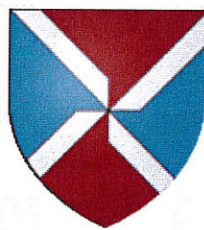


LOCAL COUNCIL DINGLI

Report to Management

for the financial year ended 31 December 2016





27th April 2017

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 2016, 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

A handwritten signature in dark ink, consisting of a large, stylized 'C' followed by a horizontal stroke and a diagonal line extending upwards and to the right.

Neville Cutajar
Partner

TABLE OF CONTENTS

1. FOLLOW-UP MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2015....	2
2. INCOME	6
3. PAYROLL	8
4. EXPENDITURE	10
5. PROPERTY, PLANT & EQUIPMENT	11
6. INVENTORIES	14
7. RECEIVABLES	15
8. CASH AND CASH EQUIVALENTS.....	16
9. PAYABLES	17
10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS	20
11. GENERAL.....	22
12. FINANCIAL POSITION	25

1. FOLLOW-UP MANAGEMENT REPORT – YEAR ENDED 31 DECEMBER 2015.

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. Final Settlement System (FSS) payments

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

1.8. Councillors' Allowances

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

1.9. Unutilised vacation leave

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

1.10. Personal Tax Deductions and FS4 Forms

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

1.11. Purchase request and order forms

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

1.12. Inappropriate Expenditure Documentation

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

1.13. Payment Vouchers

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

1.14. Tendering procedures

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

1.15. Donations and organisation of charitable events

The Council has addressed this matter during the period under review.

1.16. 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.

1.17. Quotations

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 addressed the matter during the year under review.

1.21. Insurance policy

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

1.22. Physical tagging of Fixed Assets

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

1.23. Assets no longer used by the Council

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

1.24. Penalties incurred on EU Funding Measure 313 & 323

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

1.25. Stock of books

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 6.1 of our management report.

1.26. Debtors' balances reconciliations

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.1 of our management report.

1.27. Doubtful receivables

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

1.28. Accrued income and prepaid expenditure

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

1.29. Cash deposits

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 **Error! Reference source not found.** of our management report.

1.31. Cut-off errors

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 expenditure

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 Calculations and disclosure

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

As from 2016, Council is no longer required to include the budget amounts within its financial statements.

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 10.1 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 10.2 of our management report.

1.38. Prior year adjustments

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

1.39. Council Meetings and Minutes

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

1.40. 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 11.1 of our management report.

1.41. Council meetings

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

1.42. Quarterly Reports

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

1.43. Comparison with the Annual Budget

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 11.2 of our management report.

1.44. Council's Accounting Data

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

1.45. Accountancy work and ancillary contractual obligations

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

1.46. Mid-term audit

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

1.47. Liquidity of the Council

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 12.1 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 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 €2,417 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 2016 should amount to €2,526.

Issues Arising

Although the variance of €109 is not significant, it shows that the Council is not adopting appropriate procedures to reconcile the LES income. In this respect, we have proposed an audit adjustment which the Council has reflected in its financial statements accordingly

Recommendations

On a monthly basis, the Council's should prepare and keep for records a proper reconciliation of the LES 10% commission. The amount recognised in the financial statements should agree with the appropriate reports issued from the LES system.

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 the financial statements line item 'Supplementary income'- €25,000 consisting solely of the prize for placing first in the 'Accessibility Award' launched by the Parliamentary Secretary for the Rights of the Disability and Active Ageing.

The Council obtained the award on the basis that it has increased the accessibility to Dingli Square through the installation of ramps.

Issues Arising

Works on installation of ramps are considered to be of a capital expenditure nature. In the same matter funds obtained in relation to such works should be accounted as capital grants and initially classified as deferred income. We proposed an audit adjustment which the Council has taken up accordingly, to initially classify the amount of prize as deferred income.

Recommendations

Prior to recording, each type of income should be analyzed according to its nature and then if related to capital expenditure it should be recognized as deferred income and will be released to income over the useful life of the asset.

2.5. Other income short-comings

Observations

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

- Nominal account 0025 'Community Activities income' consists of a mixture of income pertaining to cultural events, community activities, organisation of courses and donations. Separate classification of each type would be more appropriate.
- 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 2017 was not accounted for as deferred income.
- Income for refund of electricity consumption re the mobile phone antenna for the period September-December 2016 (€313) was not recognised as accrued income.

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 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 but funds still needs 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. 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 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.

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, income tax deducted and social security contributions.

The table below identifies the variances in question:

	Gross Emoluments - FSS Main	Income tax deductions	Social security contributions
	€	€	€
As per FS7	51,899	7,407	7,134
As per FS5s	51,796	7,439	7,112
Variance	103	(32)	22

We were informed by the Executive Secretary that the income tax of one of the employees was incorrectly overpaid, while the social security of the same employee was worked out on the rates of 2015.

Similarly, a difference of €21 was found between the FS7 and the personal emoluments disclosed in the financial statements. We were informed that the Council had submitted a revised FS7 but the differences were not updated in the Council's accounts and financial statements.

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 accounts was not prepared prior to issue of financial statements.

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 postings in the accounts should be reconciled with the FSS documentation and any adjustments are reflected accordingly.

3.2. Personal Tax Deductions

Observations

Remuneration of €8,807 paid to the former acting executive secretary during the period January to May 2016 was deducted at a flat rate of 15% by applying the 'Income tax part time rules'. The acting executive secretary during the same period also held the post of full time executive secretary in another Local Council.

Issues Arising

The fact that the full-time employment post and the secondary post as acting executive secretary is with same employer (Department of Local Government) excludes the possibility of applying the part time rules for the secondary post's emoluments. One of the conditions to be eligible for using the part time rules is "If the employee is employed full time and also performs part-time

employment, the respective employers must not form part of the same organization or group of companies”

In this situation, it is clear that both the primary & secondary employment are with the same employer and thus the tax deducted on the secondary post emoluments should be at the standard progressive tax rates.

Recommendations

The Council should deduct the tax in accordance with the ‘Income Tax Act’. If similar situations arise it should ensure that all the conditions are met when determine if reduced income tax rates can be applied.

4. EXPENDITURE

4.1. Inappropriate expenditure documentation

Observations

For expenditure undertaken by the Council, we have identified instances whereby the expenditure was not supported by a proper fiscal receipt in terms of the VAT Act 1998. Details of such instances are as follows:

Details	Date	€	Nominal a/c	Supplier	Cheque number
Various repairs supplies	14/12/2016	260.00	2210	David's Hardware Store	2347
Concrete supplies	16/12/2016	369.00	2311	Grima Concrete Supplier Ltd	2473
Traffic Signs	16/08/2016	1,488.80	2313	Signmark Ltd	2419
Printing material	17/08/2016	593.25	2610	Printart limited	2179
Bulky refuse October 2016	01/11/2016	1,038.50	3042	Skipline Services Ltd	2276

Issues Arising

Please note that payments made for expenditure unsupported by appropriate documentation is not in line with the requirements of the Local Councils Procedures (1996 – Finance) K.L.P. 1/96, P1.11b.

Recommendations

The Council should ensure that an appropriate tax fiscal receipt, as required by the respective laws and procedures, is obtained for all the expenditure incurred. Payments unsupported by an appropriate receipt, should not be made.

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.

4.2. Expired contracts

Observations

We noted that the expenditure for maintenance of Street Lighting incurred by the Council during the year under review, amounts to €7,274. 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 stated that the delegation to the Regional Committees has not been concluded. Thus Local Councils were 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

It is also advisable that with immediate effect 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 the year, 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 €509,672. Furthermore, during our reconciliation between the FAR and the unaudited financial statements, the below discrepancies were found:

	Construction & special programmes (€)	Urban improvements (€)	Total (€)
Cost as per unaudited financial statements	2,421,802	132,886	2,554,688
Cost as per FAR	2,389,110	165,578	2,554,688
Variance in cost	32,692	(32,692)	-
Depreciation & grants as per unaudited financial statements	1,307,637	105,019	1,412,656
Depreciation & grants as per FAR	1,306,459	106,197	1,412,656
Variance in depreciation & grants	1,178	(1,178)	-

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.

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.

Finally, the figures of each asset category in the FAR should agree with the amounts disclosed in the financial statements. Although the differences compensate for each other, it is still not in accordance with best practice FAR classifications.

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 continue the improvement of its FAR by tracing the assets acquired before 2014 which are still held by the Council and amend the FAR to show individually the information of each asset.

Again it is advisable that a regular reconciliation between the FAR and the books of accounts should be prepared. Such reconciliation should be analyzed per each asset category.

5.2. Depreciation

Observations

The depreciation of some of the assets acquired during 2016 was not calculated accordingly in line with the depreciation policy of the Council.

Shortcomings were noted in the following situations:

- Computer equipment acquired in December 2016 was charged depreciation from October 2016, thus being over depreciated by €36.
- Demolition Hammer bought in October 2016 was charged depreciation from July 2016, thus over depreciated by €56.
- Sage Line 50 accounting software bought in February 2016 was charged depreciation from January 2016, thus over depreciated by €35.

Issues arising

Even though the differences are not material and no adjustments were proposed, 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).

Recommendations

More attention to detail should be applied when recording new assets in the Sage Line 50 FAR to avoid inaccurate depreciation charge.

5.3. 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 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 € 479,883 of which € 67,694 relates to furniture and fittings, € 54,586 relates to office and computer equipment, € 12,208 relates to plant and machinery, € 2,997 relates to trees, € 132,886 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.

5.4. Tagging of Fixed Assets

Observations

Once again 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

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.

5.5. Penalties incurred on EU Funding Measure 313 & 323

Observations

In 2015, the Council had disclosed the amount of €11,738 identified as "Penalties". Same accounting treatment was maintained in 2016 as confirmed in the comparative year of note 10 to the financial statements. We had noted 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 in this respect.

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

As happened in previous year, 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. A case in point was the balance due from debtor 'GO plc'. Although the Council has a balance due of €546.68, debtor replied that 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. Local Enforcement Debtors balance

Observations

The Council has recognised in its financial statements LES receivables amounting to €15,221 in respect of Pre-Regional LES contraventions adjudicated by the Tribunal in favour of the Council. A provision of the same amount was also accounted. The LES reports provided by the Council are showing that the LES Pre-Regional contraventions outstanding as at 31 December 2016 amounted to €15,129.

Issues Arising

Although the variance is insignificant, the amount recognised by the Council in respect to LES debtors are not in agreement with LES reports issued for the same period. In this respect, we have proposed an audit adjustment of €93 which the Council has taken up accordingly.

Recommendation

We recommend that the Council should always ensure that the balances recognised in the financial statements are always supported by appropriate reports from the LES system.

7.3. Accrued income and prepaid expenditure

Observations

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

- Under accrued income of €104 for income generated from waste recycle scheme.
- Overstatement of €1,066 in the accrued income from the UIF grant.

- In 2016 €2,500 was paid for membership fee in 'Majjistral Action Group' for the period 2014-2020. The portion (€1,428) covering the period 2017-2020 was not recognised as a prepayment.

Issues Arising

Although the amounts in question are not material, this raises doubts over the controls 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.

For all the above mentioned issues, we have proposed an audit adjustment which the Council has taken up accordingly

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 and accrued income which are then to be reflected accordingly in the financial statements.

8. CASH AND CASH EQUIVALENTS

8.1. Stale Cheques

Observations

The unpresented 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 adjusts its records accordingly when such cheque payments become stale.

8.2. 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.

9. PAYABLES

9.1. Creditors; Balances

Observations

On its trade creditors list, the Council is disclosing a balance of €5,458.66 to supplier 'Skip Line Service', made up of purchase invoices dated prior to 2016. The Council has not settled this balance as it is still waiting for evidence from the supplier that the works were carried out.

The Council is not obtaining monthly statements from its suppliers, and regular reconciliations are not being carried out.

Issues Arising

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

Although the Council has improved its controls on suppliers balances during the year under the accounts still contain payables coming back from previous years which cannot be confirmed in terms of accuracy and existence.

Recommendations

The Council should ensure that it 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.

Every purchase invoice should be verified with works order. Council should also ensure that the service/good procured was actually received and at the agreed quality level. If any of these conditions are not met, it should settle the issue with the supplier before recognising the purchase invoice in the Council's accounts.

9.2. Cut-off errors

Observations

Cut-offs errors were identified in the expenditure side of the Council as listed below:

- Over accrual of €466 for rent expense of garage in Triq il-Buskett.
- No accrual or trade payable was recognised for Folklore band service (€260), which service was received in 2014. We were informed that the Council was still waiting for the works order by supplier, but the schedule of payments shows that the Council issued payment in 2017.

Issues arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. In this respect, we have proposed the necessary adjustments which the Council has taken up 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 one would have a detailed record of these accruals.

9.3. Distinction between trade payable and accruals

Observations

The Council has not always applied consistent and appropriate accounting when recognising its payables. We found instances where an accrual should have been accounted for as a trade creditor. Such examples include:

- A purchase invoice of €20,607.30 dated 14/04/2016 (upgrading of area between Triq Ghar Bittija, Triq Misrah Suffara & Triq Dun Karm Azzopardi) was accounted for as an accrual instead of trade creditor.
- PPP works – supplier issued invoices in 2012 for the full amount of €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 €44,936 was recognised in 2016 in this respect.

Issues Arising

Purchase invoices received within the relevant financial year should be recorded as trade creditors, rather than as accruals.

Recommendations

The Council should prepare accounts in compliance with the “accruals concept” of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Accrued expenditure should only consist of payables incurred which the Council has not received purchase invoice during the financial year. Any payables supported by purchase invoice received throughout the financial year should be recorded as trade payables.

9.4. 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.

As already noted in paragraph 9.3 of this report, all the financial obligations arising in connection with the PPP scheme is being recognised as accruals. However, in the financial statements, this commitment should have been classified by way of €11,235 as a short-term payable and €33,701 as long-term payable (under non-current liabilities). In this respect, we have proposed a reclassification adjustment which the Council has taken up accordingly

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 amounts payable within one year and the amounts payable for longer periods.

There is also the issue of the requirements of accounting such transactions in line with 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 regard.

Recommendations

The Council should apply correctly the distinction between short-term and long-term obligations as well as also apply IAS 39 since its application is required in such circumstances by 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 €86,733 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 amounts of closing deferred income coming from 2015 according to the workings provided last year are different from those of the opening deferred income for 2016 as per workings provided this year. The following are the differences noted:

Project	Closing deferred income 2015 (€)	Opening deferred income 2016 (€)	Variance increase/ (decrease) in 2016
Measure 125 - Triq Qasam	22,570	28,087	5,517
Measure 323	55,256	54,558	(698)
Measure 313/2014 Pjazza - Village Centre	318,262	267,902	(50,360)
Total	396,088	350,547	(45,541)

We are aware that in 2016 the amount of €32,436 was claimed back by the Paying Agency. No analysis per project was provided showing the amounts claimed back. In addition to this, the variance of €45,541 as detailed above between the closing 2015 balance and the opening 2016 balance is larger than the amount of claimed back funds (€32,436).

- In note 17 to the financial statements 'Deferred Income', the Council disclosed that the increase grants for 2016 amounted to €37,330. However, when comparing the workings provided in 2015 with those of 2016 the following should have been the new grants:

UIF - Misrah Guze Abela (€5,434)
 UIF - Ghaqda Talent Dingli Area (€20,000)

No breakdown was provided to us showing how the disclosed increase in grants is made up. Moreover, the Council has not provided explanations why there is conflicting information between the financial statements and the workings provided.

- 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 2016 (€)
Measure 125 - Triq Qasam	25,403
Measure 323	49,345
Measure 313/2014 Pjazza - Village Centre	242,306
Measure 313/Old	425,461
Total	742,515

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.

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1. 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 2016 in line with the requirements of IAS 1-Presentation of Financial Statements.

Disclosure of related parties and related party transactions in note 20 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.

10.2. 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 financial statements we noted a number of areas in the presentation of the financial statements which were incorrect or were not properly presented.

- Page 8, 9: 'New and amended standards adopted by the Local Council' - the mentioned updates were already adopted in 2015.
- Page 9: 'New standards and amendments not yet effective and not yet adopted by the Local Council' - Reference to IFRS 11 - Joint Arrangements does not apply to this Council.
- The intangible assets amortisation policy is not disclosed in the financial statements.
- Page 11: 'Inventories' - Although the Council disclosed its policy on inventories, no inventory amount is being reported in the statement of financial position.
- Page 15: 'Personal Emoluments' - The average number of persons employed with the Council is not disclosed. Moreover, current year of line item 'Executive Secretary Salary and Allowances' should be €23,863 instead of as disclosed €22,767. In this respect, we have proposed an adjustment which the Council has taken up 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 'Administration and other expenditure' – Total €246,533 does not agree with corresponding amount in page 4 'Statement of Comprehensive Income' (€244,804).
- Page 19: 'Assets under construction' additions should amount to €607.
- Page 20: 'Receivables' - Line item 'Within credit period' €3,532 includes receivables outside credit period (30 days).
- 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 21: 'Payables' - The note should disclose separately the accruals and the deferred income instead as one lump sum. The note should also indicate the total amount of the financial liabilities.
- Page 22: 'Capital Commitments' - Line item '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.
- Page 23: 'Going Concern Risk' - Council should specify that the disclosed current net asset position amounts exclude the short-term grants deferred income. Moreover, for the calculation of the current net asset position it should include accrued income and accrued expenditure.
- Page 23: 'Other risks' - The Council is not exposed to variable rates of borrowings.
- Page 24: 'Related party transactions' - The Council failed to disclose 'Cleansing Directorate' as a related party with whom it undertook transactions during 2016. Additionally, the disclosure requirements to this note are not complete.
- In the notes to the financial statements there should be an analysis of the financial assets and financial liabilities.
- Page 21: Audit adjustment number 4 (€1,067) was not reflected in note 17 'Deferred income'.

Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary disclosures and adjustments are included

11. GENERAL

11.1. Records of Minutes and Schedule of Payments

Observations

Various Schedule of Payments uploaded on the website www.lc.gov.mt 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 held in 2016 are not signed. In the minutes of Council meetings 14/K8/2016 and 16/K8/2016 there is no reference to the time when the meetings ended.

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.

11.2. Preparation of Annual Budget

Observations

During our review of the annual budget 2016, we noted that the community income varied significantly from the unaudited financial statements, without justified reasons. Whereas in the budget it stood at €2,600, the financial statements are reporting an amount of €9,100.

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.

11.3. 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 accounting data and during the accounts finalisation process, whereby fundamental reconciliations were not properly undertaken and unidentified balances were not appropriately addressed.

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).

Recommendations

The Council should ensure that the accounts are prepared in line with the International Financial Reporting Standards and that the accounting is undertaken properly and proper reconciliations and accounting controls are maintained to ensure an optimum result and proper accounting records at all times.

11.4. Mid-term audit

Observations

During the year under review there was a change in the Council's Executive Secretary, however we were not requested to carry out a mid-term audit following such a change.

Issues Arising

Such an audit is required under Subsidiary Legislation 363.02 – Local Councils (Audit) Procedures through Legal Notice 135 of 2007. Further guidance is found in DLG Memo 14/2014 and DLG Circular 15/2016.

Recommendations

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

11.5. 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. On the other hand, we were also informed that in the past the Council has managed to secure EU funding through the Foundation's work.

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.

12. FINANCIAL POSITION

12.1. Liquidity of the Council

Observations

As of 31 December 2016, the Council's minimum net current asset value should have amounted to at least €31,978 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 2016 stood at 5.42%.

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 which will be paid back only when the Council has recovered its positive financial position.

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).

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.