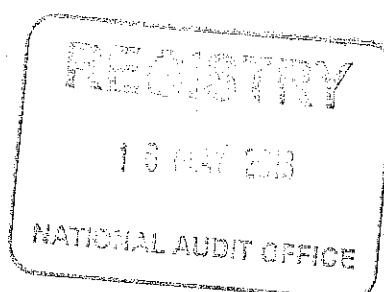


LOCAL COUNCIL DINGLI

Report and Financial Statements

For the year ended 31 December 2017





27th April 2018

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.

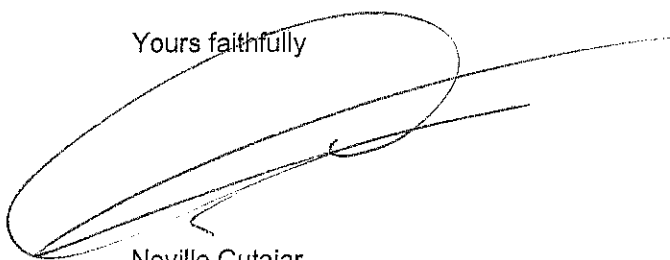
For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the year ended 31 December 2017, 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.

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 Executive Secretary, Mr. Shawn Tanti 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



Neville Cutajar
Partner

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1. FOLLOW-UP MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2016.

1.1. Local Enforcement System Pre-Regional

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

1.2. Local Enforcement System Post-Regional

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

1.3. 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.

1.4. Supplementary Government Income

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 2.4 of our management report.

1.5. Other income shortcomings

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. Personal Tax Deductions

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

1.8. Inappropriate Expenditure Documentation

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

1.9. Expired contracts

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

1.10. 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.

1.11. Depreciation

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

1.12. 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.

1.13. 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.

1.14. Penalties incurred on EU Funding Measure 313 & 323

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

1.15. Stock of books

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

1.16. Debtors' balances reconciliations

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 6.2 of our management report.

1.17. Local Enforcement Debtors balance

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

1.18. Accrued income and prepaid expenditure

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 6.2 of our management report.

1.19. Stale Cheques

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.26.2 of our management report.

1.20. Bank Representatives

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.37.26.2 of our management report.

1.21. Creditors Balances

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

1.22. Cut-off errors

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.2 of our management report.

1.23. Distinction between trade payable and accruals

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph **Error! Reference source not found.** of our management report.

1.24. 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 8.3 of our management report.

1.25. Deferred Income Calculations and disclosure

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.4 of our management report.

1.26. 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 9.1 of our management report.

1.27. Financial Statements Presentation

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

1.28. Records of Minutes and Schedule of Payments

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

1.29. Preparation of Annual Budget

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

1.30. Accountancy work and ancillary contractual obligations

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

1.31. Mid-term audit

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

1.32. Membership in Majjstral Action Group

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

1.33. Liquidity of the Council

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

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 annual audited report of the Birkirkara Joint Committee up to date of dissolution. One also has to note that the Joint Committee function ended in August 2011 as from September 2011 the Local Enforcement System was delegated to Regional Committees and then to the Local Enforcement System Agency (LESA).

Issues Arising

In view of the absence of an audited annual report from the Birkirkara Joint Committee covering the period from the formation date to dissolution date, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the completeness of amounts being recorded in the financial statements as income and expenditure arising from the Local Enforcement System in relation to contraventions issued Pre-Regional Committees. In this respect, we have qualified our audit report.

Recommendations

The Council should put pressure on the Birkirkara Joint Committee so that the latter would produce the required financial reports outstanding until its date of dissolution and the Council could then factor any accounting provisions as the case may be in its annual financial statements. If the administration officers of the Joint Committee fail to comply, the Council should consider reporting the matter to the Department of Local Councils.

2.2. Local Enforcement System Post-Regional

Observations

The Council recognised €2,478 generated from 10% commission income for LES post-Regional and LESA contraventions.

Report 483 issued from the LOQUS system [both for the LES Regional Committees and LESA] shows that the Council's share of commission for 2017 should amount to €2,369.

Issues Arising

Although the variance of €109 is not significant, it shows that the Council is not adopting appropriate procedures to reconcile the LES contraventions received at the Council for which commission is being charged and the amounts of contraventions being shown as collected as per LES reports. In this case, the variance represented an accrued income adjustment done in 2016 which has not been properly reversed in 2017.

Recommendations

On a monthly basis, the Council's should prepare and maintain a proper reconciliation of the 10% commission based on contraventions collected with the relevant LES reports. The amount recognised in the financial statements should agree with the appropriate reports issued from the LES system.

2.3. System of Council Income Controls

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

The Department of Local Councils (DLG) once again in 2017 has committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd. The Council has accounted for such income on a cash basis and thus the income is only recognised in the accounting period when the DLG issues the payments.

Issues Arising

Throughout 2017 we did not note any payments by the DLG covering the 2017 tipping fees difference. Whilst this is usually settled in the year after, this has been omitted from being reported as accrued income in the financial statements of 2017.

Based on our workings an accrued income of €2,675 representing the amount still to be paid by DLG on behalf the Council to WasteServ has not been accrued for.

Recommendations

The "accruals basis" of accounting should always be applied by the Council and ensure that all accrued income is appropriately recognized in the financial statements. Further to our recommendations, the necessary adjustments in relation to the accrued income for 2017 tipping fees were included and the financial statements were rectified by the Council accordingly.

2.5. Other income short-comings

Observations

The following shortcomings were noticed throughout our review 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 0065 - 'Permits'. From the sample reviewed, it was noted that courses such as Pilates sessions and Zumba are being aggregating with permits rather than community services. Furthermore, the descriptions included in this nominal account are very generic and do not specify what the permits relates to.
- Nominal account 0066 'General income', contains receipts for refund of expenditure for water and electricity bills (related to lease of space for mobile antenna) and the actual lease income received from the rental of space for the mobile phone antenna. The classification of such income would be more appropriate to be classified more specifically rather than 'General income'.
- Lease income amounting to €550 for period January-March 2018 was not accounted for as deferred income.
- The Council received income for Pilates sessions which will be starting in 2018. This income was not accounted for as deferred income.
- The Council entered into an agreement for the period 01/02/2016 to 01/02/2019 with Green MT for the latter to offer the sum of €500 every year. No such amount was received yet and this should have been accrued for.

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 on which its financial statements are prepared. The Council is not maintaining proper cut-off accounting for:

1. Income received in a period but attributable to a different accounting period;
2. Income generated during a period even though funds relating to such income still need to be recovered.

Incorrectly classified income is resulting in inconsistent and inappropriate income disclosure in the financial statements.

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 and accrued income is appropriately recognised in the financial statements.

It is important that the Council maintains appropriate records of all the income received or receivable by the Council. The Council should implement automation systems in its income recording and acquires proper professional support to its accounting function. In this respect, we have proposed audit adjustments which the Council has taken up accordingly.

2.6. Annual financial allocation

Observations

In its financial statements originally approved on 7th February 2018, the Council recognised the amount of €335,253 as annual financial allocation received from Central Government. According to official data published by the Department of Local Councils, the Council should have received the amount of €335,755.

Issues Arising

Upon reconciling the difference, it transpires that adjustments for €120 representing the use of internet access for public and €381 representing MITA deductions, were omitted from the Council's general ledger.

Recommendations

The Council should make sure that both on a quarterly and annual basis, the recognition and disclosure of the annual financial allocation should tally exactly with the official documentation published by the Department for Local Councils. The Council has addressed the difference by taking on board our proposed adjustment.

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 monthly FS5 Forms (Payer's Monthly Payment Advice) in relation to the gross emoluments declared as earned by the Councils' Councillors and Employees.

The table below identifies the variances in question:

	Gross Emoluments - FSS Main	Income tax deductions	Social security contributions
	€	€	€
As per FS7	80,118	9,190	12,387
As per FS5s	79,906	9,190	12,387
Variance	212	0	0

We were informed by the Executive Secretary that the variance has resulted due to an inputting error in FS5 for the month of October 2017.

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 FS5s. Gross earning amounts should be reported under the correct class of income. A proper reconciliation between the FSS documentation and the amounts as per FSS documentation should be prepared prior to submitting the FSS documentation with IRD.

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. The Council should also ensure that the postings in the accounts should be reconciled with the FSS documentation and any adjustments are reflected accordingly.

4. EXPENDITURE

4.1. Approval of Payments

Observations

We encountered the following payments which were made during the year under review prior to these being approved in a Local Council meeting:

- Payment to Dominic Camenzuli for handyman services amounting to €1,000 (chq 2577)
- Payment to MCCF for the President's Fun Run for the amount of €410 (chq 2997)

Issues Arising

Financial procedures require that all payments have to be duly approved and sanctioned during a Council Meeting prior to settlement, unless there would be an approved urgent motive to undertake the payment earlier.

Recommendations

The Council should ensure that all payments to supplier are, where appropriate, first approved and sanctioned by Council prior to these being settled.

4.2. Expired contracts

Observations

We noted that the expenditure for maintenance of Street Lighting incurred by the Council during the year under review, amounted to €13,450. 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

We are aware that article 19(1)(a) of Subsidiary Legislation 363.160, mentions that one of the functions of the Regional Committee should be to provide for the proper upkeep and maintenance of street lighting in accordance with national and international standards. However, DLG Memo 106/2011, Memo 34/2013 and directive 50/2016 covered the procedure to be undertaken until the delegation to the Regional Committees has been concluded.

Thus, Local Councils are required to issue tenders for street lighting services for one full year with the possibility that such contract can be extended for a maximum of three years.

Recommendations

The Council should regulate its position in terms of applicable memos and directives as issued by the DLG.

5. PROPERTY, PLANT & EQUIPMENT

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

Observations

The Fixed Asset Register (FAR) is not being maintained in the appropriate manner as stipulated by the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

During 2016, the Council has undertaken a reconstruction exercise of the FAR but the assets that were acquired pre-2014 were included in each asset category in one-line item described as 'Opening balance Pre-2014', showing the total cost, depreciation and net book value of such assets. In aggregate the net book value of these assets amount to €1,264,109.

Issues Arising

The proper upkeep of a 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 natural elements.

A proper fixed asset register showing a proper description, separate cost, depreciation and net book value of each asset held is conducive to better safeguarding of the assets. Furthermore, it makes it easier to regularly reconcile the physical existence of the asset with the record keeping in the ledgers.

Furthermore, to raise insurance claims in case of theft, vandalism, arson or extreme nature elements, Council will be required to provide accurate information about the involved assets. 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

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". Moreover, the Council should ensure that its FAR has the individual assets acquired prior to 2014 which are still held by the Council and thus, amend the FAR to show individually the information of each asset.

5.2. Reconciliation of Asset Categories in Fixed Asset Register to Nominal Ledger

Observations

We reconciled the fixed asset category amounts as per nominal ledger with the fixed asset category amounts in the FAR and it was noted that the cost and the depreciation in the Financial Statements of certain asset categories do not agree with the corresponding amounts in the FAR.

The following are the differences noted:

Asset Category	As per FS		As per FAR		Variances	
	Cost	Acc Depn	Cost	Acc Depn	Cost	Acc Depn
Council Premises	161,169	19,183	161,169	17,394	-	1,789
Constructions & Special Programmes	2,448,972	671,208	2,389,110	533,415	59,862	137,793
Street Signs	36,230	36,230	36,230	36,230	-	-
Urban Improvements	132,800	107,682	165,579	104,613	(32,779)	3,069
Plant, machinery & equipment	12,208	7,683	12,208	6,354	-	1,329
Furniture & fittings	72,457	44,609	67,694	42,193	4,763	2,416
Computer Equipment	54,544	48,091	53,568	45,593	1,276	2,498
Computer Software	1,339	676	1,339	422	-	254
Motor Vehicles	12,113	10,116	12,113	9,530	-	586
Trees	2,997	-	2,997	-	-	-

Issues Arising

The Fixed Asset Register is a subsidiary ledger to the nominal ledger, and therefore it should be in agreement therewith at all times. Non-agreement can lead to a number of issues, such as variances arising, lack of proper depreciation on all assets as applicable and so forth.

Recommendations

It is advisable that a regular reconciliation between the FAR and the books of accounts should be prepared. Such reconciliation should be undertaken for each asset category to ensure that this is in agreement between both ledgers.

5.3. Depreciation charge for the year

Observations

During our testing we noticed that depreciation is not being calculated and posted properly through the Fixed Asset Register in Sage Pastel Evolution® on a monthly basis using the reducing balance method as required by the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). Depreciation is being calculated manually using an excel spreadsheet.

Therefore, the Council is not depreciating each asset individually but instead depreciation is calculated on each asset category and recorded through quarterly journal entries.

Issues Arising

The calculation and posting of depreciation is regulated in Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). The measurement of depreciation undertaken by the Council is in conflict with the depreciation accounting policy of local councils as in fact stipulated in note 2 (c) of the financial statements. In view of all of the above, we have qualified our audit report.

Recommendations

The Council should rectify its position accordingly and carry out the necessary amendments and/or reclassifications so that the net book value of property, plant and equipment properly reflects the underlying depreciation policy of the Council in line with the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002).

5.4. Insurance policy

Observations

We noticed that the Council is not properly insured in different categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council's Premises for €161,169, furniture and fittings for the amount of € 67,209, computer and office equipment amounting to € 52,908, plant and machinery amounting to € 10,223 and urban improvements amounting to € 169,116.

The Council's total cost of fixed assets, excluding amounts not yet capitalised and special programmes as disclosed in its financial statements amounts to €484,818 of which €72,457 relates to furniture and fittings, € 54,844 relates to office and computer equipment, €12,208 relates to plant and machinery, €2,997 relates to trees, €132,800 relates to urban improvements, €36,230 relates to street signs, €12,113 relates to motor vehicles and €161,169 relates to Council premises.

Issues Arising

Subsidiary legislation 363.01 clearly states that the above asset categories should be adequately covered by an insurance policy. Such requirement was further remarked in DLG circular 33/2016. Insurance policy in respect of assets needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment.

Over or under insurance is detrimental when the Council has to file an insurance claim following a particular accident or event.

Recommendations

The Council should review its insurance cover once the FAR has been fully reconstructed in order to have adequate cover for each respective asset categories. In this respect, the Council should follow subsidiary legislation 363.01 and circular 33/2016.

We also recommend that the insurance policy contains better details of the assets insured. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.

5.5. Tagging of Fixed Assets

Observations

Once again it was noticed that fixed assets are not being properly 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

Parallel in our remarks in paragraph 5.1, the Council should carry 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. Capital Commitments

Observations

During our review of the financial statements, it was noted that there is no disclosure of capital commitments in the Financial Statements. Upon inquiry with the Local Council we were informed that the Council has no capital commitments, in fact no capital commitments were noted in the annual budget for 2018.

However, throughout our testing we noticed that the DLG has assigned €125,000 grant to Regjun Tramuntana to be distributed amongst the local councils making up the Northern Region for the asphalt of roads. Dingli Local Council is to receive €4,705 for road resurfacing of Triq il-Kbira. Such works are expected to be concluded by 2018 and therefore this amount should have been included as capital commitments which has been approved but not yet contracted.

Issues Arising

Capital commitments need to be disclosed in their entirety in line with the requirements of IAS 16-Property, Plant and Equipment. Furthermore, it is important that a proper reconciliation is provided, which should tally with both the capital commitments as per financial statements and those as per the forthcoming Annual Budget. In this way, financial reports issued by the Council would be comparable.

Recommendations

The Council should ensure that capital commitments are properly assessed and disclosed in line with the requirements of IAS 16-Property, Plant and Equipment.

5.7. Capital Expenditure vs Revenue Expenditure

Observations

We identified some instances where expenditure of a capital nature, was recorded as expenditure of a revenue nature as noted below:

- Wood tables amounting to €955 (cheque 2718)
- 5 shelves for Dingli Library amounting to €730 (cheque 3113)
- 50 chairs for Crafts Club amounting to €800 (cheque 3140)
- 2 Lenovo tablets amounting to €258 (cheque 3084)

Issues Arising

These items should have been more appropriately capitalised with the respective capital expenditure categories rather than expensed directly to the Statement of Comprehensive Income. This yields an element of inconsistency and departure from the requirements of IAS 16 - Property, Plant and Equipment.

Furthermore, the Council should clarify whether such assets belong to the Council or whether these assets were transferred to third parties together with all rights and obligations. In case of the latter, the Council must bear in mind that such may be deemed as donations in kind and therefore, the Council should abide with article 63A of the Local Councils Act and Memo 08/2005.

Recommendations

Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

6. RECEIVABLES

6.1. Debtors balances

Observations

We noticed that two debtor balances relating to LESA and WM Environment Ltd amounting to €560.30 and €500 respectively were still recorded as outstanding at the end of the year when in fact these were received during 2017. Instead, the payment received was recorded directly as income and included with permit income.

Issues Arising

Such errors give the understanding that the Council does not undertake an ongoing exercise of reconciliation of its debtor balances to ensure that such balances are correctly stated in the books of accounts. Such errors can possibly impinge on the correct reporting of such debtor balances.

Recommendations

The Council should therefore ensure that proper reconciliations are undertaken in relation to its debtors' balances on periodic basis to identify and investigate any such variances. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

6.2. Accrued income and prepaid expenditure

Observations

We have noted that the Council has in some instances not accounted for prepayments and accrued income properly, as noted below:

- Under accrued income of €500 for income generated from waste recycle scheme.
- Overstatement of €1,066 in the accrued income from an UIF grant.
- We noted a credit balance of €444.28 in the list of accrued income which related to December 2016 rent from Melita for aerial.
- The Council paid an amount of €232.94 for rent of Interpretation Centre covering the period 17/05/2017 to 16/05/2018 and another €232.94 for the rent of Public Garden covering the period 01/03/2017 to 28/02/2018. The portion covering rent for 2018 has not been recognised as a prepayment.

Issues Arising

Although the amounts in question are not material, these issues raise doubts over the controls in place to distinguish the income and expenditure items and amounts referring to the current period. The Council is required to comply with the requirements of International Financial Reporting Standards which entails the requirement to account correctly and completely for prepayments and accrued income.

Recommendations

It is important that the Council makes a proper assessment of its prepayments and accrued income at the end of every financial reporting period and ensures that such these are correctly accounted for. For all the above-mentioned matters, we have proposed relevant adjustments, as applicable, which the Council has taken up accordingly

7. CASH AND CASH EQUIVALENTS

7.1. Bank reconciliations

Observations

The bank reconciliation of the BOV bank account 40010338845 was not prepared properly as at 31 December 2017. For this account there was a net unreconciled difference of €8.99. After further investigation it transpired that three transactions undertaken in 2017 were not recorded in the Council's books of accounts, resulting in this variance.

Issues Arising

It is important that bank balances are reconciled frequently so that variances are easily identified and adjusted.

Recommendations

The Council should undertake the necessary adjustments in its records and undertake appropriate reconciliation of its bank amounts to ensure that any missing transactions are duly recorded, and any variances are investigated and rectified as necessary.

7.2. Stale Cheques

Observations

The unrepresented cheques list of the APS Bank account 2001208932 contains a cheque payment of €190.80 which has become stale.

Issues arising

The period by which this cheque should have been presented at the bank, exceeded 6 months and therefore legally it has become stale.

Recommendation

The Council should verify uncashed cheque payments on a regular basis and adjust its records accordingly when such cheque payments become stale.

7.3. Bank Representatives

Observations

From the bank certificate supplied to us by 'Bank of Valletta plc' as banker of the Council, it results that the bank representatives of the Council are listed: Mayor Sandro Azzopardi; Vice-Mayor Raymond Schembri; and Executive Secretary Shawn Tanti.

Issues arising

Subsidiary legislation 363.01 states that the bank representatives of the Council should be the current Mayor and the current Executive Secretary only.

Recommendations

The Council should inform the bank that Council's representatives must be the current Mayor and the Executive Secretary and thus reflect these two persons as the legal representatives of the Council to sign and execute banking transactions.

8. PAYABLES

8.1. Creditors Balances

Observations

The Council has trade payables amounting to €72,508 at year end. From an analysis of the trade creditors list as at 31st December 2017 it transpires that the Council is not carrying out regular reconciliations with supplier statements and in fact for the majority of supplier balances, we were not provided with supporting documentation or supplier statements.

Issues Arising

These substantial unconfirmed balances and variances are distorting the amount due by the Council at any point in time to its suppliers. For this reason, we could not confirm that the balances of trade payables at end of year is not materially misstated. In view of this, we have qualified our opinion in this respect.

Recommendations

The Council should undertake a proper exercise of reconciliation of its creditors after which, it should carry out the necessary adjustments. Only such a reconciliation process will enable the Council to have a true and fair picture of its payables. The Council should also introduce a procedure to obtain a statement from each creditor on a periodic basis and especially prior to issue of payment to each creditor as this facilitates the reconciliation process.

8.2. Creditors' Cut-off errors

Observations

We have noted that the Council has a number of cut-offs errors in relation to expenditure and purchases incurred throughout the year under review, as noted below:

- No accrual was taken in relation to photocopying leasing by Intercomp amounting to €155.15 for copies made in 2017.
- No accrual was taken for a donation of €1,200 made to Malta Community Chest fund in the accounts although it was reflected in the financial statements, however the nominal ledger was not updated as well.
- The Council failed to accrue for the Executive Secretary performance bonus amounting to €2,592.
- It was also noted that accruals taken with respect to the performances bonuses of 2016 were not properly reversed in 2017. The performance bonus for 2016 for Executive Secretary amounting to €749 and the performance bonus for 2016 for previous Executive Secretary amounting to €1,419 were not reversed against the related accrual taken in 2016.
- No accruals were taken with respect to water and electricity charges.

Issues arising

Cut-off errors distort the amount due by the Council at any point in time to its creditors. It could also be a sign that creditors' balances are not being reviewed on a periodic basis with any variances or errors adjusted for accordingly.

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 it has a detailed record of these accruals as well as to enable it to reverse such accruals in the following year against the expenditure being settled. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

8.3. Long term payables to supplier of road resurfacing works

Observations

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 on its obligations. However, the Council informed us that the PPP scheme was only arranged with one supplier and not both.

The appointed supplier issued invoices in 2012 for the full amount of the works, which amounted to €224,679.11. However, the Council has not recorded the invoices as trade payables but instead each year is recognising an accrual for the remaining balance as at year end. An accrual of €33,786 was recognised in 2017 in this respect.

Furthermore, this liability should have been classified by way of €11,235 as a short-term payable and €22,467.91 as long-term payable (under non-current liabilities).

Issues Arising

The Council is obliged to present properly in its financial reports the amounts payable within one year and the amounts payable for longer periods. In this respect, we have proposed a reclassification adjustment which the Council has taken up accordingly.

Furthermore, the Council is not accounting properly such transactions in line with the requirements 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 accounting was forthcoming in the Council's records and financial statements. We have qualified our audit report in this respect.

Recommendations

The Council should apply correctly the distinction between short-term and long-term obligations as well as also apply the requirements of IAS 39 for such transactions.

8.4. Deferred Income Calculations and Disclosure

Observations

According to note 5 to the Financial Statements, the Council has released €78,572 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 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:

- The Council in previous years received EU grants with respect to the following projects for which no supporting documentation was provided by the Council confirming the grants received:

Project	Closing deferred income 2017 (€)
Measure 125 - Triq Qasam	25,233
Measure 313/2014 Pjazza - Village Centre	253,471
Measure 313/Old	426,182
Total	704,886

- A variance of €43,933 was noted between the opening balance of deferred income as per Council workings and the opening balance as per financial statements, as follows:

	€
Opening balances as per council workings	810,351
As per FS [comparatives]	
Current deferred income	78,573
Non-current deferred income	775,711
Variance	(43,933.08)

- A grant of €20,000 was provided for works on Ghaqda Talent Dingli area upgrade which was capitalised in 2017 but no release to income was made in this regard.

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 comprehensive income statement 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, the Council should maintain adequate workings and supporting documentation of all grants obtained for capital expenditure items. Such workings should be the base on which to calculate the release of income on an annual basis against the depreciation of the asset covered by each respective grant.

9. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

9.1. Disclosures required in respect of certain IFRS

Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements are not compliant in all respects with the requirements of these standards and in fact disclosures emanating from certain accounting standards are missing or not in line with the relevant accounting standard.

For example, omissions were noticed in relation to disclosure of new and revised IFRSs adopted by the EU that are not mandatorily effective (but allow early application) for the year ending 31 December 2017 in line with the requirements of IAS 1-Presentation of Financial Statements.

Disclosure of related parties and related party transactions in note 18 is not complete in view that the requirements of articles 18, 25 and 26 of the said standard have not been complied with.

The disclosures, recognition and measurement in relation to accounting of effective interest for the amounts due under the PPP scheme are not in accordance with the requirements of IAS 39-Financial Instruments: Recognition & Measurement.

Other presentation and disclosure deficiencies have been noted in other areas of this management report.

Issues Arising

The financial statements should be prepared in a consistent manner, whereby all disclosures need to be undertaken in line with the requirements of International Financial Reporting Standards. These disclosures are not simply quantitative but also descriptive and we noted that the latter have sometimes been omitted as noted above. In this respect, we have qualified our audit report.

Recommendations

The financial statements should be prepared in accordance with International Financial Reporting Standards and that all necessary disclosures are undertaken as required.

9.2. Financial Statement Presentation

Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards.

Issues Arising

During our review of the unaudited financial statements we noted a number of areas in the presentation of the financial statements which were incorrect or were not properly presented.

- Page 4: the total liabilities in the Statement of Financial Position should amount to €895,407, not €890,265.
- Page 4: note reference for Deferred Income of €704,885 must be 16 not 15 (or as applicable)

- Page 4: sentence below the Statement of Financial Position, should read "The financial statements on pages 4 to 25" not "pages 4 to 26"
- Page 6: Total of statement of changes in equity, does not tie in with the retained earnings figure in Balance Sheet. The balance should amount to €558,704, not €564,103.
- Page 6: in the statement of changes in equity, the line before last should read "Profit for the year" rather than "Loss for the year".
- Page 7: note to Statement of Cash Flows must be 14 not 12 (or as applicable)
- The intangible assets amortisation policy is not disclosed in the financial statements.
- Finance income note for bank interest receivable of €417 is missing.
- Page 15: 'Personal Emoluments' - The average number of persons employed with the Council is not disclosed. Moreover, due to various audit adjustments and reclassifications made identified during the audit, staff costs should read as follows:
 - Mayor's Remuneration - €7,345
 - Councillors' Allowance - €6,334
 - Executive Secretary Salary and Allowances - €29,816
 - Employee Salaries - €36,775
 - SSC - €6,465

The Council has taken up adjustments and reclassifications accordingly
- Page 15: 'Operations and Maintenance' should have read 'Operations and Maintenance Expenses'.
- Page 16: 'Payables' - Debit balances in the list of supplier balances due, were not reclassified with "receivables" in the financial statements. In this respect, we have proposed a reclassification adjustment of €368 which the Council has taken up accordingly
- Page 16: Note 10 'Administration and other expenditure' – Comparative Total €246,533 does not agree with corresponding amount in page 5 'Statement of Comprehensive Income' (€244,804).
- Page 18: Note 12 'Property, plant and equipment – The amounts presented in the note are not in agreement with the accounting entries of nominal ledger. The net effect is zero as assets have been capitalized during the year.
- Page 20: 'Receivables' - Prepayments and accrued income should be disclosed separately instead as one lump sum. Moreover, the note should indicate the total amount of the financial assets.
- Page 20: 'Trade and other receivables' – there are no analysis of debtors.
- Page 21: the note 'Trade and other payables' must be numbered as 15 not 13 (or as applicable)
- Page 21: Note 16 'Deferred Income' does not include detailed information on grants. We proposed Council to edit the note to be more similar to previous year's.
- Capital Commitment note is missing.

- Page 25: 'Related party transactions' - The Council failed to disclose the following related parties with whom it undertook transactions during 2017:
 - Local Councils' Association
 - Department of Information
 - Koperattiva Tabelli u Sinjali
 - Ministry of Finance
 - Maltapost plc
 - Wasteserv Maalta Limited
- Page 25: In note 18.3, Key personnel remuneration must tie in with note 8 and must read €86,735
- In the notes to the financial statements there should be an analysis of the financial assets and financial liabilities.

Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary disclosures and adjustments are included. Further to our observations, as noted above, most of these observations have been duly included and adjusted for in the revised financial statements.

10. GENERAL

10.1. Records of Minutes and Schedule of Payments

Observations

Various Schedule of Payments uploaded on the website <https://localgovernment.gov.mt/en/lc/Pages/Local-Councils-Landing-Page.aspx> had missing important information such: the amount that will be paid; PR number; PO number; cheque number.

Furthermore, the uploaded minutes of Council's meetings 13/K8/2017 and 15/K8/2017 do not include the schedule of payments approved during the meetings.

Issues Arising

The publishing of the schedule of payments is specified in Memo 89/2010, Memo 102/2010, Memo 59/2011 and Memo 10/2016. The template provided by the Local Councils Department specifies that information such as amount to be paid, PR number, PO number, cheque number should be listed on each schedule of payments.

The Sixth Schedule of the Local Councils Act paragraphs 14(A)(6) and 14(A)(7) requires 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 Sixth Schedule of the Local Councils Act paragraph 3(a) mentions that the minutes should contain the time of commencement and ending of the meeting.

Recommendations

The Council should adhere to the requirements of these memos and Local Councils Act accordingly.

10.2. Preparation of Annual Budget

Observations

During our review of the annual budget 2017, it was noted that some expenditure incurred in 2017 varied significantly higher when compared to the budgeted amount. The variances identified are presented in the following table:

	Budget	Actual	Variance	Percentage Variance
	€	€	€	
Administration & Other expenditure				
Office Materials & Supplies	300	2,690	2,390	797%
Office services	4,000	4,583	583	15%
Information services	1,500	2,202	702	47%
Training	500	1,335	835	167%

Issues Arising

The council should compile the annual budget with due care and diligence to use it as a guideline to control its income and 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.

10.3. Membership in Majjistral Action Group

Observations

The Council is a member of the Majjistral Local Action Group Foundation. This foundation pools the efforts of its members to maximise the acquisition of EU funding on various potential projects. The Council in 2016 had paid an amount of €2,500 as membership fee to the Foundation for the period 2014-2020.

Issues Arising

The Council needs to ensure that it derives value from such investment and given the funding paid in advance by the Council in favour of the Majjistral Local Action Group Foundation, irrespective of whether the Council is reaping any benefits or not, we are of the opinion that the annual financial statements of the Foundation are to be audited and provided to the Council.

This would provide assurance that the financial statements are factual and provide a true and fair view and the Council could rely on these financials to assess the cost/benefit of this membership.

Recommendations

The Council should request the Majjistral Local Action Group Foundation to provide it with audited financial statements accordingly as well as it should undertake an annual cost/benefit analysis of its membership to assess the value of this investment.