

The Mayor,  
Msida Local Council,  
Msida Civic Centre,  
Pjazza Menqa  
Msida

25 April 2017

## **Financial Statements for the year ended 31 December 2016**

During the course of our audit for the year ended 31 December 2016, we have reviewed the accounting system and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Council 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 Fixed assets**

We noted again that Council's fixed assets are still not being tagged and include items with a general description (refer to note 2.1).

We also identified differences between the fixed asset register and the fixed asset schedule (refer to note 2.3).

We again identified differences between the estimated depreciation charge and that as per ledger (refer to note 2.7).

Assets belonging to the Central Regional Committee have been effectively transferred to the Regional Committee.

#### **1.2 Creditors**

The Council is still not obtaining monthly statements from suppliers (refer to note 3.1).

#### **1.3 Income**

Once again we noted errors in accounting for funds received from the Central Regional Committee (refer to note 4.1).

We again noted an over accrual for tipping fees to be covered by DLG (refer to note 4.5)

#### **1.4 Receivables**

The Council still has aged receivables on its books (refer to note 5.1).

We did not find any issues with the provision for bad debts, nor did the Council write off any credit balances in debtors.

#### **1.5 Expenditure**

We noted that the Council did not issue any new tenders in 2016 and is still operating with expired contracts (refer to note 6.1).

In view of the clarification made by Circular 28/2016, we have no comments to make on petty cash payments.

#### **1.6 Bank and cash**

We did not note any petty cash transaction in excess of EUR23. However, we again noted that the petty cash balance is in excess of the limit of EUR233 (refer to note 7.1).

We noted again weaknesses with the bank reconciliation process (refer to notes 7.4 to 7.6).

We are pleased to note that the accounts representatives have been updated.

#### **1.7 Tendering procedures**

The accountancy tender was re-issued in the period under review.

#### **1.8 Minutes of meetings**

We again came across weaknesses in minutes of Council meetings (refer to note 8).

#### **1.9 Insurance**

Similar issues were noted in the current year (refer to note 9).

### **1.10 Payroll**

We did not come across any significant differences in the payroll reconciliations.

We were pleased to note that all FS5 forms were paid and filed on time.

### **1.11 Presentation of Financial Statements**

We again identified departures from IFRS requirements (refer to note 11).

### **1.12 Liquidity position**

The Council still has a negative cash liquidity position and its FSI is still below the required threshold (refer to note 12).

### **1.13 Appointment of new Executive Secretary**

We again noted changes in Executive Secretary but no mid-term audit was requested (refer to note 13).

### **1.14 Reply to the Management letter**

We are pleased to note that the Council replied to our management letter.

#### **Current year issues**

## **2 Property, plant and equipment**

#### **Asset tagging**

- 2.1. During the audit, we were once again presented with a fixed asset register which still included general descriptions given in the assets, such as, "new office furniture and fitting" and "office furniture" and lack of supplier details and invoice numbers, we were unable to trace the assets selected. Moreover, the assets in the Council's premises are not tagged to further distinguish them.
- 2.2. We reiterate the recommendation that the Council should also include supplier details, invoice number and asset tag code details in the fixed asset register.

#### **Reconciliation of fixed asset register to fixed assets schedule**

- 2.3. We reconciled the cost and depreciation per schedule (before any adjustments) with the costs and depreciation in the fixed assets register provided by the Council. The following differences were identified:

Asset class	Cost per schedule EUR	Cost per FAR EUR	Difference EUR	Depreciation/grants per schedule EUR	Depreciation per FAR EUR	Difference EUR
Trees	20,417	20,417	-	-	-	-
Office Furn & Fittings	71,197	71,197	-	52,301	52,604	- 303
Comp & office equipment	53,976	51,675	2,301	41,527	41,526	1
Urban improvements	186,327	233,250	- 46,923	133,850	133,851	- 1
Plant & Machinery	2,798	2,798	-	1,773	1,772	1
Motor vehicles	13,860	13,860	-	12,396	12,396	-
Street signs, mirrors & lights	50,440	50,565	- 125	50,440	50,565	- 125
Construction works	1,884,728	1,774,408	110,320	1,095,021	1,095,020	1
Building	465,835	465,835	-	106,613	106,613	-
<b>Total</b>	<b>2,749,578</b>	<b>2,684,005</b>	<b>65,573</b>	<b>1,493,921</b>	<b>1,494,347</b>	<b>- 426</b>
NBV				1,255,657	1,189,658	65,999

- 2.4. From a review of the differences, we noted that additions classified under construction and amounting to EUR62,178 were not recorded in the fixed asset register and a further difference of EUR303 emerged on the accumulated depreciation of office furniture and fitting as a result of the accounting for disposal of assets. The balancing difference of EUR3,519 is coming from previous periods.

#### Capitalisation of expenses

- 2.5. During our testing on additions to property, plant and equipment, we noted that the Council capitalised EUR66,647 in construction work. Of these, EUR4,634 related to repairs of the pump room at Misrah 5 ta' Ottubru. Due to the nature of the works, we proposed an adjustment to reclassify this amount to expenses for the year. We did not need to amend the depreciation charge since the Council did not depreciate this item. The Council approved our proposed adjustment and reflected it in the Financial Statements.
- 2.6. We recommend that the Council identifies clearly capital expenditure from recurrent expenditure to ensure that these are properly reported in the Financial Statements.

#### Depreciation

- 2.7. We recalculated the annual depreciation charge for each category using the monthly reducing balance method. Our workings revealed that:
- Depreciation provision for the year on construction was understated by EUR8,159, and
  - Depreciation charge on urban improvements was overstated by EUR4,692.

These differences arise from the allocation of assets between categories in the fixed assets register and since additions were excluded from the fixed



assets register. We proposed adjustments to amend the depreciation charges. The Council approved our adjustments and reflected them in the Financial Statements.

- 2.8. We noted that the depreciation rate used for all assets except buildings is the annual rather than monthly reducing balance. We recommend that the Council should communicate with Sage to remedy the calculation shortcoming.
- 2.9. The Council should ensure that the fixed assets register correctly represents the net book value per category and that this is adequately updated with additions and disposals so that the depreciation charge is calculated fairly.

#### **Disposal of fixed assets**

- 2.10. Throughout the year, the Council disposed of fixed assets that had previously been taken over by the Central Region. The cost of the assets disposed amounted to EUR935, however, the Council reported a disposal of EUR1,089. The accumulated depreciation reversed by the Council was overstated by EUR336. We proposed an adjustment to increase the cost of furniture and fittings by EUR154 and increase accumulated depreciation by EUR336. The difference of EUR182 was reduced from the gain on disposal. The Council approved our adjustment and reflected it in the Financial Statements.
- 2.11. The Council should ensure that in instance of disposals, the actual cost and accumulated depreciation of the items disposed is eliminated from the respective nominal account.

### **3 Payables**

#### **Suppliers' statements**

- 3.1 We noted that the Council has still not managed to obtain monthly statements from all its suppliers.
- 3.2 We recommended that the Council requests monthly statements and regularly reconciles the creditors' balances in the accounts to these statements.

### **4 Income**

#### **Central Regional Committee surplus**

- 4.1 Throughout the year, the Council received EUR17,423 surplus funds from the Central Regional Committee of which EUR1,579 was taken directly to income instead of being deferred to be used against specific projects. We proposed

an adjustment to defer this income. The Council approved our adjustment and reflected it in the Financial Statements.

- 4.2 The Council allocated funds from the Regional Committee Surplus amounting to EUR7,340 against various works carried out in 2015 and EUR35,795 on major works on Indri Grima street. However, the Council did not adjust deferred income to reflect this transaction. We proposed an adjustment to reclassify EUR7,340 from deferred income to income since these were expensed. We also re-allocated EUR35,795 from unallocated deferred income to non-current deferred income - Indri Grima street (EUR29,776), EUR3,145 as current deferred income and EUR2,874 to income for the year.
- 4.3 We noted that the Council deposited funds from the Central Regional Committee in two bank accounts. These amount to EUR24,630. However, the Central Region Surplus unallocated deferred income balance amounts to EUR53,138. When reconciling these two amounts we noted the following;
- EUR23,141 were used to bridge between the financing and actual cost of a UIF funded project,
  - EUR1,914 were deposited in other accounts,
  - EUR4,634 worth of repairs to pump room in Misrah 5 ta' Ottubru were withdrawn from these bank accounts, and
  - EUR1,147 and EUR33 related to LES income and bank interest earned.
- 4.4 We recommend that the Council identifies specific projects to be carried out from these funds to utilise them accordingly. We also recommend that the Council physically re-transfers funds withdrawn to keep the funds under control and reconciles the unutilised funds against the actual bank deposits.

#### **Accrued income**

- 4.5 The Council has accounted for the excess of tipping fees charged by the supplier over the budgeted allocation as accrued income. Such excess amounted to EUR33,252. Following communication with DLG, we recalculated the excess amount and noted that accrued income for tipping fees was over-stated by EUR4,799. We proposed an adjustment to decrease accrued income. The Council approved our proposed adjustment and reflected it in the Financial Statements.
- 4.6 We recommend that the Council continues to record tipping fees in full and reflect appropriately the amount committed to be paid by DLG.

## LES revenue

- 4.7 When testing administration fee income from LESA, we noted that invoice number SI004844 amounting to EUR966 relating to July 2016 was issued in November and hence was not issued within the prescribed time.
- 4.8 We recommend that the Council complies with Memo 91/2011 and issues monthly invoices within one working week from the end of the month in which the collections were made.

## 5 Receivables

- 5.1 We noted the following amounts included with trade receivables that are over 365 days old:

Debtor	EUR
Green MT	8,750
Due form other Local Councils	2,018
Due from Regions	2,453
LESA	406
Water Services Corporation	2,900
Active Enterprises	580

- 5.2 The balances due from Green MT and Active Enterprises have been provided for. We recommend that the Council chases up overdue debtors and, if the amounts are doubtful, the Council should provide for them. Any debtors that are written off the books should be discussed during Council meetings and any decisions taken should be minuted.

## 6 Expenditure

### Expired tenders

- 6.1 We noted that the Council is still making use of the following contractors' services despite the fact that their contract period expired:
- The Maintenance and Upkeep of the Public Convenience in Msida (6/11/14)
  - The Services of Contract Manager (31/11/13)
  - Refuse collection (31/07/15)
  - Street Sweeping (21/02/15)
- 6.2 We noted that the tender for Upkeep of Public Convenience was issued in November 2014 and has still not been adjudicated. This has now been withdrawn. The contractors of tenders which expired were informed that their



contract will be extended but this was not formally done through an extension letter. The expenses incurred in 2016 under these expired contracts were:

<b>Contract</b>	<b>Amount EUR</b>
The Maintenance and Upkeep of the Public Convenience in Msida	7,610
The Services of Contract Manager	6,540
Refuse collection	95,577
Street sweeping	46,985

- 6.3 In accordance with the provisions of the Local Councils (Tendering) Procedures, we recommend that the Council issues a call for tenders prior to their expiration rather than extending them for a period beyond the agreed term. At the time of the audit, the street sweeping tender and refuse collection tender were being checked by the monitoring unit prior to issuing the call.

#### **Prepayments**

- 6.4 During our review of prepayments we noted that an invoice from MIB for insurance was only partly recorded. The Council informed us that it has an agreement to pay in instalments. Since the amount recorded did not cover the full invoice, both the expense and the prepayment are understated by EUR1,099. We posted an adjustment to accrue for the expense and also to increase the prepayment by the same amount. The Council approved our adjustment and reflected it in the Financial Statements.
- 6.5 The total insurance cost under this agreement was for EUR1,854 and split into three payments. Once for EUR754 (due in October 2016) and two for EUR550 due in February and June 2017. Whereas each payment falls below the direct order threshold of EUR1,164.69, the Council has entered into a commitment for the whole amount as one transaction and hence it should have issued a call for quotations.

#### **Tax invoices**

- 6.6 It came to our attention that the Council is accepting computer-generated invoices which do not satisfy fiscal requirements and are not backed up by fiscal receipts. Some examples include:

<b>Supplier</b>	<b>Date</b>	<b>Details</b>	<b>EUR</b>
Alfred Galea	18/04/2016	Bulky Refuse Collection	1,315.75
Alfred Galea	08/08/2016	Bulky Refuse Collection	1,296.75
Alfred Galea	30/08/2016	Bulky Refuse Collection	1,244.50
Alfred Galea	30/09/2016	Bulky Refuse Collection	1,458.25
Alfred Galea	07/11/2016	Bulky Refuse Collection	1,510.50



Alfred Galea	22/12/2016	Bulky Refuse Collection	1,482.00
Joseph Tabone	01/07/2016	Works for pump room next to monument	4,634.17
Tabone Bugeja Joint Venture	09/11/2016	Pavements - Msida Circus University	21,749.34
Joseph Tabone	13/02/2016	Works to pavements at Swatar Indri	35,794.86
Micallef & Ellul Advocates	18/08/2016	Judical Letter Appell Tender Sitting PCR	1,031.67
Boris Arcidiacono	15/11/2016	Legal Services icw Arcidiacono	1,636.69
Enemalta Corporation	30/11/2016	Expenses re Arcidiacono Case	1,097.2
Dr. William Cuschieri	21/12/2016	Kaz arcidiacono-raprezentanti spejjez	1,811.78

- 6.7 We remind the Council that all purchases are to be supported by either a valid fiscal invoice or receipt.

#### Accruals

- 6.8 From our testing on cut-off and unrecorded liabilities, we noted that the accrual for tipping fees was understated by EUR972. We proposed an adjustment to accrue by this amount. The Council approved our adjustment and reflected it in the Financial Statements.

#### Budget vs actual

- 6.9 We agreed the budgeted figures for 2016 with the actual recurrent and capital expenditure for the year as follows:

Capital expenditure	Budget EUR	Actual EUR	Difference EUR
Construction	17,985	66,647	48,662
Improvements	8,000	637	(7,363)
Special Programs	5,727	-	(5,727)
Equipment	-	1,403	1,403
	31,712	68,687	36,975

	Budget EUR	Actual EUR	Difference EUR
<b>Income</b>			
Annual Gov Income	511,963	512,140	177
Supplimentary	25,235	35,571	10,336
Other	600	54,991	54,391
Bye-laws	40,660	41,581	921
General income	42	31,922	31,880
<b>Total</b>	<b>578,500</b>	<b>676,205</b>	<b>97,705</b>
<b>Expenditure</b>			
Personnel Expenditure	137,144	131,937	(5,207)
Utilities	9,000	4,998	(4,002)
Repair & Upkeep	35,900	14,098	(21,802)
Rent	4,309	4,251	(58)
Memberships	344	-	(344)
Office Services	13,243	875	(12,368)
Transport	3,800	4,284	484
Info Sys	4,000	-	(4,000)
Contractual Services	309,032	298,729	(10,303)
Prof Services	12,026	10,624	(1,402)
Community and Hospitality	12,500	14,886	2,386
Incidental expenses	1,000	-	(1,000)
LES Related expenditure	1,000	449	(551)
Other expenses	-	22,172	22,172
	<b>543,298</b>	<b>507,303</b>	<b>(35,995)</b>
Surplus/(deficit) before depreciation	35,202	168,902	133,700

- 6.10 The Council should ensure that a fair budget is prepared and executed throughout the period. The expenditure incurred throughout the period should be in line with the estimated and approved expenditure.

## 7 Bank and cash

### Petty cash balance

- 7.1 We noted that, similar to last year, the adjusted petty cash balance at 31 December 2016 amounted to EUR235 which is in excess of the allowed limit of EUR233.

- 7.2 Last year an adjustment of EUR89 was passed against petty cash due to unrecorded expenditure. The Council allocated this adjustment wrongly and hence, we proposed an adjustment to decrease the petty cash balance by this amount. The Council approved our adjustment and reflected it in the Financial Statements.

#### **Coat of arms**

- 7.3 We noted that the cheques issued by the Council do not bear the locality's coat-of-arms. As required by Article 21.1 of the Local Council's (Financial) regulations all cheques are to bear the coat-of-arms of the locality.

#### **Bank reconciliations**

- 7.4 We requested copies of monthly bank reconciliations and noted that:
- BOV current 14906260011, we could not trace reconciliations for the months of January and February,
  - BOV current 14906260011, the October reconciliation was not signed as verified by the Executive Secretary and the accountant,
  - BOV savings 14906260024, only November and December reconciliations were carried out. The December reconciliation computer bank balance was date stated 31/01/2017 instead of 31/12/2016.
  - BOV Savings 40012159093 no reconciliations were prepared.
  - None of the reconciliations which were prepared were done within 10 working days.
- 7.5 We remind the Council that monthly bank reconciliations need to be prepared for all bank accounts held by the Council within 10 working days from the end of the month. We also remind the Council that bank reconciliations need to be approved by the Executive Secretary. We recommend that approved bank reconciliations are filed with the respective bank statement.
- 7.6 We also noted that unreconciled transactions at 31 December 2016 included the following stale cheques:

<b>Bank Account</b>	<b>Date posted</b>	<b>Chq no</b>	<b>Amount</b>
			<b>EUR</b>
BOV Current Account 149	04/05/2016	11218	45
06260 011	13/06/2016	11358	201
	30/06/2016	11364	480

- 7.7 We also noted that an unpresented cheque amounting to EUR3,460 payable to Marco Gauci was in fact presented but it was recorded twice in the books

of the Council. Hence, the bank balance and the creditors' balance were under-stated by this amount. We proposed an adjustment to increase bank and creditors by this amount. The Council approved our adjustment and reflected it in the Financial Statements.

- 7.8 We recommend that the Council monitors its unreconciled transactions and investigates any stale cheques to determine whether these should be reversed.

#### **Tax on bank interest**

- 7.9 We also noted interest income earned on BOV account 40022741938 is subject to final withholding tax at 15% even though the Council is not taxable. Interest earned during 2016 on this amount was EUR14 on which EUR2 was deducted in tax.
- 7.10 Whereas the interest earned and the tax deducted are not significant, we recommend that the Council instructs the bank not to withhold tax on interest earned on funds held in its bank accounts.

### **8 Minutes of meetings**

- 8.1 Whilst reviewing the minutes of Council meetings, we came across the following weaknesses:
- One Councillor missed 4 out of 6 meetings which is more than 1/3 of the meetings held between January and June 2016. He also missed 6 out of seven meetings held between July and December 2016 which include 5 meetings in a row. The Council did not discuss his absence and did not inform the Minister of such absence.
  - For 9 instances related to meetings number 44, 45, 46, 48, 50 and 52, we did not manage to trace a letter of excuse for excused Councillors. No deductions were made from allowances.
  - Schedule of payments were not signed
  - More than 5 weeks elapsed between meetings 39 and 40 held on 21/12/2015 and 26/01/2016 respectively and again between meetings 50 and 51 held on 18/10/2016 and 23/11/2016 respectively.
  - Minutes of the meetings were not bound
- 8.2 We remind the Council that all minutes of Council meetings and related schedule of payments are to be uploaded on the Council's website within 2 working days from their approval. All originally signed copies are to be stored safely and bound in an annual volume.



## 9 Insurance

- 9.1 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover issued in September 2016 and value as per last audited Financial Statements.

Category	Cost as per audit 2015 EUR	Sum insured EUR	Difference EUR
Buildings	465,835	412,700	53,135
Furniture & Fittings	72,286	27,952	44,334
Street signs, mirrors, lights	50,440	20,000	30,440
Urban Improvements	185,690	67,500	118,190
Computer & office equipment	52,573	-	52,573
Plant & Machinery	2,798	-	2,798
	<b>829,622</b>	<b>528,152</b>	<b>301,470</b>

- 9.2 The above illustrates that some of the Council's assets are not adequately insured. The Council should adhere to Circular 33/2016 that requires an insurance cover of its buildings and contents including fire, theft and damage. The Circular also clarifies that community assets do not need to be insured.

## 10 Payroll

### Deductions from Councillors' allowances

- 10.1 We noted that one Councillor was marked absent for two out of six held between January and June 2016. The Council did not make any deductions from his allowance although EUR200 should have been deducted.
- 10.2 We remind the Council that as per Article 32 (2) of the Local Councils Act and as per Circular 6/2017 payments to Councillors should be made in proportion to the number of meeting unless the Councillor is excused.

## 11 Financial statements

### Presentation of Financial Statements

- 11.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 11.2 The Council's Financial Statements are not compliant with IFRSs in the following instances:

- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council did not cover all the changes in the Financial Statements. These were amended in the audited Financial Statements.
- The Council reported a rental cost of EUR4,251, however, the Financial Statements do not disclose the necessary disclosures in relation to commitments and a description of lease arrangements as required by IAS 17 *Leases*.
- The Council's key management emoluments disclosed in note 22 does not include the National Insurance cost payable by the Council as required by IAS 24, *Related Party Disclosures*. This was amended upon our notification and corrected in the audited Financial Statements.
- The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the Council.
- The Council did not disclose all contingent liabilities as required by IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. This was amended upon our notification and corrected in the audited Financial Statements.

Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

#### **Trial balance as at 31/12/2016**

- 11.3 We noted various discrepancies between the 31 December 2016 trial balance provided to us for audit purpose and the unaudited Financial Statements. When we pointed these out to the Council, we were advised that the TB given to us was not the final version and a new TB was provided. The differences between the original trial balance and the amended one were passed as an audit adjustment.

## **12 Liquidity position**

### **Going concern**

- 12.1 At the end of this period, the Council has a negative cash liquidity position of EUR58,003 (not including prepayments, funds to be used for projects, and deferred income) up from a negative position of EUR109,043 as at 31 December 2015. This indicates that the Council may encounter difficulties in meeting its current obligations as they fall due.
- 12.2 The Council's liquidity problems continue to create significant doubts about its ability to continue as going concern. To this end, the Council should take immediate corrective measures to improve the financial position including postponing capital projects and reducing discretionary expenditure.
- 12.3 As a result of the above uncertainties, we have included an emphasis of matter paragraph in our auditors' report on the Financial Statements.

### **Financial Situation indicator (FSI)**

- 12.4 The Council has a negative FSI which is less than the minimum of ten percent of the allocation approved in terms of Article 55 of the Act. We reiterate that the Council should inform the Director of this matter and provide details of the actions the Council intends to take to remedy the situation. Our report has been qualified due to this situation.

## **13 Appointment of new Executive Secretary**

- 13.1 We also noted that the Council had appointed Mr. Christopher Cutajar as Acting Executive Secretary on 1 September 2015 and eventually he was replaced by another Acting Executive Secretary, Ms. Karen Camilleri, as from 27 May 2016. In such circumstances, the Council is required to perform an interim audit that covers up to the date of termination of the outgoing Executive Secretary, however, these were not carried out.
- 13.2 We noted that Ms. Karen Camilleri, was then replaced by Mr. Alan Vella. Although his official appointment was in October, he took over the role in December. Being so close to the year end, the Council did not ask for a mid-term audit.


## **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.

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

Yours faithfully,



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta