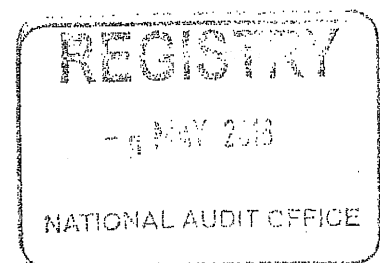
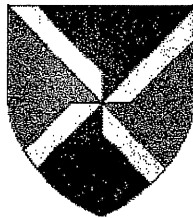


LOCAL COUNCIL DINGLI

Report to Management
for the financial year ended 31 December 2015





22nd April 2016

The Mayor
LOCAL COUNCIL DINGLI
Centre of the Community
Dahla tas-Sienja
DINGLI

Dear Sir,

REPORT TO MANAGEMENT

As you are well aware, our firm has been appointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. This report will also be used by the National Audit Office to compile its own report on Local Councils.

For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2015, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

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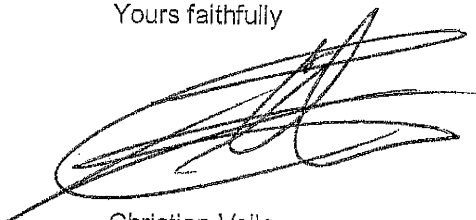
Partners: Neville Cutajar, Christian Vella, Clive Farrugia
3A is a civil partnership duly registered as an audit firm under
the Accountancy Profession Act with warrant number: AB/26/84/62

3amalta.com

We remain at the Council's disposal for any clarification required regarding the above. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank the Acting Executive Secretary, Mr. Kevin Borg and his Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

A handwritten signature in black ink, consisting of several overlapping loops and strokes, positioned above the printed name.

Christian Vella
Partner

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1. FOLLOW-UP MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2014.

1.1. Local Enforcement System

The Council has not addressed the matter during the year and we therefore draw your attention to paragraphs 2.1 and 2.2 of our management report.

1.2. System of Council Income Receipting

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 2.3 of our management report.

1.3. LES Post Regional 10% Commission

The Council has not addressed the matter during the year and we therefore draw your attention to paragraphs 2.1 and 2.2 of our management report.

1.4. Income Recognition

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 2.5 of our management report.

1.5. Income from bye-laws

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 2.5 of our management report.

1.6. FSS statutory documentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 3.1 of our management report.

1.7. Final Settlement System (FSS) payments

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 3.2 of our management report.

1.8. Other Payroll Shortcomings

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 3 of our management report.

1.9. Personal Tax Deductions

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 3.5 of our management report.

1.10. Councillors' Allowance

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 3.3 of our management report.

1.11. Purchase request and order forms

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.1 of our management report.

1.12. Inappropriate Expenditure Documentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.2 of our management report.

1.13. Payment Vouchers

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.3 of our management report.

1.14. Tendering procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.5 of our management report.

1.15. Renewal of contracts and expired contracts

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.7 of our management report.

1.16. Quotation procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.8 of our management report.

1.17. Expenditure for Jum Had-Dingli

The Council has addressed the matter during the year under review.

1.18. The upkeep of the Fixed Asset Register (FAR)

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.1 of our management report.

1.19. Depreciation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.2 of our management report.

1.20. Assets not yet capitalised

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.3 of our management report.

1.21. Insurance policy

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.4 of our management report.

1.22. Capital Commitments

The Council has addressed the matter during the year under review.

1.23. Physical tagging of Fixed Assets

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.5 of our management report.

1.24. Assets no longer used by the Council

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.6 of our management report.

1.25. Collection of Local Enforcement fines outstanding

The Council has addressed the matter during the year under review.

1.26. Accrued income

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.3 of our management report.

1.27. Cash deposits

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.1 of our management report.

1.28. Bank reconciliation

The Council has addressed the matter during the year under review.

1.29. Details of bank statements

The Council has addressed the matter during the year under review.

1.30. Supplier Statements

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 9.1 of our management report.

1.31. Creditors' Balances and Cut-offs

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 9.2 of our management report.

1.32. Accrued expenses

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 9.3 of our management report.

1.33. Long term payables to supplier of road resurfacing works

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 9.4 of our management report.

1.34. Deferred Income

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 9.5 of our management report.

1.35. Disclosures required in respect of Financial Procedures

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.1 of our management report.

1.36. Disclosures required in respect of certain IFRSs

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.2 of our management report.

1.37. Financial Statements Presentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.3 of our management report.

1.38. Council Meetings and Minutes

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 11.1 of our management report.

1.39. Council Minutes and Schedule of Payments

The Council has not addressed the matter during the year and we therefore draw your attention to paragraphs 11.1 to 11.3 of our management report.

1.40. Quarterly Reports

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 11.4 of our management report.

1.41. Council's Accounting data

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.6 of our management report.

1.42. Twinning Project

The Council does not have any twinning projects in the pipeline.

1.43. Feedback from the Council's lawyer

The Council informed us that it does not have a particular lawyer, but lawyers are engaged on an ad hoc basis.

1.44. Liquidity of the Council

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 12.6 of our management report.

2. INCOME

2.1. Local Enforcement System Pre-Regional

Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the Birkirkara Joint Committee for the year ended 31st December 2015.

In Note 5 to the Financial Statements, the Council is recording income of €2,895 received under the Local Enforcement System. From deeper analysis into the numbers, income of €64 received as the share of surplus from the Joint Committee, is being recorded in the financial statements as 'General Income'.

Issues Arising

In the absence of an audited annual report for the Birkirkara Joint Committee as at 31st December 2015, we could not rely on third party financial information as provided by the Joint Committee to reasonably determine whether the income of €64 recorded as share of surplus received. We have qualified our audit report in this respect.

As from 1st September 2011, the Joint Committee was no longer responsible with the delegation function of the Local Enforcement System (LES). Nevertheless, the Council could not confirm whether the Joint Committee was put into dissolution or not.

The amount of €64 representing the share of surplus recorded by the Joint Committee is not appropriately presented in the financial statements. Rather than under the heading "General Income", this should have been classified with 'Income Raised Under the Local Enforcement Income' – Note 5 to the Financial Statements. A reclassification adjustment has been proposed. Although the Council has accepted our reclassification adjustment with respect to inappropriate classification of LES income, unfortunately the Accountant has not identified this source of income as a separate line item in Note 5. This is not in accordance with the official layout prescribed in the Local Councils Financial Procedures (2006) amendments. Therefore the Council is still not in line with a proper presentation thereof.

Recommendations

We recommend the Council to pressure the Joint Committee to provide audited financial statements for every financial period in order to have a basis on which to draw its amounts in respect to LES income due to the Council. It should also keep in constant contact with the Department for Local Government to determine the legal situation with the Joint Committee to ensure that the Council is relieved from any potential claims or liabilities arising from the former operations of the Joint Committee.

2.2. Local Enforcement System Post-Regional

Observations

The Council recognised €2,831 generated from 10% commission income for LES post-Regional and LESA contraventions. Simultaneously, during 2015 the Council issued €2,839 worth of invoices to the LES Regional Committees and LESA for this commission on post regional LES fines paid at Dingli Local Council. At this point, we already identify an immaterial variance of €8, implying that the invoices are being input in an incorrect manner in the Council's accounting system.

Furthermore, Report 483 issued from the LOQUS system [both for the LES Regional Committees and LESA] is showing that the Council's share of commission for 2015 should amount to €2,588.

During our audit testing we also noted that the Council did not issue any invoices during the months of February and March 2015 to any of the LES Regional Committees.

Issues Arising

The total value arising from the aggregate of the invoices issued, the amount recognised in the financial statements and the values showing in Report 483 do not reconcile with each other.

Although the variances identified may not be significant, it shows that the Council is not adopting appropriate procedures to reconcile the LES income.

Recommendations

We recommend that the Council's Accountant prepares a proper reconciliation of the LES 10% commission. The amount recognised in the financial statements should agree with the total of the invoices as well as with the appropriate reports issued from the LES system, report 483.

2.3. System of Council Income Receipting

Observations

The Council maintains proper official manual receipts in numerical order and issued for every income item received. Any invoices issued by the Council are generated through a word processor, without an automatic sequential numbering system.

Issues Arising

The Council experiences a number of daily cash transactions. Although the current model adopted by the Council should work well, it involves a high degree of manual intervention. Manual systems may lead to human errors and time consumption especially in the light of the limited human resources available to the Council.

Recommendations

In view of this, even in the spirit of tighter controls we strongly recommend that the Council reconsiders the implementation of a centralised electronic receipting system. Such system would facilitate cash reconciliations, filtering of data and recording of income in the general ledger with much reduced human intervention.

As for the invoicing system, the Council can adopt the one which already exists in Sage Line 50 software. A unique number invoicing system would safeguard the Council from any duplication or tampering of invoices. Furthermore, it ensures a continuous audit trail in the invoicing system. The software enables automatic posting and recording in the individual customer accounts in the same software.

2.4. Supplementary Government Income

Observations

In 2015, the Department of Local Councils (DLG) has once again committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd. Logistically, DLG is making the payments directly to Wasteserv Malta Limited on behalf of the Council. Recurrent vote 40 in the budget 2016 of the Ministry for Justice, Culture and Local Government confirms the commitment by DLG to effect other payments in 2016.

The Council has accounted for such income on a cash basis and thus the income is only recognised in the accounting period when DLG issues the payments.

Issues Arising

During our audit testing we noted that the DLG made a payment of €2,050 to Wasteserv Malta Limited for shortages covering the period 2014 – 2015. This amount was not accounted for as income in the financial statements.

All such income should be accounted for appropriately in its financial statements, based on the requirements of the "accruals concept" of accounting in line with generally accepted accounting principles and International Financial Reporting Standards.

Recommendations

The "accruals basis" of accounting should always be applied by the Council and ensure that all accrued income is appropriately recognised in the financial statements. In this respect, we have proposed an audit adjustment which the Council has taken up accordingly.

2.5. Other income short-comings

Observations

The following shortcomings were noticed when carrying out audit tests on other income received:

- Income received from permits is not being recorded separately in the nominal ledger and properly classified according to the nature of the expense. For instance, income received from permits issued for cranes, skip and kiosks are all recorded under one nominal account 0127 - 'Permits – Cranes, Skips & Kiosks'. Furthermore, the descriptions included in this nominal account are very generic, such as 'Deposit' and 'Temporary permits'.
- Nominal account 0025, consists of a mixture of income pertaining to cultural events, community activities and organisation of courses.
- Nominal account 0066, consists of a refund of expenditure for water and electricity bills by the lessee of the mobile phone antenna, the actual lease income received from the rental of the mobile phone antenna as well as reimbursements for ETC employment schemes.
- No supporting documentation was provided by the Council for income recorded in the financial statements relating to ETC Traineeship Scheme of €2,471.
- Income of €465 received on 30th December 2015 for crane permit for the month of January 2016 was recorded as income in the financial year 2015.
- Income of €60 received in December 2015 relating to courses held in 2016 was recognised as income in the financial year 2015.

Issues Arising

The short-comings listed above distort the value of income earned by the Council and the correct classification of such income. Once again, it clearly shows that the Council is neither adhering to the concept of accrual accounting nor properly preparing its accounting estimates. The Council is therefore jeopardizing the fundamental concepts of the generally accepted accounting principles. The Council's accountant is not maintaining proper cut-off accounting for income received in a period but attributable to a different accounting period.

Incorrectly classified income, is resulting in inconsistent and inappropriate income disclosure in the financial statements. Specifically, Note 6 to the financial statements does not fairly show the proper income elements actually earned by the Council.

Recommendations

The Council should make sure that all the income accruing in its favour should be properly recognised in its preparation of financial reports. We recommend that the Council always accounts on the "accruals basis" of accounting and ensures that all deferred income is appropriately recognised in the financial statements. The Council should pay more attention to cut-off errors and record income in the appropriate accounting period.

It is important that the Council maintains appropriate records of all the income received or receivable by the Council. The Council should note that fair reporting of the Council's income activities guarantee proper guide to users and decision-makers.

Further to our recommendations, the necessary adjustments were included and the financial statements were rectified accordingly. However rather than recognising the income relating to the year 2016 as short-term deferred income in line with our proposed audit adjustment, the company recognised this income receivable as an accrual. As stated in paragraph 11.7 to this management report, this shows the real need that the Council acquires proper professional support to its accounting function.

3. PAYROLL

3.1. FSS (Final Settlement System) statutory documentation

Observations

In the process of verification of statutory requirements by virtue of Legal Notice 88 of 1998, which provide for the Final Settlement System (FSS) Regulations, it transpires that there were differences between the FS7 Form (Payer's Annual Reconciliation Statement) and the FS3 Forms (Payee Statement of Earnings) in relation to the gross emoluments declared as earned by the Councils' payees (Councillors and Employees). The table below identifies the variances in question:

	Gross Emoluments - FSS Main	Gross Emoluments - FSS Part-time
	€	€
As per FS7	42,277	9,722
As per FS3s	37,530	14,469
Variance	4,747	(4,747)

Issues Arising

In terms of the FSS Rules (1998), the total gross of the FS7 should tally exactly with the appropriate categories of those of the FS3s. Gross earning amounts should be reported under the correct class of income (Main emoluments or part-time emoluments) in order to avoid discrepancies in the categories within the FS7 and the FS3 forms.

Recommendations

The Council should review the annual FSS documentation thoroughly before submitting it to the Inland Revenue Department. To mitigate these errors, the Council may make use of one of the wide array of electronic payroll tools available in the market to reduce its administrative burden and human errors.

3.2. Payment of FSS and NI Due

Observations

Linked to paragraph 3.1 above, the required payments of FSS and SSC (social security contributions) deductions are not being remitted to the Inland Revenue Department by due date. Such shortcomings were identified for the months of January and February 2015.

Furthermore, no FS5 forms (Payer's Monthly Payment Advice) were submitted for the months of May and June. However an exercise was undertaken by the Council at the end of the year to include the FS5 forms which were not submitted in the FS5 forms submitted for the month of December 2015.

Issues Arising

Deductions made out of the Council's payees, fall due by the end of the month following the month being remitted. Therefore, the remittances for January 2015 were due by 28th February 2015. It should be highlighted that by virtue of Legal Notice 88 of 1998, the Inland Revenue Department

may from time to time enforce penalties for late filing and levy interest per month on FSS amounts due.

Recommendation

It is therefore important that all amounts due in relation to FSS/SSC are paid in accordance with the time frames stipulated by the law. There should be no reason for the Council to withhold payments made out of employees' and Councillors' gross emoluments as these are considered to be privileged debts in terms of the law.

3.3. Councillors' Allowances

Observations

Councillor Mark Abdilla was marked as excused from the Council meetings held on the 27th February 2015 and 27th March 2015 whereas Councillor (now Mayor) Sandro Azzopardi was marked as excused for the Council meeting held on the 27th March 2015.

No written correspondence was provided to us by the Council, showing requests sent by these two Councillors to be excused from the respective Council meetings. In all cases, these Councillors were still paid their allowance in full.

Issues Arising

Memo 89/2009 states clearly that the allowance will be deducted on a pro-rata basis if the Councillor does not provide a valid reason for his/her absence. The reason needs to be given in writing by the same Councillor to the Executive Secretary.

Recommendations

The Council's administration should abide by all relevant regulations at all times without any favouritism towards any of the Councillors missing Council meetings without a written justification.

3.4. Unutilised vacation leave

Observations

During the year under review, an employee of the Council has terminated her employment. Upon termination, it still had a balance of unutilised leave as accumulated in terms of the law. Up to the date of our report, the Council has still not compensated the employee for this unutilised leave balance.

The Council is blaming the Department for Local Government for delays on guidance as to whether this balance of unutilised leave should be compensated for or not. The Council has provided for the amount in dispute in its financial statements.

Issues Arising

In our opinion, this case is very clear and the Council should not have sought guidance from the Department on this simple matter. Our employment laws allow that upon termination from employment, an employee has the right to claim financial compensation for any balance of outstanding leave that is due.

Recommendation

The Council should immediately pay what is due to the outgoing employee without further delay, unless there are reasons to believe that the employee has carried out any act of negligence in the

utilisation of her leave balance. Nevertheless, from the review of the minutes, we were not given to understand that this was the case.

3.5. Personal Tax Deductions and the FS4 Form

Observations

We requested a copy of the FS4 forms (Payee Status Declaration) for some of the employees which commenced or terminated their employment with the Council, as well as Councillors who were appointed in office during 2015.

The Acting Executive Secretary confirmed that FS4 forms were only being compiled when he was appointed in office at the Council and any movements prior to his appointment were not properly recorded. Therefore we could not determine whether the rate at which the final settlement tax being withheld for certain payees was indeed correct or not.

Then we identified other payroll shortcomings during our audit testing as follows:

- We were provided by the ETC termination form of an employee terminating her employment with the Council. This form was signed by the Council's mayor, but not signed by the respective outgoing employee.
- 1st April 2015 was the commencement date declared on the FS3 form of the newly elected Councillors. This is not correct because the newly elected Councillors started serving in the Council from 1st May 2015.

Issues Arising

The findings above show that the Council is not being careful with the compliance of the Final Settlement System (FSS) documentation and the calculation of the FSS deductions. It is also not properly abiding by the administrative procedures of the Employment and Training Corporation.

The FSS regulations state that where an employee does not fill in the FS4 form, any emoluments due to him shall be subject to a tax deduction at a rate equal to the maximum rate of tax, which currently stands at 35%.

Having the tax incorrectly calculated for the taxpayer, may result in unwanted balances payable which would have to be settled personally by the taxpayer himself. The scope of the FSS system is that income tax is deducted correctly in order to avoid time consuming adjustments.

Recommendation

The Council should comply with the requirements of the FSS regulations and other employment laws in all material respects.

4. EXPENDITURE

4.1. Purchase request and order forms

Observations

Instances were noted whereby purchase request and purchase order forms were not prepared:

Details	Date	€	Nominal a/c	Supplier	Cheque number
Legal services	14/07/2015	413.00	3140	Filletti & Filletti Advocates	1268
Dingli newsletter	14/04/2015	1129.80	3380	Union Print Ltd	1156
Coordination – Wirja Agrarja	07/05/2015	800.00	3360	Leisure Animation Enterprises	1216
Open skips	28/12/2015	90.00	3043	Skipline Services Limited	1572

In the following samples selected, although a purchase order form was issued, it did not include a value:

Details	Date	€	Nominal a/c	Supplier	Cheque number
Plastering works	01/11/2014	950.00	2210	David Spiteri	1049
FC Calendar 2015 Sponsorship advert	19/10/2014	50.00	2930	Dingli Swallows Football Club	1045
Engineering Services	01/02/2015	1,003.00	3130	ECL Consulting Engineers	1048
Street Lighting	05/10/2015	1,160.60	3065	MicaMed Ltd	1382

Issues Arising

With reference to the Financial Procedures (1996 – Finance), KLP1/96, P1.09b we bring to the attention of the Council that it is expected that purchase request and order forms are duly prepared throughout the purchasing process when it is so required.

Recommendations

An appropriate system of purchase request forms and purchase order forms should be implemented and forming an integral part of the procurements system of the Council. Proper purchase request forms and purchase order forms should contain the Local Council letter head including the logo of the Council. The Council may commission pre-printed stationery bearing the official purchase order form and make use thereof accordingly.

4.2. Inappropriate expenditure documentation

Observations

The Council did not provide us with any supporting documentation for the expenditure commissioned below. Essentially, the supporting documentation pertaining to the following items of expenditure, could not be found at the Council's premises and no official of the Council could know their whereabouts:

Details	Date	€	Nominal account
Waste Disposal - Wasteserv	02.02.15	1,780.86	3040
Refuse Collection - Euroclean	05.02.15	3,300.00	3041
Bulky Refuse Collection - Aug 12 - 28.11.12	01.10.15	596.60	3042
Cleaning - Public Convenience	01.01.15	1,921.78	3053
Cleaning & Maintenance - Parks & Gardens	30.04.15	235.00	3061
Street Lighting - JF Mallia Ltd	02.01.15	1,579.52	3066
Other Hospitality costs - MSD	17.02.15	12.25	3340
Hire of Transport - Executive Transport Cooperative	30.12.15	303.14	2720
Stationery - Office Point	23.03.15	1,409.62	2620

For other expenditure undertaken by the Council, we have identified instances whereby the expenditure was not supported by a proper invoice and fiscal receipts in terms of the VAT Act 1998. The following expenses were not supported by a VAT fiscal receipt:

Details	Date	€	Nominal a/c	Supplier	Cheque number
DSFC - Skema Attivitajiet Sportivi - 2014/2015	20/09/2015	4,500.00	3380	Dingli Swallows Football Club	1495
Course Fees - Local Training	05/03/2015	118.50	3340	Rita Giordmaina	1081
Engineering - Professional services	01/02/2015	1,003.00	3130	ECL Consulting Engineers	1048
Tender Technical Evaluation	09/03/2015	100.00	3190	Marlon Chircop	1120
DSFC - Dingli Swallows FC Calendar 2015 Sponsorship Advert	01/02/2015	122.08	2930	Dingli Swallows Football Club	1045

The following expenditure was not supported by an appropriate invoice:

Details	Date	Eur	Nominal a/c	Supplier	Cheque number
Course fees - Local Training	05/03/2015	118.50	3250	Rita Giordmaina	1081

The Council is also paying €100 as "rent" at id-'Dahla tas-Sienja'. However, we were not provided with any details as for what this rental payment is being made. We were neither provided by a proper rent agreement pertaining to this expense.

Issues Arising

Please note that expenditure unsupported by appropriate documentation goes against the Local Councils Procedures (1996 - Finance) K.L.P. 1/96, P1.11b. The Council should maintain a proper record of all the contractual agreements entered into.

Missing documentation from the Council's premises is totally unacceptable. The effect of this negligent approach by the Council comes out very clearly in the penalties of €11,738 (refer note 10 to the financial statements), it incurred with respect to EU Funding Measures 313 & 323 regarding the Heritage Trail Project. In this case, the paying agency identified serious shortcomings in the documentation supporting procurement either because it was missing or because it was not in line with EU laws. Further details on this matter are expressed in paragraph 5.7 of this management report.

Recommendations

The Council should ensure that an appropriate tax fiscal invoice or receipt, as required by the respective laws and procedures, is obtained for all the expenditure incurred. Payments unsupported by an appropriate invoice or receipt, should not be made. It should be pointed further that all authorised payments are signed by both the Mayor and the Executive Secretary.

While we acknowledge that the Council's administration may be putting its best effort to chase fiscal documentation, we understand that this is not its primary role within the Local Council's operational framework. Nevertheless, it is highly recommended that suppliers failing to comply with and to produce the necessary fiscal documentation as required by the Value Added Tax Act and the Income Tax Act, should be blacklisted accordingly and not recommended for further procurement.

4.3. Payment Vouchers and Schedule of Payments

Observations

During our audit testing we noted that some of the payment vouchers issued during the periods February to April 2015 did not include any numerical sequence. The Council has also not provided us with a Schedule of Payments for the period January to June 2015.

Issues arising

Payment vouchers should be prepared with every purchase payment, indicating the invoice date, the supplier, the amount paid and the cheque number. They also need to be signed by both the Mayor and the Executive Secretary, and should include a numerical sequence.

Recommendation

It is recommended that payment vouchers are always appropriately prepared in accordance with the Local Council Procedures (1996 – Finance) K.L.P. 1/96, P1.11, c and d. We also recommend that the Council keeps and maintains an appropriate record of its Schedule of Payments with the minutes.

4.4. Approval of cheque payments

Observations

An invoice received by the Council, from a certain Domenic Camenzuli and dated 31st December 2015 for services rendered during the month of December 2015, was approved during the Council meeting no. 1, held on 19th January 2016. Nevertheless, the cheque payment was dated 21st December 2015.

In a similar incident, payment made to Filletti & Filletti Advocates of €413 was approved in the Council's meeting no. 5 held on 16th September 2015 but the payment by cheque 1268 was made on 29th August 2015.

Issues Arising

The council should not distribute any cheques before these payments are approved by the council members. In case of statutory deadlines, the Council should make sure that payments related thereto are presented for approval well before the due date.

Recommendations

We recommend that all payments by the Council should be approved at council meeting before being issued, as stipulated in the Local Council Procedures (1996 – Finance).

4.5. Tendering Procedures

Observations

With respect to procurement procedures by tender, we identified the following shortcomings:

- No signed non-collusion certificate was provided by the awarded bidders, Joseph Tabone for Tender DLC 09/14, and by Road Maintenance Services Limited for the Tender DLC 07/2014.
- No bid bond was provided by the awarded bidder Joseph Tabone for the Tender DLC 09/14.
- No contractor's third party liability insurance was provided by the awarded bidders Joseph Tabone for tender DLC 09/14, Road Maintenance Services Limited for tender 07/2014 and W M Environmental Limited for tender DLC 08/2014.
- The contract agreement for the Tender DLC 09/14 was signed by Ms Venera Micallef [outgoing Mayor], Joan Mangion [outgoing executive secretary] and Mr Joseph Tabone [contractor] to perform the service for the period 9th March 2015 – 8th March 2016. We were not provided with the date of when the contract agreement was signed. The performance guarantee provided by the awarded bidder Mr Joseph Tabone is dated 10th March 2015. Therefore as per agreement, services had to start on the 9th March 2015, but the performance guarantee is dated the following day.
- The tender forms and declarations for the tender DLC 09/14 awarded to Mr Joseph Tabone and for the tender DLC 07/2014 awarded to Road Maintenance Services Limited were not properly filled in.
- The Council engaged the architects XYZ Architecture & Design to compile an evaluation report on the tender DLC 07/2014. The architects concluded that although Road Maintenance Services Limited is the cheapest bidder, the technical criteria provided was not fully satisfactory. Yet, the Council forged ahead and awarded the tender.
- Furthermore, as per architects' report from Environmental Management Design Planning in respect of tender DLC 09/14 awarded to Mr Joseph Tabone, it was stated that they are still awaiting CV from Joseph Tabone for the Project Manager. No copy of this was provided by the Council. So we are unable to determine whether, the Council forged ahead and awarded the tender without the document or not. The minutes are silent about the matter.

Issues Arising

All tender procedures need to be followed, both in relation to submission of a tender document and also when a tender offer has been awarded. Please note that it is imperative that for all tenders, the performance guarantee should be provided prior to the effective date of signing of the contract. Furthermore, the Council should ensure that all forms submitted by the bidders are complete in all material respects. Those bidders who provide incomplete tender documents should be disqualified rather than awarded with the tender.

Clearly, from our findings listed above, Tenders DLC 07/2014 and DLC 09/2014 were awarded in an appropriate manner, given that the bidders being awarded by the tender, failed to provide the necessary documentation in line with the list of tender documents. The Council failed also to

follow professional advice in the Adjudication Report presented by its own Architects. This approach is a serious infringement of the procurement procedures and therefore both tenders should have been disqualified and re-issued accordingly.

Recommendations

We recommend that the Council complies with the tendering procedures in all instances and ensures that all procedures are in compliance with the Local Councils Procedures (1996 – Tenders). Any bids not exactly in line with the requirements of the tender documentation, should be disqualified from the tendering selection process.

4.6. Donations and organisation of charitable events

Observations

During the year under review the Council organised an activity in aid of the Community Chest Fund. According to the report provided by the Council's administration, income received from the activity amounted to €1,525 and the expenses tallied to €416, leaving a surplus of €1,109. The Council also organised a Zumba event for the same purpose. According to another report provided by the Council's administration, the net surplus from this event amounted to €120.

Issues Arising

We sympathise with the fact that a Local Council has to fulfil its social and cultural obligations. However, as the laws and regulations stand today, with special reference to article 63A of the Local Councils Act and Memo 08/2005, the Council should be more considerate in the manner of how it distributes its resources within the locality. It is not within the Council's list of functions and objectives to organise charity events in favour of non-profit making and other voluntary organisations.

Recommendations

We recommend the Council to ensure that it abides by Local Councils regulations which prohibit the Council from making any donations, both in kind and in cash.

4.7. Expired contracts

Observations

We noted that the expenditure for maintenance of Street Lighting incurred by the Council during the year under review, amounts to €9,102. The provision of this service is currently neither covered by a valid signed contract, nor by a letter of extended/renewed contractual agreement.

Issues Arising

Memo 106/2011 issued in October 2011 requires Councils to undertake a formal year by year renewal of the old contract for Maintenance of Street Lighting formerly commissioned by the Street Lighting Joint Committee.

Recommendations

The Council should formalise proceedings to establish an understanding of renewal of the existing old contract for the Maintenance of Street Lighting, to ensure that prices are fixed and avoid fluctuations in the cost of providing this service. It is also advisable that from time to time, the Council should confirm the position of Memo 106/2011, with the Department for Local Government.

4.8. Quotations

Observations

During our audit testing we encountered an instance where the Council has paid for expenditure amounting to more than €1,165 within four consecutive months and no request for quotations has been issued. This relates to payments made to Executive Transport Cooperative amounting to €2,143 during the period January to April 2015.

Issues Arising

The Council is in breach of the Financial Regulations Part VIII – Expenditure, which require that orders, contracts, agreements or items not exceeding €1,165 shall be authorised by the Council according to order 32(1) of the Standing Orders contained in the Sixth Schedule to the Act, provided that items of the same nature are not purchased within a consecutive four-month period. Anything beyond that threshold has to be covered by a public call for quotations or a call for tenders according to the amount of the expenditure being undertaken.

Recommendations

The Council is recommended to issue calls for quotations or a tender offer for the provision of any service of supply exceeding €1,165 or places its orders with different suppliers and therefore abides with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996.

5. PROPERTY, PLANT & EQUIPMENT

5.1. The upkeep of the Fixed Asset Register (FAR)

Observations

The Council has not provided us with a Fixed Asset Register to substantiate the amounts of fixed assets as recognised in the financial statements.

Issues Arising

Besides breaching the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b, the upkeep of a proper Fixed Asset Register is of utmost importance to the Council. A Fixed Asset Register is deemed as one of the main accounting ledgers of a Council, which enables it to maintain its control of capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme nature elements.

The incorporation of a proper fixed asset register within the Council's books is conducive to better safeguarding of the assets and makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers.

In view of this, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of the fixed assets recorded in the financial statements.

Recommendations

In the construction of the FAR, the Council may make use of the integrated module within Sage Line 50 software. Additionally, the following matters need to be taken into consideration:

- The description of the asset in the FAR card should contain the highest degree of detail possible. The detail should not be of a generic nature such as "office equipment", "construction", "trees" or "road resurfacing".
- There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes reconciliations between the two ledgers easier in case of variances and discrepancies.
- The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. This would be useful for insurance claims and asset disposal adjustments.

The Council should construct the FAR without any further delays.

5.2. Depreciation

Observations

The depreciation charge for the period as per Financial Statements amounts to €68,918. This is not being calculated and posted through the FAR in Sage Line 50 as required by the Financial Procedures (1996 – Finance). On the contrary, depreciation is being accounted for through a journal entry on an annual/periodic basis.

We also noted that the depreciation charge for 'Construction & Special Programmes' according to the financial statements amounts to €57,703. This is not in agreement with the depreciation charge as per workings provided.

Issues arising

The Council is not maintaining depreciation calculations and posting requirements as mentioned in the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). In view of this, we have qualified our audit report.

Recommendations

The Council should rectify its position with respect to the recognition of depreciation by accounting for depreciation through the FAR incorporated within Sage Line 50 accounting software on a monthly basis after setting up a Fixed Asset Register as recommended in point 5.1 above

5.3. Assets not yet capitalised

Observations

Assets not yet capitalised as per financial statements amount to €28,000. The Council stated that these assets were actually finalised by 31st December 2015. However as at year end the Council was still waiting for the relative certifications.

In fact, we were provided with the architect's certificate for Upgrading around "Ghaqda Talent Dingli" and to this effect, the Council recognised an amount of €20,000 in the financial statements. The architect's certificate is dated 10th March 2016 and is certifying works for the value of €20,607. Therefore we could not determine whether these assets were actually finalised as at year end or not.

Additionally, during the year under review, the Council capitalised an amount of €485,539 as "Construction Works and special programmes". Nevertheless, the Council experienced difficulties in explaining the elements of the projects making up this amount.

Issues Arising

Our observations above suggest that the Councils is not engaging into proper management of the cost of its capital projects. Additionally, the accounting is also not in line with the provisions of IAS 16 – Property, Plant and Equipment.

This matter is very worrying considering the fact that between 2014 and 2015, the Council expended a total amount of €807,461 in embellishment projects of a capital nature but could not provide a proper detailed analysis of these costs. What is even more of concern is the fact that the Council had EU grants withdrawn by the paying agency for lack of appropriate documentation and details in line with the relevant regulations for grants received under Measures 313 and 323 (refer to paragraph 5.7 of this management report).

In view of the seriousness of the matter explained above, we have qualified our audit report.

Recommendations

The Council should follow the provisions of IAS 16 – Property, Plant and Equipment, and only capitalises projects when they are completed and at the point when its economic useful life begins. Details of expenditure relating to large projects, should be accounted for in the account "Assets not yet capitalised". A detailed breakdown could be kept in a spreadsheet, which would include items such as the actual construction works, studies and consultation fees, certification fees and other similar associated expenses. As soon as the project is finalised and ready for use, the total cumulative amount in the account and the spreadsheet is capitalised and included in one FAR card with the name of the project. The purchase date would merely be the date when the project was first capitalised and put in use.

If a project is not finalised by a particular financial year-end, its cost will be retained in the particular nominal account bearing the name of "Assets not yet capitalised". This account would merely contain a total of the projects undertaken by the Council but not yet completed as at year end. An analysis of this account would be represented in the spreadsheets created for each particular project.

When the project is completed, the same cumulative amount used to create the FAR card is transferred from the 'Assets not yet capitalised' account to the identifiable cost account such as 'Constructions Works', 'Road resurfacing', 'Special Programmes' and others as required. Lack of information of the amount in the assets not yet capitalised list will not allow the Council to capitalise the assets once the project is complete.

5.4. Insurance Policy

Observations

During our audit fieldwork, we noticed discrepancies between the actual insurance coverage of different categories of property, plant and equipment. We were provided with a copy of the insurance policy for the period 1st April 2014 – 30th March 2015. During the year, the Council tried to issue a new insurance tender, however since no fixed asset register is being maintained, it did not succeed. The Council informed us that the insurance policy currently in place has been renewed. However, no copy of the renewed insurance policy was provided to us by the Council.

The insurance policy provided covers the following:

Description of the insured property	Sums insured
	€
Buildings, including fixtures & fittings	70,000
Computer and office equipment, office furniture, fixtures and fittings, air conditioning equipment	143,052
Stationery	1,000
Urban Improvements	116,468
Total sum insured	€330,520

The Council's cost of fixed assets as per financial statements, excluding amounts not yet capitalised is as per below:

Cost of assets as per financial statements	€
Council premises	161,169
Construction & Special Programmes	2,413,236
Street Signs	36,230
Urban Improvements & trees	135,883
Plant & Machinery	10,223
Office Furniture, Fixtures & Fittings	67,209
Computer Equipment	52,908
Motor Vehicles	12,113
Computer Software	495
Total cost of assets	€2,889,466

Issues Arising

The Council is exposed to a risk of theft and fire for assets held at the Council. This is mainly evident in respect to office furniture and fittings, plant and machinery and computer equipment, and urban improvements.

Recommendations

We recommend that the actual value of all insurable and material non-current assets held and maintained by the Council are provided to the insurance company for an adequate cover. Needless to say, this has to be supported by the adequate construction of a Fixed Asset Register as already highlighted in paragraph 5.1 above.

5.5. Tagging of Fixed Assets

Observations

From samples reviewed throughout our audit testing, it was noticed that fixed assets are not being permanently marked or labelled.

Issues arising

The marking and labelling of Fixed Assets is stipulated by the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

Recommendations

We recommend that as much as possible, the Council carries out an exercise of tagging of the majority of fixed assets shown in the Fixed Asset Register (FAR) wherever practicable, so that apart from being in compliance with the financial procedures whenever an asset is disposed, it would be easier to trace to its FAR card.

5.6. Assets no longer used by the Council

Observations

Since the Council does not keep and maintain a FAR, we could not identify whether there are any assets recorded as property, plant and equipment in the financial statements, which have actually been disposed or scrapped by the Council. Furthermore, in the post year end Council's minutes dated 19th January 2016, it was noted that the PABX, Fire alarm system and the intruder alarm were not working.

Issues arising

IAS 16 'Property, Plant and Equipment' requires impairment testing as an item of property, plant and equipment shall not be carried at more than its recoverable amount. Furthermore, according to the requirements of IAS 36 'Impairment of Assets', impairment tests should be conducted when there is an indication of impairment of an asset.

Recommendations

Parallel with recommendations of paragraph 5.1, we recommend that a FAR is constructed so that it will be easier for the Council to better safeguard its assets and to regularly reconcile the physical existence of the asset with its record keeping in the ledgers.

5.7. Penalties incurred on EU Funding Measure 313 & 323

Observations

In note 10 to the financial statements, the Council disclosed the amount of €11,738 identified as "Penalties". From further findings it transpires that this amount represents grants withdrawn on account of EU Funding Measure 313 and 323 due to the presentation of inappropriate or incomplete documentation not in line with the relevant EU regulations.

Issues arising

This amount should not have been written off to the Statement of Comprehensive Income, but adjusted against deferred income in the Statement of Financial Position.

We were not provided with sufficient information to propose the necessary audit adjustments to the Council and rectify the financial statements accordingly.

Recommendations

The Council should adjust this matter accordingly in line with the recommendations highlighted in paragraph 9.5 below.

6. INVENTORIES

6.1. Stock of books

Observations

The Council recorded income of €12 generated from the sale of books cited as "*Had-Dingli Book Vol. 1 & 2*". However no inventory is being recorded in the Council's financial statements. The Council did not provide us with a stock list including the cost and selling prices for items held in stock and available for resale.

Issues Arising

The Council seems not to be maintaining a proper inventory system in terms of the Local Councils Procedures (1996). IAS 2 – Inventories, states that inventory items should be recognised in the financial statements at the lower of cost or net realisable value.

Recommendations

The Council should start valuing its stock in line with IAS 2 – Inventories. It is also advised that the Council introduces a perpetual inventory control system to record the amount of books being sold or given on a complimentary basis from time to time, to reflect such movement in its accounting records. A list of any complimentary books should be tabled during a Council meeting for approval.

Furthermore, at the end of every financial period end, a stock count is to be carried out, a cost value is assigned to each stock item, and the balancing stock figure is recorded in the financial statements in line with the accounting policies on "*Inventories*" set out in the Appendix to the Local Councils Procedures (2006 Audit) and the provisions of IAS 2 -- Inventories.

7. RECEIVABLES

7.1. Debtors' balances reconciliations

Observations

Balances recognised as receivables are not being reconciled with the respective debtors on a regular basis. Reconciliation of balance due from 'Central Regional Committee' was only prepared after we brought attention to the Council that the balance in the ledgers does not agree with the respective debtor statement. Moreover no reconciliation was provided by the Council for the reported amount receivable of €450 from MicaMed. According to a statement received by MicaMed no amounts are payable to the Council.

Issues Arising

The lack of proper reconciliation and the follow up of any variances could result in difficulties when trying to recover the debts due. The Council could end up in a situation where it has to provide for such balances as doubtful debts or eventually never recovered.

Recommendations

The Council should ensure that a proper control system is applied for its receivables and that it keeps updated balances in its books. This includes periodic reconciliations, investigating any arising discrepancies and any required adjustments should be reflected in its books. Such procedures will help to recover the dues and will be able to provide proof of outstanding debt in case of litigation.

7.2. Doubtful receivables

Observations

The Council has not recognised a provision for doubtful debts for unconfirmed receivables balances from the Central Regional Committee of €180. The amounts relate to income receivable for the period July – November 2014 recognised in the Council's books, but not showing in the debtor's records. An audit adjustment has been proposed.

Issues Arising

The Council should be prudent when recognising receivables and should provide for such long outstanding balances, in line with the requirements of IAS 36-Impairment of Assets.

Recommendations

We therefore suggest that the Council makes an effort to recover all debtor balances which have been due for some time and in the meantime recognises a suitable provision against such balances. Further to our proposed audit adjustment, the financial statements were rectified accordingly.

7.3. Accrued income and prepaid expenditure

Observations

Various cut-off errors were identified during our testing as listed below:

- During our audit testing we noted that prepayment of €198 for motor vehicle licence pertaining to the period 1st January 2016 – 31st August 2016 was omitted by the Council.
- The Council accrued for the amount of €6,150 as receivable from the Water Services Corporation on account of reinstatement fees covering the years 2010 to 2013. The Council has not provided us with any supporting documentation in this respect, and stated that it is doubtful whether these amounts will actually be received by the Council.
- The Council has accrued further for amounts receivable from Green MT tallying to €6,025. No supporting documentation was provided in this respect. However the Council reached an agreement with Green MT and determined that the amount of €4,950 is actually payable to the Council. Since the Council did not provide us with any information as to where the amounts receivable of €6,025 was initially recognised as income, we suggested that the difference of €1,075 would be fully written off.

Issues Arising

Although the amounts in question are not material, this raises doubts that no proper controls are in place to distinguish the income and expenditure items and amounts referring to the current period.

Furthermore, in order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account correctly and completely for prepayments and accrued income. To this effect, audit adjustments were proposed.

Recommendations

The financial statements should comply with the requirements of International Financial Reporting Standards and thus proper accounting for the prepayments and accrued income should be done accordingly. It is therefore recommended that a proper assessment is done at the end of every

financial report in order to identify all the items of prepaid expenses. These need to be reflected accordingly in the financial statements. Further to our recommendations, the necessary adjustments were included and the financial statements were thus rectified accordingly.

8. CASH AND CASH EQUIVALENTS

8.1. Cash Deposits

Observations

During the course of our audit, it was observed that the Council is taking a long time in making cash deposits of its receipts. The following are some of our identified observations:

Receipt No	Receipt Date	Details	Amount	Deposit date in bank
			€	
4914	06.04.15	Pilates April 2015	20.00	30.05.15
4937	13.04.15	Marika Debono April 2015	20.00	30.05.15
5069	17.06.15	Alfred - Permit for High up	2.33	03.07.15
5145	13.07.15	John Galea - Permit for Cherry Picker	10.00	27.07.15
5207	04.08.15	Robert Caruana - Permess Festa	123.29	22.08.15
5230	12.08.15	Crane Permit - Panelli	15.00	19.08.15
5430	02.10.15	Attard Katrin - Zumba Oct 15	20.00	17.10.15

Issues Arising

Although we noted that the Council has never kept physical large amounts in cash or cheques at the Council, the Council is still in breach of the Local Council Procedures which require deposits to be undertaken twice a week when it has cash/cheques in hand.

Recommendations

It is therefore recommended that the Council affects such deposits at least twice a week, as stipulated in Local Council Procedures (1996) – Finance KLP1/96 P1.14 (C.09).

9. PAYABLES

9.1. Supplier Statements

Observations

The Council is still not obtaining monthly statements from its suppliers, and regular reconciliations are not being carried out. These lack of internal controls give rise to situations as described in paragraph 9.2 below.

Issues Arising

Monthly statements from suppliers should be requested and obtained, as is required by Memo 08/2002.

Recommendations

We recommend that the Council obtains such statements so as to reconcile the amount due to its suppliers regularly, and should there be any variances, these will be identified immediately and appropriate action taken.

9.2. Cut-off errors

Observations

From an analysis of the payment vouchers issued during January / February 2016, we noted some invoices dated 2016 but which relate to the financial year 2015, but were not accounted for in the current financial year.

The following should have been provided for as accruals at year end:

Supplier	Details	€	Date of Invoice
Parrocca Santa Marija	Christmas Decorative Lighting	700	31.01.16
Coleiro General Supplies Ltd	2015 Lift Maintenance	472	19.01.16
Nexos Lighting	2014 Christmas Light temp box	207	11.02.16

Additionally, the following items were also identified:

- An invoice dated 17th December 2015 relating to 'Recovering Simblija Sign' amounting to €522 was not included as a supplier balance in the list of creditors.
- Rent of garage in Triq il-Buskett of €466 relating to the period 24th December 2013 – 23rd December 2014 was recorded in the current year Financial Statements.
- In nominal account 3042 'Bulky Refuse Collection' we noted that a total amount of €6,076 related to bulky refuse invoices for the periods January 2012 – April 2013.

Issues arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely but clearly the Council's accountant is not following this approach. Audit adjustments have been proposed in this respect.

Recommendations

Accruals have to be accounted for all amounts which will be invoiced in the subsequent financial period but for which products/services have been expended in the current financial period. We also recommend that the Council keeps records of all adjustments and accruals recognised in the financial statements so that one would have a detailed record of these accruals.

9.3. Accrued expenditure

Observations

From our review of the accruals accounted for by the Council as at year end, we noticed that the accounting of these accruals has not been complete and we found instances where the accrual should have been accounted for as a creditor.

The Council received an invoice from Asfaltar Construction Limited dated 31st December 2015 amounting to €8,567. An amount of €8,000 was recorded as an accrual in this respect.

Furthermore the Council has an amount due to Xuereb Brothers Limited of €21,287. However, as per agreement between the parties, an amount of €14,192 is payable within 1 year, and the amount of €7,096 is payable within 2 years. The council has classified this amount payable as an accrual in the form of a prior year adjustment. An audit adjustment has been proposed so that the creditor is properly classified between short-term and long-term.

Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. Furthermore, invoices received dated by end of year should be included as creditors, rather than as accruals.

Recommendations

We recommend the Council to prepare accounts in compliance with the "accruals concept" of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Furthermore, payables should be classified and disclosed in the financial statements depending on whether they are short-term or long-term. Further to our recommendations, the necessary adjustment was included and the financial statements were rectified accordingly.

9.4. Long term payables to supplier of road resurfacing works

Observations

As already noted in previous years' management reports, the Council has availed itself of the Public Private Partnership scheme launched through Memo 45/2010. By virtue of this scheme, the Council has entered into a contract whereby the contractor has undertaken road resurfacing works.

In previous years, it was noted that the Council had to request the services of another supplier, because the original supplier was defaulting. However the Council is now informing us that the PPP scheme was only dealt with one supplier and not two. Unfortunately this shows an element of inconsistency and lack of continuation from one Council to another.

The financial commitment in connection with the PPP scheme is being recognised as accruals. However, in the financial statements, this commitment should have been classified partly as long-term (under non-current liabilities) and partly as short-term payables. We were not provided with the appropriate workings pertaining to the projections of the PPP scheme in line with the terms and conditions approved by the Department for Local Government.

Issues Arising

Even though this PPP agreement was approved by the Ministry of Finance and the Department for Local Councils, the Council is obliged to present fairly in its financial reports the commitments payable within one year and the commitments payable for longer periods.

There is also the issue of IAS 39 - Financial Instruments: Recognition & Measurement which requires that such long-term obligations are accounted for at amortised cost. This entails that after initial recognition this liability is measured at amortised cost using the effective interest method, less provision for any impairment. In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital. No such adjustments were forthcoming in the Council's records and financial statements. We have qualified our audit report in this regard.

Recommendations

The Council should apply correctly the distinction between short-term and long-term obligations. The Council should also apply IAS 39 since its application thrusts further the faithfulness towards International Financial Reporting Standards with which the financial statements should be compliant in terms of the Local Councils Procedures (Audit).

9.5. Deferred Income Calculations and Disclosure

Observations

According to note 4 to the Financial Statements, the Council has released €23,279 from the deferred income account to the Statement of Comprehensive Income representing grants provided to finance capital expenditure undertaken by the Council.

The workings provided by the Council's accountant were not sufficient and appropriate to conclude that the amount released is correct and complete. The following are the weaknesses identified in the relevant workings:

- A variance was noted between the opening balances in the workings provided by the Council supporting the recognised amounts for the year ended 31st December 2015 and the closing balances as reported in the audited financial statements for the year ended 31st December 2014. The table below details the variances:

	€
Opening balances as per Council's workings	330,352
As per FS [comparatives]	
Current deferred income	14,274
Non-current deferred income	839,399
Variance	(523,321)

- According to the workings provided, the Council received grants of €320,936 with respect to Measure 313/2014 Pjazza – Village Centre, and €474,357 with respect to Measure 313/Old. No supporting documentation was provided by the Council in this respect.
- The increase in grants received during the year according to the financial statements, amounts to €106,796, however according to the workings of the Council's accountant, two new grants were received during the year, being of €320,936 with respect to Measure 313/2014 Pjazza – Village Centre and €474,357 with respect to Measure 313/Old. The two sets of data do not agree.
- Moreover we are not in agreement with the amounts disclosed in note 15 in relation to deferred government grants split between one and two years, two and five years and in five years or more.

Issues Arising

Given the limitations as listed above as well as the lack of information on the source workings and the basis and judgments undertaken by the Council in arriving to these amounts recognised in the financial statements, we could not confirm with reasonable assurance that the grants released to income were not materially misstated. Thus our audit report was qualified on this matter.

Recommendations

The requirements of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, should be followed in order to apply the correct treatment with respect to recognition and measurement of grants received either for revenue expenditure or capital expenditure.

Furthermore Council should maintain adequate workings and supporting documentation of all grants obtained for capital expenditure items. Such workings should base the release of income on an annual basis to the depreciation of the asset covered by each respective grant. This will also have an effect on the deferred income liability of grants.

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1. Disclosures required in respect of Financial Procedures

Observations

The financial statements prepared and approved by the Council do not contain the corresponding budget figures for the year under review.

Issues Arising

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the period. However, in line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements. In this respect, we have included an emphasis of matter in our audit report.

Recommendations

The Council should seek clarifications from the Department of Local Government to determine whether this obligation is still mandatory or otherwise.

10.2. Disclosures required in respect of certain IFRS

Observations

The financial statements prepared and approved by the Council are not compliant in all respects with the requirements of the International Financial Reporting Standards. Disclosures emanating from certain accounting standards appear to be missing.

Issues Arising

The Council's financial statements lack certain disclosure requirements arising from the following accounting standards:

- ✓ IAS 1 – Presentation of Financial Statements
- ✓ IAS 2 – Inventories
- ✓ IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- ✓ IAS 24 – Related Party Disclosures
- ✓ IAS 20 – Accounting for Government grants and disclosures.
- ✓ IAS 38 – Intangible Assets
- ✓ IAS 39 – Financial Instruments: Recognition and Measurement
- ✓ IFRS 7 – Financial Instruments: Disclosures

In view of the lack of appropriate disclosures, we have qualified our audit report accordingly.

Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards in all respects including all necessary disclosures.

10.3. Financial Statement Presentation

In addition to item 10.1 and 10.2 above, we have also identified further mistakes in the financial statements presented and approved by the Council. These include the following:

- Statement of Changes in Equity – 'Retained Funds' should be changed to 'Retained Earnings'.
- Debit balances in the list of supplier balances due, were not reclassified with "receivables" in the financial statements.
- Note 2 of the Financial statements 'Accounting Policies and Reporting Procedures' is not in line with the 2015 IFRS updates.
- Note 4 of the Financial statements in the comparatives figure Supplementary Government Income reads €20,966 whereas in the prior year financial statements this reads €20,906
- Note 4 of the Financial statements in the comparatives figure Grants released reads €15,602 whereas in the prior year financial statements this reads €15,692
- Note 5 – Local Enforcement System should have read 'Income raised under Local Enforcement System.
- Note 8 – Personal Emoluments – The average number of persons employed with the Council is not disclosed.
- Note 9 – Operations and Maintenance should have read 'Operations and Maintenance Expenses'.
- Note 13 – Property Plant & Equipment; in the comparatives figure for Construction & Special Programmes additions read €36,328 whereas according to the prior year financial statements these amount to €32,345. This had an effect on the final total cost amount and net book value.
- Note 13 – Property, Plant & Equipment in the comparative figure for Assets Under Construction this reads €485,539 whereas according to the prior year financial statements this amounts to €489,522.
- Note 18 – Capital Commitments – The line 'Contracted for but not provided in the Financial Statements' should be removed since there are no balances, neither for the current year nor for the comparative figures.
- Note 21 – The Council failed to disclose Heritage Malta as a related party with whom it undertook transactions during 2015. Additionally, the disclosure requirements to this note are not complete.

4. Prior year adjustment

Observations

During the year under review a prior year adjustment amounting to €21,288 was recognised in the audited financial statements. This adjustment was done in connection with an amount payable not recognised in previous years' financial statements.

Issues Arising

This prior year adjustment was not appropriately recognized and disclosed in the Financial Statements in line with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. Besides the erratic presentation, no proper note to the financial statements has been disclosed, and the Statement of Financial Position has not been restated to reflect the impact by the said adjustment on prior year results.

Recommendations

We recommend the Council to follow the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Correction of Errors, in order to apply the correct treatment with respect to recognition and measurement and disclosure in respect of any prior year adjustments it undertakes.

1. GENERAL

11.1. Approval of Council Minutes

Observations

Minutes of Council meetings 62 held on 27th March 2015 [7th Legislature] and Council's meetings no 1 [8th Legislature] were not approved during Council meetings.

Issues Arising

Please note that the Council's minutes should always be approved in the following Council meeting in terms of the Local Councils' Act. Any decisions taken during a Council meeting for which its minutes are not approved, may be considered to be null and void.

Recommendation

The Council should ensure that all minutes are approved, in particular, the unapproved minutes indicated above should be approved immediately without any further delay.

11.2. Records of Minutes and Schedule of Payments

Observations

The Schedule of Payments for the Council meetings held during the period January – June were not uploaded on the website www.lc.gov.mt. The said Schedule of Payments were not even provided to us during our audit testing.

Furthermore, the Council's minutes uploaded on the website for the Council's meeting held on 12th January 2015 are not signed. In addition to this, the Council's minutes for the Council's meeting held on 16th February 2015 uploaded on the website www.lc.gov.mt were only signed by Mayor Venera Micallef.

Council meeting 60 held on 27th February 2015 and Council meeting 62 held on 27th March 2015 were held before 5.30pm. There was no record of a unanimous approval in the minutes to these Council meetings.

Issues Arising

Memo 89/2010 and 102/2010 require the Executive Secretary to publish the minutes and the schedule of payments within 2 days from approval.

The Sixth Schedule of the Local Councils Act requires in paragraphs 14(A)(6) and 14(A)(7) that the minutes become public once they have been approved and signed by the Mayor and the Executive Secretary and that these should be initialled by the Mayor. Paragraph 14(A)(8) of the same schedule also obliges the Executive Secretary to ensure the proper and safe custody of these Council's records.

The Local Councils Act (Cap. 363) requires that unless otherwise determined by the unanimous decision of the Councillors, meetings of the Local Councils shall not start before 5.30pm and later than 7.30pm and shall not last more than 3 hours.

Recommendations

We therefore recommend the Council to adhere to the requirements of these memos and Local Councils Act accordingly.

11.3. Council meetings

Observations

No Council meetings were held between the period 13th May 2015 and 27th July 2015. More than five weeks have elapsed from meeting 02/K8/2015 held on 12th May 2015 to the next meeting 03/K8/2015 held on 28th July 2015.

Issues Arising

Chapter 363 Local Councils Act Article 43 (2) specifies that "Council meetings shall be held at least once a month as long as this period does not exceed five consecutive weeks or at any other shorter intervals as the Council may decide."

Recommendations

It is recommended that the Council follows the relevant provisions of the law concerning the procedures to be followed for Council meetings.

11.4. Quarterly Reports

Observations

The Quarterly Reports provided by the Council for the period January – March 2015 and for the period July – September 2015 were not signed. However the quarterly report for the period July – September 2015 was approved in the Council's minutes. Furthermore, the quarterly report for the period January – March 2015 was not uploaded on the Council's website as per memo 36/11.

Issues Arising

Attention should be brought to the Local Councils Procedures (1996 – Finance) KLP 1/96, P1.05 (d.06), that such reports should be finalised and approved within a month following each quarter period end. Approval of these reports needs to be included within the Council minutes. In

addition, memo 36/11 states that Quarterly Financial Reports should be uploaded on the Local Councils website.

Recommendations

We therefore recommend that the minutes of the Council reflect the approval of the quarterly reports and that these are all prepared and submitted to the Department of Local Councils within a month from period end.

11.5. Comparison with the Annual Budget

Observations

During our review of the annual budget 2015, it was noted that some expenditure incurred in 2015 exceeded the budgeted amount.

In particular, the budgeted expenditure for operations & maintenance and administration expenditure for the year 2015, excluding depreciation is €212,980. However the actual expenditure incurred in this respect, including the proposed audit adjustments amounted to €281,898.

Issues Arising

We bring to the attention of the Council the fact that the Council is regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996-Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (usually based on the liquidity position and funds available). Furthermore, it is envisaged that if any expenditure category requires materially more funds than budgeted, an adjustment is undertaken to the said budget and is duly approved by the Council.

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.

Recommendations

In compiling a budget, each item of income or expenditure should be scrutinised to determine whether there is some form of agreement which gives certainty of the projection being presented. In the absence of a contract or an agreement, the item should be extrapolated over historic data to approximate the desired projections for the entire consolidation of the official final draft of the budget.

11.6. Council's Accounting Data

Observations

During our audit visit we noted a copy of the Council's accounting software is only kept by the accountant, and is not held in the Council's premises. When we enquired on the matter, it seems that the Council's Accountant has logistical problems since he lives in Gozo and therefore he could not travel frequently to Dingli in Malta to execute his duties.

Issues Arising

This is in breach of the Local Councils' Act and the Local Councils Procedures (Finance). It is essential that a copy of the accounting dataset is held in the Council's premises with no exceptions.

Recommendations

A backup of the accounts from the accounting software should be obtained from the accountant at once and kept in a safe place. Furthermore, a backup of the accounting software should be taken regularly and stored on more than one backup storage media to mitigate risks.

11.7. Accountancy work and ancillary contractual obligations

Observations

All Local Councils' Financial Statements have to be prepared in line with the International Financial Reporting Standards (IFRS). However, various deficiencies were noticed in the Financial Statements as approved by Council. Deficiencies were also found in the processing of raw accounting data and during the accounts finalisation process, whereby fundamental reconciliations were not properly undertaken and unidentified balances were not appropriately addressed.

We were not provided with a copy of the contract signed with the Council's Accountant, despite various reminders. In view of this, we could neither determine the duties listed in the specific conditions and undertaken by the accountant in question nor determine whether a contractual obligation exists after all.

Issues Arising

Regular reconciliations need to be done when preparing the accounts finalization process. Furthermore, the Council's accounting reports should be prepared in line with the International Financial Reporting Standards as stipulated by the Local Councils Procedures (Audit 2006). As a result of all the deficiencies, the audit report was heavily qualified.

Recommendations

The Council should ensure that the accounts issued are in line with the International Financial Reporting Standards and that the accounting function is at the desired quality levels. From our findings listed in this report, this appears not to be the case.

In the light that there seems to be no contractual agreement between the Council and its current accountant in office, we recommend that the Council issues a fresh call for tenders. In its evaluation, the Council should not be dictated only by the price, but more importantly, the quality standards which the prospective bidder is performing at other local councils.

11.8. Mid-term audit

Observations

During the year under review there was a change in the Council's Executive Secretary two times. However, the Council did not commission a mid-term audit at each change of Executive Secretary.

Issues Arising

Whenever there is a change in the seat of the Executive Secretary of a local council, a mid-term audit is required under Subsidiary Legislation 363.02 – Local Councils (Audit) Procedures through Legal Notice 135 of 2007.

This kind of audit provides assurances both to the outgoing and the new incumbent Executive Secretary that the respective end and start of the office is free of any material misstatements or irregularities.

As a matter of fact, the Council indeed suffered from this lack of appropriate hand over, as there were instances during the year, where the Department for Local Government had to pay directly for the monthly salaries and then get them deducted directly from the annual financial allocation. Additionally, the fact that in various instances, the Council could not produce the required documentation, protracts a strong sign of lack of continuation and complete mismanagement.

Recommendations

We recommend the Council to adhere to such regulations if similar situations occur in the future.

12. FINANCIAL POSITION

12.6. Liquidity of the Council

Observations

As of 31 December 2015, the Council's minimum net current asset value should have amounted to at least €30,964 being 10% of the annual allocation. Nonetheless, the actual financial indicator (the ratio of the adjusted net current asset value to the annual allocation) at 31st December 2015 stood at -30.71%.

Issues arising

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value (as adjusted in line with the guidelines) of not less than 10% of the annual financial allocation. The consequences of not abiding by these regulations are various. With an indicator of less than 10% as in this case, the Council is already obliged to:

- Present a financial report to the Department of Local Councils on how it will cut down on expenditure to strengthen the indicator.
- Convene its finance committee to seek guidance on whether the Council could commit for certain expenditure before sanctioning.
- If the targets to increase the indicator back to 10% fail, the Minister may withhold an equivalent sum topping up to 10% from the annual allocation and paid back only when the Council has recovered.

If the financial indicator is negative up to -5%, the measures indicated above will be much stricter and will include:

- The Director of Local Councils should convene a meeting with the Mayor and Executive Secretary within 15 days of such observation.
- Proposals are set to ensure that the Council reaches the required threshold of 10% within 12 months.

The Council is also regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (which is usually based on the liquidity position and funds available). Due to the inherent risk to the Council's going concern assumption, we have qualified our audit report.

Recommendations

The Council should convene with urgency its finance committee and draw up a cash flow management plan to address the adverse liquidity situation. Until then, the Council should postpone any projected capital expenditure and recurrent expenditure which is not entirely financed by additional funding schemes. Projects or programmes which are not funded by special schemes should not even be considered by the Council.

That said, considering the difficulty in, and to a certain extent, limited control over the collection process of its receivables, the Council should take these factors into consideration when preparing its annual budget and financial control procedures and should propose a plan to improve its finances by curtailing its expenditure and ensure that it does not incur a deficit as well as make plans to ensure a positive working capital balance.