed to reconcile the said balances with the Suppliers' Statements and to obtain a legal advice to determine if the amounts written off are legally due. Eventually, a particular supplier opened a case with the Arbitration Tribunal to recover €21,665, which amount the Council has written off in full.

The significant number of misstatements arising out of the lack of proper accounting and recording of payables, including accruals, together with the lack of supporting documentation in respect to part of these payables, made it difficult for LGA to determine whether the recognition of such liabilities was correctly accounted for and recognised in the Financial Statements. Thus, a qualified audit opinion was issued in this respect.

The Council has incorrectly classified the long-term and short-term Deferred Income portions arising from the Youth in Action revenue expenditure grant. Workings provided indicated that total Deferred Income from this grant amounted to €25,549, with the long-term portion disclosed as negative €8,170 and the short-term Deferred Income accounted for as €33,719. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

The balance of one of the Council's bank accounts as disclosed in the Financial Statements differed by €23,392 from the Trial Balance produced by the accounting system. LGA was informed that the said difference consisted of three cheque payments addressed to CIR, included in the Schedule of Payments but remaining in the Council's possession at year-end. Upon issue of the Financial Statements, the Council has reversed the said cheques, however, the reversing entry was not reflected in the accounting system.

Notwithstanding prior years' recommendations, the Council still does not have a proper system of official receipts for income flowing in its favour. Furthermore, the Council is still issuing its sales invoices manually, without maintaining a proper sequential invoice numbering. Likewise, a proper system of Payment Vouchers, in terms of the Local Councils (Financial) Procedures, is not in place.

Furthermore, in line with the preceding year, a number of payments, amounting to €84,894 (2012: €54,795) issued to suppliers, were not traced within the Schedule of Payments provided by the Council for approval.

In addition, payments issued and posted in accounts between April to June 2013 were retrospectively approved in a meeting held on 1 July 2013. Moreover, no reference was mentioned in the Council's minutes as to whether the Schedule of Payments covering January to March 2013 and July to December 2013 were approved or not.

In breach of Memo 122/2010 regulating Councillors and staff meals, the Council has paid €460 and €358, for two meals held on 7 February and 9 April 2013 respectively. The foregoing Memo entitles the Council to organise only one staff meal, during the Christmas period.

Notwithstanding that the Council has totally outsourced its payroll function, the following shortcomings were noted:

- a. As highlighted in **Appendix J**, values declared in FSS documentations submitted to IRD did not tally to those recognised in the Financial Statements.
- b. Instances were encountered whereby FSS and NI deductions were not remitted to IRD in due time. Furthermore, by the time of the audit the Payers Annual Reconciliation Statement (FS7) was not yet prepared.
- c. FSS for the month of December, as accounted for in the Financial Statements, was understated by €1,008.
- d. The Mayor's honoraria, as reported in the Financial Statements, was incorrectly worked on 2012 rates, thus resulting in an understatement of €109. Furthermore, the Mayor was underpaid the amount of €945, out of which €545 related to the August honoraria while the other €400 related to the entitled allowance.
- e. The amount of €4,266, with respect to Mayor's honoraria, was incorrectly accrued for when this was already paid.
- f. The respective Payee Status Declaration Forms (FS4s) were not presented to substantiate the different tax rates, other than the rate of 20% as mentioned in Memo 26/2010, applied on the amounts paid to the Mayor and other two Councillors.

The necessary audit adjustments were approved by the Council to correct the aforementioned errors.

Contingent liabilities, as disclosed by the Council in its Financial Statements, amounted to €81,474, when in actual fact, these should have totalled €217,180. The variance arose since new claims opened by third parties during 2013 were not taken into consideration. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

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

## Xaghra

Although the contract for handyman service expired in June 2012, another call for tenders was only made in May 2013. This was awarded to the previous service provider. The new contract became effective as from 1 July 2013, implying that the amount of €6,656 paid for this service with respect to the period January to June 2013, was not covered by a valid contract.

In 2010, a call for quotations was issued for the maintenance of rubble walls and the chosen supplier provided regular services. In view that the amounts paid for such services were substantial, during 2013, a call for tenders was issued, which was awarded to the same contractor. The contract became effective as from 1 November 2013, with the result that the amount of €14,724, paid for work carried out between January and October 2013, was not covered by a call for tenders.

Due to the fact that an old contract, relating to the supply of ready mix concrete lacked sufficient detail such as the duration of the contract, it could not be ascertained whether this has expired or not.

*The various points made by LGA have been noted. The tenders mentioned by the latter will be looked into and the necessary calls will be made according to the Local Councils' procedures. The administration will prepare purchase request forms and purchase orders when purchases are made.*

Previous years' Management Letters reported that the number of computers included in FAR exceeded the amount actually in existence at the Council's premises. At the time, the Council had stated that computers dating back more than 10 years no longer existed. An exercise was to be carried out by the latter to take note of the variances and follow the necessary procedures to write them off. However, testing carried out revealed that the situation did not change.

*During the coming year the Council will go through FAR and write off any assets that are no longer in use, after this has been approved during a Council meeting.*

Capital expenditure was incorrectly expensed in the Statement of Comprehensive Income, whilst

expenses incurred on completed projects were still classified as Assets under Construction. Such errors were rectified through the audit adjustments proposed by LGA.

During the preceding year, two adjustments were passed in view that a contract management fee of €5,477 and expenditure of €421, incurred with respect to the Belvedere project, remained unaccounted for. In 2013, the Council reversed the accrual of the latter amount against PPE, despite that no invoice was received in this respect. On the other hand, the other payment of €5,477 was expensed instead of accounted for against the opening payable. In addition, the Council also reversed the adjustments recorded in the prior period. Following LGA's recommendation, the Council approved the necessary adjustments.

*The expenditure relating to capital projects will be recorded immediately in the capital account. The adjustments relating to capital expenditure recommended by the Auditors have been carried out and reflected in the audited Financial Statements.*

*The necessary adjustments were also made to show the Belvedere project as a completed project and the depreciation on this asset was posted.*

The cost and accumulated depreciation as recognised in FAR were understated by €148,638 and €115,124 respectively, when compared to the Nominal Ledger and the unaudited Financial Statements. Consequently, NBV in FAR was also understated.

*During the coming year, FAR will be reviewed and reconciled with the Nominal Ledger.*

The Council failed to account for accrued income of €14,367 relating to events already carried out, but in respect of which the respective funds were not yet received by year-end. Likewise, expenditure of €15,808 incurred during the year under review against which an invoice was issued in 2014, remained unaccounted for at year-end. In addition, a number of invoices dated in 2013 but which were actually received by the Council in 2014, totalling €4,330 and relating mainly to waste disposal services, other repairs, and postage, were not included in the Purchase Ledger. It was also noted that an invoice of €2,257 was incorrectly



recorded against accruals instead of the creditor's account. Following LGA's recommendations the Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

*Accrued income due to the Council was adjusted as recommended by LGA. The Executive Secretary will keep record of the various funds due on the different projects undertaken by the Council. The invoices for payables mentioned by LGA were received by the Council after the preparation of the unaudited Financial Statements. The adjustments recommended by the former were made and reflected in the audited Financial Statements.*

Income of €10,600 received during the year under review, but which related to the preceding year, was mistakenly recorded as income for the year, instead of set off against opening accrued income. It also transpired that funds of €725 raised during a concert in aid of a voluntary organisation was erroneously accounted for as part of the Council's income for the year. In addition, an extra month of service was recorded with respect to the cleaning of bring-in-sites, resulting in an overstatement of €552 in income. The Council approved the necessary adjustments to decrease income and accrued income by €11,877 and €10,600 respectively, whilst increasing other payables by €725.

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's fees in relation to the Civic Centre project, which by year-end had not yet started, was recognised as prepaid expenditure, other costs of €17,470 relating 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 to net off. Sponsorships and other receipts received in relation to particular cultural activities were also netted off against the actual expense incurred.

*The points made by LGA were noted and the recommended adjustments were reflected in the audited Financial Statements. Further attention to the matters mentioned will be given, in particular accounting and netting off income.*

Besides that the bank reconciliations provided for audit purposes contained minor discrepancies, included therein were a number of cheques, aggregating to €2,636, which had become stale. It was also noted that the petty cash transactions were not being accounted for, but only the transfers from the bank account were being recorded. An audit adjustment of €826 was effected to incorporate petty cash expenditure in the books of account.

*The adjustments in respect of petty cash were made. This was an oversight and such expenditure will be recorded when it is incurred.*

*The stale cheques mentioned by LGA will be looked into by the Executive Secretary and the necessary adjustments will be made. The audit adjustments recommended by LGA were reflected in the audited Financial Statements.*

The Council failed to recognise in the accounting records both the amount of €12,094, representing the direct payment made by DLG to WasteServ Malta Ltd on its behalf, as well as disputed expenses totalling €11,390. In view that such expenditure was fully settled through the aforementioned payment, as well as by means of an additional settlement of €10,093 effected also by DLG after year-end, the Council should have fully recognised these expenses in the books of account. These errors were rectified by means of audit adjustments approved by the Council.

*The adjustment to WasteServ Malta Ltd supplier account has been made as recommended by LGA and included in the audited Financial Statements.*

Disclosed under Other Payables is still an amount of €1,021, representing the unresolved difference that arose in the Trial Balance of the year 2009, following a corruption in the accounting software.

*Point not addressed.*

From audit verifications carried out it transpired that the amortisation of Deferred Income, for 2013 was understated by €1,660. Likewise, both opening deferred and accrued income of €13,414, in relation to an UIF project, were also understated by €4,073. In fact during 2014, the Council received the final receipt of €17,487 with respect to this project. Following LGA's

recommendation, through audit adjustments, the Council rectified these errors. Furthermore, a reclassification adjustment of €1,433 was passed to correct a previous year adjustment relating to the amortisation of a particular project, that was posted against the wrong account.

A review of the agreement entered into by the Council, with the contractor carrying out road resurfacing work under PPP Scheme, revealed that the payment terms laid down in this contract, were not abided with by the Council. In addition, the apportionment between current and non-current liabilities was not calculated correctly by the Council to the extent that the figures disclosed in the previous year for the non-current liability portion remained unchanged during the year under review. In view of this, LGA informed the Council with the correct split so that the Financial Statements will be amended accordingly.

*The deferred income calculation did not agree with that of LGA due to the audit adjustments carried out during the audit. The necessary adjustments were made and these were reflected in the audited Financial Statements. The amounts relating to the long-term and short-term portion of PPP funds have been split according to LGA's recommendations.*

The Council exceeded the budgeted costs in three categories, namely Hospitality and Community Services, Repairs and Maintenance, as well as Contracted Services by €44,926, €33,050 and €29,102 respectively.

*The budget will be revised from time to time when the quarterly reports are prepared in order to bring the budget closer to the actual expenditure, and to avoid over spending the available funds.*

A review of a sample of Payment Vouchers issued during the year revealed that, besides these lacked certain pertinent details, at times, these were not signed by both the Mayor and the Executive Secretary.

*The Council will ensure that all Payment Vouchers will include all the necessary details and will also be signed by the Executive Secretary and Mayor when the payments are made to suppliers.*

Employees do not have a signed contract in line with their present conditions of work. Furthermore,

notwithstanding previous year's recommendation, employees were still not provided with a payslip.

*Whilst there is an employment contract for the new employees contracted by the Council, those employed prior to the notice issued by the then Ministry of Justice and Home Affairs on 10 December 2007 regarding definite contracts, have no employment contract.*

A performance bonus was paid to a person who had acted as an Agent Executive Secretary but was not listed on the Council's FSS system. An audit adjustment of €970 was posted to reclassify this payment to the other support services category. In addition, it was noted that the performance bonus paid to the Executive Secretary was calculated on the wage gross of all allowances instead of on the basic wage, thus resulting in an overstatement. On the other hand, the wrong rate was applied when calculating the Mayor's honoraria and allowance with the consequence that the latter was underpaid the amount of €253. Additional adjustments were proposed by LGA in view that certain payroll transactions were posted in the wrong Nominal Account. The Financial Statements were rectified accordingly.

*As explained by the acting Executive Secretary, the adjustments relating to the Mayor's honoraria were made during 2014. The audit adjustments proposed by LGA were reflected in the audited Financial Statements.*

The annual budget for 2014 provided for audit purposes was not yet approved by the Council.

*The recommendation made by LGA regarding the deadline for the preparation of the annual budget has been noted.*

### Xewkija

The procurement of flood lights costing €7,975, and expenditure of €4,990 incurred on the lodging for archaeological students were only covered by a call for quotations, despite that the amounts incurred merited a call for tenders.

*In the future, if the quotation amount exceeds the established limit, a tender will be issued.*

Requests placed by LGA for the review of tender documents revealed that on several occasions contracts were being executed under an expired performance guarantee.

*Point not addressed.*

Ten months elapsed before the contract covering works carried out at the public convenience, bearing a total cost of €57,823, was extended for a further six months, following its expiration in January 2013. Furthermore, notwithstanding that the related guarantee expired in September 2013, the supplier was not informed to extend its duration, as the project was still on hold due to encountered problems.

*The contract had to be stopped due to uncontrollable circumstances, including the need of a Letter of Acceptance from WSC and the superintendence inspection that needed to be done on site. The Council will try to avoid such circumstances in the future and ensure that the tendering procedures, including the performance guarantee are given importance.*

Restoration and finishing works of rural structure that are carried out at *Gnien Blankas*, bearing an estimated cost of €19,913, were not covered by a contract. Eventually, following a call for tenders, the cheapest bidder was instructed by the Council to proceed with the work in line with the submitted tender. However, despite that a contract was drawn up, this was not signed by either party. As at year-end the project was still in progress and should be finalised in the first half of 2014.

A request for the contract, covering the reconstruction of various pavements of several housing blocks, was not acceded to. The Council claimed that such works were carried out by the same contractor who was awarded the contract for general works on pavements. Furthermore, contrary to that laid down in the latter contract, no approval for these specific works was initially given by the Council. The related approvals for works on two blocks were then granted after the commencement of works.

Services in relation to the foregoing project were procured through a direct order and were not covered by an agreement. This resulted in a number of disputes between the parties, with the contractor opening a court case against the

Council, claiming the amounts due to him for the approved work, as well as other works not approved by the Council that he carried out. In its accounting records, the Council only booked the costs relating to the two pavements which works were eventually approved, but failed to record the contract management fees amounting to €2,044. These were then recognised in the accounting records by means of an audit adjustment.

The cost in FAR was overstated by €4,827 and total accumulated depreciation understated by €15,974, leading to a NBV that was expected to be overstated by €20,801. However, this figure in FAR was actually overstated by €29,388.

LGA was not provided with a copy of FAR upon the initial of the audit. However, by the conclusion of the audit, the Council decided to update FAR found on the old accounting package, and subsequently provided LGA with an updated list that, as already explained, still did not tally to the balances disclosed in the Financial Statements.

Regular reconciliations with Suppliers' Statements were not being carried out. Four cases were encountered whereby invoices totalling €305,836, relating to projects or expenses were included in the accounts more than once, resulting in an overstatement of payables, as well as the related expenses or assets. Following LGA's recommendation, the Council approved the necessary adjustments to decrease liabilities, capital, as well as revenue expenditure by €305,836, €278,330 and €27,506 respectively.

Additional inconsistencies noted in relation to PPE were mainly due to the incorrect posting of journal entries, which necessitated the incorporation of audit adjustments, resulting in a net increase of €217,304.

In certain instances assets were classified under the wrong assets' category. For example, the cost of works (€38,842) carried out on pavements of Block A, which were finalised and certified during 2013, was still disclosed as Assets under Construction, thus implying that no depreciation charge was accounted for by the Council. The same applies to the total value of €54,682 incurred on works carried out on pavements of Block B, which though these were not yet officially certified, the related works were completed during

the year under review and in fact were already in use. Similarly, the cost of €129,549, incurred for the completion of two roads during 2013, was capitalised by means of an audit adjustment. Other reclassification adjustments, totalling €35,974, were proposed by LGA, to reflect the respective cost under the correct asset category. The Council approved all the related adjustments and amended the Financial Statements accordingly.

Included in the list of assets additions for the year was the cost of €40,785, relating to a lift which is going to be installed at *Pjazza San Ġwann il-Battista*, despite that the related project has not yet even commenced but was only contracted for.

Various instances were also noted whereby expenditure of a revenue nature aggregating to €15,457 was capitalised instead of expensed accordingly in the Statement of Comprehensive Income. Conversely, the cost of €1,651, relating to a statue inaugurated on *Jum ix-Xewkija*, was treated as an expense.

*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 points raised by LGA regarding fixed assets and depreciation, have been noted and the necessary audit adjustments have been reflected in the Financial Statements.*

*The works carried out on the pavements at the housing estate were discussed with LGA during his audit visit to the Council, and as explained by the former there is currently a Court case with the contractor.*

Costs of €64,519, relating to either expenses incurred or projects carried out during 2013, but in respect of which an invoice was not yet received by year-end, were classified as accounts payable rather than as accrued expenditure. This substantiates the fact that the Council is still not able to distinguish between creditors and accruals. Further inconsistencies were noted in the recording of certain amounts payable, whereby invoices issued during the current year, as well as audit adjustments passed in the preceding years, in relation to creditors, were incorrectly posted under the Other Creditor Account instead of in

the respective Supplier's Ledger. The Council rectified these errors by means of reclassification adjustments.

The Council failed to provide for accrued expenditure of €22,847, relating to the printing of booklet and leaflet, performance bonus payable to one of the Council's employees, as well as works partly of a maintenance nature and partly of a capital nature on *Gnien ta' Blankas*. Following LGA's recommendation, the Council approved the necessary audit adjustments.

*The points raised by LGA have been resolved and the required adjustments have been made and reflected in the audited Financial Statements. The note relating to the year-end accruals has also been noted.*

In view of the dispute that existed between Local Councils and WasteServ Malta Ltd during the preceding years, amounts invoiced by the latter in excess of the allocation provided by Government for waste tipping fees, were not recorded in the Council's books of account. Throughout the years this balance aggregated to €9,900. Furthermore, in breach of the instructions provided in Memo 1/2014, the amount of €9,639 paid by DLG to WasteServ Malta Ltd on behalf of the Council, as a settlement of the disputed balances, remained also unaccounted for.

An invoice of €1,755, issued by WasteServ Malta Ltd during the year under review, was completely omitted from the accounting records, whilst an invoice of the same amount was found to have been reversed twice when reversing the opening accruals. Meanwhile, another invoice of €1,755, issued during 2013, was still disclosed with accrued expenditure at year-end, instead of being classified as an account payable. The necessary audit adjustments were approved by the Council and the Financial Statements were amended accordingly.

*The transactions relating to WasteServ Malta Ltd have been looked into and all the necessary adjustments have been made. In the future, Suppliers' Statements will be requested so as to be able to reconcile the supplier's account.*

Audit adjustments had to be passed, to increase the release of Deferred Income to the Statement of Comprehensive Income by €17,188, in view that this was either completely omitted from the books of account or was incorrectly computed by the Council. The amount of €2,613 was still being considered as Deferred Income, even though this related to works of a maintenance nature which have been already carried out. A further adjustment of €524 was passed to add back opening deferred income in relation to the EGov4U which was erroneously reversed against an expense account. The related amortisation of €1,233, made up from €840 with respect to the capital asset and €393 regarding the maintenance service, was also incorporated in the books of account by means of an audit adjustment.

*Deferred Income calculations were carried out based on IAS 20. The variance in the calculation was due to adjustments made by LGA during the course of its audit. The adjustments recommended by the latter have been made and reflected in the audited Financial Statements.*

Income and expenditure were not always posted in the proper account. For example, an asset was posted by mistake in an expense account, thus implying that no depreciation was charged to this asset. Moreover, an income item was inadvertently recorded in an expense account rather than an income account. In addition, income receivable from Government with respect to sports activities was incorrectly classified as Other Income. Several other entries in relation to Personal Emoluments were not always posted within the same accounts.

Audit verifications carried out on Accrued Income, as recognised in the accounting records, revealed several omissions. The Council failed to accrue for income receivable of €5,797 with respect to activities that were already carried out. On another two occasions, funds receivable, totalling €5,000 were accounted for twice. It was also noted that accrued income with respect to an EU funded project, that has been completed during the year under review, was understated by €4,504.

Inconsistencies were also encountered in income accrued in relation to the roads resurfacing projects carried out under PPP scheme. In fact,

several incorrect transactions were noted, showing transfers between the Construction, the Accrued Income and the Deferred Income Accounts. Furthermore, the last payment of €41,250 with respect to Batch 2, which was received by the Council during the year under review, was not netted off against the related accrued income, but was posted in the Deferred Income Account. These errors were rectified accordingly by means of the audit adjustments proposed by LGA.

*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 only to €93. However, the amount receivable as per 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 omitted from the accounting records of WSC. 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 the necessary adjustments made to reflect the correct amount.*

A cheque was incorrectly booked twice in the accounting records. On the other hand, another cheque which was still not cashed by year-end, was not included in the list of unrepresented cheques, as the related payment was not yet recorded in the books of account.

*LGA's recommendation regarding the posting of cheques has been noted. Such instance happened only once, however further care will be taken in the future.*

Budgeted expenditure for Contractual Services, Repairs and Maintenance, Professional Services, Hospitality and Community Services, as well as Transport, was exceeded by €28,382, €20,670, €12,957, €11,992 and €3,766 respectively.

*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

At times, procurement was not carried out in line with pertinent regulations. No purchase request and purchase order forms have been prepared for 22 items of expenditure amounting to €12,598. Furthermore, the invoices received from WasteServ Malta Ltd have been posted on a cash basis rather than on an accrual basis, thus, fully accounting for the balance agreed and paid, rather than the amount shown on the invoice. This resulted in a discrepancy of €2,760 between the amount invoiced (€10,943) and that paid (€8,183) for the period October 2012 and December 2013.

Invoices for the purchase of street signs, amounting to €1,388, have been capitalised rather than accounted for on a replacement basis. Likewise, an invoice of €800 for grass cutting of the football pitch was recorded as expenditure of a capital nature rather than as revenue expenditure. Following LGA's proposed audit adjustments, the Financial Statements were amended accordingly.

*The Council has taken note of LGA's observation and is now issuing purchase orders. Moreover, the respective audit adjustments with respect to capital and revenue expenditure were posted in the Council's books of account. As regards the WasteServ Malta Ltd account, the Council had explained to LGA why the amounts included in the accounting system were different from the invoices.*

FAR lacks a number of descriptive details, thereby hindering physical verification of the same assets. In addition, there is no common reference in the description of the asset in FAR and the related transaction in the Nominal Ledger. Discrepancies were noted between the value of assets as recorded in FAR and those disclosed in the Council's unaudited Financial Statements. For example, the Cost of Assets not yet Capitalised, Construction, Special Programmes and Urban Improvements, as disclosed in FAR, were understated by €313,197, €121,059, €61,989 and €49,821 respectively, when compared to the Financial Statements. Similarly, discrepancies have been noted between the

balances recorded in FAR and those as per Nominal Ledger, for instance, the Cost of Construction and Special Programmes in the Nominal Ledger were overstated by €96,317 and €61,989 respectively when compared to FAR.

Various assets were categorised incorrectly with the consequence that these are being depreciated using an incorrect depreciation rate whilst, depreciation charge for the year was calculated manually and accounted for by means of an end-of-year journal entry. Consequently, no practical procedures could be performed to obtain reasonable assurance on the existence and completeness of the fixed assets recorded in the Financial Statements with a NBV of €406,570, as well as on the completeness of the depreciation charged thereon. In view of this, LGA had no option other than qualifying the audit opinion.

*The Council's Accountant has noted LGA's recommendation and will be looking into FAR and the depreciation workings. All the depreciation workings have always been kept constant throughout the years. However, the Council will be looking into previous years' depreciation workings.*

Notwithstanding that Capital Commitments, as forecasted in the Annual Budget issued by the Council, aggregated to €35,200, a nil balance has been disclosed in the Financial Statements.

*LGA's comment has been noted.*

A payment of €20,000, which was advanced to a particular contractor in relation to works carried out at the sports complex and playing field, was not substantiated by the Architect's certification.

*This payment was part of another bill, which was settled in part payments.*

The playing field of the locality was complete and opened for the public as from March 2013. The respective expenditure of €41,687 should have been capitalised and depreciated accordingly. However, it was still included within Assets not yet Capitalised. In addition, the Government grant received for this specific project was to be amortised in line with the depreciation charge. These shortcomings were rectified through an audit adjustment.

The Council also failed to account for the amortisation of the €8,000 grant received for the purchase of photovoltaic cells, which were installed and commissioned in September 2012. Furthermore, the remaining Deferred Income was not properly apportioned between short-term and long-term liability. Though audit adjustments were proposed in this respect, the Financial Statements were not amended accordingly, and thus a qualified audit opinion was issued in this respect.

A receipt of €20,000, received during the year under review, in relation to a grant covering works completed in 2012, was incorrectly recorded against Other Debtors, despite that during the preceding year, the Council failed to accrue for such funds. Due to the materiality of the amount involved, a prior year adjustment was proposed by LGA and the Council rectified its Financial Statements accordingly.

Conversely, the amount of €13,166, received with respect to a grant that was already accounted for in the previous year, was mistakenly credited against Assets not yet Capitalised instead of netted off against the Other Debtors opening balance that was brought forward from the preceding year. Following LGA's recommendation the Council amended the Financial Statements accordingly.

A discrepancy of €13,555 was noted between the amount payable to a creditor and that recorded in the respective Supplier's Statement. An analysis of this variance revealed further shortcomings resulting from incorrect amounts posted in the Supplier's Ledger. The necessary audit adjustments were approved by the Council to correct these errors.

*LGA's observations have been noted, and all audit adjustments recommended by the former were posted in the Council's books of account. The Council will also look into the matters of grants and Deferred Income in order to account for these accordingly.*

The above implies that regular reconciliations with Suppliers' Statements are not being carried out, with the result that significant misstatements in the

Creditors' List, arising due to the lack of proper recording of transactions, remained undetected by the Council. An instance was encountered whereby the payable balance, as disclosed in the Council's records, represented an invoice of €1,480 which has been posted twice in the books of account. Furthermore, the related payment was incorrectly posted directly against the Nominal Account. Meanwhile, certain invoices issued by the supplier during 2011 and 2013, amounting to €8,126 remained unaccounted for. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Likewise, upon comparing the amount payable to WasteServ Malta Ltd as disclosed in the Suppliers' Statement, with that recorded in the books of account, it was noted that the latter balance was short of €1,899. An audit adjustment was passed in this respect.

An invoice dated in 2014 for services rendered during 2013, was erroneously accounted for against creditors rather than disclosed with accrued expenditure. This error was rectified through an audit adjustment.

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 accruals, prepayments and accrued income as disclosed in the Council's unaudited Financial Statements. Review of accruals as accounted for by the Council revealed five instances, aggregating to €4,718, where the latter failed to provide for accrued expenditure. Moreover, accrued income of €2,000 receivable in respect of expenditure incurred on *Festa Lapsi* activities was also omitted from the Council's books of account. Prepayments balance shown in the Financial Statements was overstated by a net amount of €258. The Council has rectified the said matters by means of audit adjustments proposed by LGA.

*The Council had accrued all necessary expenses from water and electricity to refuse collection. However, through audit adjustments, LGA reversed all accruals done by the former<sup>43</sup>, with*

<sup>43</sup> LGA confirmed that several adjustments were needed in order to correct the balance shown as accruals and creditors in the Financial Statements.

*the consequence that it had to accrue all over again for the said expenses. The said explanation applied also to creditors. The audit adjustments had distorted a handful of creditors and then LGA had to re-adjust again these balances.*

Upon reviewing the bank reconciliation provided for one of the Council's bank accounts, a variance of €738 was noted. However, no explanations were forthcoming in respect of such variance. Further testing revealed a cheque of €692, which should have been included as a reconciling item, given that it was issued during December 2013 and cashed after year-end. Following LGA's recommendation, this payment was incorporated in the books of account through an audit adjustment.

*Point not properly addressed.*

The petty cash balance of €222 disclosed in the Council's Financial Statements is overstated by €102 as the actual cash float as at year-end stood at €120, thereby indicating that certain cash payments were not posted in the Council's books of account.

*The Council has taken note of LGA's recommendations and will be looking into this matter.*

The amount of €14,487 recognised by the Council as at 31 December 2013, in respect of LES Debtors, and the related provision for doubtful debts, are not in agreement with LES reports issued for the same period. Consequently, in view that LES Debtors as at year-end is overstated, a qualified audit opinion was issued in this respect.

*LGA's observations have been noted and the necessary adjustments were carried out.*

An analysis of the payroll workings revealed a number of shortcomings, such as the incorrect FSS deductions in respect of full-time employees. A casting error was also noted in the payslip issued to one of the employees. It also transpired that salaries are not properly categorised in the Financial Statements. For example, a variance of €6,707 was noted in the Executive Secretary's salary when compared to the Payee Statement of Earnings (FS3). Likewise, a discrepancy of €2,140 was identified in the Mayor's and

Councillors' Allowances when compared to the amounts stipulated in Memos 107/2010 and 3/2010 respectively. A difference of €272 was also noted in the Mayor's honoraria against that stipulated under Memo 14/2010.

*LGA's recommendations have been noted and as from 2014, the Council will be using an electronic payroll system.*

Included in the Council's Financial Statements is a prior year adjustment of €1,980 for which no explanation and supporting documentation was provided. Moreover, following the recommendations put forward by LGA in the draft Management Letter, with respect to non-compliance with IFRSs due to omitted accounting policies and disclosures, the Council still did not amend its Financial Statements.

Various other shortcomings were noted in the drawing up of the Financial Statements. However, although these were brought to the attention of the Council, the proposed adjustments were not carried out with the consequence that the Financial Statements were not amended accordingly.

In its Financial Statements, the Council has included an amount of €1,165 as a Contingent Liability. Such balance consists of a guarantee paid by the Council upon signing an agreement to form part of the Joint Committee, which will eventually be refunded. Thus, the said amount should be classified as a Receivable.

*These observations were noted. However, the Council would like to point out that during the audit it was never informed of certain weaknesses and shortcomings. The latter feels that the Auditors are all out to find shortcomings and to report as much as possible. Whilst the Council acknowledges that LGAs have to carry out their assignments in accordance to their terms of reference, the number of tests and observations raised by them are in their majority of a procedural and regularity basis.*

Upon review of the annual budget for 2013, it was noted that various expenditure incurred exceeded the budgeted amount. Amongst the variances registered were Employers NI (€9,226),



Community Services (€5,035) and Water and Electricity (€2,319).

*Due to certain circumstances, actual expenditure incurred can vary from the budgeted figures. The Council is of the opinion that it is receiving a very low annual Government allocation, thereby creating a difficult situation.*

### Zabbar

The Council's minutes for the meeting held in August 2013, indicated that members were presented with a report pertaining to an activity held in July of the same year, wherein an invoice, exceeding the direct order threshold was included. Council members commented that they should have been presented with the report before the activity took place rather than after. During a different meeting held in October, the members were presented with a final report from which the aforementioned invoice was excluded. The reports in question were never endorsed by the Council, but the expenditure was approved in various Schedule of Payments.

From the discussions held with the Council, LGA was given to understand that there could have been income from the said activity, which was not received by the Council and not included in the Financial Statements. Furthermore, whilst LGA was also given the impression that people paid for dining at the Longest Table in the World event organised by the Council, the income recorded in the latter's records amounted only to €70.

*No monies from the activity have been received by the Council and all income derived from sponsorships has been duly recorded in the Council's books of account. Moreover, no expenditure item has exceeded the threshold when final payments were made.*

During 2013, the Council erroneously wrote off LES Debtors of €77,850 and the related provision for doubtful debts. Following LGA's recommendation the Council passed the necessary adjustments to reinstate the amounts receivable.

It was further noted that, whilst as per reports generated from the IT system, LES Debtors decreased by €2,217, over the preceding year,

contraventions paid during the year under review aggregated only to €1,846. Though the resulting discrepancy is not material, it is pertinent that the Council maintains a proper reconciliation of LES income received or receivable.

*The negative movement of €77,850 referred to by LGA, resulted from the fact that every time the Council downloads the Tribunal Pending cases report, the results are not correct. The Council had to ask for the download of the said report from the LES helpdesk in order to get the correct results. Unfortunately, the Council has to make such a request every month in order to update its books. Complaints were logged more than once on this matter, but nothing was ever addressed. The error was corrected in the final version of the Financial Statements. Moreover, the difference of €2,217 is again a case that is out of the Council's control, since all the values are coming from the data available to the Council on the LES system.*

As highlighted in the preceding years, under the LES system, the Council receives money, collected by other Local Councils on its behalf, for traffic fines with place of incident being Żabbar. When adequate information is not provided, the amounts are grouped by the Council and posted in its General Ledger as 'Unidentified Deposits' under Liabilities, instead of payments on account of receivables from LES fines. Moreover, the year-end balances, representing unidentified deposits (€4,967) and outstanding receivables from other Councils (€4,215) respectively, did not tally. This implies that the Council failed to maintain an adequate system of LES income reconciliation.

*The Council is continuously asking for the missing bank receipts from other Local Councils who have failed to produce them.*

Contrary to what is stated in Memo 150/2010, the Council capitalised the amounts of €3,225 and €1,717, as street signs and litter bins respectively, and has immediately written these off to the Statement of Comprehensive Income by way of depreciation. Following LGA's recommendation, the Council approved the necessary audit adjustments to reverse the related amount and to recognise such costs as revenue expenditure for the year.

*The Council obtained a clear interpretation from DLG and this was sent to the Auditor prior to the Management Letter. It appears that, with regard to the issue of signs that are to be treated on a replacement basis, DLG seems to be of the opinion that these items should be reflected in FAR. Therefore, the 100% depreciation rate has to be applied in order to write off the signs immediately upon purchase. On the other hand, the Auditors seem to be of the opinion that the said items should not feature in FAR and be treated as a revenue expense rather than as a capital expense. The effect on the Statement of Comprehensive Income is the same.*

Though a FAR is in place, this is not being maintained in the appropriate manner as stipulated by the Local Council Procedures. Besides that it lacks fundamental details about the assets being capitalised, a number of assets were not properly categorised, with the consequence that these are being depreciated with an incorrect rate. For example, some bins were classified as Urban Improvements and were depreciated at 10%, whilst others were depreciated at 100%.

*The Council had to upload FAR a number of times, owing to the software not functioning for some reason or other. During this process, some of the details that existed on the original FAR were lost. Nevertheless, the Council still has past records and any query would have been resolved through this data. It would be greatly appreciated if LGA immediately remarks to the Council when missing details or missing documents are identified.*

A discrepancy of €95,805 has resulted between the amount of capital expenditure committed for the financial year ending 31 December 2014, as disclosed in the Financial Statements (€336,020), and that recorded in the annual Budget document (€240,215).

*The value of capital expenditure as per final version of the budget for 2014 is of €341,020, which varies by only €5,000 from the capital commitments as disclosed in the Financial Statements. The amount of €240,215 quoted by LGA<sup>44</sup> as the budget value does not correspond with the actual budgeted figure.*

Notwithstanding that the Council is carrying out regular reconciliation exercises between its records in the Supplier Ledger and the actual Suppliers' Statements, one particular supplier reconciliation exercise resulted in a number of variances. In fact, invoices totalling €6,446 were showing in the Suppliers' Statement, but were not recognised in the Council's records. Meanwhile, included in the books of account were additional invoices of €3,215, but which were not featuring in the statement provided by the respective supplier.

*The fact that invoices were shown in one set of books and not the other only stems from the fact that the supplier's accounts are not correct and missing invoices in the Council's books, if any, are purely a lack of information flow from the supplier to the Council. It is futile to predicate that periodical confirmations are to be sought from the supplier, when the latter's flow of information is not adequate and reliable enough for the purpose of reconciliation. One has to appreciate that the Council has no control over the supplier's accounts, hence the issue is beyond control.*

#### **Żebbuġ (Malta)**

The Council's performance, financial and liquidity position have deteriorated significantly over the last five years. This indicates that the Council has assumed significant amounts of debt during these past years which will take several years to be repaid back, considering that the Council has to meet fixed operating costs annually to maintain a minimum level of service. Notwithstanding LGA's recommendations, during this period, the Council has also not taken effective remedial measures to improve its negative financial position. Even though, during 2013, the Council has decreased its costs for social and cultural activities to €106,123 (2012: €166,838), such discretionary expenses were expected to be avoided or reduced to a bare minimum so as to mitigate the adverse financial and liquidity position of the Council. Included in this expenditure are fees, totalling €53,271, paid to the events coordinator, as well as advertising and promotion fees of €21,586.

*The negative situation is being addressed. The Council's liquidity position was an issue even*

<sup>44</sup> LGA confirmed that the quoted amount of €240,215 is in line with the budget provided by the Council for audit purposes.

*before the years 2008 and 2009, when the Mayor running the Council was not the same person as the present incumbent. In fact, during the first year from the change in the Council's administration, the present Mayor turned a €143,408 loss into a €93,271 profit between 2009 and 2010. This is also evidenced in the said Management Letter. From 2011 onwards, the Council has embarked on major infrastructural projects. The future payments included in this repayment programs are reflected in the negative liquidity, which includes all debts even those which are not to be met in year 2013. However, the Council is confident that its long-term planning related to contractors' monthly payment installments is sustainable and can be executed. In fact, the Council does not have any doubts regarding the ability to continue operating as a going concern.*

*The Council would like to highlight the fact that such expenses have reduced steadily by 14.05% from 2011 to 2012, and an even bigger reduction of 36.39% was registered between 2012 to 2013. This is a substantial reduction of 45.33% when compared to 2011. This amount will be further reduced in 2014 as per the marketing and management guidelines being executed by the Council. In addition, it is incorrect to combine all the fees paid to the events coordinator, as well as advertising and promotion fees, under the heading of social and cultural activities, as this misrepresents the Council operations and the nature of tenders in question. Moreover, the expenditure amount listed in the Management Letter with respect to social and cultural activities has to be reduced by €17,686, being amounts of sponsorship monies due to the Council in 2013. The amounts of €20,394 and €9,980 were also invoiced in 2013 for marketing consultancy services and advertising operations respectively, which have nothing to do with social and cultural activities. Another €6,760 was for Christmas decorations, which are a must throughout all the Local Councils of Malta and Gozo. This reduces the total to €51,303, which is less than 7% of the Government funding allocated in 2013, and is much less than the target amount of 10% earmarked by the Council for the said initiatives.*

In breach of the Local Councils (Procedures) Regulations, LGA was not provided with signed

copies of the minutes of the meetings held during the year under review. As verbally claimed by the Executive Secretary, these are kept by the Mayor. After repetitive requests, these were then made available. However, it was noted that some of them were unsigned.

Likewise, the Schedule of Payments were not on the premises as these were in the possession of the Mayor, besides that none of these could be accessed from the website at the time of audit. Furthermore, in view of the fact that some of the Schedule of Payments provided were not signed by the Mayor and the Executive Secretary, LGA could not confirm that these are the same schedules approved during the meetings and that these were correct and complete. In addition, it transpired that the schedules do not include the respective cheque number.

*The previous Executive Secretary did not provide the approved signed minutes of the Council's meetings. Furthermore, in no instance the current Executive Secretary claimed that the signed minutes are kept by the Mayor<sup>45</sup>. The Schedule of Payments were nowhere to be found and most likely these were never signed, as in the case of the minutes. Moreover, not all the soft copies of the Schedule of Payments were saved in the Executive Secretary's personal computer, since most likely, files were re-written and information was lost. For this reason, the current Executive Secretary said that she would contact the Mayor to see whether the previous Executive Secretary had sent e-mails with these schedules attached, prior to their approval.*

As from February 2014, the Council appointed a new Executive Secretary, implying that most of the aforementioned issues relate to the previous Executive Secretary.

*Noted and appreciated.*

Following LGA's proposed audit adjustments, the loss for the year increased from €168,251 as reported in the unaudited Financial Statements, to €265,188. The significant proposed audit adjustments and findings highlighted further on, many of which have already been brought to the attention of the Council in previous audits, indicate

<sup>45</sup> LGA confirmed with NAO that the Executive Secretary has verbally stated that the signed minutes are kept by the Mayor.

that there are serious weaknesses in the controls of the Council, and that the latter's accounting function needs to be improved considerably.

*After discussing this point with the Council's Accountant, it emerged that the Council has to change its system concerning the compiling and filing of the accounting information. In fact, upon the appointment of the new Executive Secretary, a number of administrative issues were tackled with the Accountant. As from the appointment of the new Executive Secretary, invoices are being verified and filed numerically, sales invoices are being issued on a monthly basis and bank statements are being filed monthly so that all the relevant documentation will be readily available for the Council's Accountant and filed in the appropriate manner. Furthermore, petty cash forms are also being issued on a monthly basis and cheque stubs are being updated accordingly so as to facilitate data inputting in the accounting system. In addition, quarterly reports are also being issued and more frequent meetings are being held with the Accountant. A good number of controls are being implemented to address these deficiencies that form part of the administrative function that the Executive holds.*

During audit testing, LGA encountered a signed declaration confirming that in a drawer, the present Executive Secretary found an open deposit bag containing 81 cheques, aggregating to €5,346, dated between November 2007 and January 2008, and drawn in favour of the Council, as well as a further cheque in favour of St. Paul's Bay Local Council. Included in the same bag was a report relating to LES titled Summary of Payments, collected between November 2007 and January 2008 and amounting to €6,021. On such LES 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 audit, DLG was not yet informed on this matter and that only the respective Executive Secretary, the clerk who witnessed the findings, and the Mayor, were aware of this fact. This goes against the Local Councils (Financial) Regulations which explicitly stipulate that in such cases "*the Executive Secretary shall initiate an investigation*

*within twenty-four hours and immediately notify the Minister in writing*".

*Both the Mayor and the Executive Secretary had informed DLG of this finding. This was brought to the attention of the Board of Governance which consequently interviewed the previous Executive Secretary. Such Board recommended that all present employees are to carry out an exercise to retrieve these stale cheques. Whilst fully agreeing with LGA's comments, it is to be pointed out that even LGA failed to note that such cheques were not deposited in prior years, implying that no proper samples were gathered from the period in question. This factor has also been mentioned in the decision drawn by the Board of Governance.*

The Council did not always deposit its general income, as well as custodial receipts on a regular basis. By way of example, the amount of €2,860 received on 26 July 2013 was only deposited on 3 August 2013, *i.e.* a week after its receipt. Furthermore, in another case, LGA could not determine the deposit date of two receipts, aggregating to €600, since the Council did not attach the bank deposit sheet to the receipt.

*It is clear that, from the examples mentioned in the Management Letter, deposits were not being done twice a week. In view of this, it is to be pointed out that during 2013, the Council was physically operating with one employee. Hence, such a situation decreased the Council's facilities to perform its operations in a proper manner. No Council can legally close its doors during office hours and withhold legally defined services to its clients and patrons. Nonetheless, since the appointment of the new Executive Secretary on 20 February 2014, deposits are being done once every five days to avoid having cash lying idle at the Council's premises. Deposits that do not originate from the usual sources of funds are now being deposited individually so that they can be identified easily at a later stage. If these payments are made by cheque, a copy of such cheque is being attached to the credit advice provided by the bank. This will surely provide sufficient proof that monies have been satisfactorily deposited. Moreover, the Council would also like to mention the fact that the new Executive Secretary was merely in the second week of appointment when the audit took place and*

*had no real handover from the previous Executive Secretary, thereby not having the full knowledge and awareness of how and where documentation was previously filed. The new Executive Secretary immediately created a new filing system related to the above and a spreadsheet, with a breakdown of all the deposits together with the respective credit advices, is being separately organised in case of future referral.*

While testing honorarium and allowances, LGA identified a payment of €1,615 made to the Mayor whereby the latter stated that it was a reimbursement of legal fees, paid personally on behalf of the Council. However, no invoice or any other form of supporting documentation was provided as evidence of the nature of the expense and confirmation of the said amount.

*The Mayor fully explained that a personal cheque of €1,615 had to be issued for legal fees since the previous Executive Secretary was abroad during the court case in question and thus no Council cheques with the latter's signature were available. The fact that LGA was not presented with a fiscal invoice, does not imply that this was not available. The fiscal invoice may have been improperly filed or misplaced, and therefore could in no way be retrieved. However, since this issue might infer some form of bad practice by the Mayor when this is definitely not the case, a copy of the related documentation signed by the Council's Lawyer has been made available with the Council's reply.*

At the end of the year, the Council owed the amount of €71,211 to CIR, in respect of FSS tax and NI contributions, covering the period November 2011 to December 2013. No payments to this effect were issued during the year under review. Moreover, the Council failed to prepare and submit the Payer's Monthly Payment Advice (FS5s) for 2013 to CIR. Consequently, interest and penalties accruing as at 31 December 2013, based on the latter's assessments, amounted to €3,132.

*The December 2013 payment was duly effected and paid in February 2014. Furthermore, payments for FSS and NI for the period December 2013 to May 2014 were presented and approved in the monthly meetings. Cheques, together with the respective Payer's Monthly Payment Advice (FS5s), were sent to IRD. The Council confirms*

*that a meeting and a subsequent payment plan related to the unpaid FSS tax and NI will be held during 2014.*

Notwithstanding prior year's recommendations, excessive overtime was still being paid to the Project Manager employed by the Council. During 2013, the total overtime paid to the former was approximately €15,000, which is relatively high compared to the salary pay scale of €17,233. In December 2013, the said employee was temporarily suspended from the Council on half pay after he was accused of accepting €1,000 to influence the issue of a permit to a hawker.

*The overtime of the Project Manager was approved by the previous Executive Secretary. Such Manager had to fill in the gaps arising from the absence of one of the Council's clerical staff, who was at that time either not yet employed by the Council (January to July 2013) or on maternity leave (July to December 2013). Consequently, he was asked to work on Saturdays when the other assistant principal and the previous Executive Secretary were unavailable, whilst at the same time carrying out his role of Project Manager in the best possible way. One must also keep in mind that 2013 was also a very important year when it came to infrastructural works in the location. In connection with the temporary suspension of the same Project Manager, LGA is well aware that such Manager is now in the hands of the Law Courts after the Mayor himself filed a report to the authorities about the alleged bribe.*

It also transpired that the Council paid a performance bonus of €505 (3%), due to an employee who was temporarily suspended during the year. Though, in line with the Local Councils (Human Resources) Regulations, the aforementioned percentage is the minimum that employees are entitled to, the Council failed to obtain the Department's prior approval on whether this employee is still entitled to receive his performance bonus.

*Since a decision regarding this case was not taken by the Law Courts, this employee is deemed to be innocent until proven otherwise. For this reason, the Council, after seeking advice and direction from DLG during the monthly meeting, decided that this employee is to be given 3% of the performance bonus as the minimum required by law and as instructed by DLG.*

As highlighted in **Appendix L**, no public call for quotations was raised for eight expenditure items, totalling €15,515. Moreover, the Council failed to issue purchase orders for expenditure amounting to €7,997. Furthermore, testing performed on a sample of transactions for 2013 revealed that expenditure of €82,803 was not substantiated by an invoice or other appropriate documentation. Meanwhile, fixed assets additions of €238,679 were only supported by a copy of the Architect's certification, whilst the respective invoices were not provided for audit purposes. Consequently, no satisfactory audit procedures could be performed on the completeness and existence of the amounts in question, thereby leading to a qualification of the audit report.

*There are particular payments for services rendered to the Local Council, for which a purchase order or a quotation cannot be entertained.*

*With reference to the missing invoices listed by LGA, the Council is attaching invoices covering €81,599<sup>46</sup> of the €82,803 highlighted by LGA. In view of this, LGA's comment should be rectified since the difference, representing expenses that had no supporting invoice or appropriate documentary evidence, is of only €1,204<sup>47</sup>. On the other hand, following LGA's recommendations, the Executive Secretary sent an e-mail to the Council's Architect, whereby a request was made for the original invoices.*

In breach of the Local Councils (Tendering) Procedures, the Council did not provide LGA with a copy of the signed agreements entered into with two suppliers, for the embellishment of *Ġnien tal-Grazzja*, and the supply and installation of Christmas decorations respectively. Moreover, the contract with another supplier, for maintenance of road markings and street signs, has not been updated to specify the duration period. Furthermore, the services provided for cleaning as well as cutting of grass and works on soft areas, are still being utilised by the Council, albeit the relevant agreements have expired in 2011 and 2012. During the year under review, the amounts of €22,900 and €18,050 respectively were incurred under these expired contracts.

Three instances have also been encountered, whereby procurement aggregating to €87,635, incurred with regard to actors during a social event, sundry repairs, and resurfacing works, was not covered by a public call for tenders.

*LGA's comments have been noted. However, the bills of quantity relating to the embellishment of *Ġnien tal-Grazzja* and the installation of Christmas decorations are signed. Moreover, the tender with respect to the maintenance of road markings and street signs was no longer being utilised in the last two quarters of 2013. At the end of its three-year tenure, this contract will be halted.*

*In the Council's opinion, the assumptions made by LGA, that expenditure was not supported by a call for tenders, are erroneous. With respect to the procurement of actors, costumes and backdrops for the yearly Night Fest at *Haż-Żebbuġ*, the norm in such a situation is that these services would be invoiced by the Council's contractor for marketing events services and consultancy services. Nevertheless, the services were obtained from a resident of the locality, in view of the fact that these were more advantageous than those which would have been offered by the Council's contractor. The Gate Avenue project amounts to almost €1.5 million and the Council wanted to ensure that the quality of works was satisfactory. The amount incurred for sundry repairs will be deducted from the payments made to the tendered contractor for the foregoing project, as detailed in the agreements and communications between the Council and the said contractor. The only reason that the service provider was paid by the Council and not by the contractor was to ensure impartiality in the service provider's findings. Finally, the mentioned resurfacing works, which were being carried out by a local contractor, were intentionally abandoned due to other works in another locality and as a result, the contract with the said contractor was terminated. In view of this, during a Council meeting, it was decided that the Council's contractor for the maintenance of urban roads is to proceed with these works. DLG and other very high Government officials, including officials from the Office of the Prime Minister, were always informed about the behaviours and*

<sup>46</sup> With its reply to the Management Letter, the Council attached invoices covering payments of €72,376, a letter drawn up by a service provider requesting payment of €430 and a written declaration confirming receipt of payment of €1,615.

<sup>47</sup> LGA confirmed that the related invoices were not provided at the time of audit. LGA also remarked that the Council's Accountants went twice to search for the respective documentation.

*lack of service offered by the original contractor. Furthermore, given that the Council already had an operational tender for the maintenance of urban roads, there was no need for a new tender in such a case.*

Contrary to what is specified in Memo 109/2010, the Council reimbursed a total of €245 in respect of mobile phone top-up cards used by the Project Manager. Furthermore, no claim forms in respect of such reimbursements were traced. This issue was already highlighted in preceding years.

*The Council noted that the previous Executive Secretary failed to prepare a claim form with respect to this reimbursement. As from 2014 onwards, the Council will desist in paying prepaid mobile phone expenses to its employees.*

The Council's insurance policy has not yet been updated with the employees presently working within the Council, as it still includes persons that terminated their employment with the latter over five years ago. The insurance is also extended to worldwide coverage instead of limited to Malta.

*In 2014, the list of all current employees and Councillors was updated with the insurer. However, the insurance company has not yet adjusted for coverage to be limited to Malta only.*

A payment of €4,813 made for street cleaning services was booked twice in the books of account. As a result, one of the payments was showing as a reconciling item in the year-end bank reconciliation. Following LGA's recommendations, the Council adjusted its Financial Statements accordingly.

*This double-posting was not identified prior to the approval of the Financial Statements. However, once detected, this erroneous entry was immediately reversed.*

As at 31 December 2013, LES Debtors were €221,299, thus increasing by €35,243 when compared to the balance of €186,056 in the preceding year. The Council has not reflected this movement in its books of account. However, although no audit adjustments were proposed in this regard, this matter still casts doubt on the integrity of the data being generated from the IT system.

*LGA's comments have been noted and the Council is contacting the contractor to check the difference between the two reports.*

No provision for doubtful debts has been recognised with respect to the pre-regional LES Debtors balance of €86,192, which has been outstanding for more than two years. The Council incorporated the necessary adjustment in its Financial Statements as proposed by LGA, so as to fully provide for the said balance.

It was also noted that the Council does not have any controls and procedures on funds received from pre-regional LES contraventions. The Council is recommended to reconcile LES deposits to the IT system, to ensure that all paid contraventions are remitted accordingly.

*LGA's instruction regarding pre-regional LES Debtors have been followed by the Council. Moreover, it is very hard to reconcile the monies received from pre-regional contraventions, since such exercise was never carried out. However, the Council has in mind to implement a system whereby the current monies received are reconciled.*

The Council's Executive Secretary confirmed that, although LES administration fees were being recorded in the books of account, the actual invoices were not being sent to the respective Regional Committees for payment. This was corroborated by the reply received from the Northern Regional Committee, stating that it cannot confirm the amounts due as no invoices were ever sent by the Council.

*These invoices were never mailed to the concerned regions by the former Executive Secretary. The invoices are now being printed on a region by region basis, and are being mailed to the respective regions.*

In the absence of a FAR, the Council is computing depreciation manually on an annual basis, with the result that a full year's charge was taken for assets acquired and completed during the year. In addition, notwithstanding that total NBV of assets as disclosed in the Financial Statements tally to those recognised in the Nominal Ledger, certain discrepancies were noted in individual asset categories.

*FAR was not provided for audit purposes as this was never prepared. However, in the previous year, the Council had requested quotations for updating FAR, but it seems that this was never discussed during a Council meeting. Once FAR is updated, the Council will also adopt the depreciation rate and category on the accounting software as laid down in the Financial Procedures. Reclassifications in the accounts will also be accounted for accordingly.*

As highlighted in the preceding year, despite that way back in 1993, the Council's office premises were devolved to the Council by WSC, such fact was never reflected in the Council's books of account.

*The Council has no knowledge that a note regarding devolution of this property was ever received. Without such a note, it cannot possess a property which is deemed as owned by another Government entity. Nonetheless, the Executive Secretary is liaising with the Government Property Directorate so as to confirm that the property has been assigned for the Council's use.*

A reclassification of €829,757, from the Assets not yet Capitalised to the Construction category in the Fixed Assets Schedule, was incorrectly included with additions for the year.

*LGA's observation has been noted.*

A variation of €348,660 was noted between the final Architect's certificate of €1,412,365 on the reconstruction of *Vjal il-Helsien*, and the tendered sum of €1,063,705. In addition, there is nothing in the Council's minutes indicating that the necessary approval or authorisation, to increase the allocation of such project, was obtained from the latter. This implies that the Council did not adhere to the Tendering Procedures, which dictate that, where the variations are more than the percentage specified in the General Conditions of Contract, it must be decided whether it would be more feasible and economical to issue a fresh tender.

*As with any other project, there is always a variation between the planned and actual investment. This point was discussed at length in various official Council meetings. Councillors were constantly kept informed by reports from the Project Manager,*

*contractor and Council's Architect on the works in progress and the related variances. The Council understood that the rebuilding of the main road leading to *Haż-Żebbuġ* could not be halted or altered due to a number of unexpected variations, which include the extra work related to WSC needs and the damage to third party properties which occurred during the course of works in progress. However, the Council ensured that, where the Architect's suggestions were increasing the cost of the project in question, it voted for alterations to such suggestions which reduced the said costs.*

During 2013, the Council commenced works on *Gnien tal-Grazzja* project. The costs incurred up till year-end amounted to €76,617, a portion of which (€49,738) was erroneously capitalised and depreciated accordingly. In view that the project is still in progress, audit adjustments were proposed by LGA to reclassify the said amount to Assets under Construction, and to reverse the depreciation of €2,039 charged thereon. The Council has correctly included these adjustments in the audited Financial Statements.

An invoice for the supply and installation of luminaries in *Vjal il-Helsien*, and professional fees incurred on PPP road resurfacing works, of €13,136 and €3,676 respectively, have been accounted for as revenue rather than capital expenditure. The necessary audit adjustments to capitalise the amounts of €13,136 and to record related depreciation, have been proposed by LGA and accordingly posted by the Council in its Financial Statements.

During the reconstruction of *Vjal il-Helsien*, a resident suffered damages to his property. The dispute was settled out of court, whereby the Council agreed to pay the sum of €9,238 to the former. The Executive Secretary stated that the payable amount was agreed to be equally shared by the contractor and the Architect. In view that the Council's share of expense amounting to €4,619 was capitalised, an audit adjustment was incorporated in the books of account to reverse such transaction. However, LGA is of the opinion that since the damages were caused by the contractor carrying out the works, who should have adequate insurance against third party liability, such damages should be borne by the contractor and not the Council. Moreover, given that the value of the damages was estimated by the Council's



Architect, the Council was expected to assess if this could have created a conflict of interest and if the estimate would have been different had the resident appointed his own architect.

It also transpired that the Council did not disclose, as a Contingent Liability, the fact that another resident is holding the former responsible for damages suffered in his residence during the reconstruction of *Vjal il-Helsien*.

*The Council accepted the adjustments proposed by LGA. With regard to the amount incurred in repairing the damage caused during the project of Vjal il-Helsien, the Council can assure LGA that the amount in question will be duly deducted from the moneys owed to the contractor and Architect. Moreover, the Council can confirm that the resident, by means of his own architect, was asking for €60,000 as compensation which is unrealistic and far from the €4,619 paid.*

*As for the damages suffered by the other resident, the Council cannot disclose a Contingent Liability since the resident in question never officially communicated his intentions to the Council on the subject matter. Although this resident had come forward in an amicable manner vis-à-vis his potential claim from the Council, he waited for the outcome of the claim of the other resident who had filed a court case and who had received an out of court settlement.*

Two of the aforementioned Councils capital projects, namely the resurfacing of *Vjal il-Helsien* and PPP road resurfacing, were recorded in the books of account inclusive of contract management fees, amounting to €67,255 and €4,018 respectively. In return, the amount payable to the respective contractors, as recorded in the books of account, did not tally to the amount disclosed in the respective Suppliers' Statements. The necessary audit adjustments were proposed by LGA and accordingly posted by the Council to reverse the respective amount of €3,826 and the depreciation charged thereon.

*The Council took note of LGA's observation and the proposed audit adjustments were accordingly incorporated in the Financial Statements.*

During the preceding year, the Council recognised a provision for doubtful debts of €160,089 due

from the Housing Authority which had been outstanding for many years. This was despite that on 14 June 2011, the Chief Executive Officer of the Authority at the time, assured the Council that it will be forwarding the money when funds are available. A further provision of €1,808 was also recorded in the preceding years for a long-outstanding balance receivable from Transport Malta. However, the minutes do not indicate that the Council approved to provide for both balances in full.

The Debtors' List also includes the amount of €31,800 receivable from sponsorships, which have been outstanding for more than two years. Out of the aforementioned balance, the amount of €20,250 is due from one particular sponsor. LGA could not verify the completeness and recoverability of these sponsorships since no substantiating documentation or receipts were made available. 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 meeting.

*The Council's Accountant confirmed that debtors' amounts of €160,089 and €1,808 mentioned by LGA have been fully provided for so as not to inflate the receivables balance. Whilst the Prudence Concept was fully adhered to, the outgoing Executive Secretary did not inform the Council that these amounts, which arose in previous years and had nothing to do with the current or previous Council legislature, were being fully provided for.*

*As for the sponsorships due, the conclusions reached by LGA are inaccurate since two of the said sponsorships, amounting to €20,250 and €2,000 respectively, will be deducted from monies owed by the Council to the same two sponsors. Moreover, a further sum of €1,100 has been collected and deposited in the Council's bank account, while two amounts aggregating to €1,500 are still due to the Council. In view of this, from the total amount of €31,800 mentioned by LGA, only one balance of €3,000 needs to be written-off since the company in question has ceased to operate. This amounts to a mere 10% of the balance quoted by LGA.*

Other Receivables as recognised in the Council's Financial Statement includes a balance of €10,561

in relation to a garnishee order, which was served on the Council by the Siggiewi Local Council during 2006. However, the bank confirmation letter does not disclose this garnishee order.

*Since this garnishee order was not included in the bank confirmation letter, most probably the amount in question was deposited at the Law Courts and have not since been released. For this reason, the Council will seek the advice of a Legal Procurator.*

In breach of the Local Council's (Financial) Procedures, the Council has issued payments to suppliers without having the respective invoices in hand. As a result, the Creditors' List as at year-end includes a debit balance of €44,563. In addition, a corresponding amount was also accrued for, so as to record the respective expenditure. Following LGA's recommendation, the Council carried out the necessary audit adjustments as proposed by LGA.

*The previous Executive Secretary issued payments without presenting the related invoices to the Accountant so as to update the books of account. LGA's comments have been noted and the balances have been accordingly adjusted for.*

The Council's inventories of €5,291 comprise books intended for resale. However, such stock is slow moving, as the majority of the books are being 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.

*An exercise must be carried out whereby the Executive Secretary determines which books and publications are in a good state to be sold or used for the giving of gifts by the Council to residents participating in Council initiatives or guests of the locality. The Council does not accept that these publications have no realistic value in accordance to IAS 2, since the latter would still need to otherwise purchase, on an annual basis, various gifts or tokens for the aforementioned circumstances.*

A review of the Council's bank reconciliations revealed a discrepancy of €1,115 between the balance as per books of account and that as per

bank confirmation. Such difference was due to a bank transfer performed on 31 December 2013 which was not reflected in the accounts, since the bank reconciliation was prepared up till 30 December 2013. The necessary audit adjustment was proposed by LGA and the Council correctly updated its Financial Statements.

*The observations and recommendations made by LGA have been noted.*

The Council did not obtain statements from all of its suppliers to confirm year-end balances. This led to discrepancies between amounts recognised in the Financial Statements and the balances actually due to the respective service providers.

While reviewing the outstanding invoices of one of the Council's suppliers, it was noted that capital expenditure of €43,783 and respective depreciation of €1,085, already recorded in the preceding year, was accounted for again in the current year. Moreover, as already highlighted above, the payment of €38,689 made by DLG to WasteServ Malta Ltd on behalf of the Council, in respect of outstanding tipping fees, was omitted from the Council's books of account, thereby resulting in an overstated creditor balance. Furthermore, an invoice for tipping fees, amounting to €6,418, was also left unaccounted. On the other hand, another invoice of €1,038 was posted twice in the Council's books of account, resulting in a difference of the said amount between the creditor balance and the statement. Following LGA's proposed audit adjustments, the Council rectified its Financial Statements accordingly.

Two other instances were noted whereby the discrepancy of €876 and €1,031 respectively, between the accounting records and the confirmation letters received, was not investigated by the Council.

During audit testing carried out with the aim of detecting unrecorded liabilities, LGA came across an invoice of €2,289 relating to the issue of a magazine, in respect of which only the amount of €50 was recorded in the books of account. No explanation was provided for the resulting difference.

*The Executive Secretary contacted the major suppliers, but unfortunately, not every supplier*

*forwarded his statement as at the end of December 2013. The proposed audit adjustments put forward by LGA have been accepted and the Council amended its Financial Statements accordingly.*

*The Council acknowledges the fact that the Department paid the amount of €36,689 to WasteServ Malta Ltd during the year under review. It seems that the Accountant was never notified about this payment, and thus was not included in the accounting records prior to the audit stage. The audit adjustment proposed by LGA was approved and included in the Financial Statements.*

*With respect to the unrecorded liabilities, the Council is not aware that LGA had queried this point during the audit stage. The original invoice, which was dated 28 June 2012, amounted to €2,289. However, this was posted as €2,239 instead. Thus, on 1 January 2013, upon reconciliation of the account, the Council noted this difference and posted the remaining €50 balance on the said invoice.*

Certificates issued by the Council's Contract Managers do not always clarify whether the value of certified work is net of the 5% contract management fee deduction or not. As a result, LGA was unable to ascertain whether such fee was deducted or otherwise from works valued at €91,855. Moreover, the Executive Secretary claimed that the Council does not have any invoices in support of these works. However, the Council still posted the Architect's certifications in the creditor account.

*Point not properly addressed.*

The Council has not resolved a disputed amount of €20,942 that is being claimed by a particular contractor, of which €14,351 represents the 5% retained contract management fee, whilst the remaining balance of €6,591 is a variance between the amounts certified by the Council's Architect and those billed by the contractor. In this respect, the Council did not follow LGA's recommendation to disclose the disputed amount as a Contingent Liability in the Financial Statements.

*This case is being heard in court, however, in the meantime, meetings are being held between both parties to reach an agreement outside court. The*

*Council cannot accept LGA's recommendation for a Contingent Liability since it is highly likely that the outcome of such a dispute will be favourable towards the Council.*

The Council has been withholding 5% of the amount invoiced by the street sweeping contractor as a default penalty for not performing according to the standards of the contract, albeit the contract agreement does not allow for such provision. On the other hand, the Local Councils (Tendering) Procedures allow the performance bond to be forfeited in favour of the Local Council, in case the obligations under the contract are not duly performed by the contractor. As at year-end, the Council has withheld a total of €2,533.

*The Council acknowledges the fact that 5% of the value of the contract is being retained from the monthly payment, and the contractor is aware that he is still not abiding by all the conditions, thereby resulting in such a fine.*

Following the dissolution of the pyrotechnics project in 2013, the Kirkop Local Council distributed excess pooled funds equally between the participants. The Żebbuġ Local Council received the amount of €4,221 during the year under review, which was erroneously recorded as a creditor balance against the Kirkop Local Council creditor account. This entry was reversed by means of an audit adjustment proposed by LGA.

*The Council accepted the audit adjustment proposed by LGA.*

The accrued expenses, accounted for by the Council, were understated by a net amount of €46,409. Such understatement was the result of omitted accruals with respect to luminaries installed in *Vjal il-Ħelsien*, tipping fees and electricity for speed cameras covering the period from 1 July 2012 to 31 December 2013, amounting to €39,407, €6,418 and €5,651 respectively. This was coupled with an over-provision for cleaning costs of €5,067, which amount was already recorded under creditors at year-end.

It also transpired that payroll tax liabilities of €71,211 were erroneously posted against Accrued Expenditure, rather than disclosed separately in the Financial Statements. In addition, accrued

performance bonuses were overstated by €817 when compared to the subsequent actual payments. These errors were rectified by means of audit adjustments proposed by LGA.

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 claimed this amount has already been remitted, LGA was not provided with any evidence supporting such claim.

*LGA's observations have been noted and the audit adjustments were posted accordingly. Moreover, the Executive Secretary will seek information from the South Regional Committee vis-à-vis the amount of €6,445.*

Included in the Council's list of Creditors are long-outstanding balances, aggregating to €103,896, of which €71,253 are due to one particular supplier.

*During 2014, some of the said balances have been paid. Moreover, the amount of €21,771 shown as payable to the Central Joint Committee will be written off since the Council has been informed by the same Committee that it ceased to operate and therefore all amounts due to and from the latter were to be settled. After the said Committee netted-off all the amounts receivable from and due by the Council, a balance payable to the latter of €5,808 remained, which was settled by a cheque payment. Furthermore, a case is being heard before the Court with respect to the amount of €71,253 payable to one particular supplier. The Council will be reversing a number of other balances mentioned by LGA.*

In view of the overdue invoices for tipping fees, arising from the fact that the Council was not even paying the service provider the amount allocated specifically for such purpose, during 2013, DLG deducted the amount of €32,184 from the annual allocation provided to the Council.

*Whilst accepting the recommendation put forward by LGA, the Council would like to point out that the previous Executive Secretary did not inform the Accountant of the said deduction from the annual allocation. In return a difference emerged between the payable amount, as recognised in the*

*accounts, and the statement provided by WasteServ Malta Ltd.*

Accrued Income as disclosed in the Council's unaudited Financial Statements was not accurate, in view of the fact that the balance of €21,146, receivable from DLG with respect to WSC civil works carried out as part of PPP resurfacing project, was left unaccounted for. An audit adjustment was proposed by LGA in this respect, which the Council accordingly posted. The Council's income from Grants on capital projects was overstated by €19,060. This was also corrected by means of an audit adjustment.

*LGA's observations were noted and the proposed audit adjustments were accordingly posted. The amount of €21,146 was received from DLG in 2014.*

Included within the Council's Financial Statements is an unutilised deferred grant of €47,183 with respect to PPP resurfacing works project, which the Council was bound to finish by December 2012, but which to-date have not yet commenced. Furthermore, LGA was informed that it is still uncertain whether the Council will be undertaking the remaining works and when. Nevertheless, the aforementioned amount has already been spent by the Council for other purposes. In view of this, the Council is to obtain approval from DLG for any further delays and also set funds aside since it may be required to refund unutilised grants on uncompleted projects.

*Funds related to PPP grants are given to the Council by Central Government only after the fully certified completion of works and not before commencement of the project. This is common practice with all Councils. It is therefore totally inaccurate and unjust to say that the grants have already been spent for other purposes. The Council has been in constant communication with DLG and Central Government, with respect to two projects, namely Hal-Mula roads PPP project and Tal-Grazzja roads PPP project, and can declare that there will not be any instance at all, which will require the Council to refund any unutilised funds to DLG. Additionally, the Council has an extensive amount in the form of PPP grants still earmarked for its use by Central Government, once it opts to start Tal-Grazzja roads PPP project.*

*Notwithstanding this, in July 2014 an enquiry about the status of PPP project was sent to DLG.*

The Trial Balance provided by the Council did not tally by €19,395 due to an error of the Nominal Accounts. Such difference was noted in prior audits, however, the Council never followed LGA's recommendations to consult the accounting system service provider in this regard. In addition, certain discrepancies were noted between the closing balances as at end 2012 and the opening balances as at 1 January 2013.

*The Council is fully aware of the difference in the Trial Balance. When the Trial Balance is printed from the Nominal Ledger, such a difference is registered. However, when the period transaction report is printed from the report section, such difference does not appear. This issue was previously pointed out by the Council's Accountant who had suggested to communicate such problem with the system's technical staff. This issue will be handled immediately by the current administration. On the other hand, the variances between the closing balances 2012 and 2013 opening balances, result from the fact that the Local Council has accounted in 2013 for invoices which referred to the previous year and which had the date of the invoice in 2012. The invoices were passed during the year under review.*

The Council's unaudited Financial Statements depicted a loss of €168,251, which was €16,170 lower than that illustrated in the books of account, amounting to €184,421. It transpired that such difference arose due to an accrual for printing costs, but which was subsequently reversed from the Financial Statements only. According to the Executive Secretary, this was not an invoice but a credit note from a service provider, a copy of which was never made available to LGA. In view of the fact that the balance confirmed by the respective supplier agreed to that of the Council, LGA proposed an audit adjustment to reverse such provision that was accordingly reflected in the Council's books of account.

*This matter is now resolved, since a circularisation letter, which was prepared by LGA and sent by the Executive Secretary, provided the documentation required from the supplier.*

A prior year adjustment of €9,810 was passed by the Council, in relation to a reimbursement received to cover travelling expenses incurred in 2012, to attend the carnival in *Acireale*, Sicily. However, given the immateriality of the amount in question, the transaction should have been posted through the Statement of Comprehensive Income of the current year, in line with IAS 8. Furthermore, the presentation of the said prior year adjustment was not made in accordance with the requirement of the aforementioned Standard. Thus a qualified audit opinion was issued in this respect.

*The Council has accounted for the amount as a prior year adjustment, since it was considered as a material amount which was omitted in prior year. Nevertheless, the Council accepts LGA's observations with regard to disclosure.*

In the absence of a financial budget for 2014, LGA was unable to verify the correctness and completeness of Capital Commitments, aggregating to €207,295, that were disclosed in the Financial Statements.

*The preparation of the financial budget for 2014 was the responsibility of the previous Executive Secretary. Though this was not prepared, the Council has been instructed by the Mayor to continue in its cost cutting exercise in order to reduce its commitments. It is thus the Council's intention to minimise costs and not to commit itself to other capital expenditure during 2014, in order to issue as many payments possible during the said year, and therefore substantially reduce the creditors' amounts.*

### **Żebbuġ (Gozo)**

Expenditure incurred for repairs and maintenance exceeded the budget by €63,478.

*The budget was not revised during the year. The reason for this was to measure expenditure and income against the original budget, which was approved by the Council. The amount referred to by LGA in respect of repairs and maintenance was an amount for a specific project for which the Council received specific funds. However, since it was not clear whether these funds would be received, this was left out of the budget.*

As already highlighted during preceding years, amounts included in FAR did not agree with those disclosed in the Financial Statements, even before taking into consideration the adjustments passed during the audit. Whilst the total accumulated depreciation in FAR was €663,902, total depreciation plus grants in the Financial Statements amounted to €1,086,912. Part of this variance may be due to the fact that grants, amounting to €84,498, acquired 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 €1,280,537, when compared to that as illustrated in the Financial Statements, amounting to €1,123,966.

The cost of assets at year-end as per FAR, totalling €2,009,095, did not agree to the amount of €1,944,439 as disclosed in the same register, with the latter being the summation of NBV of €1,280,537 and the accumulated depreciation of €663,902.

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 variances in the depreciation charged.

In addition, a number of items of PPE, in the asset categories of Special Programmes, Construction Works, Street Paving and Urban Improvements in FAR, had a nil balance of depreciation to-date and nil NBV. This implies that NBV was not recorded correctly and the depreciation of these particular assets was not being calculated through FAR.

Furthermore, LGA noted that assets held under construction as at 31 December 2012 were still treated as such in the books of account, even though the project was finalised during the year 2013. Although these were reclassified in the Financial Statements, the incorrect depreciation rate was applied with the consequence that the related charge was understated by €56,072. On the other hand, the depreciation as calculated by the Council with respect to railings was overstated by €35,975. Following LGA's recommendation, the Financial Statements were adjusted accordingly.

Despite that the culvert in *Triq Ghajn Mhelhel*, bearing a cost of €7,696, was completed in 2004, this was incorporated in the books of account during the year under review, on the basis that no invoice was yet issued by the contractor. It was also noted that only one month depreciation charge was recognised in the accounting records, thus implying that depreciation was not calculated from the date the asset was actually available for use. In view of this, an adjustment of €4,851 was passed to reflect the correct total accumulated depreciation.

Contrary to previous recommendations, the old and damaged litter bins which were replaced by the new ones, purchased in 2011 for a total cost of €11,685, were still included in FAR and the Nominal Ledger.

The Council also failed to take LGA's previous year recommendation on board to claim from the former Mayor, losses incurred in view that the latter did not return the mobile phone which was originally given to him by the Council, claiming that it had been stolen and therefore could not be returned back.

*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, assets that have been replaced after obtaining Council approval will also be removed. Meanwhile, the reclassification of assets and adjustments recommended by LGA were made and reflected in the audited Financial Statements.*

Over-accrued income of €6,996 relating to the paving works in *Triq il-Qbajjar* was corrected through an audit adjustment proposed by LGA since the respective works were not carried out.

*The recommended adjustment for accrued income was made and reflected in the Financial Statements.*

The amortisation of deferred income, in relation to two projects, namely UIF paving at *Triq il-Qbajjar* and Belvedere at *Triq Mons. Depiro*, was

not commenced on the date when the project was finalised. Another audit adjustment was approved by the Council to increase the amount released to the Statement of Comprehensive Income by €1,004.

The percentage rate applied in relation to the street lighting funds was of 10%, rather than 100% as stipulated by the regulations. This resulted in a difference of €84,313, in the deferred income amortisation. This error was rectified through the audit adjustments proposed by LGA.

Other instances were encountered whereby amortisation was either not calculated correctly, or it was not calculated at all. Net audit adjustments of €2,603 were passed to increase the amount released.

*The points made by LGA about the amortisation of the deferred income in respect of capital projects financed or partly financed by Government grants, have been noted. Efforts will be made in the future to avoid such situations.*

Notwithstanding that the three-year contracts covering the cleaning of public convenience, maintenance of soft areas, as well as the collection of bulky refuse, which the Council entered into with the then Department for Tourism and Economic Development, expired years ago, these were still in operation as at audit date. In fact, during the year under review, the amounts of €10,211, €1,224 and €1,168 respectively were invoiced to the Council for the aforementioned services in the last three years.

Unbilled jobs relating to maintenance works on street lights, amounting to €9,548, were recognised in the books of account through an audit adjustment. The Council also failed to account for Christmas expenses and rent payable of €1,883 and €1,342 respectively, which were incurred during 2013, but were not yet invoiced as at year-end.

*The Council had not yet received the invoices and estimates relating to street lighting at the date of preparation of the unaudited Financial Statements, even though the Council had requested the invoices from the supplier. This was adjusted in the audited Financial Statements.*

The Council did not record the amount of €2,887 paid by DLG on its behalf in respect of the disputed tipping fees, in breach of Memo 1/2014, claiming that it was not informed of such funds, which were paid directly to the creditor. This rendered the transaction untraceable. Eventually, the Council continued to pay the full invoiced amount to WasteServ Malta Ltd with the consequence that, as at year-end, it had an accumulated overpayment of €1,867. Following LGA's recommendation, the supplementary funds were recognised by means of an audit adjustment, whilst a reclassification adjustment was passed to record the overpaid amount under receivables.

*The respective adjustments have been made and reflected in the audited Financial Statements.*

A review of the Schedule of Payments revealed instances whereby payments were issued prior to being approved by the Council.

*One must note that salaries are statutory payments and these are due to the employees at the end of each month. The dates chosen for meetings depend on the availability of the Councillors.*

### Żejtun

Notwithstanding that the amount of €9,240 incurred for the printing of books merited a call for tenders, such service was procured directly from the open market.

*Point not addressed.*

No purchase request and purchase order forms have been prepared for 12 items of expenditure, amounting to €17,831. Moreover, as highlighted in **Appendix G**, no VAT fiscal receipt was made available for disbursements of €7,400, out of which €1,802 was not even supported by an invoice.

*The Council has the practice to issue a purchase request, however, urgent matters occasionally do arise. In addition, it must be pointed out that some suppliers provide regular contractual services to the Council and thus one does not expect a purchase order to be raised weekly. In another case, the Council acted only as an organiser as the participants fully paid the cost of the activity.*

*LGA's comments with regard to VAT fiscal receipts have been noted and following comments raised in previous years, the Council included a disclaimer on its Payment Vouchers, stating that recipients are obliged to provide a written declaration should they be exempt from providing a fiscal receipt in terms of the VAT Act.*

The Council claimed that the Joint Committees ceased to exist in July 2013 and as from August 2013, the pre-regional LES income is being received directly in the Council's bank accounts. However, it was noted that income worth of €541 paid by offenders till December 2013 at LTD or other Local Councils remained unaccounted for. This was then incorporated in the books of account by means of an audit adjustment.

*Point not addressed.*

During the year under review, the Council carried out an exercise to write-off any long-outstanding creditor balances. In this respect, a balance of €9,000 was written-off without any supporting evidence or legal backing to justify such action. Furthermore, the Council has incorrectly reversed an over-accrual posted in prior year with regards to street sweeping and cleaning of public convenience, amounting to €3,435. Following LGA's recommendation, the Council approved the necessary audit adjustments to rectify these errors.

*LGA's recommendations were noted and the Council reinstated the amounts in question following the proposed audit adjustment.*

As highlighted in the preceding year, notwithstanding that the Council maintains a FAR, this is not in line with best practice and in terms of the Local Councils Procedures. Items capitalised in the past, having a NBV of €1,274, should have been accounted for as revenue expenditure. Conversely, civil works of €3,701 carried out by WSC in 2003 but which were never accounted for, were only recognised in full as revenue expenditure during the year under review. Likewise, the cost of a water pump, amounting to €573, was written off to the Statement of Comprehensive Income. Bollards procured during 2013, with a cost of €1,022 were also fully depreciated in the same year, despite that a 10% depreciation rate should have been applied. Following LGA's recommendation, the Council

approved to capitalise the amount of €4,274 and recognised the related depreciation thereon.

*LGA's comments have been noted. The Council has the practice of reviewing the FAR periodically, and at least once a year, a full review is conducted. The Council will continue its task in maintaining the FAR and particular items, such as those referred to by LGA, will be rectified accordingly. The necessary adjustments as proposed by LGA were incorporated in the books of account.*

Included within the Financial Statements were inventories of €6,645, representing the cost of books, which the Council is giving away for free. In view that these books are not held for resale, the Council agreed to classify the related cost as an expense in the Statement of Comprehensive Income.

*In view of the fact that the Sustainability Report booklets, amounting to €6,645, were not printed for resale, the Council has taken up LGA's recommendation and reversed the transaction accordingly.*

The Council is not carrying out regular reconciliation between its balances in the Suppliers' Ledger and the actual Suppliers' Statements. An instance was noted whereby invoices worth €680 remained unaccounted for. An audit adjustment has been passed to this effect. Another difference of €534 was encountered in respect to the balances paid to another service provider. Due to the lack of reliable evidence, no adjustments were proposed in this respect.

It also transpired that the accrued expenditure for street lighting as recorded by the Council was understated by €902, which was then rectified by means of an audit adjustment.

*Even though the Council does carry out regular checks against Suppliers' Statements, it must be noted that some suppliers do not provide proper accounting records. Whilst the Council has agreed to post the proposed audit adjustment, it will do its utmost to acquire statements from those suppliers who do not provide such documents.*



## Żurriq

Audit procedures carried out revealed that the Council does not issue and approve a purchase order for each payment effected, as required by the Local Councils (Financial) Procedures. From the sample testing carried out, €17,432 worth of expenditure was not covered by a purchase order.

*Point not addressed.*

The receipt of €58,577 as part of upgrading of the Housing Area in *Triq in-Nigret*, as well as income of €622 received under the Library Scheme, were both credited against accrued income, instead of deferred income. Adjustments were proposed by LGA and accepted by the Council to reverse these entries by crediting €57,398 to deferred income, and €1,801 against other Government Income.

In 2013 the Council also recorded the amount of €68,900 as accrued income related to a PPP Scheme, which grant was already recognised as such in the books of account during 2010, upon the signing of the agreement. Since this resulted in double accounting, the Council approved a proposed adjustment to reverse the transaction recorded in 2013.

Included in the opening accrued income balance was an amount of €5,000 receivable under Memo 38/2012, out of which the balance of €2,000 was received in June 2013. In view that the balance of €3,000 is deemed no longer receivable, the Council approved to reverse this balance from accrued income.

Meanwhile, the amount of €673 receivable in line with Memo 49/2012, covering costs incurred with respect to sports activities, was not accrued for by the Council.

*All adjustments were carried out as proposed.*

On comparing a Supplier's Statement to the supplier's activity in the Nominal Ledger, a difference of €1,384 was noted. This related to a cheque issued on 27 September 2013, but was not yet presented. Since the cheque in question was by then stale, an audit adjustment, bringing creditors in line with the Suppliers' Statement was proposed by LGA, and is reflected in the audited Financial Statements.

*Adjustment was carried out.*

The Council failed to accrue for water and electricity bills covering the period September to November 2013, which bills were received in February 2014. A proposed audit adjustment of €2,725 to reflect the estimated omitted accrual was correctly reflected in the final set of Financial Statements.

*Adjustment was carried out.*

Included in the Schedule of Payments approved during 2014 is an amount of €4,410, covering works completed at the recreational area in *Triq in-Nigret*. The works were certified by the Architect on 17 December 2013. However, no invoice was received from the contractor by year-end. An adjustment was thus passed in books of account to include the certified works as accruals and assets under construction at year-end.

It was also noted that the second interim Bill of Quantities certified by the Architect, in connection with the construction of the same recreational area, was not signed. By the time of audit, the contractor had not yet sent an invoice supporting the certified amount of €15,908.

The contractor responsible for the upgrading of the Housing Area in *Triq in-Nigret* is also not issuing invoices to the Council to support the payment for works completed, despite that all payments made to the former were backed by a VAT receipt.

*The Council took note of this point and made the necessary adjustment. In the meantime, the Council will ask for an invoice from contractors before payment is effected and will not issue payment on the Architect's certification only.*

On 26 August 2013, the Architect certified total works completed by an infrastructure company, amounting to €242,777, in accordance with the tender adjudicated in January 2013, for road works and other related matters. The amount due for payment to the contractor, net of 5% contract management fee is €230,639. However, the Council paid a total of €236,791, hence, overpaying the contractor €6,152. This represented the contract management fee on the interim certification, which the contractor billed accordingly.

*The amount overpaid was settled immediately after the audit.*

Differences between NBV as disclosed in FAR and that disclosed in the Financial Statements and the Nominal Ledger were noted in various asset categories, resulting in the NBV in FAR being €48,443 more than the total disclosed in the Financial Statements. This arose due to the following issues.

- a. A grant of €360,281 received in prior years with respect to Special Programmes accounted for under the Capital Approach, was included in the Fixed Asset Schedule but was not deducted from the cost of the asset in the register.

*When analysed in detail during a study which was conducted some weeks before the Financial Statements were drawn up, it was discovered that the amount of €360,281 in grants received over several years appeared to be allocated against road resurfacing projects. The Council could determine that such funds were received for such projects, however, it could not be concluded that same funds could be struck from the cost incurred in specific assets appearing in the current FAR. The projects in question date back to several years before the present 'road resurfacing' project treatment basis was adopted.*

- b. Following a physical inspection, in a meeting held in September 2013, the Council approved to scrap assets, amounting to €140,233, that were no longer in use. Most of the scrapped assets, categorised under Special Programmes, consist of roads and playing fields that have been restructured.

Whilst as per Fixed Assets Schedule, these scrapped assets were fully depreciated, the related NBV in FAR was still of €127,737 as at year-end, thus resulting in a profit on disposal of €12,496.

In view of the matters mentioned above, LGA could not ensure the existence, completeness and valuation of the carrying amount of PPE as at 31 December 2013,

amounting to €2,112,077, thus a qualified audit opinion was issued in this respect.

*When writing-off such assets it was deemed that any residual value was nil and it would therefore be imprudent to consider any gain on these disposals irrespective of the value carried in the books or FAR at the time of disposal.*

- c. Though the depreciation charge is calculated through the software provided, testing carried out by LGA still revealed that this was overstated by €41,287 (2012: €28,079). The major part of this difference is due to grants, totalling €360,281, treated under the Capital Approach in previous years, which were not deducted from the cost of Special Programmes in the register when calculating depreciation charge.

*The mentioned grants have caused the distortion mentioned in the Management Letter. In order to rectify any such occurrence, the whole FAR would need to be re-entered in the system whereby the grants would be allocated against assets which they originally formed part of unless, they have been fully written-off or disposed. The present system does not permit the price to be adjusted by reducing the value of the grant.*

- d. If a mistake is made when inputting fixed asset additions in FAR (using Pastel Evolution), this can only be reversed by scrapping the asset, thus creating confusion in the books of account and also in the Financial Statements. It is therefore recommended that the Council communicates with technical staff to advice whether there is another way to reverse this mistake.

*There appears to be limitations with the software employed which may not be rectified instantly. As we are not permitted to keep a separate FAR on a spreadsheet, unless this is for comparison purposes only, it is at present unlikely that such corrections could be avoided.*

An analysis of the administration fees invoiced to Regional Committees revealed an initial discrepancy of €1,299. It transpired that December 2012 invoices of €370, were accounted again during the current year, thus resulting in double accounting. On the other hand, the amount of €321 was not accrued for at year-end. These differences were corrected by means of an audit adjustment. The remaining variance of €1,250 comprises other invoices erroneously posted in the contraventions account.

*Adjustment was carried out as proposed. The other transactions posted in the contraventions account are not entered erroneously, but are invoices related to warden services.*

A discrepancy of €33,171 was encountered between Capital Commitments as disclosed in the Financial Statements (€208,253), and the annual budget (€241,424) respectively.

*The annual Budget for Capital Commitments was based upon the most recent workings and forecasts made available by the Executive Secretary, and as approved by Council. As far as the Council is aware, the presentation in the Financial Statements as at 31 December 2013 has been presented accurately.*

### Central Regional Committee

The Committee is still making use of contracts initially entered into by the then Sliema Joint Committee, for the provision of prosecution services and the rental of offices in San Ġwann. The cost of these services for the year under review amounted to €27,254 and €26,893 respectively.

Notwithstanding previous year's recommendation, an asset insurance coverage is still not in place.

In breach of Memo 1/2014, instead of providing for LES Debtors, which had been outstanding for more than two years, the Committee wrote off the amount of €49,526. However, following LGA's recommendation, the Committee approved to reclassify the bad debt expense to a provision.

Testing on LES Debtors also revealed that the Committee erroneously reversed last year's expense for LES administration fees of €36,316,

by debiting LES Debtors and crediting accruals. Following LGA's recommendation, the Committee reversed this entry by effecting the necessary audit adjustments.

The Committee failed to account for bank charges and administration fees withheld on LES remittances from LTD and LCA. As a result, expenditure was understated by a total of €59,044 whilst LES Debtors were overstated by the same amount. This issue was already highlighted in the preceding year. These omissions were rectified through the audit adjustments proposed by LGA.

As at year-end, in its Financial Statements the Committee reported a significant LES Debtors balance of €2,270,729. According to LES system reports, the aforementioned amount includes tribunal pending payments of €1,724,916 and pending transfers of €212,305. This implies that the Regional Committee does not have a proper collection system in this respect.

Besides that the Committee failed to prepare any LES reconciliations during the year under review, audit procedures carried out also revealed that invoices, for administration fees issued by Local Councils, are not being recorded. Instead, the outstanding fees at year-end were recognised in the accruals account in one single entry. Another accrual amounting to €2,593, was erroneously recorded for administration fees payable to other Regional Committees and Tribunals on LES deposits during the year, even though in fact, no such fees are payable. This amount was eventually reversed through an audit adjustment.

No explanation or reconciliation was forthcoming in view of the discrepancy of €279,164 encountered between LES receipts of €2,884,484, as recorded in the books of account, which include also the €59,044 mentioned above, and the amount of €3,163,648 reported as per LES system.

A recalculation of the depreciation charge for the year revealed that this was overstated by €380, mainly due to the fact that a full year's charge was taken for assets acquired during the year, instead of pro-rata according to the acquisition date. Depreciation is calculated manually rather than 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.

Supplier statements were not being obtained from all suppliers, notwithstanding the fact that this is a monthly requirement in line with standing procedures and Memos. In a particular instance, LGA noted that the Committee did not record the payment to a supplier, which was made by cheque, amounting to €6,252, whilst another cheque payment issued to a separate service provider in January 2014 for the amount of €25,065, was erroneously recorded as pertaining to the year under review when this related to services provided during 2014. The Council approved the necessary audit adjustments and amended the Financial Statements accordingly.

The court case between the Committee and two bidders, for the service of an Authorised Officer that was initiated in 2012, is still pending. However, notwithstanding previous year's recommendation, a Contingent Liability note with respect to this open litigation was still not disclosed in the Financial Statements. The agent Executive Secretary claimed that the Committee is not anticipating any costs or liabilities in this regard.

The Executive Secretary failed to prepare a financial budget for 2014.

A bank suspense account is being used to post contra-entries of bank receipts and payments temporarily, until allocated to the correct Nominal Account. The Committee's Accountant explained that administrative and other expenses are initially allocated to Nominal Accounts and the remaining balance in this suspense account is considered to be LES receipts, and transferred to LES Debtors account accordingly. Audit testing carried out revealed the following shortcomings.

- a. Wages of €8,543 paid to a part-time worker were posted twice in the accounts, once in the bank control account and once in the bank suspense account. This led to wages expenditure being overstated by €8,453 whilst LES Debtors were also overstated by the same amount as the mistake affected the amount transferred from the bank suspense account to LES Debtors.

- b. The amount of €15,362, relating to bank charges for the preceding year, was reversed against the bank suspense account and debited in the LES Debtors account.

Requests raised by LGA to determine the value of LES proceeds received during the year directly from bank statements, were futile. Due to this limitation, LGA could neither ensure whether there were additional mistakes to the ones mentioned above, nor that the amount transferred to LES Debtors is correct. This led to the qualification of the audit report.

A review of the Petty Cash sheets revealed that besides not being signed by the President and the Executive Secretary, they were also not presented to the members during the meetings for their approval, and do not include the allocation of petty expenses to the accounts.

It also transpired that payroll tax liabilities of €24,762 were incorrectly disclosed with accruals in the Financial Statements. Being preferential creditors, these merit a separate disclosure.

The above shortcomings indicate that there are serious deficiencies and concerns about the accounting function of the Committee.

*The Central Committee failed to provide a reply to the Management Letter.*

### Gozo Regional Committee

The Annual Budget of the Regional Committee was only put forward for approval in a Committee meeting in June, despite the fact that Article 56 (2) of the Local Councils' Act stipulates that these are to be submitted for approval by not later than 15 February.

*Since the income of the Gozo Region depends on the number of contraventions paid, the first budget was presented after the audit of the first full year of the Committee's operations was finalised. Thus, the income for 2013 was projected on the income presented in the audited Financial Statements of the previous year. This explains why the budget has been presented in June.*

The actual expenditure incurred, with respect to hospitality and community services, exceeded the budget by €2,921. Furthermore, the deficit (€84,985) reported by the Committee, as at year-end was €27,468 than that actually budgeted (€57,517).

*The excess in budget expenditure under hospitality and community services refers to the organisation of the Local Councils' Seminar, held to commemorate the 20th anniversary. However, these expenses have been covered by the participants from the Gozo Councils and the Culture and Local Government Secretariat. The variation in the deficit projections was due to the fact that there was a decrease from the number of contraventions issued in 2012, on which the Committee's income budget was based.*

A reconciliation between the opening balances in the Nominal Ledger and the closing balances as per 2012 audited Financial Statements, revealed a number of adjustments passed by the Accountant, against the expenditure and payables accounts.

*The immaterial differences in the opening balances related to the reversal of invoices, which were recorded directly in the dataset for 2012, rather than posted through credit notes in 2013.*

### Northern Regional Committee

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. In fact, a variance of €29,245 was encountered between the reports issued from the system and the amounts recorded in the Financial Statements. It transpired that the aforementioned discrepancy related to the decrease in the provision for doubtful debts.

A Payee Statement of Earnings (FS3) was not issued to the former Executive Secretary for the performance bonuses of 2011 and 2012, aggregating to €1,308. Likewise, the performance bonus paid to the current Executive Secretary for 2012 was also omitted from the latter's Payee Statement of Earnings (FS3) of 2013. This implies that the amounts in question were not declared for tax purposes. It was also noted that although

the performance bonus has been approved in a meeting held on 16 January 2014, the applicable percentage rate has not been stated. Moreover, DLG's approval of this bonus, and the performance appraisals prepared for the year under review, were not provided for audit purposes.

Further testing carried out on Personal Emoluments revealed that the Committee's clerk was paid the Government bonus for March in full, *i.e.* for six months, even though she was engaged with the Committee as from 3 January 2013. On the other hand, it was noted that the basic salary denoted in her employment contract matched with the pay scales for 2012 instead of 2013. Consequently, this individual was underpaid the amount of €341, whilst the related NI was underpaid by €69.

During the year under review, the Regional Committee issued a tender for the provision of prosecution services, which call was suspended due to an objection. The Committee did not issue a call for quote or a new tender in the interim, with the result that these services were still being provided by the same contractor who was awarded the tender under the Joint Committee's administration.

Following the termination of the secondment of an employee from St. Paul's Bay Local Council in May 2012, clerical services continued being provided by the company who was providing the services of the Authorised Officer. Considering that the annual fees paid for such service exceeded €4,659, the Regional Committee should have either issued a call for tenders or engaged a staff member.

It is understood that the Committee is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, LES Debtors outstanding as at 31 December 2013 amounted to €634,679, of which, €248,639 have been pending for more than one year. However, the Committee has not 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.

Included with Other Debtors was an amount of €2,931, arising from a journal entry posted as at 31 December 2013, to reconcile LES debtors and income to LES reports. This implies that during the year under review, the Committee did not undertake adequate LES reconciliation involving the verification of contraventions collected against third party evidence, namely the bank statements.

In the absence of FAR to adequately record the fixed assets additions acquired by the Committee, depreciation charge is being accounted for through a journal entry on an annual basis. Consequently, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets recorded in the financial statements with NBV of €7,226, and the depreciation charged thereon.

During the year under review, LTD erroneously advanced to the previous LES Joint Committee an amount of €33,923 which should have been deposited to the North Regional Committee. Instead of issuing a refund to the latter, it was agreed to consider such amount as a settlement for assets taken over by the Regional Committee, upon the takeover of the LES operations in September 2011. However, this amount was expensed as an office cost in the Statement of Comprehensive Income, rather than capitalised in line with the requirements of IAS 16. A qualified audit opinion was issued in this respect.

Computer equipment, costing €680, was also incorrectly classified as office equipment, whilst the procurement of a television for €439 was accounted for as recurrent expenditure. With respect to this latter case, an audit adjustment was approved by the Council. In addition, the assets falling within the Committee's responsibility were not covered by an insurance policy.

Petty cash transactions are not being recorded correctly, in fact in the Nominal Petty Cash account there is only one transaction of €208, recorded on

31 December 2013. This represents the closing amount of petty cash as at year-end, implying that the cash expensed and reimbursed during the year was allocated directly from the bank account to the respective expenditure accounts, whilst the cheques issued to reimburse the petty cash payments were not accounted for correctly through the Petty Cash account.

Reconciliations with Suppliers' Statements are not being carried out regularly, with the consequence that certain misstatements remained undetected by the Regional Committee. Furthermore, the latter is still unable to properly distinguish between accounts payable and accrued expenditure. In fact an invoice of €6,219 in respect of services rendered during November 2013 by the Authorised Officer was incorrectly recorded as Accruals of €7,974. On the other hand, accrued expenditure at year-end of €7,251 was recognised in the Suppliers' Ledger. Likewise, an invoice dated in 2014 with respect to telecommunication expenses of €125, covering the period December 2013 and January 2014, was fully accounted for with accounts payable. Meanwhile, the lease charge expense of €172 remained unaccounted for. Following LGA's recommendations, the Regional Committee approved the necessary audit adjustments.

Further testing also revealed instances whereby Accrued Expenditure, as accounted for by the Committee, was either incorrect or incomplete, thus necessitating adjustments to increase the year-end balance by €52,615. This was mainly brought by the fact that commissions due to Local Councils and LCA on adjudicated tickets amounting to €40,304<sup>48</sup> and €10,794 respectively were omitted from the accounting records. Meanwhile, LGA noted that no prepaid expenditure was recognised with respect to the rental of office and garage, amounting to €830 and €128 respectively, whilst accrued interest income of €20 was also left unaccounted for. All the aforementioned errors were rectified through the audit adjustments proposed by LGA.

The Regional Committee has recognised contraventions issued and adjudicated by a Tribunal up to 31 December 2013, but not yet

<sup>48</sup> This is additional to the amount of €109,108 accrued by the Committee. The latter is not accounting for invoices received from Local Councils on a monthly basis and there is no system in place to reconcile the amount collected and transferred against Report 106 issued from LES.

settled, aggregating to €634,679, as a receivable. However, the former failed to recognise an equivalent obligation arising from the settlement of these receivables in the form of service charge payable to the supplier operating the LES, in line with the new contract requirements. LGA is of the opinion that non-recognition of this obligation constitutes a material misstatement of the Committee's liabilities as at year-end. Since LGA was not in a position to quantify such accrual, a qualified audit opinion was also issued in this respect.

No accounting software backup for the year ending 31 December 2013 was provided to LGA in view of the fact that the financial data is kept by the Accountant.

Additionally, various non-compliance issues emerged from the audit. For example, by the conclusion of the audit, the Committee had still not prepared the three-year business plan and the budget for 2014.

Payments issued are not always being substantiated by the respective Payment Vouchers. By way of example, a Payment Voucher was not traced to cover payments for tribunal clerk services for the month of June 2013, as well as the rent of the Regional Committee premises for 2013, amounting to €1,179 and €11,647 respectively. Furthermore, the payment for warden services, amounting to €34,512, was not included in the Schedule of Payments. Meanwhile, the payment for the amount of €164 for 'drinks and other supplies', was included in the approved Schedule of Payments as a payment of €19 to settle punch clock repairs.

No official purchase request and purchase orders were raised with respect to expenditure, amounting to €2,092. Moreover, no invoices were made available to substantiate three payments, aggregating to €17,406.

*The Northern Regional Committee failed to provide its response to the Management Letter.*

### South Eastern Regional Committee

As already reported during the preceding year, the South Eastern Regional Committee has taken over a number of contracts, including prosecutor

services, authorised officer services as well as the agreement with the supplier operating the LES and providing technical support to the system, which were previously issued and awarded by the then respective Joint Committees. In certain instances, the Regional Committee did not manage to obtain a copy of the applicable contract and related tender documentation.

Notwithstanding that the Committee has improved its liquidity position considerably when compared to the previous year, as well as managed to attain a healthy net current asset position of €478,561, it was noted that the bulk of Receivables constitute amounts due with respect to LES contraventions. A provision for doubtful debts was recognised in this respect. The outstanding amount at year-end still represent 84% of the Current Assets.

This Regional Committee is also experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. According to a report issued from the LES system, the amount of LES Debtors outstanding as at 31 December 2013 amounted to €1,323,329. Though these balances have not been outstanding for more than two years, the Committee still took prudent steps and recognised a provision for doubtful debts of €486,589, representing 36.77% of the adjudicated tickets. This was based on a trend analysis of the average number of tickets unpaid over the last five years. Whilst the methodology applied may be considered reasonable, it poses a number of assumptions. The Committee is presently undertaking an exercise of legally pursuing all persons who have contraventions in excess of €233.

In breach of Memo 8/2002, the Committee is not obtaining monthly statements from its suppliers, with the consequence that the related reconciliations are not carried out. For example a variance of €1,538 was noted between the amount claimed by Valletta Local Council, and the payable balance as recorded in the Committee's accounting system.

Though the Financial Statements disclosed the amount of €57,687 as Cash at Bank, a review of the individual bank statements, revealed that the actual bank balance stood at €50,679. The balance of €7,008 was in actual fact an LES Cash Control

Account. Furthermore, the Financial Statements disclosed the amount as per bank statement as cash in bank whilst the unrepresented cheques, amounting to €9,962, are disclosed separately under current liabilities. Meanwhile, the amount arising from LES Cash Control account was disclosed as Cash at Bank rather than as Cash in Transit. It is understood that this latter account is a form of a suspense account, making up the difference between the amounts as disclosed in LES reports and the actual receipts. Whilst a high level reconciliation was provided, no detailed information was forwarded to support the composition of this balance.

The former Executive Secretary was paid for 31.55 hours overtime during February 2013, even though persons occupying this post are not entitled to such compensation. In addition, the remuneration paid to the Agent Executive Secretary is being considered as part-time emoluments, and thus taxed at the rate of 15%. Similarly, the President's honoraria was not taxed at the appropriate rate whilst the latter has also failed to provide the Committee with a Payee Status Declaration Form (FS4).

Apart from the fact that a number of payments were not supported by adequate fiscal documentation as depicted in **Appendix G**, procurement of €4,182 was neither covered by a purchase order nor by a purchase request.

By the conclusion of the audit, the Regional Committee did not prepare the Budget for 2014. In addition, no Capital Commitments were disclosed in the Financial Statements, even though the Committee undertakes certain capital expenditure annually. Furthermore, though disclosure was made in the Financial Statements, with respect to a Court case initiated by a third party against the Committee, no reference was made to the respective Court judgement made during the year under review.

Besides the fact that the original signed minutes are simply kept in arch lever files rather than being binded, two sets of minutes were not even dated. Additionally, no quorum was reached with respect to one of the meetings, which were not even being

held on a monthly basis. It also transpired that the Schedule of Payments are being approved after payments have been settled, rather than before these were issued. This implies that this control is being divested and transformed in just a formality.

*The South-Eastern Regional Committee failed to provide its response to the Management Letter.*

### Southern Regional Committee

The procurement of prosecution services, as well as that for stationery is being made under a tender adjudicated by the Central Joint Committee, and carried forward to the Regional Committee. As also confirmed by the Executive Secretary, the services and items in question, were not covered by a call for quotations, at times not even by a purchase order. During the year under review the total amount of €2,058 was paid in respect of stationery items, whilst an aggregate balance of €1,998 was incurred for prosecution services provided by two separate service providers.

*The Committee is doing its utmost to follow the Local Councils (Financial) Procedures.*

A discrepancy of €43,576 was noted between the amounts remitted to the Committee during the year under review, as disclosed in Report 106 extracted from the computerised system, and that recorded in the bank account. However, it was noted that the amount of €47,230 received during 2012 was still included in the said report. After adjusting for this reconciling item, the unexplained variance decreased to €3,654.

The Regional Committee's Financial Statements recognised a significant balance of €1,213,988 due from LES. Out of this amount, €988,459 related to Tribunal Pending Payments, €72,416 represented amounts paid but which were not yet remitted to the Committee, whilst €153,113 related to pending contraventions that have not yet been referred to tribunal. On the other hand, debtors as per LES system amounted to €1,184,546. After taking into account the reconciling items, there was still a difference of €3,816, of which €3,654 pertains to the unexplained variance referred in the previous



observation. The Committee failed to provide an explanation for the remaining difference of €162.

LGA also noted a discrepancy of €326 between the administration fees for contraventions issued during the year under review as recorded in LES report, and that reported in the Committee's accounts.

*The Committee agrees with LGA's comments, however 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 the administration of the LES system when variances were noticed.*

*The Committee's role vis-à-vis LES is very much restricted, since its LES Debtors and income are based on the information generated by the LOQUS system, which is managed, maintained and controlled by third parties outside the Committee's parameter. However, it is the Committee's intention to start sending legal letters to collect tribunal pending payments adjudicated in its favour.*

An analysis of the bank confirmation letter revealed that the bank balances are subject to withholding tax, even though finance income received by the Regional Committee is exempt. It also transpired that the Committee's bank account is still calling the former Acting Executive Secretary and the former vice-President as representatives of the Regional Committee.

*The Committee will communicate with the bank to do the necessary amendments and cancel the withholding tax.*

Included with creditors is an amount of €2,891, relating to the cost of monitoring fees for December 2013, which is in dispute. As at audit date, the Executive Secretary was not aware of the outcome in relation to this issue.

*The invoiced amount, which is disputed by the Committee, is being followed up monthly.*

A number of members did not attend all Committee meetings with the consequence that the quorum necessary for three out of fifteen meetings was not

reached. This goes against Section 18 of 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 14 mayors, or their substitute, attend the respective meetings. However, absenteeism is beyond the Committee's control.*

The Committee failed to prepare the Annual Budget for 2014 by the established date of 15 February 2014.

*The 2014 Budget was prepared and approved by the Committee during Meeting No. 08/II, and was even presented in the Annual General Meeting held on 17 May 2014.*

### Local Councils Association

On 1 June 2013, the then Executive Secretary signed a new contract of employment for five years, whereby his position was changed to that of a Special Advisor on a schedule of 19 hours per week, at the hourly rate of €25.30. Notwithstanding that the relative annual amount of €24,996 payable to this officer falls under the tendering procedures, such engagement was not covered by a call for tenders. It also transpired that no prior approval was sought from DLG.

Furthermore, apart from the payment under the new contract of employment, between June to December 2013, the Special Advisor received additional payments, aggregating to €6,951, which were not covered by any agreement, thus implying that these were not duly approved. Upon adding the total amounts paid under the new contract, it transpired that the officer in question was paid the same emoluments as if he was still working a 40-hour week including all the allowances for holding a diploma and the allowances relating to EU projects.

*All payments were approved by the Executive Committee. There are various other individuals who receive payments for acting as part-time Executive Secretaries with other Local Councils, up to a maximum of twenty hours per week, despite that such persons carry out their duties during*

*the normal working hours. It is to be noted that the Executive Secretary does not only work his minimum 40 hours but also works extra hours on a daily basis, including Saturdays and Sundays. This is evident from the amount of work that has to be done to cope with all the responsibilities and new initiatives taken by LCA. Furthermore, the work of LCA was never in jeopardy since the contribution by the Executive Secretary continued up to 24 February 2014, until the engagement of a new Executive Secretary. Being an IT specialist, the Executive Secretary could communicate with LCA through various means, and could follow up all communications by email on a daily basis from home and from other locations. Thus, the allegation that the Executive Secretary did not work for 40 hours is strongly repudiated.*

*Although using his personal car and mobile phone, through the new contract, the Executive Secretary is not entitled to any reimbursements for these costs. It is also pertinent to note that this contract was formulated after consultation with the Office of the Prime Minister.*

The Executive Secretary and another employee of the Association are being paid a fixed monthly allowance of €810 and €210 respectively, to cover the extra hours worked in relation to EU projects. Notwithstanding this, similar to the preceding year, upon approval obtained from the Association's Committee, the aforementioned officers were also paid €2,737 and €3,235 respectively for time spent during 2013 on managing a particular EU project, titled *Life + Sun Eagle*. These amounts, which were fully refunded through EU funding, were calculated by multiplying the hours worked on this project with the hourly rate allowed to be used when making EU projects claims. These payments were effected despite that the Executive Secretary, who is a public officer within DLG, is at a grade that precludes additional payments other than the basic salary, allowances and bonuses, in accordance with the Human Resources Regulations. Similarly, the entitlement of the other employee, to receive additional payments, which are not considered as remuneration for overtime, is not clear.

*All allowances paid arise out of EU funded projects and do not originate from local sources. These allowances were paid to the Executive Secretary and three EU Projects Coordinators and had been*

*approved by the Executive Committee. During 2013, the aforementioned officers were working on 16 major projects, with a total budget of over two million Euros. The productivity of the staff supersedes that of any other local organisation, whereby the practice is that for each project, one Project Coordinator is employed.*

*LCA has the authority to remunerate its employees in proportion to their responsibilities whilst considering the flexibility in working hours, additional hours of work, as well as travel engagements falling during weekends and public holidays. In addition, PPCD has never raised any issues on the payment of such allowances besides that it had always sanctioned all claims for reimbursement. As highlighted in the Financial Statements, out of a total wage bill of €153,444, LCA has been able to recover the amount of €146,221, implying that not only the salaries and allowances of the Executive Secretary and the EU Projects Coordinators were refunded but all that of the Elected members of the Executive and part of the salary of the Finance and Administration Coordinator.*

*LCA always observes human resources regulations and has been calling for the devolution of such for more than four years. Councils and LCA should be given autonomy to manage their human resources, as long as no further pressure for additional funds is placed on Central Government. LCA never made a case for more funds from Central Government on the basis of additional staff costs, but these have been financed from the Association's hard work.*

The procurement of air conditioners for the new premises, bearing a total cost of €6,528, was not covered by a call for tenders. Upon enquiry, LGA was notified that since in the new premises there were already air conditioners installed, the Association felt that it made more sense to buy any additional air conditioners from the same supplier.

*LCA provided reasons for its management decision which in the long-term will be more beneficial.*

LGA noted that those assets, which due to their nature could not be transferred to the new premises in Marsa, were not written off with the consequence that these are still recorded in FAR.

*The Auditor did not discuss the matter with the Executive Secretary. In fact, the asset being referred to has been transferred to the current property.*

The sale of a tablet computer to the previous Association's President was not brought up in an Executive's Committee meeting. Such tablet, which carried a NBV of €557, was sold for €285.

*The tablet computer was sold to the ex-President of the LCA who now serves as a Consultant on Local Government. This tablet has always been used by the latter and this was sold following an agreement between the ES and the ex-President. The Executive Committee of the LCA is an elevated body that does not go into petty matters like this, since meetings of the Committee are devoted to high level strategic issues. This is a procedural issue and does not affect the strategic direction of LCA.*

Accrued income, amounting to €149,321, with respect to amounts receivable from EU Projects, was not accounted for, even though such funds had already been approved by PPCD. This amount was subsequently incorporated in the books of account through audit adjustments.

*The funds become accrued when they are approved by the Managing Authority of the respective program and not by PPCD.*

Whilst reconciling the two bank accounts used by the Association, to deposit the receipts and make the payments to the Councils and Regional Committees in respect of LES, it was noted that the balances, as recorded in the books of account did not tally to the respective bank statements. The variances of €109,358 and €119,986 respectively arose due to mispostings upon reclassifications. In view of this the necessary adjustments were approved and the Financial Statements were amended accordingly.

*No discrepancies were noted between the book and bank balance. The issue relates to the last two payments for November 2013, which were entered in the respective bank accounts, but the transaction was affected on 7 January 2014. Consequently these two transactions were marked as a reconciling item.*

Included in the list of unrepresented cheques were three cheques aggregating to €11,188, which by the conclusion of the audit have become stale.

*Two of the cheques mentioned were already cancelled by the Association. The only missing entry was the reversal of cheques in the Nominal Ledger. A stop notice was already issued on the third cheque and the payment made by internet banking. The transaction was then reversed from the cash book.*

During the first month of 2014, the Association issued payments totalling €210,293, to Local Councils and Regional Committees in respect of 2013 LES fines paid online. However, it was noted that the balance held in the LES bank account at year-end amounted solely to €201,776, implying that the Association did not have the necessary funds in hand, to effect the related payments. This variance increases further given that the interest earned on this bank account is not being transferred into the savings account, but is kept in the same account in order to make good for discrepancies.

*LES system is reconciled by the company, which operates the system. Further tests were performed by LCA. However, no weaknesses were identified in the system. The LES and LTD accounts are held by LCA in the form of escrow accounts, since the revenue does not belong to the latter. Hence, any interest earned on these accounts does not belong to the Association. However, LCA earns a 3% management fee on these accounts which amount is transferred from the LES and LTD accounts to the bank accounts that absolutely belong to the former.*

Income and expenses relating to EU projects concluded during the year were netted off in the accounts. Thus, to maintain a consistent presentation in the Financial Statements, an audit reclassification adjustment of €33,751 was necessary to separately disclose these components. Another reclassification adjustment of €114,002 was effected to rectify similar incorrect accounting treatment, which was evidenced in the case of amounts refundable for air tickets.

*Points were noted and remedial action was taken.*

Instances were noted whereby payments were issued prior to being approved in the Executive's Committee meeting. Upon queries raised by LGA on the subject matter, the Executive Secretary justified this course of action by claiming that, in view that members are often abroad, it is not easy to find a date when most of them are in Malta in order to hold meetings on time for the issue of payments.

*The Executive Committee is presented with a detailed Schedule of Payments in every meeting and this has always been approved. It is pertinent to point out that the nature of the business of the Association is very different from that of Local Councils, in view that payments effected during the year under review are related to administration and EU projects.*

The total expense incurred of €20,940, for refurbishing the new premises of LCA in Marsa, exceeded the budgeted expenditure by €6,940. Likewise, actual Office Hospitality expenses were €1,181 in excess of that forecasted.

*The budget was only exceeded in the case of expenditure relating to the acquisition of new offices, which were not foreseen in the budget submitted to DLG. LCA could have easily updated the budget figures but this would have resulted in a paper exercise, since the acquisition of new offices entailed, by its very nature, an amount of expenditure made as a one-time expense.*

In view of the excess honoraria paid to the ex-President in preceding years, an agreement was signed between the latter and the Association, stipulating that the full overpayment of €3,497 was to be settled by the end of 2013. However, as at year-end the balance of €1,967 was still pending, in view that no further refunds were made upon the cease of the former's term of office.

*LCA did its utmost to recover the amount due. At one time, the ex-President had informed LCA that he was in discussion to have the amount due waived since not all amounts have been recovered from Mayors. Following the finalisation of the audit, Executive Secretary wrote to the ex-President again and the relative amount was refunded.*

Upon checking of Personal Emoluments paid by the Association during the year under review, the

following shortcomings were noted:

- a. The 2012 performance bonus paid in 2013 was not declared for FSS purposes, with the consequence that no tax was paid on such income.
- b. The emoluments paid to the members of the Committee were wrongly declared as part-time emoluments in the related FSS forms.
- c. Employees are being given the increments on the first day of every calendar year, rather than on the annual anniversary of their engagement.
- d. An adjustment of €6,099 was passed to reclassify staff costs incurred on a particular EU project, to the correct account.

*The increments are awarded on 1st January for the simple reason of having a uniform hourly rate when charging EU projects. When the increments were awarded on the date of engagement, LCA had various difficulties to explain the workings in the hourly rate for recovering the staff costs working on EU projects. In order to resolve the matter once and for all, LCA had to simplify the award of the increments to a system where these are awarded on 1st January.*

## Other Particular Concerns

### Performance Indicators

As part of the Local Government reform consultation process carried out during 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 then discussed with key stakeholders during a workshop organised by DLG, in collaboration with the Centre of Expertise for Local Government Reform from 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 had been carried out, this project was halted and to-date this task is not yet finalised.

These indicators are of particular importance in assisting Local Councils to monitor the actual level of performance, and determine how they might 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.

### 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 to be performed. This should serve as an independent handover exercise to the new incumbent. The responsibility for 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 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.

By the time these amendments were pronounced, a number of Local Councils changed their Executive Secretaries. **Appendix M** refers. However, none of the mentioned Councils adhered to legislation cited above and performed the required exercise.

## Appendix A – Financial Allocation

**Table 1: Income received by Local Councils**

Local Council	Government Allocation 1 January – 31 December 2013	Other supplementary income received from Central Government	Other income generated by Local Councils	Totals
	€	€	€	€
Attard	576,387	134,246	28,876	739,509
Balzan	249,556	14,177	8,375	272,108
Birgu <sup>49</sup>	259,026	30,249	-	289,275
Birkirkara	1,116,284	217,335	215,560	1,549,179
Birżebbuġa	630,236	73,785	25,018	729,039
Bormla	415,644	44,047	23,607	483,298
Dingli	299,661	24,970	35,779	360,410
Fgura	514,144	86,377	44,058	644,579
Floriana	322,821 <sup>50</sup>	45,956	55,847	424,624
Fontana	130,868	14,271	3,496	148,635
Gudja	252,080	14,330	27,841	294,251
Gżira	474,219 <sup>^</sup>	26,688	14,548	515,455
Għajnsielem	296,960	45,806	24,411	367,177
Għarb	204,767	107,302	214,975	527,044
Għargħur	216,472	49,274	13,371	279,117
Għasri	158,094	1,206	1,333	160,633
Għaxaq	301,372	57,683	8,383	367,438
Hamrun	583,759	52,392	40,222	676,373
Iklin	220,069	24,711	18,032	262,812
Isla	260,861	17,544	161,757	440,162
Kalkara	232,734	14,919	10,325	257,978
Kerċem	237,250	51,889	12,903	302,042
Kirkop	184,431	31,171	18,496	234,098
Lija	231,305	20,126	27,810	279,241
Luqa	356,744	47,057	11,126	414,927
Marsa	472,005	51,002	18,275	541,282
Marsascula	692,853	84,720	34,695	812,268
Marsaxlokk	325,865	20,523	25,292	371,680
Mdina	182,142	20,093	31,514	233,749
Mellicha	1,002,922	153,593	59,870	1,216,385

<sup>49</sup> In view that the audited Financial Statements were not yet submitted by the finalisation of this report, only the Government Allocation and the amount paid by DLG to Wasteserv Malta Ltd on behalf of the Council, were disclosed.

<sup>50</sup> Amount does not reconcile to balance of €326,756 as disclosed in the Financial Statements. The difference of €3,935 relates to the amount paid by DLG on behalf of the Council to Wasteserv Malta Ltd, which in the above table was disclosed with Other supplementary income received from Central Government.

## Appendix A – Financial Allocation *cont./*

**Table 1: Income received by Local Councils *cont./***

Local Council	Government Allocation 1 January – 31 December 2013	Other supplementary income received from Central Government	Other income generated by Local Councils	Totals
	€	€	€	€
Mġarr	392,103	15,521	76,734	484,358
Mosta	1,002,298	146,267	73,090	1,221,655
Mqabba	241,998	107,161	23,411	372,570
Msida	473,363	48,839	29,558	551,760
Mtarfa	234,469	12,967	28,528	275,964
Munxar	209,620	197,710	5,553	412,883
Nadur	407,517	49,719	43,942	501,178
Naxxar	826,234	95,210 <sup>51</sup>	55,184	976,628
Paola	623,428	56,875	121,226	801,529
Pembroke	354,401	14,382	129,274	498,057
Pieta`	269,882	35,928	59,680	365,490
Qala	252,649	31,630	8,541	292,820
Qormi	1,001,971	121,532	110,468	1,233,971
Qrendi	314,251	27,772	7,505	349,528
Rabat (Malta)	960,062 <sup>^</sup>	114,584	43,679	1,118,325
Rabat (Gozo)	487,411	43,010	20,479	550,900
Safi	219,386	19,387	22,557	261,330
San Ġiljan	617,189	108,658	63,385	789,232
San Ġwann	658,933	61,358	23,228	743,519
San Lawrenz	143,161	61,894	52,051	257,106
Sannat	204,032	76,680	8,248	288,960
San Pawl il-Baħar	1,235,326	104,009	93,336	1,432,671
Santa Luċija	296,298	31,142	5,586	333,026
Santa Venera	372,848	34,126 <sup>52</sup>	19,771	426,745
Siggiewi	702,879	73,872	71,016	847,767
Sliema	936,998	53,761	133,856	1,124,615
Swieqi	534,657	117,687	32,445	684,789
Ta' Xbiex	195,057	31,467	41,601	268,125
Tarxien	448,276	73,327	23,787	545,390

<sup>51</sup> In the Financial Statements, the amount of €40,249 paid by DLG to Wasteserv Malta Ltd on behalf of the Council was incorrectly disclosed under General Income. In the table above, this was included under Other supplementary income received from Central Government.

<sup>52</sup> In the Financial Statements the amount of €34,126 representing Other Government Income was disclosed with the Government's Allocation.

## Appendix A – Financial Allocation *cont./*

**Table 1: Income received by Local Councils *cont./***

Local Council	Government Allocation 1 January – 31 December 2013	Other supplementary income received from Central Government	Other income generated by Local Councils	Totals
	€	€	€	€
Valletta	678,395	108,172 <sup>53</sup>	104,931	891,498
Xagħra	485,020	39,900	40,644	565,564
Xewkija	314,064	54,438	10,505	379,007
Xgħajra	164,015	5,802	2,533	172,350
Żabbar	764,058	70,237	30,361	864,656
Żebbuġ (Malta)	718,617	102,490	34,040	855,147
Żebbuġ (Gozo)	405,764	127,665	8,105	541,534
Żejtun	741,152	105,620	100,136	946,908
Żurrieq	710,687	70,280	45,898	826,865
<b>Totals</b>	<b>31,000,000</b>	<b>4,228,521</b>	<b>3,020,667</b>	<b>38,249,188</b>

<sup>^</sup>Government Allocation as recorded in the Financial Statements differs from that disclosed in the above table due to the fact that, certain penalties were netted off from the Government Allocation rather than recognised as an expense.

**Source:** ‘Government Allocation’ – as per report provided by DLG.  
‘Other supplementary income received from Central Government’ and ‘Other income generated by Local Councils’ – 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.

‘Other income generated by Local Councils’ also includes finance income, such as interest earned on bank balances.

Since instances were encountered whereby income was classified under the wrong category in the Financial Statements, amounts disclosed in the table above might not reconcile to those recognised in the Financial Statements.

<sup>53</sup> The release of grants amounting to €62,824 was disclosed under General Income in the Financial Statements. However, in the table above this was recorded under Other supplementary income received from Central Government.



**Appendix A – Financial Allocation *cont./*****Table 2: Income received by Regional Committees**

<b>Regional Committee</b>	<b>Income generated</b>
	€
Central	3,172,072
Gozo	263,836
Northern	1,135,459
South Eastern	1,817,399
Southern	1,454,742
<b>Total</b>	<b>7,843,508</b>

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 2013 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 adhered to. 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’.

**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	Column 1	Column 2	Column 3	Column 4 <sup>54</sup>
Attard	X			X
Balzan	X	X		
Birkirkara	X	X	X	X
Birżebbuġa			X	X
Bormla		X	X	X
Dingli	X		X	X
Fgura		X	X	
Floriana		X	X	
Gudja	X	X		
Gżira	X	X		
Għajnsielem			X	
Għarghur	X	X		
Għaxaq	X	X		
Hamrun		X	X	
Iklin	X			
Isla		X	X	
Kalkara		X	X	X

<sup>54</sup> Except in the case of Kalkara this issue was highlighted in the audit report through an ‘*emphasis of matter*’.

## Appendix B – Reports that were either Qualified with an ‘*except for*’ Audit Opinion or highlighting an ‘*emphasis of matter*’ cont./

Local Council*/ Regional Committee	Column 1	Column 2	Column 3	Column 4
Kirkop		X	X	X
Lija	X	X		
Luqa		X	X	
Marsa		X	X	
Marsaxlokk	X	X	X	
Mdina	X	X	X	X
Mellieħa	X	X	X	
Mġarr	X	X	X	
Mqabba		X		X
Msida			X	
Mtarfa	X	X	X	
Nadur				X
Naxxar	X	X	X	
Paola	X	X	X	
Pembroke	X	X	X	
Pietà		X	X	X
Qormi		X	X	X
Qrendi		X		
Rabat (Malta)	X	X	X	X
Rabat (Gozo)			X	X
Safi		X	X	
San Ġiljan	X	X		
San Ġwann	X	X	X	X
San Pawl il-Baħar	X	X		X
Sannat		X	X	X
Santa Luċija	X	X		
Santa Venera	X	X	X	
Sigġiewi		X	X	X
Sliema	X			
Swieqi	X			
Ta’ Xbiex	X	X		
Tarxien	X		X	X
Xaħhra				X
Xgħajra		X	X	X
Żabbar		X		
Żebbuġ (Malta)		X	X	X

**Appendix B – Reports that were either Qualified with an ‘*except for*’ Audit Opinion or highlighting an ‘*emphasis of matter*’ cont./**

<b>Local Council*/ Regional Committee</b>	<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
Żejtun	X	X		
Żurrieq		X	X	
Gozo Regional Committee		X	X	X
Northern Regional Committee		X	X	
Central Regional Committee		X	X	
South Eastern Regional Committee		X	X	X
Southern Regional Committee			X	

\*Since no opinion was provided for Mosta and Valletta, these have not been included in the table above.

## Appendix C – Delayed Submission of Audited Financial Statements

Date when the Audited Financial Statements of Local Councils/Regional Committees were submitted				
6 May 2014 (within a week after the deadline)	End of May 2014	End of June 2014	End of August 2014	End of September 2014
Dingli	Hamrun	Għaxaq	Kalkara	North Regional Committee
Naxxar	Pieta`	Żebbuġ (Malta)	Paola <sup>55</sup>	Central Regional Committee
Valletta	Siggiewi		Żabbar	

The list does not include the Local Councils/Regional Committees that have submitted the Audited Financial Statements to LGA by the deadline, *i.e.* 2 May 2014.

<sup>55</sup> A three-week extension was approved for the submission of the unaudited Financial Statements, due to exceptional circumstances.

## Appendix D – Amounts in dispute with Wasteserv Malta Ltd

Local Council	Total amount in dispute as at 31 December 2013
	€
Attard	40,768
Balzan	7,842
Birkirkara	42,789
Birżebbuġa	22,309
Bormla	8,447
Dingli	12,923
Fgura	37,055
Floriana	5,650
Fontana	1,790
Gudja	8,968
Gżira	7,128
Għajnsielem	6,191
Għarghur	4,086
Għaxaq	12,669
Hamrun	9,162
Iklin	13,210
Isla	5,997
Kalkara	27,369
Kerċem	8,201
Kirkop	8,096
Lija	7,663
Luqa	39,804
Marsa	111
Marsascala	14,092
Mdina	416
Mellieħa	18,158
Mġarr	13,422
Mosta	80,485
Mqabba	8,071
Msida	34,250
Mtarfa	5,827
Munxar	1,188
Nadur	10,306
Naxxar	25,213
Pembroke	8,134
Pieta`	10,114
Qala	3,216

## Appendix D – Amounts in dispute with Wasteserv Malta Ltd *cont./*

Local Council	Total amount in dispute as at 31 December 2013
	€
Qormi	52,159
Qrendi	3,525
Rabat (Malta)	32,964
Rabat (Gozo)	15,302
Safi	1,564
San Ġiljan	8,184
San Ġwann	44,212
San Pawl il-Baħar	11,508
Santa Luċija	9,456
Santa Venera	14,440
Siggiewi	23,629
Sliema	9,584
Swieqi	23,856
Tarxien	25,190
Ta' Xbiex	6,284
Xagħra	8,005
Xgħajra	6,180
Xewkija	8,235
Żabbar	25,882
Żebbuġ (Malta)	30,535
Żejtun	33,961
Żurrieq	28,764
<b>Total</b>	<b>994,539</b>

**Note:** In view that the audited Financial Statements of Birgu Local Council were not yet submitted by the time this report was concluded, the respective Council was not included in the above table.

Valletta Local Council did not provide the respective Supplier's Statement to LGA. The Council is taking long to pay the invoices and some of the payments were recorded as payments on account. Invoices issued by the service provider for the period January to December 2013 aggregated to €42,390, whilst the funds allocated for such expense totalled €38,556.

**Source:** The figures disclosed in the Table above were provided by the respective LGAs, as per information illustrated in the related Supplier's Statements.

## Appendix E – Membership Fees paid to Local Action Groups

Local Council	Total Amount Paid	No. of years covered	Payment effected to	Details of Programme
	€			
Birżebbuġa	7,000	2007-2015	Gal Xlokk	Leader Programme (2007-2013)
Fontana	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Għajnsielem	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Għarb	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Għasri	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Għaxaq	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Kerċem	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Kirkop	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Lija <sup>58</sup>	2,000	1 July 2010 – 30 June 2013	Majjistral Action Group	Rural Development Programme (2007-2013)
Luqa <sup>58</sup>	5,000	2007-2013	Gal Xlokk	Leader Programme (2007-2013)
Marsascalea	9,000	Information not provided	Gal Xlokk	EU funding on various potential projects.
Marsaxlokk	5,000	2012-2015	Gal Xlokk	Leader Programme (2007-2013)
Mqabba <sup>58</sup>	5,000	2007-2013	Gal Xlokk	Leader Programme (2007-2013)
Mtarfa <sup>56</sup>	2,000	3 year period ending June 2013	Majjistral Action Group	Information not provided
Munxar	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Nadur	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Qala	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Qormi <sup>57</sup>	11,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)

<sup>56</sup> No information was provided as to whether the membership was renewed.

<sup>57</sup> Through Gal Xlokk the Council managed to obtain funds for the project relating to 'Rural Heritage Trail'. The amount of €69,646 was already received by the Council whilst the balance of €178,292 was accrued for.



## Appendix E – Membership Fees paid to Local Action Groups *cont./*

Local Council	Total Amount Paid	No. of years covered	Payment effected to	Details of Programme
	€			
Qrendi	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Rabat (Malta) <sup>59</sup>	3,600	2010-2013	Majjistral Action Group	Rural Development Programme (2007-2013)
Rabat (Gozo)	700	2013	Gozo Action Group	Leader Programme (2007-2013)
Safi	5,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
San Ġwann <sup>58</sup>	3,600	2007-2013	Majjistral Action Group	Leader Programme (2007-2013)
Sannat	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Sigġiewi <sup>59</sup>	2,800	2010-2013	Majjistral Action Group	Majjistral Action Group (2007-2013)
Xagħra	700	2013	Gozo Action Group	Leader Programme (2007-2013)
Xewkija	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Żabbar	9,000	2012-2015	Gal Xlokk	Leader Programme (2007-2013)
Żebbuġ (Gozo)	500	2013	Gozo Action Group	Leader Programme (2007-2013)
Żejtun	9,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
Żurrieq	9,000	2011-2015	Gal Xlokk	Leader Programme (2007-2013)
<b>Total</b>	<b>109,900</b>			

**Note:** Following the decision taken during a meeting held on 8 January 2013, to terminate the ‘Empowering Pyrotechnicians for Longevity and a Safer Quality of Workplace’ project that was led by Kirkop Local Council, the remaining balance held in the Pyrotechnics bank account, amounting to €21,105, was divided between the five contributing Councils namely, Qormi, Safi, Xagħra, Żebbuġ (Malta) and Żurrieq, each taking €4,221.

Għargħur Local Council – Though there is no record that the Council has ever made similar payments, during meeting number 23 of 26 February 2013, the Council claimed that it is a member in the Majjistral Action Group Foundation.

Gozitan Local Councils are paying the membership fee on a yearly basis.

**Source:** The figures and information disclosed in the Table above were provided by the respective LGAs.

<sup>58</sup> Membership was not renewed.

<sup>59</sup> Membership expired during 2013 and was not renewed by the time of audit.

## Appendix F – Assets falling under the Council’s responsibility not properly insured

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Birkirkara <sup>60</sup>	Buildings of standard construction including fire-fighting equipment and air conditioners	Leased	2,329,373
	Plant and machinery	175,087	-
	Child care centre	114,369	-
	Fixtures and fittings	58,979	39,843
	Office equipment	42,586	34,941
Birżebbuġa	Buildings	80,751	140,000
	Office furniture, fittings and office equipment	110,587	132,479
	Glass and sanitary ware	-	5,000
Bormla	Furniture and fittings and computer and office equipment	87,076	92,606
	Property in the open	-	93,000
	Motor vehicles	8,269	-
	Plant and machinery	5,530	-
	Urban improvements	198,488	-
	Construction works	797,299	-
	Trees	13,609	-
Dingli	Council premises	161,169	70,000
	Urban improvements	132,540	116,468
	Computer equipment	49,225	17,052
	Furniture and fittings	67,209	170,000
	Plant and machinery	9,423	12,000
	Computer software	495	-
	Stock	654	-
Fgura	Furniture and fittings, office equipment and plant and machinery	77,339	70,495
	Council’s buildings	-	564,173
	Urban improvements	443,291	-
	Property	1,001	-
	Construction	1,567,424	-

<sup>60</sup> As in previous years, the Council was unable to provide LGA with an inventory of items covered by the insurance policy, to determine which assets in the plant register are covered by the policy and whether these are adequately insured. The lease agreement for the Civic Centre specifies that property as well as furniture and fittings in common areas should be insured for €2,373,000. At present the Council is renewing its insurance policy every two months until a new tender is issued.

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Floriana <sup>61</sup>	Plant and machinery, furniture and fittings and other contents	79,462	99,000
	Office equipment	51,138	-
	Computer equipment	9,656	-
	Urban improvements	461,063	-
	Stock	13,799	-
	Goods in the open air	-	200,329
Fontana	Buildings	-	100,000
	Property	-	90,000
	Urban improvements/construction	592,593	-
	Furniture and fittings, computer and office equipment and plant and machinery	53,380	12,000 (amount insured under the category ‘all other contents’)
Gudja	Fixtures and Fittings	43,575	35,000
	Electronic equipment	28,665	15,000
Gżira	Buildings	179,001	252,736
	Fixtures and fittings	66,921	22,375
	Computer and office equipment	52,564	19,572
Għajnsielem	Office furniture and fittings	27,227	11,000
	Computer and office equipment, assets under construction, urban improvements and special programmes and construction	773,669	-
	Buildings	236,750	Buildings including debris removal costs 249,000
Għarghur <sup>62</sup>	Administrative buildings, office furniture and fittings, office/computer equipment and plant and machinery	188,858	Traders combined bearing a total sum insured of 171,890

<sup>61</sup> Though as per insurance policy, buildings are insured for €180,000 and the related insurance includes also debris removal costs, LGA confirmed that the said premises are not the Council’s property.

<sup>62</sup> LGA was not able to obtain an itemised detail of the coverage. However, the sum insured does not even cover the amount of indoor assets. The figures highlighted above exclude outdoor assets, such as playing field equipment, as well as public liability damage, and employer’s liability coverage.

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Ghasri	Property	129,040	70,000
	Office furniture and fittings	18,624	10,000
	Plant and machinery	487	-
	Computer equipment	7,000	3,000
	Office equipment	11,906	-
	Construction	511,641	-
	New street signs	2,115	-
	Urban improvements	23,368	-
Ghaxaq	Property, office furniture, office equipment and plant and machinery	87,961	112,277
	Electronic equipment	13,759	7,000
Hamrun	Property	1,882,068	1,798,505
	Furniture and fittings	23,474	22,000
	Office equipment	30,684	20,451
	Plant and machinery	6,130	46,500
Iklin	Property – Premises A	-	46,587
	Property – Premises B	-	34,940
	Stock	-	233
	Office furniture, fittings and fixtures	22,994	11,172
	Plant and machinery and electronic equipment – Premises A	28,984	5,000
	Property in the open	-	2,330
	Fixed glass	-	582
	Rented property	10,659	10,986
Isla	Furniture and fittings	55,373	53,461
	Construction	176,344	90,000
	Office and computer equipment and plant and machinery	21,739	21,352
	Urban improvements	127,291	76,933
Kalkara	Furniture and fittings	22,020	14,000
	Property	-	25,600
	Plant and machinery	4,184	-
	Office and computer equipment	21,292	-
	Urban improvements	354,335	-
	Construction	442,529	-
	Street lights	3,885	-

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets €	Amount insured €
Kerċem	Assets under construction	407,930	116,000 – in relation to the Civic Centre
	Urban Improvements and construction	587,873	-
	New street signs	4,554	-
	Computer and office equipment	18,659	-
	Office furniture and fittings	10,290	-
	Special programmes and construction	444,161	-
Kirkop	Buildings	228,257	251,165
	Office furniture and fittings including plant and machinery	47,031	10,000
Lija	Office furniture, fittings and others	16,849	8,700
	Electronic equipment	22,985	4,500
Luqa	Property	179,426	136,462
	General contents and assets including machinery (but not limited) situated at Council premises	40,464	22,565
	Outside property	286,688	863
	Electronic equipment	14,436	2,816
Marsa	Construction and urban improvements	771,471	90,000
	Computer and electronic equipment	18,944	21,000
	Office furniture, fittings, plant and machinery	19,223	30,000
Marsascalea	Office furniture and fittings	21,419	15,000
	Plant, machinery and equipment	25,487	12,915
	Urban improvements	756,342	8,000
	Inventories	4,016	-
Marsaxlokk	Office equipment, plant and machinery	21,996	20,677
	Computer equipment	16,621	-
	Office furniture and fittings	22,372	-
	Urban Improvements	222,876	10,465
	Construction	810,723	58,514 - water feature in the open
	Street signs	15,309	-
	Special programmes	570,520	-

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Mдина	Property	-	232,937
	Urban Improvements and street lighting	134,504	136,280
	Street furniture	38,610	46,284
	Office furniture and fittings	22,467	16,800
	Computer and office equipment	9,905	11,104
	Plant and machinery	2,668	1,000
	Costumes and umbrellas	-	9,000
	Special programmes	92,492	-
	Trees	10,502	-
	Street signs, mirrors and bins	25,119	-
	Construction	99,169	-
Mellieħa	Furniture and fittings	133,359	54,310
	Computer and office equipment	32,729 (including also machinery)	28,000
	Property	338,425	341,759
	Property in the open	-	3,149,544
	Urban improvements and construction	208,362	-
	Special programmes and projects	6,010,290	-
Mġarr	Special programmes	761,867	-
	Council premises and furniture and fittings	447,440	501,000
	Construction	676,315	-
	Equipment and machinery	53,994	52,500
	Street signs	63,775	10,000
	Motor vehicles	12,346	11,780
Mosta	Urban improvements	358,676	132,000
	Furniture and fittings	161,354	47,700
	Computer and office equipment	133,211	-
	Plant and machinery	52,544	59,700
Msida	Buildings	465,835	420,000
	Furniture and fittings	71,342	27,952
	Street furniture	50,440	20,000
	Urban improvements	173,587	65,000

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Mtarfa	Office furniture and fittings	36,898	17,000
	Office and computer equipment	19,759	-
	Plant and machinery	7,624	-
	Urban improvements	285,237	83,624
	New street signs	38,068	-
	Trees and plants	10,740	-
	Construction	101,280	100,000
Munxar	New street signs	3,785	property in the open covered up to 69,882
	Urban improvements	91,581	
	Construction	142,060	
	Assets under construction	52,170	
	Special programmes	821,503	
Nadur	Office furniture and fittings	31,806	11,647
	Office and computer equipment	22,278	-
	Plant and machinery	27,954	-
	Urban improvements	486,187	-
	Construction	1,779,703	-
	Special programmes	136,328	-
	Council premises	138,150	-
	Trees	6,100	-
	Street signs	13,942	-
	Elevator	-	20,964
	Buildings	-	158,397
Naxxar	Furniture and fittings	52,287	41,000
	Plant, machinery, office and computer equipment	113,152	38,000
	Urban improvements and construction	668,855	-
	Special programmes	2,839,107	-
	Trees	47,806	-
	Street signs and lights	11,138	-
	Property	23,296	70,000
Paola	Administrative buildings, office furniture and fittings, office/computer equipment, plant and machinery	192,394	Commercial combined bearing a total sum insured in respect of PPE of 95,600

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Pembroke	Office furniture, fixtures and fittings	26,864	28,601
	Property in the open	-	81,000
	Computer and office equipment	62,903	63,276
	Buildings	-	74,855
	Plant and machinery	7,666	-
	Construction	550,796	-
	Urban improvements	332,238	-
Pieta`	Buildings	142,331	269,000
	Contents of Council premises	136,041	50,000
	Police station	15,389	-
Qala	Buildings	-	11,600
	Trees and plants	2,264	-
	Office furniture and fittings	22,172	16,600 (including also equipment)
	Plant and machinery	12,609	-
	Computer equipment	14,351	-
	Office equipment	7,645	-
	New street signs	11,537	-
	Urban improvements	40,760	-
Construction	665,534	-	
Qormi	Property	532,368	515,000
	Office furniture, fittings and equipment	108,549	90,000
	Plant and machinery	127,520	55,000
Qrendi	Buildings	127,998	23,766
	Office contents and electronic equipment	59,471	20,765
Rabat (Malta)	Furniture and fittings	39,504	42,114
	Computer and office equipment	73,322	79,249
	Plant and machinery	6,415	-
	Street signs	65,308	-
	Urban improvements	2,379,839	-
	Special programmes	1,246,733	-
Safi	Property	253,460	350,000
	Office furniture, fittings and fixtures	38,736	35,000
	Electronic equipment	9,102	7,000
	Photovoltaic system	6,278	7,000



## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
San Ġiljan <sup>63</sup>	Property	185,798	204,448
	Office furniture, fittings and others	107,741	43,143
San Ġwann	Property	246,865	139,758
	Furniture, fixtures and fittings	41,225	16,338
	Electronic equipment	36,846	11,647
	Street furniture consist of street mirrors, park benches, playing equipment and safer surfacing, street furniture and garden lights	Since LGA was not provided with a FAR, the cost of these assets could not be determined	34,941
	Public convenience		34,941
San Lawrenz	Office furniture and fittings	49,430	6,988
	Computer equipment	8,719	-
	Office equipment	39,239	-
	Plant and machinery	9,362	-
	Property	2,583	-
	Street signs	4,072	-
	Urban improvements	114,171	27,952
	Construction	436,653	-
	Special programmes	104,393	-
Sannat	Office furniture and fittings	31,377	9,400
	Construction	474,621	-
	Urban improvements	117,300	-
	Special programmes	502,491	-
	Assets under construction	37,058	-
	Street signs	9,735	-
	Buildings and property in the open	-	48,300
San Pawl il-Baħar	Urban improvements and playground furniture	1,036,627	102,502
	Council premises	779,521	815,000
	Furniture, fittings, equipment and machinery	138,018	61,800

<sup>63</sup> In its reply, the Council declared that the building insurance includes also permanent fixtures and fittings, as well as the air-condition units. As regards furniture, fixtures and fittings the cost is €67,643 with NBV of €11,506. Office equipment is covered under a separate policy. Notwithstanding this, the Council stated that it will do its utmost to review the policy during the coming year.

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Santa Luċija	Buildings	31,447	41,549 <sup>64</sup>
	Agricultural equipment	19,446	26,000
	Property in the open	90,824	90,000
	Electronic equipment	26,840	25,000
Santa Venera	Furniture, fixtures and fittings	31,479	31,298
	Office equipment	17,418	-
	Computer equipment	21,417	34,329
	Plant and machinery	4,304	2,963
Siggiewi <sup>65</sup>	Buildings	850,000	474,814
	Fixtures and fittings	35,940	3,446
	Electronic equipment	22,095	16,461
Sliema	Buildings	186,515	46,587
	Furniture, fixtures and fittings	46,636	27,110
	Computer and electronic equipment	20,440	23,118
Swieqi	Buildings	-	68,058
	Furniture and fittings	19,676	15,370
	Computer equipment	6,304	-
	Office equipment	19,978	16,188
	Street signs	55,070	-
	Street lights, playground equipment and street mirrors	67,486	70,632
	Urban improvements	11,883	-
Special programmes	1,663,066	-	
Ta' Xbiex	Property	165,125	170,000
	Office furniture, fittings and others	29,693	14,000
	Electronic equipment	14,395	13,274
Tarxien	Land and buildings	156,118	82,000
	Furniture and fittings	25,553	18,000
	Equipment	37,970	5,000
	Urban improvements	72,278	100,000
	Intangible asset	1,372	-

<sup>64</sup> The Executive Secretary declared that apart from its premises, the Council also insures rented property, hence explaining the difference.

<sup>65</sup> The cost taken in this table is that included in FAR, which was compiled this year by performing a stock take of all assets.

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Valletta	Urban improvements	1,790,967	14,442
	Office furniture and fittings	40,937	7,687
	Plant, machinery and equipment	44,860	30,398
Xaghra	Special programmes	1,962,418	property in the open 10,482
	Buildings	-	18,635
	Urban improvements	321,659	-
	Plant and equipment	5,956	-
	Assets under construction	47,964	-
	Street signs	42,145	-
	Computer and office equipment	24,348	6,382
	Office furniture and fittings	21,397	23,294
Xewkija	Urban improvements	411,257	23,000
	Construction	869,997	
	New street signs	32,527	
	Furniture and fittings	21,606	15,000
	Office and Other Equipment	24,288	7,000
	Property	85,539	46,500
	Computer equipment	4,884	-
	Assets under construction	85,807	-
Xghajra	Assets not yet capitalised	313,197	-
	Construction	212,379	-
	Urban improvements	127,659	-
	Special programmes	61,989	30,000
	Office and computer equipment	19,967	14,317
	Street signs	15,925	-
	Office furniture and fittings	15,634	106,587
	Books	-	10,000
	Plant and machinery	5,881	19,800
	Motor vehicles	2,330	2,000
Żabbar	Furniture and fittings, computer and office equipment	102,332	45,888
	Property in the open	-	11,646
	Motor vehicles	18,386	-
	Plant and machinery	32,071	-
	Trees	11,379	-
	Urban improvements	303,091	-
	Construction	2,627,249	-

## Appendix F – Assets falling under the Council’s responsibility not properly insured *cont./*

Local Council	Fixed Asset	Cost of Assets	Amount insured
		€	€
Żebbuġ (Malta)	Property	-	40,629
	Office furniture, fittings and equipment	18,769	12,812
	Electronic equipment	22,814	7,943
	Bus shelters and street furniture	486,278	42,794
Żebbuġ (Gozo)	Office fixtures and fittings	29,229	-
	Computer equipment	26,028	19,395 <sup>66</sup>
	Plant and machinery	5,620	-
	Urban improvements	374,050	-
	New street signs	58,919	-
	Construction/special programmes	1,716,978	-
	Buildings	-	22,130
Żejtun	Plant and machinery	4,395	-
	Office equipment	26,127	-
	Urban Improvements	745,095	275,000
Żurrieq	Office furniture, fixture, fittings and computer equipment	76,878	156,700
	Property and special programmes	2,049,749	1,571,600
South Eastern Regional Committee	Furniture and fittings	9,453	25,000
	Office and computer equipment	6,963	6,800
	Property	-	25,000

**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 Asset Schedule included in the 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 not be up-to-date. Otherwise, Local Councils would have to inform the insurance company every time they purchase an insurable item of capital expenditure. Although technically this should be the correct way to do it, it is not practical in real life.

<sup>66</sup> This amount includes all other trade contents (including electronic equipment).

## Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes

Local Council	Amount €	Council's reply
Attard	2,987	The contractors will be informed accordingly.
Balzan	6,508	Observation taken into consideration.
Birkirkara	6,002	The Council will ensure that suppliers are approached and asked to provide a valid fiscal receipt.
Birżebbuġa	1,259	In all instances, when a tax invoice is not received, the Council makes sure that a fiscal receipt is obtained on collection of payment by the contractor.
Bormla	74,645	The Council will continue to request a VAT fiscal receipt with every payment effected.
Dingli	37,807	The Council does its utmost to request fiscal receipts for all payments issued to all suppliers. However, a number of suppliers did not forward their fiscal receipts although the Council did chase these suppliers to collect the respective receipts.
Floriana	5,287	As also referred to by LGA, the Council does its utmost in chasing for these receipts, and on various occasions, contractors not complying have been reported to the VAT Department. In the instances highlighted, the respective suppliers are still being chased for the receipts.
Fontana	24,801	The administration of the Council will continue to do its best to adhere to the procedures in all aspects, and continue building on the recommendations made by the auditors.
Gudja	3,563	The Council feels that it has complied with the VAT stipulations and it will continue to ensure that fiscal requirements are duly complied with.
Għajnsielem	7,195	The Council noted LGA's recommendation with respect to VAT fiscal receipts, and the administrative staff at the Council will do its utmost to request such fiscal receipts upon payment.
Għarb	719	The Council requests fiscal receipts. However, these are not always presented.
Għargħur	6,970	The Council took note of these discrepancies as well as LGA's comments.
Għaxaq <sup>67</sup>	7,723	The Council shall make a continuous effort to obtain the proper fiscal receipts.
Hamrun	1,641	Comments have been noted.

<sup>67</sup> The service providers for waste collection and cleaning services not always issued a fiscal receipt for the the payments effected to them. Since testing was carried out on a sample, LGA did not go through each and every invoice, so it is not possible to quantify all the respective payments that were not covered by a fiscal receipt.

## Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount	Council's reply
	€	
Iklin	1,458	The administration would do its utmost to be in line with procedures.
Isla	35,290 <sup>68</sup>	Council failed to provide a reply to the Management Letter.
Kalkara	135,256	The Council is very aware that a VAT fiscal receipt or a proper tax invoice should always be obtained, and is surprised that the items mentioned in the Management Letter had no proper receipts. In fact the former is of the opinion that such fiscal receipts were misplaced and no ample time was provided to look for such documents.
Kirkop	1,356	The majority of suppliers send fiscal receipts promptly. There are few suppliers that have failed to send a fiscal receipt. On the payment vouchers, suppliers are reminded to send fiscal receipts for each payment received. We have also sent letters to those suppliers who have failed to send a receipt.
Luqa	50,023	The computer invoices mentioned in the Management Letter show a date and VAT number related to them. These invoices satisfy the requirements of the Council.
Marsascalea	13,689	The Council has sent a letter to all third parties who failed to submit a VAT receipt and has obtained the majority of receipts. The Council always indicates in the Payment Voucher that all suppliers should furnish a VAT receipt upon payment.
Marsa	8,976	All of the companies which have not provided a fiscal receipt declared that the invoice was in accordance to the VAT Department regulations and they are exempt from issuing a fiscal receipt.
Marsaxlokk	5,834	VAT fiscal receipts were requested from all the suppliers. However, the Council has no means by which it can recover such receipts. In instances where the respective suppliers fail to produce the fiscal receipt, services are procured from other suppliers, when possible.
Mdina	2,061	The Council is committed to keep proper supporting documentation. It is the Council's practice to ask for proper invoices and VAT receipts for all purchases. All efforts are made to obtain such documentation and include them with the respective Payment Vouchers.

<sup>68</sup> Included in this amount, are two balances, totalling €2,652, in respect of which an invoice was also not provided.

## Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount	Council's reply
	€	
Mellieha	415	One of the indicated amounts where no fiscal receipt was traced relates to membership fees, payable annually to an EU organisation which embraces accredited localities that have excelled in particular niches in the tourism market. The other pertains to the Malta Association for the Prevention of Elderly Abuse. LGA's comments have been noted and the Council requested a VAT fiscal receipt in writing from both suppliers.
Mġarr	30,910	The Council does its utmost to request fiscal receipts for all payments issued to suppliers. However, a number of suppliers did not forward their fiscal receipts although these were chased by the Council.
Mosta <sup>69</sup>	1,971	The Council failed to provide a reply to the Management Letter.
Mqabba	1,680	A declaration to confirm that annual income does not exceed the threshold of €7,000 is always signed by the contractor in question. Furthermore, the payment of €1,354 to another service provider is in relation to invoices issued in 2011 and 2012, which are kept in the respective files.
Msida	121,623	Only one of the seven payments highlighted by LGA is not supported by a VAT receipt, because the concerned supplier is VAT exempt.
Mtarfa	41,669	At all times, the Council asks for proper tax invoices and VAT fiscal receipts. However, these are not always provided by the suppliers.
Naxxar	770 <sup>70</sup>	Every effort will continue to be made to collect all applicable fiscal receipts on time.
Paola	8,196 <sup>71</sup>	The Council is doing its utmost to control this anomaly and will continue to insist with its suppliers, to provide the Council with fiscal receipts.
Pieta'	23,416	The auditor's recommendations were noted and more effort will be sought in this regard.
Qrendi	1,557	The Council is doing its utmost to obtain a valid VAT receipt for the mentioned payments.
Rabat (Malta)	47,033 <sup>72</sup>	The Council took note of LGA's recommendations and will do its utmost to see that similar issues will not arise in the future. However, VAT receipts are beyond the Council's control as it is a requirement of the supplier to provide such documentation.

<sup>69</sup> No written documentation that the annual turnover was not in excess of €7,000 was provided by another service provider who was paid the amount of €1,160.

<sup>70</sup> The supplier eventually provided a fiscal receipt during 2014, covering the total expenditure of 2013.

<sup>71</sup> In addition to this amount, a tax invoice, totalling €222, was addressed to the Corradino Correctional Facility workers and not to the Council.

<sup>72</sup> Included in this amount is an invoice of €10,000 on which it was stated that the supplier is VAT exempt.

## Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount	Council's reply
	€	
Rabat (Gozo)	56,243	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	3,690 <sup>73</sup>	Three of the four contractors who received these payments have contracts with the Council which are fixed amounts per month. The Council wishes to ask for leeway in terms of accepting such invoices from contractors when it is to pay a fixed amount. This is more environmentally friendly and also less of a hassle for the contractors. With respect to the fourth contractor, his service was a last minute resort. The Council regrets the acceptance of this invoice if it is not in accordance with the requirements, but a deal was sorted out quickly simply to ensure that the related activity could go ahead. The Council will strive to avoid these circumstances in the future. It is not the Council's responsibility to ensure that these persons are in fact registered for VAT, but we have no doubt that the Council is working by the book in terms of the aforementioned three contractors.
San Ġiljan	1,859 <sup>74</sup>	Point noted.
San Ġwann	21,625	The Council failed to provide a reply to the Management Letter.
San Lawrenz	233,619	The Council tries to receive VAT receipts for all expenditure made; however, due to staff shortages, urgent matters often take priority.
Sannat	2,184	As noted by LGA, the Council makes every possible effort to request fiscal receipts from suppliers.
San Pawl il-Baħar	92,543	LGA's recommendation has been noted, however as per LN 524 of 2010 from the Department of VAT, the Council is not in a position to insist on VAT fiscal receipts when the suppliers or service providers fall under Article 11 of the VAT Act.
Santa Venera	13,198	Point not properly addressed.
Siggiewi	67,317	The Council takes note of the comments in the Management Letter.
Sliema	64,786	Point not addressed.

<sup>73</sup> Included in this amount is expenditure of €151 and €250, covering bulky refuse and Christmas staff dinner respectively, which payments were supported by an invoice that was not addressed to the Council.

<sup>74</sup> Amounts paid related to food and drinks for the band club and the Christmas meal, in respect of which the Council accepted a cash register receipt instead of a proper tax invoice addressed to the Council.



## Appendix G – Expenditure in respect of which a proper fiscal receipt was not provided for audit purposes *cont./*

Local Council	Amount	Council's reply
	€	
Ta' Xbiex	2,708	The Council always obtains invoices which include the suppliers' VAT number. Furthermore, a VAT receipt will also be issued from those companies that are not exempt from issuing a fiscal receipt if they generate their invoice by computer. This is in line with the financial regulations.
Tarxien	52,674	LGA's comments were noted and the Council will ensure to always chase its suppliers for fiscal receipts in the future.
Valetta	71,092	The Council failed to provide a reply to the Management Letter.
Xagħra	2,740	Point not addressed.
Xgħajra	3,937	The Council asks every supplier to issue a VAT receipt. This can be confirmed in the payment slips attached with every payment.
Żabbar	2,327	The Council always requests fiscal receipts in line with the VAT Law, but unfortunately not all suppliers submit such receipts.
Żebbuġ (Malta)	109,574 <sup>75</sup>	Out of this amount, fiscal receipts covering expenditure of €15,383 have been provided with the Council's reply. Moreover, another portion of €7,057 relates to balances which have not yet been paid and therefore the Council could not demand and obtain a fiscal receipt.
Żejtun	7,400	LGA's comments have been noted and following previous years' recommendations, the Council has included a disclaimer on its Payment Vouchers, stating that recipients 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	5,210	The Committee failed to submit its reply to the Management Letter.
Northern Regional Committee	19,421	The Committee failed to submit its reply to the Management Letter.
South Eastern Regional Committee	10,318	The Committee failed to submit its reply to the Management Letter.

**Note:** Data included in the above Table is not exhaustive as this highlights only the instances encountered by the Auditors whilst carrying out sample testing.

<sup>75</sup> As already highlighted in the report, €82,803 worth of expenditure was not supported by any documentation other than a copy of the respective cheque.

## Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations

Local Council	Donation provided		Council's reply
	Amount €	Description	
Attard	250	Restoration of niche on the façade of a private property.	These will not be effected anymore.
	130	Payment of an electricity meter during a horticultural exhibition to aid La Stella Band Club.	
Balzan	80	Books donated to individuals.	Point noted.
Birkirkara	1,748	Tablets given away in a raffle held during <i>Ġieħ Birkirkara</i> .	The Council will ensure that no donations will be paid in the future. However, it is pertinent to point out that the tablets in question were not given away for the raffle but were prizes against a competition organised by the Council.
	399	Christmas hampers given to churches and old people.	
	340	Payment to a political club in Santa Venera.	
Dingli <sup>76</sup>	175	Cash donated to schools.	Point noted, although one has to note that the mentioned amounts are very immaterial.
	90	Cakes for nurses.	
Floriana	15,235	Payments to individuals or organisations for their participation in the Fireworks festival and New Year's Eve.	LG's statements are misleading as there have been no donations whatsoever. As regards the Fireworks festival the Council has paid for supplies acquired from different fireworks factories, each with specific conditions, at a fixed price of €900. Similarly, in relation to the New Years' Eve celebration, the Council procured a number of services such as performers and artists.
Għaxaq	100	Payment to Plea for a Lifecycle challenge.	The payment to Santa Marija Band Club referred to by the Auditor was a payment for services rendered and not a donation.
	800	Payment to Santa Marija Band Club.	
Hamrun	230	Payment to Scouts for their performance during Carnival activity.	The amount of €230 paid to the Scouts was in respect of services given by the Hamrun Scouts Group during a Cultural Event and thus this should not be reflected as a donation.

<sup>76</sup> The Council organised a barbecue in aid of a charitable organisation. The proceeds of €1,972 were accounted for as income whilst the payment of €2,150 donated to the respective organisation was recognised as an expense.

## Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations cont./

Local Council	Donation provided		Council's reply
	Amount €	Description	
Isla	1,860	Food products distributed to all the residents of the locality by way of a gift during the Christmas period.	The Council failed to provide a reply to the Management Letter.
	254	Hampers and gifts.	
	34	Christmas drinks.	
	21	Donation to a voluntary organisation.	
Lija	600	Payment for the maintenance of a pavement in front of <i>St. Andrija</i> Church.	The items classified as donations by LGA relate to the Council's participation in events organised in the locality, in conjunction with the Local Council. The respective pavement was required for the Lija residents who attend the services at <i>St. Andrija</i> Church.
	500	Payment to <i>Bocci Club</i> for an activity organised by the club.	
	500	Payment to Athletic Football Club for the hire of a minivan.	
	500	Payment to <i>Kumitat Festi Esterri</i> as an aid for its activities.	
	300	Payment for the activity organised by Joseph Mangion.	
	270	Part-payment for a reception held by Lija Football Club.	
	300	Payment made to St. Andrew football club relating to T-shirts printed for tournament organised by the same club.	
	378	Christmas Cards distributed to the local households.	
Marsa	196	Donation to a charitable institution.	The T-shirts had the logo of the Local Council printed on them. The activity was in fact organised by the Local Council with the collaboration of St. Andrew's football club. This is in conformity with the regulations. The donation of €196 was forwarded to a philanthropic organisation. Moreover, the amount of €378 related to services purchased by the Council, whereby printed cards were delivered to all Marsa residents to wish the best for the festive season and a prosperous new year.

## Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations cont./

Local Council	Donation provided		Council's reply
	Amount €	Description	
Mdina	1,154	Variance resulting between the income of €1,945 generated from the barbecue organised by the Council during <i>Jum l-Imdina</i> , and the expenses of €3,099 incurred for the respective event. Such variance arose due to the fact that sixty-six persons attended the barbecue free of charge.	The items listed by LGA are the result of the Council's social and cultural obligations. For example, these include mementos presented to distinguish guests on special occasions and social and cultural events organised by the Council.
	231	Catering expenses in respect of an exhibition for the Mdina Football Club.	
	110	Purchase of a souvenir to the Ambassador during the statues' exhibition.	
	95	Gifts to guests.	
	40	Tips for waiter services.	
	186	Fruit hampers distributed to persons with disability.	
Mosta	100	Payment to the Archbishop.	The Council failed to provide a reply to the Management Letter.
	389	Purchase of books for the locality's Government school.	
	800	Payment to St. Mary band club.	
Mqabba	800	Payments to Our Lady of Lily band club.	The amount of €1,600 issued to two clubs, namely St. Mary and Our Lady of Lily, was a payment for musical services commissioned by the Council for which a purchase order was raised. The Council has every right to avail of such services, as part of the cultural and musical heritage that the locality is proud of. The festive season was complemented with the street decorations which were appreciated very much, as these are erected by numerous band club volunteers.
	105	Wrist watch that was given as a gift.	

<sup>77</sup> LGA confirmed that this was paid by cheque number 435 included in Schedule of Payments 459.

Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations *cont./*

Local Council	Donation provided		Local Council Comments
	Amount €	Description	
Paola	2,000	Payment for food given to two Corradino Correctional Facility workers seconded with the Council.	This is a pilot project and the scope is that of enabling the inclusion of inmates back within society.  The Council has noted LGA's recommendation and will be more considerate in the manner it distributes its assistance to organisations within the locality.  This was an activity organised and paid by the Council for the elderly of Tal-Pieta'. This should not be classified as a donation, since Local Councils are being encouraged to participate and promote social, cultural and sport activities among their communities.
	315	Vaccine needles distributed to nurses applying the flu vaccine to residents.	
	65	Drinks distributed to band musicians during the local feast.	
Pieta'	665	Pantomime tickets for ladies circle.	Action will be taken by the Council.
Rabat (Gozo)	2,730	175 books.	The Council does not give donations. The stated items form part of the Council's ideas for the proper treatment of the village's elderly who are not able to attend for social activities.  During the local feast, the two band clubs parade in front of the Council's premises and these are greeted by the Council as part of the activities held during the respective period.  The Council was invited to attend an event to commemorate the 60 anniversary of the Priest from celebrating mass. The Council feels that on these occasions, the Councillors cannot attend without giving a memento.  The Council failed to provide a reply to the Management Letter.
	382	Hampers for old people.	
	105	Scarves for old people.	
Safi	84	Presents for old people.	
	1,317	Food and drinks to St. Julian's band club during the feast.	
San Ġiljan	116	Gift to parish priest.	
San Ġwann	480	600 <i>figolli</i> given to the participants of a football tournament.	

## Appendix H – Donations paid by Local Councils in breach of Pertinent Regulations *cont./*

Local Council	Donation provided		Local Council Comments
	Amount	Description	
	€		
San Lawrenz	130	Gifts.	Point not addressed.
San Pawl il-Bahar	70	Gift to a priest.	The gift of €70 was given to the new parish priest, whilst the ten pottery Wignacourt towers were given as tokens throughout the year.
	177	Ten ceramic Wignacourt Towers donated to various dignitaries during cultural events.	
Sigġiewi	1,565	Payment to the parish church for Christmas decorations.	The amount in question is not a donation but a payment to a parish group for services rendered in providing Christmas decorations.
Tarxien	709	Gifts in the form of <i>figolli</i> and diaries.	Point not properly addressed.
Xaghra	254	Gifts and cakes.	Point not addressed.
Żebbuġ (Malta)	2,600	Payment to Żebbuġ Scouts Group.	The payment made to the Żebbuġ Scouts Group pertains to distribution of flyers and magazines for 13 times, whilst the amounts paid to the local band clubs both relate to services of band marching during the Night fest. Moreover, the sum paid to the local parish church was for the rental of the hall. The Council believes that if money is being given in return for something else, this is not deemed to be a donation but a payment for the provision of a good or service.
	1,347	Payment to the local band club.	
	1,300	Payment to a local band club.	
	350	Payment to local parish church.	
	110	Flowers for church.	

**Note:** Żebbuġ (Gozo) Local Council also handed gifts to the people in the locality, namely gifts for the elderly and the kids. However, since only a sample of expenditure was tested, and the respective items were not part of such items, no further information was provided.

Data included in the above Table might not be exhaustive as this includes only the instances encountered by the Auditors whilst carrying out sample testing.

### Appendix I – Amounts expended on Christmas Lunch/Reception exceeded 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/ Dinner	Maximum threshold per person					
		€		€	€	€	
Dingli	Dinner	30	11	330	367	37	Point noted.
Kalkara <sup>78</sup>	Reception	15	8	120	372	252	Point not addressed.
Luqa <sup>79</sup>	Dinner	30	7	210	300	90	LGA's recommendation has been noted.
Mdina	Dinner	30	7	210	350	140	The Council has noted LGA's comment and would like to point out that the accompanying partners and guests have paid their share of the expense.
Mgarr	Dinner	30	8	240	409	169	LGA's comments have been noted.
Mosta	Dinner	30	13	390	660	270	Council failed to provide a reply to the Management Letter.
Mqabba <sup>80</sup>	Dinner	30	14	420	840	420	The Council invited volunteers who took it upon themselves to deliver free services in the Mqabba Day.

<sup>78</sup> LGA was given to understand that the Council members and employees were accompanied by their partners.

<sup>79</sup> Actually the Council paid for 12 persons, including five Councilors, the Mayor, the Executive Secretary and their partners.

<sup>80</sup> The Council made a provision of €420 for staff meal costs of volunteers and contractors, adding up to 14 persons, on the basis that the activity related to the year 2013. However, since this activity was held in 2014, an audit adjustment was passed to reverse this accrual from the accounting records.

### Appendix I – Amounts expended on Christmas Lunch/Reception exceeded 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/ Dinner	Maximum threshold per person					
		€		€	€	€	
San Pawl il-Bahar	Dinner	30	21	630	780	150	The event was a dinner organised for 21 persons, being the Councillors and council staff, together with one Youths Ambassador and five Burmarrad Administrative Committee members.
Xghajra	Reception	15	16	240	391	151	This is the only activity being held for the staff and there is no other way to do something for the staff. The excess mentioned is minimal.

**Note:** In January 2014, Paola Local Council incurred the amount of €504 for the organisation of a Christmas Staff Party. No information was provided to LGA regarding the number of attendees, however the Auditor was given to understand that, apart from the Council staff, helpers and ETC workers also attended the party.

**Source:** The information disclosed in the Table above, was provided by the respective LGAs, based on sample testing carried out.



## Appendix J – Inconsistency in Payroll Reconciliation\*

Local Council/ Regional Committee	Gross Personal Emoluments including employer's share of National Insurance as per		
	Accounting records <sup>^</sup>	Payer's Annual Reconciliation Statement (FS7)	Payer's Monthly Payment Advice (FS5s)
	€	€	€
Balzan	67,914	67,914	67,359
Dingli	84,964	86,668	86,728
Floriana	100,238	106,307	106,307
Fontana	36,986	36,928	35,290
Gudja	62,886	62,640	62,646
Gżira	86,080	85,365	85,355
Għarb	78,488	78,446	77,936
Għargħur	63,555	57,464	59,140
Iklin	64,912	64,911	60,203
Kalkara	67,521	65,222	65,227
Kerċem	74,287	74,306	73,896
Kirkop	62,901	63,235	63,237
Luqa	99,996	90,080	100,240
Marsascalea	142,930	143,288	142,856
Marsaxlokk	89,634	88,070	88,213
Mġarr	75,948	75,948	74,918
Mosta	165,100	165,099	165,900
Msida	123,993	123,619	123,993
Mtarfa	67,297	67,129	66,303
Naxxar	143,575	142,688	142,687
Paola	90,374	90,313	84,240
Pieta`	85,710	92,135	91,786
Qrendi	68,018	68,018	70,100
San Ġwann	147,241	148,278	148,279
San Lawrenz	56,077	56,090	57,053
Sannat	65,451	65,410	65,410
San Pawl il-Baħar	204,116	204,114	201,787
Santa Luċija	88,487	87,897	87,699
Santa Venera	71,489	72,671	72,671
Siggiewi	107,680	107,741	107,439
Valletta	136,447	Not yet prepared by the time of audit	138,035
Xewkija	69,163	68,726	68,726
Xgħajra	83,359	83,491	83,492
Żebbuġ (Malta)	118,795	119,255	119,255

## Appendix J – Inconsistency in Payroll Reconciliation\* *cont./*

Local Council/ Regional Committee	Gross Personal Emoluments including employer's share of National Insurance as per		
	Accounting records <sup>^</sup>	Payer's Annual Reconciliation Statement (FS7)	Payer's Monthly Payment Advice (FS5s)
Central Regional Committee	109,548	100,983	101,005
Gozo Regional Committee	35,625	35,626	35,151
Northern Regional Committee	50,123	48,396	44,839
Southern Regional Committee	86,864	83,963	83,964
Local Councils Association	145,774	146,967	146,974

**Notes:**

<sup>\*</sup>In certain instances, FSS and NI as disclosed in the Payer's Monthly Payment Advice (FS5), the Payer's Annual Reconciliation Statement (FS7) and accounting records also do not reconcile. Instances were also noted whereby amounts disclosed in the Payer's Annual Reconciliation Statements (FS7) do not reconcile to those recorded in the respective the Payee Statement of Earnings (FS3s).

<sup>^</sup>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:** Figures provided by the respective LGAs.

## Appendix K – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10
Attard	x	x		x		x	x		x	x
Balzan	x	x	x	x	x	x	x	x	x	x
Birkirkara	x	x	x	x	x	x		x	x	x
Birżebbuġa	x	x		x		x	x	x	x	x
Bormla	x	x	x	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
Floriana	x	x	x	x	x	x	x	x	x	x
Fontana	x	x		x	x	x	x	x	x	x
Gudja	x	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
Għargħur	x	x	x	x	x	x	x	x	x	x
Għasri	x	x		x		x				
Għaxaq	x	x	x	x	x	x	x	x	x	x
Ħamrun	x	x	x	x	x	x	x	x	x	x
Iklin	x	x		x	x		x	x	x	x
Isla	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			
Kirkop	x	x		x	x	x	x	x	x	x
Lija	x	x	x	x	x	x	x	x		x
Luqa	x	x	x	x	x		x	x	x	x
Marsa	x	x	x	x	x	x	x	x	x	x
Marsascala	x	x		x	x	x	x	x	x	x
Marsaxlokk	x	x		x	x	x	x	x	x	x
Mdina	x	x	x	x	x	x	x		x	x
Mellieha	x	x	x	x	x	x	x	x		x
Mgarr	x	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	x		x	x
Mtarfa	x	x	x	x	x	x	x	x	x	x
Munxar	x	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
Pietà	x	x	x	x	x	x	x	x		x
Qala	x	x		x	x	x	x			x
Qormi	x	x		x		x	x			x
Qrendi	x	x	x	x	x	x	x	x	x	x

## Appendix K – Management Letter Weaknesses *cont./*

Local Council	1	2	3	4	5	6	7	8	9	10
Rabat (Malta)	x	x	x	x	x	x	x		x	x
Rabat (Gozo)	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	x	x
San Ġwann	x	x	x	x	x	x	x	x	x	x
San Lawrenz	x	x		x	x	x	x	x	x	x
San Pawl il-Bahar	x	x	x	x	x	x	x	x	x	x
Sannat	x	x		x	x	x	x	x		x
Santa Luċija	x	x			x	x	x	x		x
Santa Venera	x	x		x	x	x	x	x	x	x
Sigġiewi	x	x		x	x	x	x	x	x	x
Sliema	x	x		x			x	x	x	x
Swieqi	x	x	x	x	x	x	x	x	x	x
Ta' Xbiex	x	x	x	x	x		x	x	x	x
Tarxien	x	x		x	x		x			x
Valletta	x	x	x	x	x	x	x	x	x	x
Xagħra	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	x	x
Żabbar	x		x	x	x					x
Żebbuġ (Malta)	x	x	x	x	x	x	x	x	x	x
Żebbuġ (Gozo)	x	x		x	x	x	x			x
Żejtun	x	x		x			x			x
Żurrieq	x	x		x				x	x	x
<b>Regional Committee</b>										
Gozo		x		x	x			x		x
Northern	x	x		x	x		x	x	x	x
Central	x	x		x	x		x	x	x	x
Southern Eastern	x	x		x	x		x		x	x
Southern	x	x		x	x			x	x	x
Local Council Association	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
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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Attard	3,085	Trophies and mementos	-	The Council will still try to be more compromising even though in certain instances it faces certain difficulties.
	1,972	Doors for public toilet	2	
	1,600	Band Services	-	
	1,494	Insecticide	-	
	1,204	Printing of stickers	-	
	1,500	Works in public lavatory	1	This is related to the acquisition of tiles for the refurbishment of the public convenience in <i>Gnien il-Palma</i> . These tiles were presented as samples with prices per square metre and the Council decided on the cheapest rate. Thus it was not necessary to obtain a written quote when these tiles were not available at other stores.
Balzan	1,754	Printing	-	This was a one-off incident that happened due to circumstances at that moment in time and is not something that is recurring.
Birkirkara	1,593	Design, metal works and fixing of plaque in <i>Tumas Dingli Square</i>	-	The Council will do its utmost to avoid giving direct orders for amounts exceeding €1,165.
Birzebbuga	1,455	Mother's day event	-	The Council will see that Purchase Orders noted are produced. However, a contract is in place with the supplier providing cleaning and other supplies, entered into after a call for quotations was issued. The Council obtained three quotations with respect to the Mother's day event and Father's day event, as is the norm with all purchases.
	1,930	Cleaning and other supplies	-	
Dingli	1,473	Tarmac patching	-	Any inobservance mainly due to the changeover in the administration is deeply regretted. The Council will do its utmost so that similar problems are not repeated.

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Fontana	1,455	Architect services	-	Point not addressed.
Ghajnsielem	1,220	Insurance	-	The weakness was acknowledged, however the Council claimed that such expense was not within its control.
Hamrun	1,234	IKIDS Agreement and distribution of leaflets	-	The Council is obtaining a minimum of three quotations for purchases over €23.29.
Isla	3,575	Work at <i>Triq il-Migja tal-Papa</i>	-	Council failed to provide a reply to the Management Letter.
	2,880	Flights Ballanmire Project Orly	-	
	2,060	Christmas Decorations 2012/2013	-	
	1,883	ROTC Hospitality	-	
	1,860	Christmas Gift for Residents	-	
	1,382	Dinner for 40 persons	-	
	1,188	Printing of Council magazine	-	
Kalkara	4,273	Street furniture	-	Council failed to provide a reply to the Management Letter.
	2,785	Street furniture	-	
	1,357	Insurance policy	-	
	1,301	Telephone sets	-	
	1,298	Sound system	-	
Lija	2,430	Support in publication and preparation of tenders	-	The recommendations made by the Auditors regarding procurement have been noted. In future, the Council will pay further attention to ensure that such situations are not repeated.
	1,817	Works carried out in gents public conveniences	-	
	1,790	Professional fees	-	
Marsa	2,891	Rental of a sound and lighting system	-	The supplies purchased related to materials or services which had to be ordered from specific suppliers.
	1,368	Ingredients for a cake done for a cultural activity	-	

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Marsascala	2,200	Purchase machine of	Three quotations were obtained directly from the suppliers.	The Council wanted this machine urgently since the contractor for patching with hot asphalt was not providing a service to the Council, given that the agreement was about to expire and the said contractor was requesting a revision of rates. Therefore, the Council wanted an urgent solution and requested three separate quotations from three different suppliers. This was the only occasion where a call for quotations was not issued in the Government Gazette.
Mdina	4,235	Repairs	-	These were exceptional cases due to the urgency nature.
	1,369	Architect fees	-	
Mellieħa	1,770 <sup>81</sup>	Live performances during <i>Milied Mellieħi</i> .	-	This is not a question of a call for quotations. The Council has pinpointed the band on the basis of its popularity with the public, the audience it may draw and the quoted price. The engagement of performers is not to be placed on the same footing as the acquisition of goods and services, such as road repairs and equipment, where different suppliers can yield the same result at different prices.

<sup>81</sup> The invoicing for these performances were made by a band (€1,100) and an individual (€670). Although the separate amounts invoiced do not exceed the direct order threshold, and the Council stated that these performed separately, the requests for payment by the aforementioned performers were issued on the same VAT number.

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Mqabba	3,585 <sup>82</sup>	Maintenance of gardens	-	At the time of awarding of the contract, Local Councils had to abide by the Government's decision, as these services originally delivered by the Agriculture Department were no longer to be given in line with Government restructuring process. This contractor has not only satisfied the Council's expectations, but also has given for free numerous plants to residents in a bid to embellish their own façades.
	1,244	Cleaning of rubble walls	-	Point not addressed.
Msida	1,269	Local Council façade – supply and fixing	-	Point not addressed.
Naxxar	2,131	Insurance	-	Point noted and a public call for quotation has been issued.
	1,699	Accounting software	-	Given that the Council required the specific software urgently, it went directly to a reputable supplier who could provide the said software immediately. Still, the Council did check on the website and also checked with another supplier, both of which had more expensive prices than that for the one purchased.
	1,544	Light System	-	Purchase through this supplier was for two distinct services. For each service the amount involved was lower than the limit prescribed by the Financial Regulations for direct orders.

<sup>82</sup> The Council has a contract with Environmental Landscape Consortium 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Paola	3,000	Consultancy services	-	The Council is making its utmost to abide with the Tendering and Procurement Procedures and will certainly try to improve on the documentation of the said procedures. However, one needs to recognise the fact that the Council is heavily involved in development projects which require a considerable amount of purchasing.
	1,830	Services for a cultural activity	-	
	1,436	Food	-	
Pieta`	3,500	Van	-	The Council has issued a call for tenders for this purpose twice. However, no offers were received for these calls. The Council informed DLG about this and permission was granted to purchase this van through a direct order.
Qala	1,574	Accommodation of foreign groups	-	The Council failed to provide a reply to the Management Letter.
Rabat (Malta)	1,419	Use of school auditorium for <i>Jum ir-Rabat</i> 2010 <sup>83</sup>	-	This issue was raised in a Council meeting held during 2014 since it related to a period prior to the employment of the current Executive Secretary and under the previous legislature. The Council approved the payment even though no call for quotations was issued in 2010.
Rabat (Gozo)	2,258	Light fittings for new offices	-	It is true that sometimes due to the urgency of matters the Council failed to issue quotations for certain services.

<sup>83</sup> The invoice pertaining to the use of such premises was posted in the year under review.

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Safi	1,270	Electrical parts	-	The Council acknowledges the necessity to abide with procedures. However, occasionally circumstances dictate, and in order to continue with the Council's commitments, payments would have to be made within a limited timeframe. The Council had agreed with a supplier on the works which were necessary for an activity held outdoors in September 2013. The night prior to the event, the Mayor received a phone call stating that this person would not be able to attend and provide us with the service. The request for the selected contractor had to be done on the spot in order to guarantee that the activity could go ahead the following day.
	2,430	Support in publication and preparation of tenders	-	Point noted.
San Ġwann	2,173	Pavement works	-	Council failed to provide a reply to the Management Letter.
San Lawrenz	2,030	Youth exchange lunch	-	The amounts that exceeded the threshold were unavoidable as the commitment had already been made.
Sannat	4,331	Water supplies at <i>Tal-Bidwi Park</i> <sup>84</sup>	-	The Council has issued a tender for the cleaning and maintenance of <i>Tal-Bidwi Park</i> , which took some time to be awarded. Hence, since the trees were planted in the beginning of summer, the Council could not wait to water such plants.

<sup>84</sup> These works were neither covered by a quotation nor a tender. Furthermore, no quotations were obtained for other works carried out on the parking area near the project at *Triq Skerla*, which works were carried out by the same contractor.

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Santa Venera	1,613	Plastering, bollards and markings	-	The Council understands the importance of adhering to the Local Councils (Financial) Procedures and it has been vigilant to do so.
	1,198	Road markings and traffic signs	-	
Siggiewi	1,165	Restoration of external wall	-	Point not addressed.
	1,232	Flood lighting during <i>Mixghela</i> activity	-	
	1,272	5 Litter bins	-	
	1,485	Railing/iron grid and repairs	-	
	2,267	Insurance policy	-	
	4,235	Plaster, drainage and toilet accessories	-	
Swieqi	3,882	Kids entertainment	-	Points were duly noted. However, when exceptional and urgent circumstances prevail it can be extremely difficult to obtain quotations on time. In future quotations will be obtained.
Tarxien	2,185	Street lighting	-	Services were procured from the contractor who was previously awarded the tender for street lighting.

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Valletta	2,591	Works carried out by Valletta Feast Committee ( <i>Ghaqda tal-Pawlini</i> )	-	The Council failed to provide a reply to the Management Letter.
	2,591	Works carried out by Valletta Feast Committee ( <i>Madonna tal-Karmnu</i> )	-	
	2,591	Works carried out by Valletta Feast Committee ( <i>Dumnikani Beltin</i> )	-	
	1,964	Flights to Mallorca	-	
	1,829	Reception	-	
	1,705	Street signs	-	
	1,321	Security services	-	
	1,298	Billboard rental	-	
	1,269	Transport services	-	
Xaghra	1,580	Entertainment	-	Points noted.
	1,542	Insurance	-	
	1,286	Trimming of trees	-	
Xewkija	2,750	Services provided by singers and bands for the <i>Fiori D'Argenta</i> activity	-	In the future, if amount of quotations exceed quotation limit, a tender will be issued.
Xghajra	1,480	Professional fees with respect to playing field	-	LGA's observation has been noted.
	1,373	Christmas lights	-	

## 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	Amount	Details	No. of quotations provided for audit purposes	Council's reply
	€			
Żebbuġ (Malta)	3,412	Professional services	-	There are particular payments for services rendered to the Council for which a quotation cannot be entertained, for example, singular services which are unique and singularly priced.
	3,309	Insurance policies	-	
	2,077	Stickers	-	
	1,467	Food and drinks	-	
	1,465	Toner	-	
	1,416	Professional services	-	
	1,189	Ironmongery goods	-	
	1,180	Consultancy services	-	
Żejtun	2,402	Supply of bollards	-	The Council adheres to the procurement procedures in the majority of its acquisitions. However, some of the cases mentioned, for example, restoration works, were of a specific nature, thus the service could only be provided by a particular supplier.
	1,888	Hiring of skips	-	
	1,601	Supply of benches	-	
	1,500	Restoration works	-	
	1,500	Restoration works	-	
	1,500	Restoration of Local Council offices	-	
	1,500	Restoration of Local Council offices	-	
	1,284	Christmas reception	-	
Local Councils Association	4,485	Production, filming, graphics and music in respect of an EU project	1	LCA's records show that LGA were provided with three quotations from different suppliers. <sup>85</sup>
South Eastern Regional Committee	2,963	Lawyer services	-	The Committee failed to submit its reply to the Management Letter.
	1,176	Cleaning services	-	

Certain anomalies still prevail between the thresholds laid down in the Local Councils (Financial) Procedures, 1996 and Local Councils Financial Regulations, whereby procurement is to be covered by a call for quotations. The Local Council (Financial) Procedures, 1996 stipulates 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 specifies 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, whereby 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 the Auditors whilst carrying out sample-testing. Furthermore, certain Councils, including those listed in the table above, might 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.

<sup>85</sup> LGA confirmed that this was not the case. Though the Executive Secretary was asked to provide the other two quotations, the latter claimed that these were destroyed.

## Appendix L – Procurement not carried out in line with Pertinent Regulations

*cont./*

**Table 2: Goods/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
	€		
Birkirkara	2,278	Gypsum partitions	The Council will do its utmost to avoid giving direct orders for amounts exceeding €1,165.
Bormla	1,346 <sup>86</sup>	Uniforms	The original purchase order was €1,147 which clearly indicates that the original amount was never intended to exceed €1,165. Some items which were delivered to the Council were immediately returned to the supplier and the returns were eventually replaced. However, the supplier issued another invoice on 18 December 2013, whilst the credit note for the returned items was supplied to the Council in January.
	1,321	Hardware items	The Council purchases various hardware items on a daily basis and this was an oversight on the latter's part. However, the necessary steps were taken even before LGA drew the Council's attention. This matter was immediately tackled from the fifth month and material has since then been purchased from different suppliers.
Dingli	3,345	Accountancy services	Point noted. Any inobservance, mainly due to the changeover in the administration, is deeply regretted. The Council will do its utmost so that similar problems are not repeated.
	2,300	Accountancy services	
Floriana	2,330	Rehearsals and co-ordination for New Year's Eve activity	The Council took note of LGA's recommendations which are just and fair.
	2,330		
	2,330		
	2,051	Various works	
	1,348	Road marking paints	
Gharb	1,236	Works	Point not addressed.

<sup>86</sup> The Council declared that a credit note of €292, in respect of uniforms, was eventually received in January 2014.

## Appendix L – Procurement not carried out in line with Pertinent Regulations

*cont./*

**Table 2: Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations *cont./***

Local Council	Amount	Details	Council's reply
	€		
Isla	4,076	Road markings and signs	The Council failed to provide a reply to the Management Letter.
	3,582	Lunches/dinners for participants in the Maritime Senglea International Festival of old towns and cities projects	
	1,350	Works carried out at the public convenience	
Kalkara	4,172	Marble for monument	The Council failed to provide a reply to the Management Letter.
	2,126	Architect fees	
	1,776	Hardware store goods	
	1,344	APE Centre – Goods and services	
Marsa	3,973	Posters, flyers, billboard adverts and letter printing	The supplies purchased related to materials or services which had to be ordered from a specific supplier.
Marsascala	1,952	Maintenance Works	During the summer months, the Council has to react to numerous complaints arising from the public and has to ensure that not only the public gardens, but the entire promenade and all its beaches are kept in a safe environment. The Council therefore reacts to any urgent matters which relate to seaside railings, hand rails and gates to playing fields. The issue of a call for quotations also requires a lengthy process and the Council has to react immediately to remove dangers to the public.
Msida	1,680 <sup>87</sup>	Machinery (2 items)	It was explained to the Auditor that the machinery items purchased were different types of equipment and both receipts fall under the direct order threshold. The auditor was also informed that the materials used by IPSL workers were bought on a daily basis and instead of paying from Petty Cash, the Council accumulated the bills.
	1,193 <sup>88</sup>	Paint Store	

<sup>87</sup> Three quotations have been obtained direct from different suppliers but the call for quotations was not published in the Government Gazette and any other local newspaper as required by Memo 1/2010.

<sup>88</sup> Amount represents cumulative purchases for one month. Total purchases from the supplier for 2013 amount to €3,965, hence exceeding direct order threshold.

## Appendix L – Procurement not carried out in line with Pertinent Regulations

*cont./*

**Table 2: Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations *cont./***

Local Council	Amount	Details	Council's reply
	€		
Naxxar	3,494	Maintenance	It is found to be extremely difficult to issue a call for quotations for ironmongery items due to the myriad of different items involved in the day to day maintenance. However, the Council will do its best to adopt a system whereby orders will be placed with different suppliers on a rotation basis.
	2,616	Leaflet distribution and computer courses	There was a period of around six months between the payments and hence the Council was within the regulations. <sup>89</sup>
	1,963	Instant road repair	There is the probability that some documentation was missed by LGA since the purchase is covered by a public call for quotations. <sup>90</sup>
	1,465	Street lighting maintenance	One has to clarify that the amount mentioned is not a one time whole payment but an accumulation of purchases of items related to electrical maintenance. The items vary a lot in nature and hence it is considered very difficult to have to issue a call for quotations. One should also appreciate that certain electrical items will have to be purchased immediately since failure to make the necessary repairs on time will result in greater health and safety risks to the public.
	1,241	Books	The purchase concerns books as part of a scheme to update libraries. Councils benefitting from this scheme could only purchase books from specified suppliers. The Council also had to match the amount given through the scheme. Since the same books are not normally found at different suppliers, one had to rely on the recommendation of the Librarian to ensure that only suitable books are purchased. Detailed vetting is carried out by the Councillor responsible for Education who happens to be a professional educator herself.

<sup>89</sup> LGA confirmed that services were procured during February, May and November 2013.

<sup>90</sup> LGA confirmed that the Council provided a list of tenders and quotations effective during the year under review. However, the mentioned service was not included therein.



## Appendix L – Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 2: Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations *cont./***

Local Council	Amount	Details	Council's reply
	€		
Paola	5,557	Telecommunication services	The Council failed to submit a reply.
Swieqi	2,106	Paints and other ironmongery goods	LGA's comments have been noted and in the future, quotations will be obtained. However, when exceptional and urgent circumstances occur, it can be extremely difficult to obtain quotations in time.
	1,499	Printing services	
Valletta	4,150	Restoration of three niches – <i>Madonna tal-Karmnu</i>	The Council failed to provide a reply to the Management Letter.
	4,148	Printing services	
	3,920	Accommodation services	
	3,220	Security services	
	2,100	Cleaning services	
	1,976	Road marking paint	
	1,900	Band services	
	1,889	Insurance services	
	1,770	Rental of equipment	
	1,642	Printing services	
	1,400	Engineering consulting	
	1,269	Works on ramp	
	1,265	Transport service	
	1,180	Projection show	
1,180	Sound rental		
Xewkija	1,520	Day Centre for the Elderly	In the future, if the amount of quotations exceed the quotation limit, a tender will be issued.
Xghajra	1,458	Food items	LGA's observation has been noted.
Żabbar	1,644	Public property	The items or services differ in nature and therefore the threshold was not exceeded. Hence no quotations were needed since the services rendered are of a different genre.
	1,345	Road and pavement repairs	
	1,214	Urban improvements	
	1,212	Concrete	

## Appendix L – Procurement not carried out in line with Pertinent Regulations

*cont./*

**Table 2: Goods/services of the same nature procured within a period of four consecutive months without issuing a public call for quotations *cont./***

Local Council	Amount	Details	Council's reply
	€		
Żebbuġ (Gozo) <sup>91</sup>	2,946	Lighting and sound system	The purchase procedures allow for purchasing directly from a supplier up to a value of €1,164. The Local Councils Procedures state that purchases of value not greater than €1,165, for items of the same nature, can be approved by the Council provided that such items are not purchased within a consecutive four month period.
	1,319	Printing services	
Żejtun	3,664	Instant road repair bags	The Council adheres to the procurement procedures in the majority of its acquisitions. However, it must be pointed out that the acquisitions mentioned by LGA were done over a number of months.
	1,812	IT services	
	1,520	Maintenance works	
	1,455	Transport services	

<sup>91</sup> The Council did not obtain quotations but suppliers were chosen on the basis of satisfaction of the services provided.

## Appendix M – Change in Executive Secretary

Local Council/ Regional Committee	Office Term of the outgoing Secretary		Position	Remarks
	From	To		
Attard	12/02/2013	30/06/2013	Deputy Executive Secretary	Executive Secretary was on maternity leave between 3 March and 30 June 2013.
Birgu	15/03/2006	23/06/2013	Executive Secretary	During the period 24 June 2013 to 23 June 2015 Executive Secretary will be on unpaid leave to work in the office of MEP.
	24/06/2013	31/12/2013	Deputy Executive Secretary	An Executive Secretary was appointed.
Fontana	18/09/2012	17/04/2013	Acting Executive Secretary	Executive Secretary resigned.
Gharb	29/09/1994	07/07/2013	Executive Secretary	Executive Secretary on maternity leave.
Gharghur	18/09/2012	17/06/2013	Acting Executive Secretary	A new Executive Secretary was appointed.
Kirkop	10/10/2012	30/09/2013	Acting Executive Secretary	Acting Executive Secretary resigned.
Lija	27/11/2012	6/03/2013	Deputy Executive Secretary	An Acting Executive Secretary was appointed.
Msida	27/08/2012	28/02/2013	Acting Executive Secretary	An Executive Secretary was appointed.
Sannat	12/04/1994	9/09/2013	Executive Secretary	Executive Secretary was transferred to DLG.
Santa Venera	19/12/2011	17/06/2013	Executive Secretary	Appointed Executive Secretary at Gharghur Local Council.
Ta' Xbiex	14/11/2012	23/01/2013	Acting Executive Secretary	Replaced the previous Acting Executive Secretary.
Xaghra	21/06/2012	30/06/2013	Executive Secretary	Transferred to the Ministry for Gozo.
South Eastern Regional Committee	05/08/2010	26/03/2013	Executive Secretary	Transferred to Fisheries Directorate.
Southern Regional Committee	18/04/2013	29/05/2013	Acting Executive Secretary	Transferred to the Office of the Prime Minister.
	01/08/2010	17/04/2013	Executive Secretary	Transferred to the Ministry of Tourism.
Administrative Committee – Swatar	01/07/2010	08/10/2013	Executive Secretary	Executive Secretary resigned.

The following is a list of Memos issued by the Department for Local Government during the years, which were referred to throughout the report.

<b>List of Memos</b>	
Memo 14/2014	Mid-Term Audit
Memo 1/2014	Gheluq tas-Sena Finanzjarja
Memo 34/2013	Sejhiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq
Memo 25/2013	Skema dwar Inizjattivi ta' Attivitajiet 2013-2014 – Applikazzjoni tal-KL
Memo 21/2013	Linji Gwida Dwar Telefon Ċellulari tal-Kunsilli Lokali
Memo 17/2013	Skema ta' Għajnuna Finanzjarja għal Streaming tal-Laqqhat Online – Specifications
Memo 16/2013	Kontribut Finanzjarju ta' Kunsill Lokali għal Xiri ta' Materjal Edukattiv għall-Iskejjel
Memo 15/2013	L-Użu tal-Internet Banking
Memo 11/2013	Hlas ta' Taxxa u tal-Bolla tas-Sigurta' Soċjali
Memo 10/2013	Kuntratti tal-Kunsilli Lokali
Memo 59/2012	Gheluq tas-Sena Finanzjarja
Memo 49/2012	Skema dwar Inizjattivi Sportivi fil-Lokalitajiet 2013
Memo 38/2012	Skema dwar Inizjattivi ta' Attivitajiet 2012/2013
Memo 122/2011	Skema ta' Finanzjament għal Restawr ta' Postijiet Storiċi Żgħar
Memo 121/2011	Gheluq tas-Sena Finanzjarja
Memo 93/2011	Administration fee għal hlas ta' multi fl-Uffiċċji Amministrattivi tal-Kunsilli Lokali – korrezzjoni
Memo 84/2011	It-Tharis tal-Ordnijiet Permanenti waqt il-Laqqha tal-Kunsill
Memo 65/2011	Skema dwar Inizjattivi ta' Attivitajiet 2012
Memo 63/2011	Skema ta' Finanzjament ta' Proġetti Speċjali f' Lokalitajiet Żgħar
Memo 55/2011	Skema ta' Finanzjament għall-Proġetti u Inizjattivi mill-Kumitati Amministrattivi fil-Lokalitajiet tagħhom
Memo 8/2011	Emenda għal Memo 122/2010 – Ikliet/riċevimenti organizzati mill-Kunsilli Lokali
Memo 150/2010	Gheluq tas-Sena Finanzjarja
Memo 122/2010	Ikliet/ riċevimenti organizzati mill-Kunsilli Lokali
Memo 120/2010	Użu ta' Laptops
Memo 109/2010	Użu tal-Mobile Phones
Memo 107/2010	Avviż Legali 374 tal-2010 – Regolamenti tal-2010 dwar Allowance lis-Sindki u lill-Kunsillier Lokali – dokument meħmuż
Memo 45/2010	Kuntratti Ġodda dwar Resurfacing ta' toroq b'sistema ta' Public Private Partnership
Memo 26/2010	Taxxa fuq l-Allowance lill-Kunsillieri
Memo 14/2010	Skema Dwar Inizjattivi ta' Attivitajiet 2010
Memo 3/2010	Tibdil fl-Onorarju tas-Sindki
Memo 35/2009	www. lc.gov.mt
Memo 7/2004	Rappreżentanti ta' l-Udituri tal-Gvern
Memo 8/2002	Laqqha Annwali mal-Awditur Ġenerali

Included in the table hereunder, is a list of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) that were referred to, throughout the report.

<b>International Accounting Standards (IASs)</b>	
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 11	Construction Contracts
IAS 16	Property, Plant and Equipment
IAS 18	Revenue
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 24	Related Party Disclosure
IAS 31	Interests in Joint Ventures
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
<b>International Financial Reporting Standards (IFRSs)</b>	
IFRS 7	Financial Instruments Disclosure
IFRS 10	Consolidated Financial Statements

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