



Grant Thornton

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The Mayor
Zabbar Local Council
Centru Ċiviku,
Triq iċ-Ċawli,
Haż-Zabbar ZBR 1322

Our ref ABC/scl/028316

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

Level 2
Regional Business Centre
University Heights
Msida MSD 1751
Malta

T +356 21320134
F +356 21331161
www.grantthornton.com.mt

Dear Sir,

Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We still encountered instances where the council failed to deposit custodial receipts on a timely basis (refer to notes 2.1).

We again identified a difference in the council's income from LES administration fees (refer to notes 2.3 and 2.5).

1.2 Personal emoluments

We again encountered differences in the wages' reconciliation between FS5s and FS7 (refer to note 3.1).

The council has correctly accounted for the mayor's honorarium and allowance which agreed to the FS3.

We did not identify any differences when reconciling councillors' allowances to the respective FS3s. However other irregularities were noted (refer to note 3.6).

We still encountered instances where the council approved to carry forward unused leave of employees (refer to note 3.4).

1.3 Expenditure

We still came across expenditure which was not supported by the required documentation (refer to note 4.1).

REGISTRY

29 APR 2016

NATIONAL AUDIT OFFICE

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Certain purchases were not supported by a purchase order and no quotation was obtained. We did not find an instance where expenditure was not supported by a valid fiscal invoice (refer to note 4.3).

The council did not make a call for quotations for all expenses exceeding € 1,165 (refer to note 4.5).

We did not come across instances where purchases of the same nature were made over a consecutive period of four months.

All tenders tested during our audit procedures were correctly issued prior to the expiration of the previous tender contract (except as noted in note 4.18).

In some instances, the council failed to obtain the performance bond within seven days from the issue of letter of acceptance (refer to note 4.8).

Tender adjudications were correctly published by the Council within three working days from the day decision was taken.

The council allowed a minimum of one month from the date of publication of tenders and the closing date.

The council did not extend any tender contracts.

The council continued using the expired contract with Nexos Street Lighting (refer to note 4.18).

The council obtained a rental agreement for the garage; however this was not the case for the rent of office premises and the garden (refer to note 4.12 and 4.13).

No donations were identified during our audit procedures.

1.4 **Property, plant and equipment**

Variances were still identified when reconciling the fixed asset register to the accounts (refer to note 5.1).

Fixed assets additions were allocated to the correct fixed asset category in the fixed asset register.

The fixed asset register was not updated with location details of assets and assets are not tagged accordingly (refer to note 5.4).

Accumulated depreciation on capitalisation of VAT on the road resurfacing adjustment proposed last year was correctly adjusted. However the council failed to reflect the adjusting entry in the fixed asset register (refer to note 5.2).

The replacement basis was correctly applied to new street signs and litter bins acquired during the year.

Obsolete assets in the fixed asset register were identified by the council and written off accordingly.

Disposals of fixed assets were discussed and approved in council meetings.

1.5 Debtors

We were pleased to note that the council has applied our recommendation to make a provision for the balance receivable from WSC.

The unidentified deposits are still being recorded as a liability instead of being allocated to the appropriate receivable account (refer to note 6.3).

We still encountered instances where the council showed lack of control over the collection of their receivables (refer to note 6.6).

In addition, provisions for doubtful debts and bad debts written off are still not being approved by the council (refer to 6.6 and 6.10).

We again identified a difference between the council's LES debtors at year-end and the tribunal pending payments as extracted from report 622 of the Loqus system (refer to note 6.15).

1.6 Inventory

An inventory count is still not being performed by the council. Furthermore we also noted that inventory is still being recorded at a value higher than its net realisable value (refer to note 7).

1.7 Bank and cash

The council did not provide bank statements up to 31 December 2015 for all bank accounts (refer to note 8.1).

1.8 Trade payables

Creditors' reconciliations to supplier statements are not being performed by the council (refer to note 9.1).

The claim from Vella Group Limited for € 47,381 has been resolved.

We still identified differences when reconciling outstanding invoices with the respective creditors' balances (refer to note 9.3 and 9.4).

As in previous years, we identified a number of trade creditors which are long overdue (refer to note 9.6).

During our audit, we again found minor differences in the council's provision for accruals (refer to note 9.8).

The council is still not applying IAS 39 to its long term liability for the PPP scheme (refer to note 9.14).

1.9 Financial statements

The unaudited financial statements of the council were not fully compliant with International Financial Reporting Standards (refer to note 10.1).

The unaudited financial statements for 2015 include IFRS presentation errors (refer to note 10.2).

Budgeted capital expenditure disclosed in annual budget 2016 agrees to the anticipated capital commitments disclosed in unaudited financial statements.



IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* disclosure requirements were not adhered to (refer to note 10.4).

Cash outflows and inflows were not properly disclosed in the unaudited cash flow statement (refer to note 10.6).

The trial balance agreed to the unaudited financial statements.

1.10 Annual budget

The council failed to approve the annual budget within the stipulated time as provided for in section 56 of the Local Councils Act, 1996 (refer to note 11).

1.11 Council meetings and minutes

The council did not follow our recommendation to bind the minutes (refer to note 12.1).

Council meetings did not exceed three hours.

Council meetings were regularly held during the year without exceeding five weeks from one meeting to the other.

We came across one instance where the council did not set the date of the next meeting at the end of the meeting (refer to note 12.3).

Members of the council regularly attended the council meetings and the necessary quorum was reached for all meetings.

1.12 Other matters

The council is still not uploading reports and documents in a timely manner, and in accordance with memos 36/2011 and 02/2014 (refer to note 13.1).

2 Income

General income

2.1 We came across instances where the council failed to deposit custodial receipts on a timely basis. Examples are:

Details	Receipt date	Deposit date	€
LES	24.01.2015	29.01.2015	232.94
LES	01.04.2015	07.04.2015	69.88
LES	21.03.2015	27.03.2015	58.00
Lands Department	28.01.2015	06.02.2015	255.78

2.2 In accordance with the Procedures, the council should deposit custodial receipts at least twice weekly to comply with the Procedures as well as for security reasons.

Administration fee income from LES receipts

2.3 In accordance with memo 26/2015, fines issued on and after 1 October 2015 are due to the Local Enforcement System Agency (LESA). The council will collect money received relating to fines issued on or after 1 October 2015 and transfer it in

full to LESA. In turn, the council invoices LESA 10% administration fee of the amounts collected on its behalf.

- 2.4 Initially the council provided us with financial report 483 'Post- Regional' tickets which amounted to € 201,494. This resulted in an administration fee difference of € 9,048. We noted that only the Post Regional Report was generated and LESA report could not be extracted. Upon contacting Loqus help desk, the council realised they did not have the latest Loqus system version. After the system was updated, new reports were generated for both 'Post Regional' and LESA Tickets.
- 2.5 Due to the fact that the software issue was not identified in a timely manner, the council did not charge the 10% fee to LESA with respect to tickets collected on their behalf. Thus understating income and receivable balance from LESA by € 1,197.21. We have proposed an adjustment to include this income which was approved by the council and included in the latest set of financial statements.
- 2.6 We advise the council to keep itself informed and update its operating systems in a timely manner in order to prevent any discrepancies and incorrect processing of data.
- 2.7 In addition to above, the administration income is also understated by € 82 with respect to contraventions collected on behalf of regional committees.
- 2.8 We recommend that the council investigates the difference and determines if the discrepancy relates to mistakes in the invoices issued to the regional committees or a misposting.

MEPA accrued grant

- 2.9 During the course of our audit, we were provided with the signed contract agreement dated 22 January 2015 between Malta Environment and Planning Authority (MEPA) and the Zabbar Local Council with respect to 'Tisbih ta' Gnien il-Kunsill fi Triq il-Kunvent' project. This binding contract agreement claims that € 100,000 of the cost of these works will be financed by MEPA. In accordance with International Financial Reporting Standards, the council should account for accrued grants once these become receivable under the agreement. The council made no such provision in its books of account. An audit adjustment to accrue for these grants receivable was proposed to the council which was approved.
- 2.10 We remind the council to make appropriate provisions for agreed grants receivable if these are not received by year-end since, if not done, this will be result in understating the council's receivables and deferred income.

3 Payroll

Wages reconciliation

- 3.1 Whilst testing the wages' reconciliation of the council, we came across an un-reconciled discrepancy of € 28.70 between the personnel emoluments in the accounting records and the amounts declared in FS5 forms sent to the Inland Revenue Department. We also noted a difference of € 293.28 between the FS5s and FS7.
- 3.2 It is important that FSS forms agree to payroll expenditure as per accounts to ensure that all amounts paid are properly declared to the CIR. We therefore suggest

that these are reconciled on a monthly basis and any identified differences are investigated and adjusted.

- 3.3 Furthermore, we recommend that all wages paid by the council are correctly reported to the Commissioner of Inland Revenue and that the necessary adjustments to FS5 forms are made to ensure that the amounts declared tallies with the balances recorded in the accounting records.

Leave carried forward

- 3.4 The council approved to carry forward 26.5, 40.25 and 67 hours unused leave of three employees.
- 3.5 May we remind the council that the Local Councils (Human Resources) Procedures, 1996 state that leave carried forward by the council's employees shall be taken before the 31 March of the following year. Any balance remaining shall not be carried forward except in extreme circumstances and at the discretion of the secretary and only from one year to the next.

Declaration of councillors' allowances

- 3.6 The council has incorrectly reported councillors' allowances under 'Part Time Gross Emoluments' in the FS3s of the councillors and FS7.
- 3.7 We would like to remind you that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under 'Gross Emoluments (FSS Main or FSS Other Applies)'. We recommend that the council adheres to these rules in the future.

4 Expenditure

Petty cash expenditure

- 4.1 When testing petty cash payments we noted that these are supported by a cash register chit which is not addressed to the council. Examples include:

Details	Supplier	Date	€
Ice flakes	Gamblu Pet Shop	01.02.2015	16.25
Gloves, key lock and keys	Kenneth Hardware Store	05.05.2015	18.00
Sparten plug	Broomy Garage	15.06.2015	14.00
Insecticide	Brumi Pet Shop	09.07.2015	20.00
Beverages for foreign delegate	Hilton Vista Bar	13.09.2015	11.20
'Merhba lill-Harifa' event expenses	Mirrorhi	21.09.2015	9.85
Food	Saviour Store	22.12.2015	11.12

- 4.2 We understand that, in some instances, only a cash register chit can be obtained for petty purchases. However, we still recommend that an invoice should be addressed to the council to ensure that items are for the council's use. A cash register chit has no addressee and, in some instances, not detailed enough and therefore there is no assurance that the purchase is in the normal course of council operations.

Procurement procedures

- 4.3 Our testing on cheque payments revealed that some purchases were not supported by a purchase order in accordance with the Local Councils Procedures. We were

not provided with any evidence of the relevant purchase orders during our fieldwork. Examples include:

Supplier	Details	€
A&S Signs and Events	Christmas village banner	944.00
XV Solutions	Renting PA 300 system	690.00
Malta Information Technology	Connectivity fee Jan-Jun	833.69
Eco Pure Limited	Water purchase	425.00

- 4.4 In relation to the above mentioned examples, the council did not obtain a quotation for these purchases.
- 4.5 Furthermore, we also noted that the council did not obtain at least three signed quotations for purchase of loose asphalt for € 1,249.80 from Bitmac.
- 4.6 We refer to the Local Councils Procedures which state that council purchases in excess of € 23.29 must be initiated through properly authorised written purchase orders. In addition, unless covered by a contract or purchase agreement, the council must obtain a minimum of one quotation for purchases not exceeding € 1,165 and at least three quotations for those between € 1,165 and € 4,658.
- 4.7 In its procurement process, the council is also bound by the requirements of memo 1/2010 and publish all calls for quotations on the Government Gazette and a local newspaper as instructed by the Department for Local Government.

Performance bond

- 4.8 We noted that, in the case of tenders ZLC 1/2015, ZLC 6/2015 and ZLC 7/2015, the successful bidders failed to produce a performance bond within seven days from the date of the letter of acceptance.
- 4.9 We recommend that the council abides by the Local Councils (Tendering) Procedures, 1996 and requests a performance bond from the successful tenderer before the commencement date of the contract and within seven days from the date of the letter of acceptance. The purpose of the performance bond is to secure the faithful performance of the contract and the payment of all obligations arising thereunder.

Group personal accident insurance

- 4.10 We also noted that the council's group personal accident policy covering the councillors, executive secretary and clerical staff is on a worldwide basis.
- 4.11 We recommend that the council updates the insurance policy accordingly to limit coverage to Malta only. If council overseas travelling is required, insurance can be taken out for this specific purpose.

Rent agreement

- 4.12 The council does not have a contract in place for the rent of the office premises and a garden from the Government of Malta for € 350 and € 582 respectively.
- 4.13 We strongly recommend that the council and the lessor enter into a rental contract that lays down the rights and obligations of each party. The contract should be signed by both parties to be valid and should include the price, the rent period and responsibilities and duties of each party.

**Gal Xlokk membership**

- 4.14 During 2015, the council entered into a membership of Programme LEADER of the Gal Xlokk Foundation. The council paid € 5,500 to cover fees for the period 2014 to 2020.
- 4.15 Our audit procedures revealed that the council did not make appropriate provision for prepayment and therefore the membership fee for the year was overstated by € 3,927.57. We proposed an audit adjustment to correct this difference which was correctly reflected in the audited financial statements.
- 4.16 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accruals concept.
- 4.17 We also recommend that the council obtains the financial statements from Gal Xlokk so that the council will be able to assess the cost/benefit of this membership.

Street lighting

- 4.18 During 2015, the council made use of the expired contract between Nexos Street Lighting and Valletta Joint Committee for the services of street lighting repairs and maintenance under the same terms and conditions. This contravenes memo 34/2013, which requires the council to issue a call for tenders for the services of street lighting repairs until this is delegated to the respective regional committee.
- 4.19 The council should note that the tender for street lighting repairs was adjudicated by Xlokk regional committee in 2015 and, as such, the requirements under memo 34/2013 have been superseded.
- 4.20 Nonetheless, we would like to refer you to memo 10/2013 which states that the council should not make use of expired contracts and should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires.

5 Property, plant and equipment**Reconciliation to fixed asset register**

- 5.1 We have noted that the fixed asset register is not in agreement with the accounting records. The following is a summary of the variances in classes identified:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Construction	851,680	819,948	31,732
Office equipment	10,581	10,407	174
Office furniture and fittings	28,829	28,847	(18)
Urban improvements	39,475	39,477	(2)
	<u>930,565</u>	<u>898,679</u>	<u>31,886</u>

- 5.2 It was noted that the difference of € 31,886 arises mainly from adjustment number 1 passed in 2014 amounting to € 31,728 in relation to accumulated depreciation of construction. The adjustment was correctly passed in the books of accounts. However it was not reflected in the council's fixed asset register. As a result, the

fixed asset register shows less accumulated depreciation than the financial statements.

Depreciation of fixed assets

- 5.3 When testing depreciation for reasonableness, we noted that the council's depreciation charge for the year is overstated by € 2,190 according to our workings. We did not propose an adjustment since this is an estimate.

Details of fixed asset register

- 5.4 We would also like to highlight the fact that the fixed asset register does not include important information like location of assets and detailed descriptions.
- 5.5 We draw your attention to the Local Councils (Financial) Procedures, 1996 and memos issued from time to time which state that the executive secretary is required to create, maintain and control an accurate and up-to-date inventory of the council's fixed assets. The fixed asset register should include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Cost
 - Depreciation method and rate
 - Location of the asset

Assets should be tagged (where applicable), and referenced to the fixed asset register in accordance with the Local Councils (Financial) Procedures, 1996. This would enable the council to identify the assets and verify their physical existence and condition.

- 5.6 Further to the above, we identified variances between the fixed asset nominal accounts and the fixed asset schedule in the unaudited financial statements. The differences were noted in 'Urban Improvements' and 'Construction' and are quantified in the table below:

	NBV in nominal ledger €	NBV in unaudited financial statements €	Difference €	5.7
Urban improvements	855,943	819,948	35,995	
Construction	3,484	39,477	(35,993)	
Difference			<u>2</u>	

The council should investigate the variances mentioned above and ensure that the financial statements are in agreement with the nominal ledger and the financial statements.

**6 Debtors****Trade receivables reconciliations**

- 6.1 While performing alternative procedures on trade debtors, after tracing any receipts after year end and verifying outstanding amounts to invoices, we identified differences in Central Region Committee of € 333.23.
- 6.2 We suggest that all differences identified are investigated and adjusted accordingly. The council should carefully consider receipts from third parties to ensure that these are properly allocated against specific invoices in the accounts thus highlighting any unpaid invoices or differences.

Unidentified deposits

- 6.3 The executive secretary informed us that the unidentified deposits of € 4,966.93 pertain to receipts deposited by other councils in relation to the old LES system. During the past years the council has been recording these deposits without matching them to the appropriate fines since no adequate information was provided by the depositing councils.
- 6.4 When this amount was compared to the total receivable balances from other councils it was found that the council received € 1,006.57 more than is actually owed according to the books of accounts.
- 6.5 The council could not provide an explanation for this difference. We recommend that both outstanding amounts and differences are investigated and reconciled.

Provision for bad debts

- 6.6 The council also recorded a provision against the following doubtful receivables:

Debtor	€
HSBC	200.00
Kenneth Hardware Store	93.17
Pitty's Rent a Car	83.86
SC Engineering Supplies Limited	186.35
Total	563.38

We did not trace any approval for this provision in the council minutes

- 6.7 The above indicates the council's failure to collect the amounts due to it. The Financial Procedures state that it must be ensured that income due or owed to the council is received on time and the executive secretary must maintain, review and monitor information on the current state of the debtors. All provision for doubtful debt should be approved during meetings and minuted.
- 6.8 Therefore, we strongly recommend that the council establishes a proper credit control system to limit its exposure to default risk. In addition, the council should continue chasing these debtors for payment.
- 6.9 Furthermore, we noted that the council has incorrectly accounted for the movement in provision for LES debtors in provision for doubtful debts account. We proposed an audit reclassification to rectify the error which was correctly reflected in the audited financial statements.



Bad debts written off

- 6.10 The council also wrote off the following aged receivables:

Debtor	€
Salvu Bezzina	41.93
ESL Gross Market	69.88
Franks Pet Shop	41.93
Glass Creations	93.18
Angelo Grech	186.51
Horace Enterprises Limited	34.94
Mr. Michael Mugliet	93.17
Tony's Photo Studio	34.94
Worldwide Airlines	34.94
Total	631.42

- 6.11 We did not identify the council's approval to write off these receivables from the book of accounts in the meeting minutes.
- 6.12 We understand that the council may write off irrecoverable receivable balances. However the council should approve the writing off of receivables in meetings and document how the decision was reached in the minutes.

Prepayments

- 6.13 We noted that prepayments' list is understated by € 50 compared to the accounts. No adjustment was proposed as the amount is not significant.
- 6.14 We recommend that prepayments' list is properly updated and reconciled to the books of accounts.

Pre-regional LES debtors

- 6.15 During our audit tests, we noted that the council's LES debtors amounted to € 364,652 at year-end, while tribunal pending payments according to report 622 from the Loqus system was € 364,605. This represents a difference of € 47 for which the council did not provide us with any explanation.
- 6.16 Furthermore, the movement in tribunal pending payments as per report 622 since 1 January 2015 was € 1,190 which contrasts with the amount of € 1,473 as per report 483 for pre-regional contraventions settled during the year.
- 6.17 We would like to remind you that it is the council's responsibility to investigate these differences and refer them to Loqus.

7 Inventories

Net realisable value of inventories

- 7.1 The council's inventory comprises books intended for resale. However, as also noted in last year's audit, the majority are given out as prizes.
- 7.2 In addition to the above we also identified a difference of € 6.56 between the stocklist and amount recorded in the accounting records.



- 7.3 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. 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, *Inventories*. Furthermore the stock list as at year end should agree to the stock list amount in the books of account.

8 Bank and cash

- 8.1 The council did not provide us with HSBC bank statements up to 31 December 2015 for all the bank accounts but only with printed bank transactions from the internet banking. Furthermore one BOV statement obtained was dated to 24 December and not 31 December as required.
- 8.2 We recommend that the council obtains bank statements as at year-end to ensure no movements have taken place and that the correct balance is included in the books of account at year end.

List of unpresented cheques

- 8.3 During our testing on the unpresented cheques we noted that the BOV current account reconciliation included the following 'stale' cheques:

Cheque number	Cheque date	€
7334	15.09.2014	1583.33
7626	28.01.2015	289.10
7831	12.05.2015	168.00
7979	21.07.2015	400.00
		<u>2,440.43</u>

- 8.4 We recommend that the council reviews the list of unpresented cheques and investigates those that are outdated. Since the above cheques are long outstanding, the amounts should be transferred from the bank balance and included with creditors or deducted from expenses so as to ensure that the bank balance represents the correct balance.
- 8.5 On the basis of above finding, the council should prepare regular bank reconciliations to identify any exceptions on time. The reconciliations should be checked to ensure that there are no 'stale' or cancelled cheques.

Final withholding tax on bank interest

- 8.6 We noted that the interest received by the council on its HSBC Savings 042-060384-050 was charged a final withholding tax of € 4.65.
- 8.7 We recommend that the council instructs the bank not to withhold tax from interest on deposits held, since councils are exempt from income tax.

9 Creditors

Trade creditors

- 9.1 We 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.

- 9.2 Efficient book keeping requires that creditors' reconciliations are prepared on a regular basis to detect errors in the accounts or in supplier statements. Creditor reconciliations allow the council to resolve discrepancies in a timely manner. Therefore we recommend that reconciliations of creditors' balances, control account in the general ledger and statements should be carried out regularly, preferable monthly.
- 9.3 In our reconciliation of the creditor balance of WasteServ Malta Limited to the statement we found that the supplier is claiming € 632 more than that reported by the council. This difference was not reconciled by the council.
- 9.4 In addition to the above, we noted that Environmental Landscapes Consortium Ltd is claiming € 1,583.33 more than the balance in the council's creditors' list. We have identified that the difference is caused due to a stale cheque.
- 9.5 We strongly recommend that the council investigates any differences and determines whether all purchase invoices have been posted in the books of account. The council should also implement proper controls over payables by performing reconciliations to supplier statements on a regular basis to ensure the completeness of the books of account.

Long outstanding trade creditors

- 9.6 The council's creditors' list includes the following balances which have been outstanding for more than a year:

Creditor	€
Alfred Schembri and Sons	3,616.16
Central Asphalt Limited	4,620.43
Reno Galea	150.00
Ivision	118.00
Pitty's Rent- a Car	59.00
PSV Turkey Contractors	3,409.27
Frankie Mifsud	1,575.00
Paul Azzopardi	500.00
Telemalta	42.96
Firm Frank Attard	37.99
Total	14,128.81

9.7

We advise the council to review these amounts individually, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Accrued expenditure

- 9.8 The accruals' list provided by the council does not agree to the trial balance by € 27.
- 9.9 We also noted an under accrual of € 250 in cultural events accounts regarding choir services expenses incurred in December 2015.
- 9.10 We did not adjust for these differences since amounts are not considered significant. We recommend that the council ensures that accruals are adequately calculated and accounted for.



Debit balance in creditors' list

- 9.11 The council's creditors' list includes a debit balance of € 320.25, which has not been reclassified to other debtors.
- 9.12 We recommend that the council presents debit balances separately from creditors as other debtors in the financial statements
- 9.13 Further to the above, the council should investigate all debit balances in creditors' list as these could indicate payments allocated to the wrong creditor account, invoices not recorded or overpayments.

PPP long term creditor

- 9.14 During our audit procedures, we found that the council has not applied the effective interest method correctly on PPP payables in current and prior years, as the council has capitalised the imputed interest with the cost of the asset recognising a liability of € 167,329 which, in accordance with memo 45/2010, can be paid for over a period of eight years.
- 9.15 At the end of 2015, the balance stood at € 130,325 payable over six years. In the previous management letter it was noted that such long term liabilities should be discounted to the present value using the effective interest method.
- 9.16 We would also like to refer you to the effective interest method of IAS 39, which is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest expense over the relevant period using a discount rate. In this regard, the council should record the interest element of these periodic instalments to the PPP contractor as finance expense rather than capitalised with the cost of the asset. If so, we recommend that an adjustment is passed to reflect the present value at the balance sheet date. In view of this our audit report is qualified.

10 Financial statements

Presentation of financial statements

- 10.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS).

Below are some of the non-compliance issues identified:

- i. The council disclosed amendment to IFRS 11, *Joint Arrangements* in the new and amended IFRSs adopted by the council which is not relevant to the council.
 - ii. The council did not disclose the accounting policy for provisions, contingent assets and contingent liabilities.
 - iii. Certain requirements of IFRS 7 are not adhered to e.g contractual maturity of liabilities; classes of assets and liabilities are given and not categories.
- 10.2 Other shortcomings identified in the unaudited financial statements are listed below:
- i. Personal emoluments disclosed in note 3 surplus for the year do not agree to personal emoluments in note 8.
 - ii. Notes references in surplus for the year note 3 are not correct.

- iii. Cash and bank balance disclosed in note 17 does not agree to cash and balance disclosed in financial assets note 25.
- iv. Bank overdraft disclosed in note 17 does not agree to bank overdraft disclosed in financial liabilities note 25.
- v. Provision for LES doubtful debts disclosure includes the provision for trade debtors.

10.3 All above issues were appropriately amendment in the audited financial statements.

Contingent liabilities

- 10.4 The council has again disclosed contingent liabilities amounting to € 5,096 as claims for damages of motor vehicles. Upon discussion it was concluded that the chance of claims being paid is remote.
- 10.5 We recommend that this balance is not disclosed in the financial statements as a contingent liability and that the council abides by IFRS's which state that a contingent liability is only recorded if there is a possibility of payment.

Cash flow statement

- 10.6 We observed that the cash flow statement of the council had some shortcomings:
- i. It does not properly disclose the cash outflows to acquire property, plant and equipment
 - ii. Cash flow generated from bank interest include non-cash accrued interest.
 - iii. The adjustment for changes in working capital in the cash flow statement is not disclosed correctly, since the council is including the cash generated from operating activities as a whole amount rather than disclosing separately each major class of gross cash receipts and gross cash payments.
- 10.7 We recommend that the council prepares the cash flow statement in accordance with IAS 7, *Statement of Cash Flows*. The above short comings were correctly amended in the audited financial statements

11 Annual budget

- 11.1 The council provided us with an unsigned copy of the budget which was approved at the meeting held on 29 February 2016.
- 11.2 This contravenes the provisions of section 56 of the Local Councils Act, 1996 stating that the budget must be prepared and approved by the council not later than 15 February of each year. To this end, we recommend that the council approves the budget by the prescribed date for proper financial planning and to prioritise expenditures.

12 Council meetings and minutes

Binding of minutes

- 12.1 We observed that the minutes of the council are not bound at the end of each financial period. The same was noted in the previous audit.



- 12.2 We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

Meeting regulations

- 12.3 We noted that the date of the next meeting was not set at the end of one meeting.
- 12.4 According to the Local Councils Act, at the end of every meeting the council must set the next council meeting which shall be fixed. If no unanimous agreement is reached, the councillors are to vote and decide according to the majority. This shall not be changed for any reason. Therefore we recommend that these requirements are followed.

Schedules of payments

- 12.5 It was observed that the council did not include information about cheque numbers on some of the schedules uploaded on the website. The majority of cheques not listed on schedule of payments were cancelled cheques and petty cash top-ups, of the cancelled cheques, 7746, 8069, 8158 could not be traced.
- 12.6 The council should comply with memo 37/2011 which lays down the minimum details that must be included in the schedules of payment. This information allows easy cross-referencing between the accounting system and the schedules of payment.

13 Electronic site

- 13.1 During our audit work we have found that the council is not uploading minutes, quarterly financial reports, business plan, audited financial statements and annual administration reports in accordance with memos 36/2011 and 2/2014. The following are some instances encountered:
- a) Business plan 2015 - 2017 was not uploaded on the site by 22 April.
 - b) All minutes uploaded are not signed.
 - c) Quarterly financial reports were not uploaded on the site in a timely manner.
 - d) Annual budget 2015 was not published by 15 April.
- 13.2 We recommend that the council abides by the directive given in memo 2/2014 where it is stated that all meeting minutes and schedules of payments must be uploaded on the council's site within three days of approval. The signature on the documents are the confirmation that the uploaded documents are the approved and correct ones.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.



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We would like to take this opportunity to thank Mr Duncan Busuttill and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

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