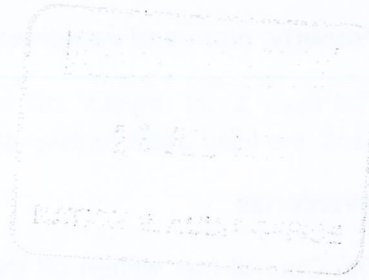


The Mayor,
Birkirkara Local Council,
Centru Civiku,
Triq Tumas Fenech,
Birkirkara



8 July 2019

Financial Statements for the year ended 31 December 2018

During the course of our audit for the year ended 31 December 2018, 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 Follow up on previous management letter

1.1 Income

Throughout our audit, we identified similar errors in accounting for accrued income (refer to notes 2.1 - 2.3). On the other hand, following the adoption of the income approach, we did not identify any issues with the recognition of deferred income.

1.2 Expenditure

The Street Lighting contract was awarded through a new tender during 2018 however, services received till May were carried out under an expired agreement (refer to note 3.1). The balance due to General Cleaners is still pending at period end (refer to note 3.3).

The Council's insurance policy is still inadequate in relation to the net book value of the Council's assets (refer to note 3.5). On the other hand, we did not identify any issues with the classification of expenses, and we did not identify any issues in the provision for accrued expenditure.

Once again, we identified a few payments that were made prior to approval of the relevant Schedule of Payments (refer to note 3.7) and we also noted that expenditure on the Locality Day was in excess of the prescribed capping (refer to note 3.9).

Once again, we identified discrepancies between actual and budgeted expenditure (refer to notes 3.11 – 3.12).

1.3 Joint Committee

The audited Financial Statements of the Birkirkara Joint Committee were not provided (refer to note 4).

1.4 Property, plant and equipment

The fixed asset register still lacks certain details (refer to note 5.1). On the other hand, the fixed asset register agreed to the ledger.

1.5 Inventories

The Council has written off the value of the books to be in line with the valuation requirements of IAS 2.

1.7 Receivables

The balance on Ta' Monita Estates Limited grant has still not been fully recovered but the receivable and the provision were correctly separated on the Financial Statements.

During 2018, the Council has agreed repayment terms with the Works Division and the Ministry for Transport to settle the balance due on the aqueduct restoration works over a 10-year period. The agreement was approved by the respective authorities.

Once again, we noted discrepancies between the amount due from the Water Services Corporation and the amount confirmed by the Corporation (refer to note 6.1).

1.8 Payables

The Council still has a substantial amount in overdue creditors (refer to note 7.1). Debit balances were reduced significantly too EUR7,751 and these were classified appropriately in the Financial Statements.

Once again, we noted that the Council did not manage to obtain monthly statements from all its creditors.

1.9 Bank

Once again, we identified weaknesses in the bank reconciliation process (refer to note 8).

1.10 Payroll

Once again, we noted that vacation leave was not carried forward adequately (refer to note 9). On the other hand, we did not identify errors in allocation of salary cost by category.

1.11 Financial Statements

We again identified some minor departures from IFRS requirements (refer to note 10).

1.12 Council meetings

We again noted that some Councillors were absent from meetings and these were not reported to the Minister (refer to note 11.1 – 11.3).

1.13 Liquidity position

The Council is still in a negative liquidity and FSI position (refer to note 13).

Current period issues

2 Income

Accrued income

- 2.1 The Council undertook a project that is funded by Infrastructure Malta. The project was the Ta' Paris Embellishment. The Council recognised accrued income amounting to EUR31,124 in relation to costs incurred on this project. However, in calculating the amount refundable from Infrastructure Malta, the Council included EUR6,624 in professional fees that are not recoverable and hence, accrued income was overstated by EUR6,624. We proposed an adjustment to decrease accrued income and grants by EUR6,524. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.2 The Council recognised accrued income of EUR634,707 on the Valley Embellishment and Stazzjon Garden projects which are expected to be financed from the Urban Improvement Funds. However, the total grant receivable on these projects amounted to EUR1,474,336 of which EUR850,028 was received, hence leaving a balance of EUR624,308. We proposed an adjustment to reduce accrued income and grants by EUR10,399. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.3 We also noted that accrued income in relation to recharging of expenses to a customer¹ of the Council amounted to EUR4,284 at year-end. However, this was based on past invoices and on recalculating the accrued income portion, we noted that this was overstated by EUR2,659. We proposed an adjustment to reduce accrued income accordingly and the Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.4 We recommend that adequate controls are set up to monitor project funding and activity funding to ensure that any related funding and other accrued income is recognised fairly and in a timely manner.

Deferred income

- 2.5 During the year, the Council received an amount of EUR333 from the Central Regional Committee. This amount was reflected as income in the statement of comprehensive income as opposed to being shown as deferred income. We proposed an adjustment to defer the amount. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.6 We remind the Council that the funds from the Central Region are to be released once allocated to an approved project.

¹ Acram Elnaib

- 2.7 As at 31 December 2018 the unallocated Central Region deferred income amounted to EUR137,831 whereas the amount in the specific bank amounted to EUR7,750. Hence, the Council has a shortfall of EUR130,081 between the bank account and unallocated deferred income from the Central Region.
- 2.8 We remind the Council that funds from the Central Region are to be allocated to a separate account and utilised strictly for approved projects. We recommend that the Council transfers the shortfall to the specific bank account and ensure that future receipts and related payments are effected to/from the specific bank account.

3 Expenditure

Expired contracts

- 3.1 The contract agreement for Street Lighting, Installation and Maintenance Services which was awarded to a contractor² on 8 May 2013 expired on 8 May 2017. The Council agreed to extend the contract by another year and hence, a new tender was issued towards the end of 2017 and this was adjudicated in April 2018 to the same service provider and a new contract signed in May 2018. During 2018, the Contractor invoiced the Council EUR11,482 between January and April 2018.
- 3.2 We remind the Council to abide by Memo 10/2013 issued by the Department of Local Government which states that the Committee should start preparing for a new call for tenders ahead of the expiry date of existing contracts.

General Cleaners Company Limited

- 3.3 As reported in previous years, in January 2013 the Council received an invoice amounting to EUR2,809 from General Cleaners Company Limited for leasing of bins. As at 31 December 2017 the invoice was not yet settled. The agreement entered into in prior periods was only signed by the previous Mayor on behalf of the Council. The Council believes that such an agreement is thus null and void. The new legislature decided that this payment should be withheld and in 2014 the Council was also notified that the Company is seeking legal action to collect the amount due from the Council.
- 3.4 The Council should continue monitoring the case and assess its legal obligations.

Asset Insurance

- 3.5 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and the net book value as per last audited Financial Statements:

² J. F. Mallia Ltd

	NBV as at 31/12/2017 EUR	Insured Amount EUR	Difference EUR
Buildings	Leased	2,372,212	- 2,372,212
Child Care Centre	41,355	-	41,355
Plant, Machinery & Equipment	176,771	42,681	134,090
Office Furniture & Fittings	36,954	40,000	- 3,046
	<u>255,080</u>	<u>2,454,893</u>	<u>- 2,199,813</u>

- 3.6 The above illustrates that some of the Council's assets (such as plant, machinery & equipment) may not be insured in compliance with the requirements of 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. The lease agreement for the Civic Centre specifies that the property and furniture and fittings in common areas should be insured for EUR2,373,000. We should also note that we could not arrive at the net book value of the 2 public conveniences covered by the insurance policy.

Payments made prior to approval

- 3.7 Our testing on payments made by the Council, indicated that payments were made prior to the approval of the Schedule of Payments on which they were disclosed. We also noted that in two instances, we did not manage to trace the payment to the schedule of payments and hence, the payment was made without it being approved. The list of transactions is disclosed in Appendix 1.
- 3.8 We remind the Council that expenses should first be approved by the Council before payment is issued to the supplier/contractor.

Locality day

- 3.9 The B'Kara Locality Day was held on 5 December 2018. The Council spent EUR15,272 on the activity, however, expenditure on this activity is limited to the higher of EUR3,500 or 0.5% of the allocation. The allocation to B'kara amounted to EUR1,338,044, hence the limit is set at EUR6,690.
- 3.10 We recommend that the Council sets a budget within the level of expenditure allowed for this activity. It should also monitor expenses to ensure that expenditure incurred remains within the budget so as not to exceed the capping of 0.5% of the allocation.

Budget vs actual expenditure

- 3.11 The Council had budgeted a capital expenditure of EUR532,400 allocated as tabled below. However, expenditure amounted to EUR1,090,494. The Council incurred capital expenditure in excess of the amount budgeted on all categories.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Capital expenditure			
Assets Under Construction	999,128	476,400	522,728
Urban Improvements & Construction	61,254	40,000	21,254
Plant, Machinery and Equipment	18,670	12,000	6,670
Office Furniture	11,442	4,000	7,442
	<u>1,090,494</u>	<u>532,400</u>	<u>558,094</u>

3.12 A comparison between the Council's budgeted and actual income and expenditure identified discrepancies between the actual results and the forecasted items. Discrepancies were noted in income as well as expenditure. The Council registered an overall lower surplus. We noted that in various instances income was higher than that budgeted for the respective income item. Actual income exceeds the amount forecasted by EUR104,799. We also noted that in various instances expenditure was higher than that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation and provision for bad debts.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Revenue			
Allocation Under Section 55	1,338,044	1,338,044	-
Supplementary Gov income	103,542	83,092	20,450
Income Raised Under LC Bye-Laws	131,539	65,000	66,539
Income Raised Under IES	14,936	17,172	- 2,236
General Income	235,830	215,784	20,046
	<u>1,823,891</u>	<u>1,719,092</u>	<u>104,799</u>

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Personal Emoluments</i>			
Mayor's Allowance	14,927	35,903	20,976
Mayor's and Councillors' Allowance	15,314		
Executive Secretary Salary and Allowances	36,271	198,117	29,888
Employees' Salaries	176,420		
Social Security Contributions	16,850	16,407	443
	<u>259,782</u>	<u>250,427</u>	<u>9,355</u>

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Operations and Maintenance - Repairs & Upkeep</i>			
Road/Street Pavements	96,151		
Signs	10,267		
Road Markings	5,530		
Office Furniture and Equipment	1,454	201,960	23,723
Plant and Equipment	336		
Council Property	21,096		
Other Repairs and Upkeep	90,849		
	<u>225,683</u>	<u>201,960</u>	<u>23,723</u>
<i>Operations and Maintenance - Contractual Services</i>			
Waste Disposal	204,135	163,200	40,935
Refuse Collection	254,017	234,600	19,417
Bulky Refuse Collection	20,231	13,000	7,231
Hiring of Skips - Bins on Wheels	6,698	-	6,698
Road & Street Cleaning	158,592	199,950	41,358
Cleaning - Public Conveniences	8,413	9,000	587
Cleaning - Council Premises	-	2,040	2,040
Cleaning & Maintenance - Parks & Gardens	55,647	45,900	9,747
Other Contractual Services	17,767	-	17,767
Street Lighting	36,946	32,130	4,816
Studies & Consultations	15,014	-	15,014
Local Enforcement Expenses	9,779	-	9,779
	<u>787,239</u>	<u>699,820</u>	<u>87,419</u>
<i>Administration and Other Expenditure</i>			
Utilities	58,358	58,396	38
Other Repairs and Upkeep	33,095	11,220	21,875
Rent	7,908	7,900	8
National and International Memberships	15	-	15
Office Services	23,151	22,240	911
Transport	51,435	29,580	21,855
Information Services	9,401	6,120	3,281
Lease of Equipment	1,415	2,756	1,341
Insurance Coverage	6,401	5,565	836
Bank Charges	265	-	265
IT Development Services	19,705	-	19,705
Management and Operating Services	888	-	888
Architect/Engineering Services	20,742	-	20,742
Legal Services	10,903	71,964	16,156
Medical Services	600	-	600
Accountancy Services	12,373	-	12,373
Other Services	22,909	-	22,909
Security/Police Services	13,964	-	13,964
Training	892	14,280	13,388
Conference Expenses	1,636	-	1,636
Other Hospitality Costs	-	20,400	20,400
Community Services	51,136	7,040	44,096
Sundry Minor Expenses	3,413	2,040	1,373
	<u>350,605</u>	<u>259,501</u>	<u>91,104</u>
Total Expenditure	<u>1,623,309</u>	<u>1,411,708</u>	<u>211,601</u>
Finance Costs	<u>1,200</u>	<u>-</u>	<u>1,200</u>
	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Surplus for the Year	<u>199,382</u>	<u>307,384</u>	<u>108,002</u>

- 3.13 Whilst we recognise that the Council has put more effort into preparing the budget, we re-iterate that the Council should compile the annual budget with due care and diligence to use it as a guideline to control its expenditure during the year. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increase in income received.

4 Joint Committee

- 4.1 The Birkirkara Joint Committee of which Birkirkara Local Council formed part of up to 31 August 2011 had not yet issued audited Financial Statements for the year ended 31 December 2018. The last set provided was for 2015 and its audit report was qualified since the auditor could not reconcile the amount receivable to the turnover and debtors reports issued from the IT system.
- 4.2 We have qualified our audit report since the amount recoverable from the joint committee cannot be fairly determined.

5 Property, plant and equipment

Fixed assets register

- 5.1 We again noted that a number of assets in the fixed asset register do not include the location of that asset. In the absence of this information, the Council may be unable to individually identify assets and correctly account for their existence, impairment or disposal.
- 5.2 We recommend that the Council continues to update the fixed asset register with the location of all assets.

Depreciation charge

- 5.3 The Council adopted the straight-line method of depreciation as required by Directive 1/2017 as from 1 January 2018, however, we noted that a number of assets were fully depreciated during the year under review even though they still had more than 1 year of useful life. The error in the calculation was highlighted to the Council and they reperformed the depreciation workings which resulted in a reduction of EUR14,576 in the depreciation charge for the year. The adjustment in the depreciation charge was reflected in the audited Financial Statements.

6 Receivables

Debtors' confirmation letters

- 6.1 At the Financial Position date, the Council reported a receivable of EUR11,395 from Water Services Corporation of which EUR7,740 were brought forward from previous periods and EUR3,655 were invoiced in 2018. In a reply to the confirmation letter, the Corporation indicated that it only owes the Council the sum of EUR450, a difference of EUR10,945. The Council has recognised a provision of EUR7,740 on this account.

- 6.2 We recommend that meetings are held with the Corporation to determine whether the amount is recoverable and whether any further works incurred will actually be refunded to the Council.

Provision on receivables

- 6.3 A review of the provision on receivables indicated that the provision on the balance recoverable on two customers³ was overstated by EUR4,614 since these amounts have been recovered. We proposed an adjustment to reduce the provision by EUR4,614. The Council approved our adjustment and reflected it in the audited Financial Statements.

Lease contracts

- 6.4 The Council had an agreement with the Ministry for Social Policy for the lease of part of the Council's premises to provide the necessary services to the village citizens. The Contract was last extended in 2012 for the three year period ending 24 February 2018. Although the contract expired during this financial year, it was not officially renewed by the ministry. The terms of the agreement are for the annual amount of EUR6,988.

7 Payables

Overdue payables

- 7.1 The Council's creditors list includes balances amounting to EUR41,263, which have been brought forward from previous periods. These exclude amounts due to the PPP project contractor and aqueduct balance. These are listed in Appendix 2.
- 7.2 We recommend that the Local Council reviews each individual balance and unless the Council has a legal basis for not settling these amounts, it should focus on settling these balances.

Supplier statements

- 7.3 As part of our procedures, we requested statements as at 31 December 2018 for the Council's main creditors. Whereas we obtained all year-end statements requested, it was evident that monthly statements were not readily available from all suppliers. Memos issued from time to time by the DLG specifically stated that the Council should obtain monthly statements.
- 7.4 Whereas we understand that the Council is in fact asking for all statements, we remind it that these statements are necessary to ensure completeness and correctness of records.

Tender procedures

- 7.5 Throughout the year, the Council issued a call for tender for the provision of second hand environmentally friendly vehicles. The tender was awarded to a local supplier

³ Acram Elnaib and Ministry for the Elderly

for the value of EUR3,231. However, we did not trace any evidence that the supplier issued a tender guarantee amounting to 4% of the value of the contract.

8 Bank

Reconciliations

8.1 When testing the bank reconciliations, we noted that these are not being prepared within 10 working days from end of the month. We also noted that reconciliations were not prepared for all months. A summary of our findings is tabulated below:

Account	Month	Date Reconciliation was Prepared
HSBC Current A/C – 001	January to March	06/06/2018
	April to May	04/07/2018
	July	17/08/2018
	August	23/10/2018
	September	24/10/2018
	October	29/11/2018
	November to December	01/02/2019
HSBC Savings A/C – 050	January to March	05/06/2018
	April to May	04/07/2018
	July to September	05/11/2018
	October	31/01/2019
	November to December	02/02/2019
APS Salaries A/C – 2227	February to March	05/06/2018
	April to May	26/06/2018
	August	17/09/2018
	November	10/01/2019

Account	Missing Month
APS Salaries A/C – 2227	January, July, October

8.2 From the reconciliations tested by us, we did not trace any evidence that the reconciliations provided were reviewed and approved by the Executive Secretary.

8.3 We recommend that monthly bank reconciliations for all bank accounts are prepared within 10 working days as required by the Local Council (Financial) Regulations and a copy of the report is printed, verified, approved and signed by the Executive Secretary and filed with the respective bank statement.

9 Payroll

Vacation leave

9.1 During meeting 85, which was held in October 2018, we noted that the Council carried forward the following unutilised leave of its employees:

Employee	Hours Brought Forward	Hours for the Year	Hours Used	Hours Carried Forward
Employee 1	247	200	130	317
Employee 2	45	150	141	54
Employee 3	49	200	137	112
Employee 4	141	200	220	121
Employee 5	20	200	118	102
Employee 6	177	200	219	158

9.2 We remind the Council that employees should avail of 70% of their vacation leave by end of September whilst the remaining 30% is availed of by end of year. Employees may, subject to a mutual agreement, carry forward up to 48 hours of their vacation leave entitlement. The Council must approve the leave prior to allowing the employee to carry it forward. We also remind the Council that leave may only be carried forward once. Employee 1 carried forward 247 hours from 2017 to 2018 of which 117 hours are being forwarded to 2019.

10 Financial Statements

Presentation of Financial Statements

10.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).

10.2 The Council's Financial Statements are not compliant with IFRSs in the following instances:

- The Council reported a rental cost of EUR7,908 and rental income of EUR121,470. However, the Financial Statements do not include the necessary disclosures required by IAS 17 *Leases*.
- 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 reported Key Management Personnel compensation in note 22 on page 26. However, the compensation disclosed was not inclusive of the Social Security costs paid by the Council on behalf of the Executive Secretary as required by IAS 24, *Related Party Disclosures*. The Council amended the disclosure after our notification.

- IAS 7 *Statement of Cash Flows*: The unaudited Financial Statements of the Council did not disclose fairly the impact of capital creditors, grants received and other non-cash items. The Council amended the Financial Statements after our notification.
- As from 1 January 2018, the Council adopted IFRS 9 however, throughout the audit, we were not provided with an assessment of the impact of this model and how this effected the results of the Council. At the Financial Position date, the Council has financial assets amounting to EUR906,575. The impairment policy on amounts receivable as disclosed in note 2 on page 9 was not updated to reflect the methodology required by IFRS 9.
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding the adoption of Directive 1/2017 that resulted in a change in accounting policy for recognition of grants. The Council disclosed the nature and reason for the change in note 26 on page 28, however, the impact of this change on each Financial Statement line was not disclosed.

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

10.4 We also identified the following shortcomings in the audited Financial Statements:

- The closing 2017 cost figures of Assets under Construction and Urban Improvements & construction in note 13 on page 17 does not agree to the opening 2018 cost figure on page 18.
- The closing 2017 accumulated depreciation figure of Office Furniture & fittings in note 13 on page 17 does not agree to the opening 2018 accumulated depreciation figure on page 18. The difference is also reflected in total accumulated depreciation.
- The total 2018 depreciation charge as per note 13 (EUR1,110,791) and amortisation as per note 12 (EUR941) amount to EUR1,111,732. On the other hand, the depreciation and amortisation cost as per note 9 is EUR1,111,731.
- The depreciation charge added back in the 2018 cash flow computation on page 5 amounts to EUR1,110,790 rather than EUR1,110,791.
- The non-current financial liabilities as disclosed in note 24 on page 28 should amount to EUR27,371 for 2018 and EUR54,837 for 2017 rather than EUR54,837 and EUR103,082 as disclosed in the Financial Statements.

11 Council meetings

Attendance at meetings

11.1 Throughout 2018, the Council had seven meetings till end of June. Of these meetings, one Councillor missed five of which he was excused for four meetings. Another Councillor missed five of which he was excused for three meetings. A third Councillor missed four meetings all of which were marked as excused. Although these Councillors missed more than a third of the meetings held during the first six

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months, their absence was not discussed at Council level and a report was not filed with the Minister.

- 11.2 Similarly, the Council had eight meetings between July and December. Of these meetings, the first Councillor missed four of which two were marked as excused. The second Councillor missed five of which only one was marked as excused and the third Councillor missed five of which three were marked as excused. Although these Councillors missed more than a third of the meetings held during the second six months, their absence was not discussed at Council level and a report was not filed with the Minister.
- 11.3 As highlighted by circular 17/2016, The Local Council Act states that the Executive Secretary is to inform the Minister if a Councillor fails to attend four meetings or, in aggregate, more than one third of the meetings called in a six-month period. Prior to informing the minister, the Executive Secretary is to inform the Mayor and the Council is to discuss whether such absence is justified or not and communicate the decision to the Minister.
- 11.4 We also noted that during the year, three Councillors were excused from a meeting each due to health reasons. Whereas the Council received notification of their absence, this was not substantiated with a medical certificate as required by Circular 6/2017.
- 11.5 We encourage the Council to adopt the necessary procedures to request medical certificates in such instances. Failure to present such certificates should result in deductions from the respective allowance.

Councillor allowances

- 11.6 We noted that whereas deductions were made from the Councillor's allowances, the amount deducted was understated. The Council should have deducted EUR236 from the allowance of the first Councillor but only EUR150 was deducted. On the other hand, the deductions of the second Councillor should have amounted to EUR471 but only EUR386 was deducted. Hence, deductions were understated by EUR171 in total.

Minutes of meetings

- 11.7 We noted that whereas the Council uploaded all minutes of meetings, these were not all marked with the wording 'IFFIRMATA' as required by Memo 10/2016. These included minutes of meetings 75, 76, 78, 79, 80, 84 and 87 and from the rest of the minutes of the meetings, only minutes of meeting 84 were marked as 'IFFIRMATA' on both the Mayor's and the Executive Secretary's name.

12 Estimates and forecasts

- 12.1 The Council prepared and approved its budget for 2019 by December 2018 however, this was not transposed on to the specific templates. We also note that the Council had not prepared its business plan for the three-year period 2019 – 2021 and was relying on the approved plan covering 2017 - 2020.

13 Going concern

Liquidity position

- 13.1 At year-end, the Council has a negative cash liquidity position of EUR1,061,314 (not including inventories, prepayments, accrued income and deferred income). This indicates that the Council may encounter difficulties in meeting its obligations as they fall due.
- 13.2 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 which may include postponing capital projects and reducing discretionary expenditure.
- 13.3 As disclosed in note 21 to the Financial Statements, the Council has significant contingent liabilities which will lead to further deterioration of the Council's Financial Position should they fall due.
- 13.4 As a result of the above uncertainties, we included a Material Uncertainty Related to Going Concern paragraph in our auditor's report on the Financial Statements.

Financial Situation Indicator

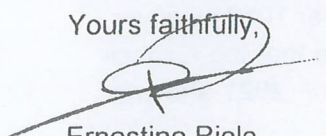
- 13.5 The Council's Financial Situation Indicator (FSI) at the end of the financial period under review is negative which is lower than the minimum positive balance of ten per cent of the annual Government allocation.
- 13.6 The Executive Secretary is bound by section 4(1) (c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not fall lower than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the Executive Secretary must immediately notify the Director when the FSI falls below ten per cent and explain the actions that are to be taken by the Council to remedy the situation. Our audit report is qualified in view of this matter.

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. Neil Spiteri 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

Appendices

Appendix 1: Payments made prior to approval

Supplier	Invoice No	Amount EUR	Date of Payment	Cheque No	Date of Approval
Dimbros	005/18	7,703	18812	09/04/2018	03/04/2018
Dimbros	004/18	5,949	18812	09/04/2018	03/04/2018
KC Turnkey	230818	2,006	19396	-	23/10/2018
Waste Collec	180025	12,734	18776	07/05/2018	14/03/2018
Waste Collec	180052	12,765	18776	07/05/2018	14/03/2018
Waste Collec	180089	12,765	18853	07/05/2018	19/04/2018
Waste Collec	180126	12,765	18965	07/06/2018	26/05/2018
Waste Collec	180171	12,765	19035	02/07/2018	25/06/2018
Prem Business	180721	10,832	19150	08/08/2018	14/07/2018
Prem Business	180851	11,176	19232	04/09/2018	14/08/2018
Prem Business	180973	11,004	19305	-	18/09/2018
Prem Business	181092	11,033	19442	30/10/2018	22/10/2018
Med Develop	-	2,537	19463	30/10/2018	18/10/2018

Appendix 2: Payables due for more than one year

Billboard Advertising Ltd	435
Briffa John	28
Communique Creative	714
General Cleaners Co. Ltd	2,809
Josef Borg	9,646
Lino Micallef	65
Nature Trust (Malta)	15
Office Solutions	90
Paloma Ironmongery	14
Pirotta Manoel	200
Projecta Consulting	2,301
Transport Malta	310
V&C Contractors	13,181
Wasteserv Malta Ltd	15,344
	41,263

