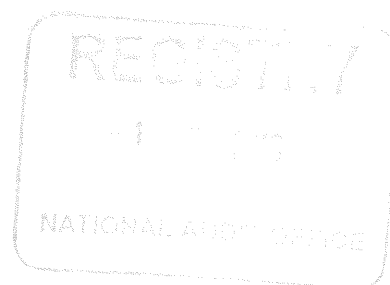
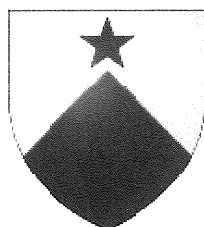


LOCAL COUNCIL GHARGHUR

Report to Management
for the financial year ended 31 December 2015





25 May 2016

The Mayor
LOCAL COUNCIL GHARGHUR
Triq San Nikola
Hal-Gharghur GHR 1162

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. The controls will also be used by the National Audit Office to compile its own report on Local Councils.

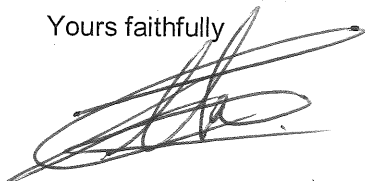
For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

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

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 Mr. Kurt Guillaumier and the 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, appearing to be 'Christian Vella', written over a horizontal line.

Christian Vella
Partner

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

1.1. Local Enforcement System

The Council has no full control on the matter and therefore we draw your attention to paragraph 2.1 of this management report.

1.2. System of invoicing

The Council has not addressed the matter. We refer you to paragraph 2.2 of this report.

1.3. Annual financial allocation

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

1.4. Income recording

The Council has not addressed the matter during the year under review. We refer you to paragraph 2.4 of this report.

1.5. Procurement procedures

The Council has not addressed the matter during the year under review. We refer you to paragraphs 4.1, 4.3 and 4.4 of this report.

1.6. Inappropriate expenditure documentation

The Council has not addressed the matter. We refer you to paragraph 4.2 of this report.

1.7. Tendering procedures

The Council has not addressed the matter. We refer you to paragraph 4.4 of this report.

1.8. Other expenditure shortcomings

The Council has not addressed the matter. Although some of the issues mentioned in the previous year's management report may have been addressed, other similar issues highlighted in this year's management report need attention.

1.9. Personal tax deductions

The Council has addressed this specific matter but similar issues are highlighted in paragraph 3.2 of this management report.

1.10. FSS Forms

The Council has not addressed the matter. We refer you to paragraph 3.2 of this report.

1.11. Petty cash transactions

The Council has not addressed the matter during the year under review. We refer you to paragraph 8.2 of this management report.

1.12. Petty cash reconciliation

Although the physical cash reconciliation exercise found no issues, the accounting for petty cash is still not being done appropriately. In view of this, we draw your attention to further details in paragraph 8.2 of this management report.

1.13. Collection of receivables

The Council has not addressed the matter and we draw your attention to paragraph 7.1 of this management report.

1.14. Accounting for prepayments

The Council has not addressed the matter and we draw your attention to paragraph 7.2 of this management report.

1.15. Accrued income

The Council has not addressed the matter and we draw your attention to paragraphs 5.4 and 7.2 of this management report.

1.16. The upkeep of the Fixed Asset Register

The Council has not addressed the matter and we draw your attention to paragraph 5.2 of this report.

1.17. Computer software and website

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

1.18. Depreciation

The council has not addressed the matter during the year under review and therefore we draw your attention to paragraph 5.7 of our management report.

1.19. Physical tagging and disposals of tangible assets

The council has not addressed the matter during the year under review and therefore we draw your attention to paragraph 5.8 of our management report.

1.20. Insurance coverage

The Council has not addressed the matter. We refer you to paragraph 5.11 of this report.

1.21. Stock of books

The Council has not addressed the matter. We refer you to paragraph 6.1 of our report.

1.22. Payments to suppliers

The Council has not taken up this suggestion on the basis that it issues a payment voucher which it attaches to the invoice. Nevertheless, we draw your attention to paragraph 4.2 of this management report, where we highlighted that certain payment vouchers were missing.

In view of this, if the Council were to embark on this suggestion of stamping paid invoices, it would enhance its system of internal controls on supplier balances, complemented with proper supplier reconciliations as highlighted in paragraph 9.1 of our management report.

1.23. Debit balances in the list of creditors

The Council has not addressed the matter. We refer you to paragraph 9.1 of this management report.

1.24. Supplier balances

The Council has not addressed the matter during the year under review. We refer you to paragraph 9.1 of this management report.

1.25. Accrued expenses

The Council has not addressed the matter during the year under review. We refer you to paragraph 9.2 of our management report.

1.26. Deposits withheld on certain permits

During our audit review, we did not encounter such cases.

1.27. Deferred income and accounting for Government Grants

The Council has not addressed the matter during the year under review. We refer you to paragraph 5.4 of our report.

1.28. Disclosures required in respect of Financial Procedures

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

1.29. Disclosures required in respect of certain IFRSs

The Council has not addressed the matter during the year under review. We refer you to paragraph 10.7 of our report.

1.30. Financial statements presentation

The Council has not addressed the matter during the year under review. We refer you to paragraph 10.8 of our report.

1.31. Comparison with the Annual Budget

The Council did not exceed the budget during the year under review.

1.32. Council meetings and minutes

The Council has not addressed the matter and we draw your attention to paragraph 10.3 of this management report.

1.33. Audit adjustments in accounting software

The Council has addressed the matter.

1.34. Chart of accounts

The Council has not addressed the matter during the year under review. We refer you to paragraph 10.1 of our report.

1.35. Mid-term audit

There was no such requirement during the year under review.

1.36. Posting errors

The Council has not addressed the matter and we draw your attention to paragraph 10.2 of this management report.

1.37. Twinning projects

The Council did not engage into any twinning projects and therefore, the report is not required.

1.38. Feedback from Council's lawyer

The Council has provided us with lawyer's feedback during the year under review.

2. INCOME

2.1. Local Enforcement System

Observations

By the date of conclusion of our audit work, the Council still had not received the audited annual report of the North Joint Committee for the year ended 31 December 2015. Albeit the fact that the operations of this Joint Committee had been taken over by the Regional Committee, there is no official information available showing that it has been dissolved.

Issues Arising

During the year under review, the Council received an amount of €34 from pooling surpluses but was also asked to fork out aggregate payments with a value of €8 to share pooling deficits.

Nonetheless in view of the absence of an audited annual report from the North Joint Committee for the period ending 31st December 2015, 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 from the Local Enforcement System. This issue have been outstanding for a very long time but no concrete action was ever taken. In this respect, we have qualified our audit report.

Recommendations

The Council should put pressure on the North 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. System of invoicing

Observations

The Council maintains its receivables for LES administrative fees and general income in the form of a debtors' list and corresponding debtors' control account in its accounting software (Sage Line 50®). Nevertheless, for the referred income, the Council occasionally issues manual invoices and statements through word processing software, such as with the case of administrative recharge of 10% of fines collected. In other instances, the Council is producing an invoice from the accounting software in line with our recommendations highlighted in our management report for the year ended 31st December 2013. Nevertheless, other items are not being invoiced at all, such as with the case of claim for reimbursement on damage to crash barrier committed by Malta Public Transport vehicles.

Issues Arising

Through this system, the Council is not being consistent in the maintenance of a proper invoicing system. Subsequently, the invoice audit trail may be distorted. This practice is not exactly in line with the requirements of Section P1.14d of the Local Councils Procedures (1996 Finance) K.L.P. 1/96.

Recommendations

In view of the above, we recommend that the Council continues to make use of the invoicing tool embedded in Sage Line 50® where besides maintaining a permanent audit trail of invoices issued in its accounting software, the Council would facilitate the posting thereof in the respective debtors' ledger accounts. Nevertheless, it should be ensured that the Council utilises the invoice

system in its accounting software for all its sources of income necessitating the issuance of an invoice.

Given that the software offers also the facility to print monthly statements, debt collection efforts currently undertaken by the Council would be enhanced.

On a final note, we additionally suggest that on the official council receipt settling the invoice in question there should be written the invoice number to obtain full cross-referencing within the system.

2.3. Applications for Permits

Observations

In note 5 to the financial statements, the Council recognises and discloses an amount of €7,083 as income from permits in line with the relevant legislation.

The Council issues permits to applicants through a word processor and correctly assigns a unique reference number to the permit in question, after registering it in a log of records. Subsequently, an official receipt is also issued as soon as the applicant pays the relevant permit fee.

Issues Arising

During our testing we identified a common feature in the layout of the permit where the number of the official Council receipt issued for the permit fee, is not included and printed with the other details of the permit. This makes it difficult to trace the permit to the official Council receipt when and where required.

Additionally, the system by which the permits are issued through a word processor may be easily amended through human intervention. As it stands, a permit may be easily replicated through manipulation of computer software.

Recommendations

The Council should make sure that for every permit issued, the Council receipt number is also included on the permit application form. Simultaneously, whenever a fee is accepted for a permit being issued, the permit registration number should be also written down on the official Council receipt.

The Council should also consider introducing or enhancing the current system used to issue permit applications. The enhancement should make it difficult for any person to alter, amend or replicate a permit application. Proper tools exist in the market to make this internal control a possibility, and the cost is not forbidden.

2.4. Methodology of income recording

Observations

The Council operates a manual receipting system. Following a walkthrough test of the system, it transpires that the administration is correctly collecting the cash from its customers, issues an official receipt, batches these receipts in a detailed income analysis sheet, reconciles the daily cash collected to receipts issued and deposits the money at the bank.

Unfortunately though, the income as disclosed in note 5 to the financial statements is not properly classified. Many of the various income items properly distinguished in the nominal ledger were grouped in one line item "General" with an amount of €4,460.

Issues Arising

The amendments to Local Councils Procedures (Audit) 2006 clearly lay out the manner in which the Council should present its annual income received.

Furthermore, improper maintenance of its income audit trail could lead to cut-off errors and omissions as highlighted in paragraph 8.1 of our management report.

Recommendations

The Council should make sure to reflect the same proper income classification currently in place in the nominal edger, also in the financial statements disclosure notes.

2.5. Administrative reimbursement for LES fines collected

Observations

Through report 483 as generated from the LES Loqus® software, the Council would have the exact amount of fines collected at its office on behalf of the five Regional Committees established in Malta. The Council is entitled to 10% administrative reimbursement fee chargeable to the Regional Committees on the total value of annual fines collected. When we extracted report 483 (post-region) for the period 1st January to 31st December 2015, the theoretical amount chargeable by the Council should have been €2,205.

Issues Arising

According to the financial statements approved on 25th May 2016, in note 4 the Council recognised and disclosed the amount of €2,196. The variance of €9 is not considered as material.

Recommendations

Through the same LES software system, the Council is provided with the exact amount to invoice during the year. Besides the fact that the Council should seriously consider our recommendations in point 2.2 above with respect to the invoicing system, every quarter it should print a version of LES report 483 and regularly reconcile the amounts invoiced during the months with the theoretical income coming out of this report. Any strange variances or discrepancies coming out of the software should be immediately reported to Loqus® agents. On the other hand, any accounting mispostings or errors should be rectified and addressed immediately to present a fair view of the results.

2.6. Income from Cultural Events

Observations

From time to time, in line with its social objectives, the Council organises cultural and social events where participants are asked to pay a nominal fee. Very often, the nature of these events entails that the Council then contracts the event to a catering and transport suppliers accordingly. This implies that most of these events earn an income, incur a cost and the surplus is kept by the Council.

An official Council receipt is not being issued for every participant to the event. Then, one whole receipt for the total income collected is issued and addressed to the Council's internal Sub-Committee organising the event.

Issues Arising

During our audit, we identified two particular events and we reconciled the number of persons contracted to the catering or transport supplier, with the amount of income per capita collected by

the Council. While it was expected that the reconciliation matches the income with the expense per capita, this was not the case.

Recommendations

It is being suggested that for each cultural outing or event, a proper financial report is prepared, showing clearly the amount of persons who paid for a ticket as issued by the Council, and the amount of expenditure per person being charged by the catering or transport contractor. Any differences should be clearly explained in the report for the satisfaction of all the Council. This report should be attached to the Council's minutes discussing the outcome of the event or activity.

Additionally, it is of utmost importance that every participant paying a fee to the Council for the activity or event, should be supplied with a Council's official receipt together with a booking ticket as the case may be.

2.7. Income from sale of tender documents

Observations

For every tender document published, the Council charges a nominal fee to recover administrative expenses in preparation for the tender process. The fee varies in line with the magnitude of the tender being published.

For the financial year ended 31st December 2015, the Council recognised an amount of €1,050 received from the sale of tender documents. During this financial year, the Council published 8 tenders.

Issues Arising

During our testing of tendering procedures and reconciliation of fees received from the sale of tender documents, we noted that according to the total number of bids reviewed, the income received therefrom should have been €1,125. The variance between our calculations and the Council's records amounts to €75.

While it was not easy to reconcile the two figures, given that the Council accounts most of its income in batch form, it seems that the variance emanates from Tender No. T-08/15/24. This tender was published on 22nd October 2015, but the resultant fee of €75 received from the sole bidder seems to be missing from nominal account 0067 recording this kind of income.

Recommendations

It is important that fees received from the sale of tender documents are reconciled with the schedule of bids received.

3. PERSONAL EMOLUMENTS

3.1. Payroll reconciliation with Nominal Ledger

Observations

From a reconciliation carried out below, we observed a difference between what was declared in the statutory FSS forms submitted with the Inland Revenue Department and the entries in the Council's general ledger. The variance in question amounts to €1,088 which could not be explained by the Council:

	€
FS 7 Form – Gross total	57,232
FS 7 Form – Employer's Share of Social Security Contributions	2,928

FS 7 Form - Total Payroll cost	€60,160
	=====
Nominal ledger and financial statements disclosures	59,306
Add Salaries and bonuses accrued at 31.12.2014	4,430
Less Salaries and bonuses accrued at 31.12.2015	(2,488)

Adjusted Gross total per nominal ledger and financial statements	€61,248
	=====
Unexplained variance	€1,088
	=====

Issues Arising

Given that the variance detailed above entails that the nominal ledger disclosure is higher than the FSS forms disclosure, this kind of variances may be interpreted by the Inland Revenue Department as possible under declarations of employment income earned. It is therefore highly important that what is being paid to the Council's registered payees as defined in the FSS Rules (1998), is then appropriately disclosed in the respective FS3 returns – *Statement of Earnings by Payee*.

Recommendations

The FSS returns and entries in the nominal ledger should reconcile at all times. If the maintenance of payroll records is becoming cumbersome for the Council given that the number of payees during 2015 reached 11 payees, then one should consider the implementation of payroll software.

3.2. FSS forms

Observations

The FS3 form (Payee Statement of Earnings) being utilised and distributed to the employees still shows the amounts in Lm, clearly indicating that the Council is using the incorrect type of form available on the Inland Revenue web-site.

The Council is also classifying the gross salary paid and corresponding tax deducted on behalf of the Acting Executive Secretary in the FSS forms as "*Emoluments from part-time*".

Issues Arising

Since the introduction of the Euro currency in Malta as from 1st January 2008, the Inland Revenue Department has published a new set of FSS forms bearing the € currency denomination and official instructions were published for all employers to utilise these new templates.

Without going into the merits of the tax rate being deducted for the Acting Executive Secretary of 15%, none of the Council's payees qualify for the part-time work regulations. The part-time work regulations allow income from part-time work to be taxed at a final and withholding tax rate of 15% subject to certain important conditions. The Mayor, Councillors and the Acting Executive Secretary (on the basis that he is already full-time employed with another Local Council) are all disqualified from applying the part-time work rules. The rest of the staff complement were employed with the Council on a full-time basis.

This implies that the salary paid to the Acting Executive Secretary should have been classified with *Gross Emoluments Main* in the FSS forms. The emoluments received by the Active Executive Secretary should be taxed at progressive rates together with his earned worldwide income.

Recommendations

Clearly, the Council is struggling to maintain an appropriate payroll system. In line with our recommendations in paragraph 3.1 above, the Council should seriously consider the implementation of a simple payroll software to facilitate the handling of payroll payments and ancillary statutory requirements. There exists software on the market which is efficient, user friendly and yet, cost effective.

3.3. Disclosure of Personal Emoluments in the Financial Statements

Observations

In note 7 to the financial statements, the Council disclosed the following details with respect to personnel emoluments:

	€
Mayor's Honoraria	7,378
Councillors' Allowances	4,693
Executive Secretary's Salary and allowances	7,664
Employees' salaries	25,849
Social Security Contributions – Employer's Share	11,393
Overtime	2,329

Total	€59,306
	=====

None of the members of the Council was reported to be absent from the Council meetings undertaken during the year under review. Therefore, all allowances and remuneration were paid in full. Furthermore, despite the fact that there was a change in the Mayor's seat, the outgoing Mayor served up to end of April 2015 and the newly appointed Mayor started to serve his position in the Council as from 1st May 2015.

Issues Arising

According to our calculations, the Mayor's Honoraria for the full financial year should have been disclosed as €7,048, representing one third of the salary of a Member of Parliament for 2015, in terms of the Local Councils' Act.

The allowances paid to Councillors including the Mayor, should have been disclosed as €6,400, represented by a total allowance of €4,800 for four Councillors in addition with the Mayor's allowance of €1,600.

Following a reconciliation of the FS3 form for the Acting Executive Secretary, it transpires that his gross salary as adjusted for any accrued expenditure, should have been disclosed as €8,619 rather than €7,664.

According to the FS7 Form, the total amount of employer's share of social security contribution should have been disclosed as €2,928 rather than €11,393. In line with the Local Council Procedures (Finance, amendment 2006), there is no need for the Council to disclose the overtime cost as a separate line item.

In view of the short-comings above but without going into the merits of the variance highlighted in paragraph 3.1, in our opinion Note 7 should have been more fairly presented as follows:

	€
Mayor's Honoraria	7,048
Councillors' Allowances	6,400
Executive Secretary's Salary and allowances	8,619
Employees' salaries	34,311
Social Security Contributions – Employer's Share	2,928

Total	€59,306
	=====

Recommendations

It is important that the actual payroll cost declared in the FSS forms, the nominal ledger and the financial reports should be reconciled at all times to provide a true and fair picture to any users of financial reports approved and presented by Council.

3.4. Calculation of performance bonus

Observations

As at 31st December 2015, the Council accrued a total of €1,301 for the annual performance bonus of the employees and a further amount of €261 for the performance bonus of the Acting Executive Secretary.

When reviewing the calculations presented to us by the Council, it transpires that the bonus is being calculated on the average basic salary earned by the employee in one particular year.

Issues Arising

In line with rule 19(1) of the Local Councils (Human Resources) Regulations (SL363.20), *The Council may also, at its discretion, award to any of its employees, at the end of any financial year, a performance bonus not exceeding 6% of the employee's last salary received*".

This means that the performance bonus paid to the employees should have been calculated on the last basic salary paid for December 2015. On the basis of this calculation, we are of the opinion that the total amount of performance bonus accrued should have been €1,640.

In the case of the Acting Executive Secretary, the bonus should have been paid on the total amount of hours employed with the Council (given that it is not his full-time employment) and the corresponding pay-rate, which remained unchanged throughout the financial year. On this basis, the amount accrued for the performance bonus of the Acting Executive Secretary should have been €848.

To that effect, we have proposed a set of audit adjustments, which the Council has approved accordingly.

Recommendations

The Council should verify the actual bonuses paid in 2016 (pertaining to financial year performance of 2015) to its employees and the Acting Executive Secretary, and make sure that they are in line with the law. Any variances should be settled and paid accordingly.

4. EXPENDITURE

4.1. Purchase request forms and purchase order forms

Observations

No system of purchase request forms is being maintained by the Council although we confirmed that an appropriate system of purchase order forms is in force.

Nonetheless, we have identified the following cases where the purchase order was either not issued or else was not attached with the payment voucher:

- ✓ Xmas decorative street lighting – amounting to €1,165 and paid by cheque number 9992.
- ✓ Installation of Microsoft Windows V.7 – amounting to €330 and paid by cheque number 10101.
- ✓ HP toner and copy paper – amounting to €202 and paid by cheque number 10388.
- ✓ Extra book-keeping services for the period July to December 2015 – amounting to €378 and paid by cheque number 10402.
- ✓ Drinks and refreshments – amounting to €183 and paid by cheque number 10430.
- ✓ Xmas Staff Party – amounting to €270 and paid by cheque number 10458.
- ✓ Various ironmongery goods – amounting to €161 and paid by cheque number 10431.
- ✓ Delivery of Concrete Grade C25 – amounting to €76 and paid by cheque number 10143.
- ✓ Installation of road humps and road mirrors – amounting to €967 and paid by cheque number 10225.
- ✓ Supply of U-Bollards – amounting to €144 and paid by cheque number 10223.
- ✓ Various maintenance works – amounting to €585 and paid by cheque number 10303.
- ✓ Frame for Local Council office – amounting to €140 and paid by cheque number 10315.
- ✓ Marble engraving services – amounting to €130 and paid by cheque number 10367.
- ✓ Cupboard for Council office – amounting to €402 and paid by cheque number 10390.
- ✓ Concrete works at roundabout – amounting to €250 and paid by cheque number 10399.
- ✓ Christmas tree for Council office – amounting to €135 and paid by cheque number 10418.
- ✓ Pavement repair in Mons. L. Catania Street – amounting to €590 and paid by cheque number 10459.
- ✓ Dell Computer tower – amounting to €614 and paid by cheque number 10011.

Issues Arising

In accordance with the Financial Procedures (1996 – Finance), KLP1/96, P1.09b, before issuing a purchase order, there should be a purchase request form approved by the Council.

With respect to purchase orders issued, these have to be issued prior to the delivery of the good or service or the receipt of the invoice.

Recommendations

While we understand that in most instances, purchase orders are issued with urgency, we recommend that purchase request forms are always implemented in the purchasing system of the council in line with the requirements of the Local Councils Procedures (1996 – Finance) K.L.P. 1/96, P1.09, f.01 & f.02. On the other hand, all the invoices paid by the Council within the direct order thresholds should correspond to the purchase orders placed by same.

4.2. Inappropriate documentation

Observations

There were certain supplier/service providers who either are not providing an appropriate invoice or VAT fiscal receipt in terms of the VAT Act (1998). During the course of our audit we identified the following instances:

- ✓ Xmas decorative street lighting (cheque number 9992) amounting to €1,165 – invoice provided but not properly addressed to the Council. VAT fiscal receipt not provided.
- ✓ Drinks and refreshments (cheque number 10430) amounting to €183 – invoice was not provided.
- ✓ Sweeping service for November 2015 (cheque number 10432) amounting to €819 – the invoice should have read €821 and not €819. VAT fiscal receipt not provided.
- ✓ Adjustment to Invoice GHR043-059 (cheque number 10121) amounting to €3,010 – the invoice was dated 15th October 2014 and not 2015 as posted in the nominal ledger.
- ✓ Xmas staff party (cheque number 10458) amounting to €270 – payment voucher was not prepared.
- ✓ Frame for Local Council office (cheque number 10315) amounting to €140 – payment voucher was not prepared.
- ✓ Christmas tree for Council office (cheque number 10418) amounting to €135 – payment voucher was not prepared and invoice not in line with fiscal legislation.
- ✓ Paving repairs in Mons L. Catania Street (cheque number 10459) amounting to €590 – no invoice, bill of quantities and architect's certification was attached to the payment voucher. VAT fiscal receipt not provided.
- ✓ Resurfacing in concrete at Sqaq il-Mahrug (cheque number 10217) amounting to €8,605 – bill of quantities attached to the invoice was stamped and certified by the supplier's architect. The certificate produced by the Council's architect, if any, was not attached to the invoice.
- ✓ Marble engraving services (cheque number 10367) amounting to €130 – invoice not in line with local fiscal legislation.
- ✓ Concrete works at roundabout (cheque number 10399) amounting to €250 – invoice not in line with local fiscal legislation. VAT fiscal receipt not provided.
- ✓ Various ironmongery goods (cheque number 10431) amounting to €161 – invoice was addressed only as "Kunsill".
- ✓ Printing of Local Council Magazine for March 2015 (cheque number 10120) amounting to €1,260 – no VAT fiscal receipt provided.
- ✓ Street lighting repairs – August 2015 (cheque number 10371) amounting to €153 – no VAT fiscal receipt provided.
- ✓ Extra book-keeping services July – December 2015 (cheque number 10402) amounting to €378 – no VAT fiscal receipt provided.
- ✓ Catering boiler & coffee pots (cheque number 10044) amounting to €222 – no VAT fiscal receipt provided.

Issues Arising

When a supplier does not provide a fiscal receipt, the Council would not make sure whether the money it is paying in VAT is ultimately being forwarded to the VAT Department by the same supplier. On the other hand, when the Council is in receipt of inappropriate invoices such as the ones indicated above, it would not be following the Local Councils Procedures (1996, Finance).

The payment voucher should also be prepared and signed accordingly at all times without any exceptions. This is in line with Local Councils Procedures (KLP 1/96 – Finance), P1.11

Recommendations

The Council should ensure that VAT fiscal receipts, where applicable, are always obtained though we acknowledge that the Council's administration was very persistent in chasing VAT receipts. Therefore any supplier who does provide neither a proper tax invoice or a fiscal receipt should not

be considered for future procurements irrespective of whether their offering is the cheapest or most advantageous for the Council.

4.3. Direct Orders

Observations

The Council acquired an amount of €1,260 worth of ironmongery goods from the same supplier over the 12 months of the financial year.

Issues Arising

According to the Local Council Procedures (KLP 1/96 – Finance), P1.09, e.01, procurements which do not exceed the value of €1,165 and ordered directly from the supplier after obtaining a quotation of the price, should not be acquired again within a period of four consecutive months.

Recommendations

The Council should carry out its purchases of ironmongery goods either through a public call for quotations or else by acquiring these goods from different suppliers throughout the 12-month period.

4.4. Tendering procedures

Observations

During the year under review, the Council published eight calls for tenders. During our review, we noted a number of short-comings as follows:

- T-01/15-24: Tender for architect services – we were not provided with the signed copy of the contract agreement.
- T-03/15-24: Tender for Street Sweeping in the locality of Gharghur – the Council had asked for a fixed bid bond of €100, which for the value of such tender, the amount is too low and inappropriate. The letter of acceptance and copy of performance bond were not provided.
- T-04/15-24: Tender for services of an Accountant – the Council had asked for a fixed bid bond of €500 when this tender was a fixed price offer and therefore, the standard provisions of the Tendering Procedures with respect to bid bond submission should have been followed. The letter of acceptance and copy of performance bond were not provided.
- T-07/15-24: Tender for Traffic Signs and Road Markings – certain items in the Bill of Quantities of the awarded bid, were inked more than once, indicating that there was either a mistake in the schedule or the prices were adjusted accordingly. Furthermore, the chosen bidder did not enclose a list of employees registered with ETC and copy of third party liability insurance as requested in the Council's list of tender documents. No copy of the performance bond and signed copy of the contract were provided.
- T-08/15-24: Tender for Resurfacing works (in concrete) of Sqaq tan-Nar – schedule of bidders was missing and the tender was published on 22nd October 2015 but closed on 16th November 2015. Letter of acceptance, performance bond and copy of signed contract were missing.

Issues Arising

The short-comings identified above breach the Local Councils Procedures (Tenders) of 1996. The following issues should be noted:

- All tender documents should be safely kept in one box and not filed in different locations.
- When the value of the contract is expected to be a fixed bid, the bid-bond rules in terms of the procedures should prevail and the Council should not fix it in the tender document.

- When the Council has reasons to believe that the Bill of Quantities was amended, corrected or tampered, the bid should be disqualified immediately. A bidder should also be disqualified if it fails the administrative test.
- Unless a particular tender needs to be published on an urgent basis, there should be allowed at least one month between publication date and closing date. In the case of T-08/15-24 there was no indication in the minutes that the publication of this tender was urgent.

Recommendations

The Council should abide by the procurement procedures at all times without any exception.

4.5. Contract for street lighting repairs

Observations

We noted that the expenditure for Street Lighting incurred by the Council during the year under review, amounts to €6,045. The provision of this service is currently neither covered by a valid signed contract nor by a letter of extended/renewed contractual agreement.

Issues arising

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

Recommendations

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

4.6. Invoices not agreeing with Bill of Quantities submitted with Tender Document

Observations

The bidder awarded with the contract for Bulky Refuse Collection (Ref. T-01/14-24) had quoted an offer of €2.48 inclusive of VAT and 5% management fee.

Invoice number 897 and paid by cheque number 10184 as selected for our sampling shows a charge of €2.48 for the total number of calls performed during the month of May 2015, less management fee plus VAT. The total number of calls invoiced to the Council for the month of May 2015 amounts to 83 for a total amount of €230.75 resulting in a charge of €2.78 per call.

Issues arising

In line with the offer submitted by the bidder in his tender document, the price per call inclusive of VAT and net of management fee, should have been charged at €2.362. Quite clearly, the Council is being overcharged by €0.418 per call.

This means that Invoice 897 for the services rendered during the month for May 2015 as selected for our audit, should have read €196.04. In this case, the Council was overcharged by an amount of €34.71.

Recommendations

The Council should urgently review all the invoices being charged by this supplier and make sure that they are in line with the rates set out in the Bill of Quantities as submitted in the tender document.

4.7. Expense claim forms

Observations

We have encountered instances where the Council paid back to the Councillors or the Council's staff reimbursement costs on account of various expenditure items paid on behalf of the Council. In either case, no expense claim form was being presented for payment but only the actual receipts and a summary handwritten on an ordinary piece of paper.

Issues Arising

In line with the provisions of the Local Councils Procedures (Finance) KLP 1/96, P1.12 a-d, the Councillors or Council staff may claim a refund of expenses within five working days on the appropriate expense claim form together with the accompanying original receipts.

The Procedures state also that these claims should be of an extraordinary nature, such as those incurred during overseas travelling and should not consist of ordinary day-to-day purchases. In the samples which we have identified, the claims consisted of various items acquired in the performance of Council's cultural events. This kind of goods and services should be acquired by the Council directly from the supplier and avoid having Councillors as the middlemen in between.

Recommendations

The Council should design a standard expense claim form in line with the procedures outlined above and the Acting Executive Secretary should check these claims before presenting to Council for approval.

Additionally expenditure pertaining to social and cultural events should be planned well ahead to make sure that all procurements are made directly by the Council and not by members of staff or Councillors themselves.

4.8. Quantity Surveying

Observations

In a number of cases the Council orders construction material to be delivered directly on the site where the works are being carried out. This takes place most especially when the Council has a joint venture with a Government Department or when its IPSL seconded workers are performing the job.

There is also no reconciliation between the materials being acquired from local ironmongery stores and their actual employment for the Local Council's works.

Issues Arising

We did not come across any documentary evidence that the Council has its own quantity surveyor to make sure that the material which is being billed for agrees with that being delivered and certified on site.

The absence of a proper purchase request and purchase order system, as well as the direct acquisition of ironmongery goods by personnel commissioned by the Council to carry out works around the locality makes it easier to have the whole system abused.

Recommendations

The Council should have its own appointed quantity surveyor to start certifying the material which is being delivered on site and make sure that it is being employed in the best manner to ensure that the Council obtains the best value for money.

A system should be ensured whereby ironmongery goods being ordered by Council's assigned personnel are truly being employed for Local Council's works and not for any other motive.

4.9. Hospitality expenses

Observations

During the financial year under review, the Council expended the amount of €2,199 in grocery items for hospitality purposes. For the financial year 2015, the Council was granted an annual financial allocation of €223,685.

Issues Arising

The Council is expending an average of €184 per month in grocery items, which, over a year, they represent approximately 1% of the annual financial allocation.

As recorded in the minutes, during most of its meetings, the Council puts in its best effort to keep costs at a low minimum, to the extent that it even refrains from hiring certain important services. Yet, it then has enough resources to expend a total of €2,199 in grocery items as indicated.

Recommendations

The Council should make sure that this amount of grocery items is justified and where possible reduce its frequency accordingly. If any part of these grocery items include cleaning materials, then these need to be recorded in a separate nominal code 2220 – cleaning materials and supplies.

5. PROPERTY, PLANT AND EQUIPMENT

5.1. Reconciliation of the Fixed Asset Register and Nominal Ledger

Observations

During our verification and reconciliation of the Fixed Asset Register (FAR) with the fixed asset codes in the nominal ledger, the following variances were traced:

	€
Cost in FAR (understated)	(214,974)
Depreciation and grants in FAR (understated)	(268,470)
Net Book Value in FAR (overstated)	53,496

Upon further analysis we noted further that the FAR is also not reconciling on a category basis. This means that for example nominal ledger balance entitled "Construction" was not reconciling to asset category 1 – Construction in the FAR. The same applies for all other fixed asset nominal ledger balances and respective categories in the FAR.

Issues Arising

It should be stressed that 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, which of importance is the generation of annual depreciation there from.

Recommendations

We recommend that the Council identifies these variances and affects the necessary adjustments in the financial statements or the fixed asset register as the case may be.

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

Observations

During the financial year 2010, the Council has conducted a major reorganisation of its FAR but during our testing we still identified various shortcomings with respect to asset allocation in the respective correct category of the FAR. These were already highlighted in our management report for the financial year ended 31st December 2013 but were not rectified:

- ✓ CONS1101 – PPP Resurfacing – allocated as construction when it is an item of road resurfacing.
- ✓ CONS1102 – Resurfacing PPP – allocated as construction when it is an item of road resurfacing.
- ✓ EQU1104 – Photocopier – Kyocera TASKalfa181 – allocated as construction when it is an item of office equipment.
- ✓ PHOTO – Photovoltaic – allocated as construction when it is an item of plant and machinery.
- ✓ UI01107 – PV System at Gnien il-Pacifi – allocated as urban improvements when it is an item of plant and machinery.

At other instances, we noted further that the assets being recorded are not descriptive in detail of what they should represent, but rather they are recorded in a very generic way. Besides the ones indicated above which are self-explanatory, the following are the further cases encountered:

- ✓ PAVE9512 – Street Paving - €1,368
- ✓ SPEQ1101 – Sports equipment - €71
- ✓ ADJPRE01 – Adjustments to FA Register - €19,971
- ✓ SP199801 – Resurfacing - €15,919

Finally, when we physically reconciled a fixed asset item addition for the year with the FAR, we noticed that the assets are not tagged with the respective fixed asset code. Consequently, certain assets were not readily identifiable. Other items were physically identified and had nil value in the FAR. A typical example was EQU9501 – Television Set. Over all it seems that the FAR is not being updated by the Council.

Issues Arising

Besides not being up-to-date and reconciled with the nominal ledger as explained in point 5.1 of this management report, the composition of the FAR is not in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

Given that depreciation is generated through the FAR, improper maintenance and upkeep thereof could also lead to misstatements in the depreciation calculations.

The importance of maintaining a proper FAR is attributable to matters of insurance coverage as well as any impairment adjustments which would be needed from time to time or at a date when an asset of the Council becomes no longer usable and suitable only for scrap.

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", "street signs" or "road resurfacing".

There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes reconciliations between the two ledgers easier in case of variances and discrepancies.

The FAR card should contain the exact location of the asset so that in case that an asset is subject to theft, vandalism, fire or any other damage, this can be identified without any difficulty. This would especially be useful for insurance claims and asset disposal adjustments. Where physically possible, asset tagging should also be implemented.

5.3. Capitalisation of projects

Observations

In noted 11 to the financial statements, the Council disclosed the amount of €4,631 as "Assets Under Construction". From deeper analysis of the matter, it transpires that this amount pertains to the embellishment project of Gnien il-Ponta also known as Lanciritka Project.

On the other hand, in the Fixed Asset Register (FAR) we identified the following capitalised items:

- ✓ SP200907 – Lanciritka Project - €1,48 – Depreciation start date 15/06/2009.
- ✓ SP200912 – Lanciritka Project - €240 – Depreciation start date 31/08/2009.

According to the nominal ledger and the financial statements, the total cost pertaining to the project of Gnien il-Ponta amounts to €89,747.

From the minutes of the Council's meetings and a confirmation by the Acting Executive Secretary, this project was concluded towards the end of financial year 2014.

Issues Arising

Even though the project was complete, the Council's accountant is still showing this project as not yet capitalised, when a substantial amount was actually capitalised as addition to items of Construction. The Fixed Asset Register is not even showing the appropriate total cost of the project in line with best practice.

With reference to IAS 16 – Property, Plant and Equipment, a project should be capitalised when it is completed, could be measured reliably and at the point when its economic useful life begins. Clearly, this standard is not being followed appropriately.

Given that the Fixed Asset Register of the Council is not in good order, as specified in paragraphs 5.1 and 5.2 to this management report, we were not able to reconcile the differences to present our recommendations. Subsequently, we could not propose any audit or reclassification adjustments.

Recommendations

Details of expenditure relating to projects such as the ones mentioned above, should be accounted for in the account "Assets not yet capitalised" in the nominal ledger. A detailed breakdown including items such as the actual construction works, studies and consultation fees, certification fees and other similar associated expenses should be kept either in a Microsoft Excel® spreadsheet or by making use of the "departments" tool in Sage Line 50® accounting software or by creating a nominal account for each project until it is capitalised after which this nominal account should be closed off.

As soon as the project is finalised and ready for use, the total cumulative amount in the spreadsheet, respective department or nominal account, should be reallocated and capitalised in one FAR card, with the name of the project. The purchase date would merely be the date when the project was first capitalised and put in use. The corresponding amount used to create the FAR card is then transferred from the "Assets not yet capitalised" account to the identifiable cost account such as "Construction Works", "Road Resurfacing", "Special Programmes" and others.

If a project is not finalised by a particular financial year-end, its cost will be retained in the nominal account category bearing the name of "Assets not yet capitalised". These accounts would merely contain a total of the projects undertaken by the Council but not yet completed

5.4. Accounting for Government grants

Observations

Since 2008, the Council has been benefiting from grants falling under MEPA's Urban Improvement Fund Scheme, Public Private Partnership (PPP) for road resurfacing, EU Funding to embellish open spaces and other schemes launched by the Department of Local Government from time to time. In the unaudited financial statements approved on 18th February 2016, the Council was showing an accrued income of €18,540 made up of grants receivable as follows:

	€
Grant receivable on account of Comfort Stairs	9,940
Grant receivable on account of resurfacing of Sqaq tal-Mahruq	8,600

	€18,540
	=====

On the other hand, during financial year 2015, the Council actually received the amount of €6,563 from the EU grant Measure 125 to cover 90% (excluding VAT) of the total cost of Sqaq tal-Mahruq resurfacing project (total cost including VAT of €8,605). The Council also confirmed that the grant for the comfort stairs was received on 21st January 2014. As at 31st December 2015, the bank account of the Council holding grants not yet utilised amounts to €10,678. The Council confirms that it had utilised all its grants received to settle supplier payments providing goods and services related to these projects.

In note 15 to the financial statements, the Council shows a total of released grants for the year to the Statement of Comprehensive income amounting to €24,263. On the hand, note 11 to the same set of financial statements, shows a grant absorption of €8,600 against tangible asset cost.

The nominal accounts in the general ledger recording grants received and released to the Statement of Comprehensive income in our extended trial balance reflecting the audit adjustments are as follows:

	€
Nominal 4013 – Adjustment re long term def income	37,142 DR
Nominal 4014 – Release of grant provision acct	23,795 DR
Nominal 4101 – UIF Deferred Income	14,539 CR
Nominal 4102 – Deferred Income Public Convenience	6,237 CR
Nominal 4103 – Deferred Income - Pjazza tal-Knisja Benches	3,880 CR
Nominal 4104 – Deferred Income – Embellishment Pjazza	3,249 CR
Nominal 4105 – Deferred Income – Photovoltaic Panels	1,817 CR
Nominal 4108 – Deferred Income – Lancirika Project (M313)	8,476 CR
Nominal 4109 – Deferred Income – Photovoltaic Panels Gnien il-Paci	3,121 CR
Nominal 4110 – Deferred Income – Paving Triq Karmnu Zarb	13,455 CR
Nominal 4111 – Deferred Income – Comfort Chairs	9,175 CR
Nominal 4112 – Deferred Income – Online Streaming	208 CR
Nominal 4113 – Deferred Income – Sqaq il-Mahruq	6,563 CR

Nominal 4151 – Long Term Deferred Income Adjustment	21,755 CR
Nominal 4190 – Long Term Deferred Income	145,837 CR

Total	€177,375 CR
	=====

The total balance of grants recognised in the financial statements as approved on 25th May 2016 in line with note 15 amounts to €188,657.

Issues Arising

Our verification of the accrued grants shows that in actual fact the amount of €18,540 was overstating the amount of grants receivable by the Council, given that these had been received by the end of the financial year 2015. In view of this, we proposed one audit adjustment to address the amount of €9,940 accounted twice during the financial year ended 31st December 2014 and another one to address the amount of €8,600 over accrued during the financial year under review.

Unfortunately, for an unknown reason, the Council's accountant did not follow our proposed audit adjustments but addressed the double posting of €9,940 by increasing long-term deferred grants and reducing retained funds. Our proposed adjustment would have removed the accrued income provision and correspondingly reducing the amount of long-term deferred grants.

The amount of €8,600 over accrued during 2015 was addressed by transferring the amount from long-term deferred grants to the old grants' account (capital approach) and writing it off against the incorrect carrying amount of the asset being financed. This is because in note 11 to the financial statements, the total cost of the project for Sqaq tal-Mahruq was classified as Urban Improvements, whereas the erroneous grant of €8,600 was written off against the carrying amount of the tangible assets classified as "Special Programmes".

By virtue of the series of erroneous adjustments identified and explained in the paragraphs above, the amounts disclosed in note 15 to the audited financial statements does not agree with the components of the nominal ledger accounts listed above by, €11,280. To complicate the situation further, the schedule of workings provided by the Council's accountant shows a total amount of long-term deferred grants of €207,726, resulting in a variance to note 15 by €19,069. This variance could not be explained.

Albeit adopting the income approach as detailed in IAS 20 – *Accounting for Government Grants* the accounting treatment is not entirely correct and fully compliant therewith. From the explanation above it can be concluded that the Council is adopting a hybrid approach between the Capital Approach and the Income Approach of IAS 20. We disagree with this treatment and in this respect, we have qualified our audit report.

Additionally, there seems to be a lack of proper reconciliation between the total grants received by the Council along the years, the amounts still recorded in the bank account and the amounts recorded in the nominal ledgers pertaining to grants in the general ledger. Due to lack of concise information and the substantial number of grants involved, it was not practical for us to arrive at a proper reconciling difference to propose further audit adjustments and address this important matter.

In our management report for the financial year ended 31st December 2013, we listed a number of recommendations to address the issue of grants. In actual fact, to help the Council address this matter, we had built a schedule and forwarded a copy to the Council so that its Accountant may be guided accordingly. With regret, the Council did not continue to build up on this exercise during the current and preceding financial years.

Recommendations

The provisions of the income approach in terms of IAS 20 should be followed and adopted in all material respects. The spreadsheet listing the grants received should be properly reconciled showing clearly the assets and projects which benefited from the grants in question. This

spreadsheet should represent also a reconciliation between the depreciation being charged on that asset and the respective grants released to the Statement of Comprehensive Income and projected in the Statement of Financial Position.

5.5. Capital Expenditure against Revenue Expenditure

Observations

Instances were identified where expenditure of a capital nature, was recorded as expenditure of a revenue nature such as the case of the following samples which were all recognised as expenses in the Statement of Comprehensive Income:

- ✓ Microsoft Windows 7 Pro 32 Bit Software costing €330.
- ✓ Professional fees for the certification of works regarding the resurfacing project at Sqaq tal-Mahruq, costing €109.
- ✓ 8 round pots and 2 round ciottolas costing €125.
- ✓ Ladder, costing €118.

On the other hand, the following items which have the nature of being recurrent and in the normal course of operations, were capitalised with non-current assets as tangibles:

- ✓ Minor concrete works at roundabout, costing €250.
- ✓ Christmas tree for Council Offices, costing €135.

Issues Arising

This issue of not identifying properly between capital and recurrent expenditure yields an element of inconsistency and departure from the requirements of IAS 16 - Property, Plant and Equipment.

In this respect, we have proposed a set of audit adjustments, which the Council has approved and implemented accordingly.

Recommendations

Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process or a thorough review should be carried out for reallocations during the compilation of financial reports and updating of the Fixed Asset Register.

5.6. Capital Commitments

Observations

Note 17 to the financial statements disclosing capital commitments shows that the Council is not engaged into any capital commitments for the financial year ending 31st December 2016.

The Budget Document for 2016 as approved by Council, shows a total commitment of €105,000 made up of PPP road resurfacing arrangements (€55,000), specific resurfacing of part of Caravaggio Street (€30,000) and embellishment works at Gnien Zaghruna (€20,000).

In December 2015, the Council's architect presented two separate estimates for the following projects:

	€
Resurfacing of part of Caravaggio Street	94,969
Paving works at part of Caravaggio Street	13,015
Excavation and construction of water reservoir at Gnien ta' Zaghruna	15,241

	€123,225
	=====

Issues Arising

Clearly, Note 17 and the Budget Document do not agree and we were given no specific explanation by the Council's accountant why note 17 to the financial statements was not updated in line with the Budget Document.

It is also not understood why in its Budget Document, the Council is presenting a commitment related to the PPP agreement when this has been settled accordingly and there seems to be no further PPP commitments. One also needs to underline the fact that the Budget may not be reflecting the real cost of the project involved as presented by the Council's appointed Architect. In the Budget Document, Caravaggio Street project is estimated to cost €30,000 whereas according to the Council's Architect, the project will cost approximately €108,000.

Recommendations

The Council should disclose fully all budgeted capital expenditure by way of note bearing "Capital Commitments" in terms of IAS 16. During the preparation of the Budget, the Council should ensure that where possible, projected costings should be supported and backed up by actual estimates prepared by the Council's appointed professionals. A deviation between real estimates and extrapolated estimates may lead to unwanted liquidity situations as the Council would not afford to have a project which is incomplete to the detriment of the residents which it services.

5.7. Depreciation rates

Observations

Certain fixed asset items in the Fixed Asset Register were being assigned the wrong depreciation rate. The following findings were already highlighted in our management report for the financial year ended 31st December 2013 but no action has been taken:

- ✓ CONS1101 – PPP Resurfacing – depreciated at the rate of 7.5% which is the rate applicable to furniture and fittings.
- ✓ CONS1102 – Resurfacing PPP – depreciated at the rate of 7.5% which is the rate applicable to furniture and fittings.
- ✓ PHOTO – Photovoltaic – depreciated at the rate of 1% which is the rate applicable to acquisition of property.
- ✓ UI01103 – 2 Large pots – depreciated at the rate of 10% which should have been depreciated at 100%.
- ✓ UI01107 - PV System – Gnien il-Paci – depreciated at the rate of 10% which should have been depreciated at 20% (plant and machinery depreciation rate).

Furthermore, depreciation is not being correctly generated by the FAR and subsequently posted to the respective nominal ledgers. Rather, this year's depreciation (as was the practice for previous financial years) was computed manually on a monthly basis.

The Council has provided us with depreciation calculations for our verification. Although overall the depreciation calculations (even though is not being generated through the FAR) appears reasonable, this is being run in batch form rather than on an itemised basis (calculation on every asset item). Certain items under the categories *Urban Improvements* and *Special Programmes*, may include assets where their depreciation rate is 100%. Typical of these are playing field equipment and street lighting. As a matter of fact, the Council's depreciation workings nowhere feature depreciation rates at 100% for certain items of *Urban Improvements*.

Issues Arising

The implication of applying the wrong depreciation rates to individual items of property, plant and equipment will lead to erroneous and misstated depreciation calculations over the economic useful

life of the asset in question. Besides that, the Council would not be complying in line with the accounting policy in note 2 – *Property, plant and equipment*, of the financial statements.

In the absence of appropriate calculations, we have carried out a generic test for reasonableness to determine whether the depreciation charge recognised for the year in the financial statements is free from material misstatement. Such tests produced a deviation which is not material to justify a qualification in our audit report. Nonetheless, we were not able to come up with any audit adjustments in view of the limited information made available to us and the lack of organised Fixed Asset Register (FAR).

Recommendations

The Council should review all its items recorded in the FAR and checks whether the correct depreciation rates are being applied. As a second step, it should run depreciation on a monthly basis through its FAR. If the corrections are material, it should also consider making a prior year adjustment in next year's financial statements as the case may be.

5.8. Impairment of property, plant and equipment items.

Observations

During the year under review, the Council acquired a new 10 litre catering boiler and ancillary coffee pots in total costing €222.

The acquisition of this item was approved during Council meeting number 69 held on 12th February 2015, given that an existing boiler at the Council has malfunctioned and was beyond repair.

Issues Arising

The Council did not account for any impairment or disposal of tangible assets, thus concluding that the old non-functional asset is still recorded in the books of accounts. From our analysis, we identified an item in the Fixed Asset Register with name tag EQU0703 – *Coffee Machine* quite likely representing the old coffee boiler machine, but this was not removed from the same Fixed Asset Register.

The assets within the internal confinement of the Council premises seem also not to be completely tagged. As already highlighted in our comments in 5.1 and 5.2 above, the Council is not properly maintaining and keeping physical track of its property, plant and equipment. The current composition of the FAR did not enable us to identify any items which were removed and scrapped. Therefore, no audit adjustments could be proposed in this respect.

Recommendations

The Council should continuously monitor the physical position of a particular asset is also reflected in the nominal ledger and the other way round. Any asset item which is no longer functioning and beyond repair, should be removed from the Council's FAR and the necessary adjustments in the Council's records are made accordingly. In the process, the Council should consider updating its fixed asset tagging especially in the Council's office.

5.9. Certification of projects and EU Funding claims

Observations

The Council has still to pay the amount of €4,123 (excluding VAT) to a particular supplier for goods and services provided at Gnien il-Ponta (Lanciritka) project, which is being partly funded by Axis 3 – Measure 313 of the EU as coordinated by the Agriculture and Rural Payments Agency (ARPA).

The last claim filed for this project to settle the amount indicated above, was filed on 25th July 2014 but was rejected and returned back to the Council by ARPA on 22nd September 2015. In the said correspondence the officer representing the paying agency lamented that the Council failed to provide the necessary documentation in line with the stipulated EU Funding regulations. Amongst mistakes highlighted in the claim form by the officer, were incorrect invoice dates and amounts as well as incorrect VAT treatment on items which were not subject to VAT.

It should be noted that we had already highlighted the point of delay in filing EU funding claims in our management report for the financial year ended 31st December 2013.

Issues arising

As a result of these administrative short-comings in preparing the necessary EU Funding claim forms, by the end of the financial year under review, the supplier remains unpaid. The works were completed and fully certified by the Council's architect on 24th July 2014.

Recommendations

The Council seems to be experiencing continuous administrative difficulties due to lack of resources, especially for the fact that the Acting Executive Secretary and his team cannot stretch themselves beyond what is humanly possible. On the other hand, it is not acceptable that the Council runs the risk of losing on EU funding simply because it does not have the necessary administrative resources.

In that case, given that EU funding is somewhat a complex and committed programme to undertake, it would be advisable that the Council hires the service of an EU funding specialist to manage the funding project and acts as a back-up to the Council's administration team.

5.10. EU Funding under Measure 125

Observations

On 6th March 2014, the Council had been successfully awarded with an EU funding grant of €22,851 under Measure 125/17 for Infrastructure related to the Development and Adaptation of Agriculture. The agreement was then signed on 2nd July 2014. The projects earmarked to benefit from this funding, are related to the various resurfacing of country lanes through agricultural lands within the boundaries of the locality.

During the year under review, the Council financed the resurfacing works in concrete at Sqaq tal-Mahruq, where the total cost including VAT reached the amount of €8,605. According to the rules of this project, the EU would finance the amount of €6,563, representing 90% of the total cost excluding VAT. Indeed, the funds were received on 15th December 2015. This means that the Council had a further amount of €16,288 in grants under this measure to benefit from. Such an amount of grants would translate into a total project cost of €21,355 including VAT.

Issues arising

Due to inappropriate estimates provided at funding application stage, the Council only managed to resurface one country lane (Sqaq tal-Mahruq) and the tender document was only specific to this particular country lane with the consequence of not being able to resurface other country lanes under the same EU Funding Measure.

Therefore, the Council had to waive the right to utilise the remaining funds of €16,288 as indicated above.

Indeed it is a real pity that the Council could not take full advantage of the EU funding available for these projects which it really needed, due to incongruence at cost planning stage. Unfortunately, the reason why the original estimation to the cost of €29,960 varied from the actual cost incurred

of €8,605 by a deviation of 248.17% could not be explained. But the Council stated that the variance comes out only from competitive market rates emanating from effective tendering procedures.

Recommendations

The Council should make its best to acquire the correct estimates prevailing in the market to make sure that any EU funding application forms reflect the true cost of projects being planned and at the same time, it should make sure also that any bids submitted are compliant with the technical specifications highlighted by the Council's appointed professional person preparing the estimates.

5.11. Insurance coverage

Observations

The Council has an insurance policy marked as "Traders Combined" bearing a total sum insured of €168,626. The aggregate value of the Council's assets consisting of Administrative Buildings, Office furniture and fittings, office/computer equipment and Plant and Machinery amount €190,510 excluding items such as playing field equipment and solar panelling structures.

Issues arising

While we were not able to obtain an itemised detail of the coverage, the sum insured already does not cover the amount of indoor assets. In conclusion, the insurance coverage is not adequate.

Recommendations

The Council should make sure that it assesses the asset base to be insured as well as other risks prior to the renewal of its insurance policy so that it is adequate and in full coverage of the Council's assets and its operations.

6. INVENTORIES

6.1. Stock of books

Observations

Along the years, the Council has published various books for resale with the locality's theme being:

- Il-Gharghur: In-Nies u l-Knejjes tieghu – 150 books in stock at the date of audit visit and available for sale at €7 each.
- Aghraf Wirt ir-Rahal Tieghek – 15 books in stock at the date of audit visit and available for sale at €10 each.
- Hal Gharghur: The Hill top Village, Four walks in this Charming old village – 521 books in stock at the date of the audit visit and available for sale at €2.50 each.

The Council maintains a perpetual inventory system for these publications. It records stock movements on a perpetual basis whenever any of these books are sold or given on a complimentary basis. Whenever a quantity of books is sold, the Council is issuing an official Council receipt. However when we carried out certain tests thereon, we identified some weaknesses.

Issues Arising

No value of the closing stock of the books was recognised in the financial statements. Rather, the cost incurred for the publication of the book was immediately written off and expensed in the

Statement of Comprehensive Income. This practice is not in line with the Local Councils' Procedures (1996 – Finance) K.L.P. 1/96, P1.16c. and IAS 2 – Inventories.

We were not provided with enough detail to propose an audit adjustment. Yet the estimated amount misstated is not considered to exceed the materiality level.

List of books given out on a complimentary basis are not being tabled during the Council's meeting for its approval. Furthermore, whenever a book is sold, the name of that book is not clearly written on the Council's receipt.

Recommendations

A perpetual inventory control system should be improved to individually record the amount of books being sold by entering the corresponding official Council receipt number. The list of books given on a complimentary basis should be approved during a Council meeting. These should also be recorded in the perpetual inventory control system and reference should be made to the Council meeting number approving the distribution thereof.

At the end of every financial year end, a stock count of the books is undertaken, a cost value is assigned to each book, and the balancing stock figure is recorded in the financial statements.

7. RECEIVABLES

7.1. Collection of receivables and provision for doubtful debts.

Observations

As at the date of the Statement of Financial Position as approved by the Council on 18th February 2016, the Council provided for the amount of €3,240 against doubtful receivables. Nevertheless, when we asked for an analysis of this provision, the Council could not provide any.

In another instance we observed that the contract currently engaged with the Council for the collection of mixed household waste (approximate annual value of contract is €26,000), has not paid the Council for an advert in its period magazine. The amount due to the Council was €70.

Issues Arising

From our own assessment of the aged list for receivables, the following debtors owed money to the Council for more than one year:

<i>Debtor details</i>	<i>Amount in €</i>
Green MT	2,912
Regional Committee - Gozo	28
Water Services Corporation	1,007

TOTAL	€3,947

In view of this, we have proposed a set of audit adjustments to reverse the unknown provision and re-instate a fresh provision for doubtful debts in order to provide a fairer picture of the amounts receivable by the Council. The Council approved the audit adjustment and reflected it accordingly in the financial statements.

The fact that the Council is paying the supplier for domestic refuse collection but overlooked amounts due to it by the same contractor, shows how weak is the current system of chasing and collecting Council's receivables.

Recommendations

The Council should reconcile regularly its receivables. By not maintaining an adequate system of invoicing as highlighted in paragraph 2.2 of this report, does not help either. Besides the reconciliation of its receivable, the Council should double its efforts in collecting the amounts due to it.

7.2. Prepayments, accrued income and PPP agreements

Observations

During 2011 and 2012, the Council entered into a Public Private Partnership (PPP) agreement with the Gharghur Football Club and St. Bartilmew Band Club. These agreements were approved by the Ministry of Finance and the Department for Local Councils and entitle the Council to acquire use of sports facilities and musical services in advance for a period of 10 years and 5 years respectively.

The Council is treating this prepayment as *Grants made by Council* and disclosed as such in Note 13 to the financial statements. Additionally, the release for the year to the Statement of Comprehensive Income was incorrect and understated by €1,200.

In the list of accrued income and prepaid expenditure provided to us by the Council's Accountant, the Council had a number of erroneous entries or complete omissions in its estimates as follows:

- ✓ Contributions from the Water Services Corporation – the Council is still accruing for €112 with respect to water house connection fees undertaken in 2009.
- ✓ The list includes an untraceable adjustment of €15.
- ✓ VAT refundable of €894 pertaining to the project of Gnien il-Ponta had to be accrued for in the financial year ended 31 December 2014, given that the project was completed during that financial year and grants were being released to the Statement of Comprehensive Income.
- ✓ Council's rent of €465 for the Council's premises and prepaid for the period 1st January to 13th March 2016 was completely omitted.
- ✓ Council's rent of €138 for the War Shelter and prepaid for the period 1st January to 20th July 2016 was completely omitted.
- ✓ Council's rent of €28 for 90, St. John Street and prepaid for the period 1st January to 13th February 2016, was completely omitted.
- ✓ Refund of expenditure amounting to €293 on account of damage on a crash barrier committed by Malta Public Transport was not accrued as income receivable by the Council.
- ✓ Lift maintenance prepaid for the period 2016 to 2019 and amounting to €236, was completely omitted.
- ✓ Adverts amounting to €80 pertaining to 2016 calendar of two local organisations, were completely omitted.
- ✓ On-line streaming maintenance for the period 1st January to 30th May 2016 and amounting to €418 was completely omitted.
- ✓ Hosting of website prepaid for the period 1st January to 26th February 2016 was completely omitted.

Issues Arising

The Council is not adhering to the fundamentals of accrual accounting and matching concepts. If a particular accounting estimate is generated or is no longer applicable this should be adjusted accordingly in the financial reports. Failure to do so, would give nothing but a misleading picture of the financial situation. We also need to highlight other failures in the Council's system of assessing for accounting estimates with respect to grants receivable as highlighted in paragraph 5.4 of this management report.

In the case of expenditure incurred by way of PPP agreement with Gharghur Football Club and Banda San Bartilmew, we do not agree that these are grants assigned by Council. Rather, the

Council is agreeing to acquire services in advance from these two local organisations. In opinion, the prepaid amount to be released to income and expenditure for future years, should be reclassified with prepaid expenditure.

Recommendation

The Council should scrutinize thoroughly its accounting estimates and make sure it adequately provides for these estimates in the financial statements. In the case of the prepaid expenditure concerning the PPP (Gharghur FC and St. Bartilmew Band Club) agreement, income calculation of rent prepaid, other expenditure prepaid and omissions of accrued income, we have proposed an audit adjustment which the Council approved and adjusted accordingly.

7.3. Amounts due from the Local Enforcement System

Observations

In its financial statements approved on 18th February 2016, the Council recognised an amount of €1,665 as amounts due to it from traffic fines not yet paid. The traffic fines were issued prior to the take-over of the function by the Regional Committees as of 1st September 2011. Against the amount, the Council provided for an equivalent amount as doubtful debts.

We were also given to understand that since the North Joint Committee is no longer in function, any fines pertaining to the pre-Region era and settled accordingly, these have now become the property of the Local Council.

Issues Arising

When we printed report 622 (Pending Payments Report) from the LOQUS[®] System for the period 1st January 2000 to 31st August 2011 and Tribunal sitting dates covering till 31st December 2011, the amount due to the Council stands at €27,302. This does not agree with the amount recognised by the Council.

In this respect, we have proposed an audit adjustment and a corresponding adjustment to the provision for doubtful LES debts to the same amount. The Council has approved the adjustment accordingly.

Recommendation

It should be made sure that the LES reports reconcile with the Council's accounting records. Through its representative, the Council should follow up and assess whether the amounts indicated in the report could be collected or otherwise.

8. CASH AND CASH EQUIVALENTS

8.1. Cut-off errors in cash receipts and deposits.

Observations

From procedures to verify cut-off entries in the Council's cash book, we identified the following receipts which were received at the Council's cash office between 24th December 2015 and 21st January 2016:

Receipt date and details

24/12/2015 – Receipt 6664 – Boundary wall permit fee
28/12/2015 – Receipt 6665 – Crane permit fee
28/12/2015 – Receipt 6666 – Scaffolding permit fee

Issues Arising

Even though one questions the materiality of the amounts under scrutiny, this indicates that the Council's cash income is being recorded on a "bank deposit" basis rather than in the actual period it is received in cash.

Furthermore, the Council is not adhering to the procedure that it should deposit all its cash takings at least once a week. The first deposit made during the year 2016 amounts to €1,202.99 consisting of €205.09 in cash and €997.90 cheques.

Recommendations

The Council should embed regular checks that upon reporting periods either for the Quarterly Financial Reports or the preparation of Annual Financial Statements, income is wholly recorded in the correct period when actually received rather than when actually deposited in the bank account.

8.2. Petty cash transactions.

Observations

We scrutinised the petty cash payments and corresponding entries in the nominal ledger as executed during the financial year under review. In general, the petty cash system is maintained in a perfectly organised manner, with a petty cash voucher explaining the acquisition in question and duly authorised.

The Council expended a total of €2,545 through its petty cash system. We identified 28 petty cash vouchers where the maximum amount of expenditure exceeded €23.29 with the highest sample reaching €75.81.

Furthermore, although the petty cash reconciles exactly with the physical cash balance counted on our audit visit date, exactly on 31st December 2015, there was an adjustment of €192.82 made by the Council's Accountant against nominal account 2370, Other Repairs and Upkeep.

Issues Arising

A petty cash payment cannot exceed the amount of €23.29 per transaction in line with the Local Councils Procedures (Finance) KLP 1/96, P1.08, c.06. Any expense in excess of this amount should be settled by a cheque payment.

As for the adjustment of €192.82 made by the Council's Accountant, we have reasons to believe that this was an adjustment to bridge an unknown difference in the petty cash account. This action clearly shows that the petty cash account is not being reconciled on a regular basis resulting in the omission or double posting of items of expenses paid through the petty cash system.

To this effect, the Council is not accurately following the procedures laid out by paragraph P1.08, d.04 where the transactions from petty cash should be properly recorded and exactly tallying with the original document provided by the supplier of the good or service.

Recommendations

The Council should continue supporting the correct way of its petty cash system maintenance. Nevertheless, we encourage it to avoid incidents such as the above so that the procedures are followed in full.

9. PAYABLES

9.1. Reconciliation with supplier statements

Observations

The Council is not carrying out regular reconciliation exercises between its records in the supplier ledger and the actual supplier statements. This observation was supported by the following factors:

- ✓ Omissions from the purchase ledger day book, of invoices dated 2015 as detailed below.
- ✓ Invoices dated 2015 recorded as accrued expenditure instead of being recorded in the purchase ledger day book.
- ✓ Invoices dated within the prior financial periods, recorded as transactions occurring in the financial year under review.

During our liability cut-off tests, we identified the following expenditure items found to be completely omitted from the Council records. These expenditure items were paid by the Council during the period January to April 2016:

<i>Expenditure details</i>	<i>Amount in €</i>
Insurance coverage for the period 01/06/2015 to 31/07/2015	172.04
Grocery items purchased during the month of December 2015	132.24
Prints undertaken during December 2015	59.00
Project management fees	566.88
Traffic signs provided during December 2015	477.60
Road markings provided during December 2015	579.05
TOTAL	€1,986.81

Additionally, as already described in paragraph 5.9 to this report, a long overdue invoice payable on account of goods and services provided for the completion of Gnien il-Ponta (Lanciritka) project and amounting to €4,631 was not being included with the rest of the suppliers in the Purchase Ledger Day Book, but rather, it was posted in nominal account 4012 with name "Creditors – project (new a/c)". We could not understand the rationale behind this posting.

From other observations, the following expenditure items were dated within the prior financial periods but were only accounted for during the current financial year 2015:

<i>Expenditure details</i>	<i>Amount in €</i>
Works at Gnien il-Ponta, invoice dated 23 rd July 2014	495.60
Supply and installation of Garden Furniture at Gnien il-Ponta, invoice dated 24 th July 2014	5,215.60
Supply of plants and gardening services at Gnien il-Ponta, invoice dated 30 th June 2014	4,630.55
Supply of Perspex for EU funding sign at Gnien il-Ponta, invoice dated 28 th November 2014	147.50
Adjustment in Invoice GHR043-059, domestic refuse collection, invoice dated 15 th October 2014	3,009.60
Adjustment in Invoice GHR027, domestic refuse collection, invoice dated 15 th October 2014	1,179.90
Tipping fees for 2011 accounted for as 2015 expenditure	1,000.87
Irrigation of trees in 2014 accounted for as 2015 expenditure	260.00
Hosting and maintenance services for period 27/02/2014 – 26/02/2015 accounted for as 2015 expense	295.00
TOTAL	€16,234.62

The following invoices should have been posted in the Purchase Ledger Day Book but instead, they were recognised as accrued expenditure:

<i>Expenditure details</i>	<i>Amount in €</i>
Water and Electricity, Semaphore Tower, invoice dated 21 st December 2015	86.40
Sundry materials and supplies dated December 2015	435.74
TOTAL	€522.14

The following debit balances (overpayments) in the list of creditors were not confirmed and from the limited information available, they seem to be arising out of improper reconciliation and posting of invoices:

<i>Supplier details</i>	<i>Amount in €</i>
ARMS Limited	-42.44
Melita Cable plc	-280.76
MITA	-19.88
M. Quip Co Limited	-150.00

TOTAL	€-493.08

Issues arising

While we understand that the Council clears supplier payments within 30 to 60 days and certain suppliers do not have the proper accounting set-up to provide statements on a regular basis, we still are of the opinion that periodically, formal checks with suppliers should be carried out in order to make sure that no payments or claims are outstanding or disputed.

Even though the total value of the short-comings above may not be material, still remains the fundamental issue that accounting records especially on the verge of issuing a financial report are not being properly monitored and maintained.

The omitted invoices totalling €1,987 were eventually addressed by the Council through our proposed audit adjustment and properly accounted for in the purchase ledger.

As for the amount of €16,235 posted in the correct financial period, the Council should have considered the provisions of IAS 8 – Accounting Policies, Changes in Accounting Estimates and errors. We were not in a position to propose an audit adjustment to that effect.

Recommendations

For those suppliers who have an appropriate accounting system and provide regular statements, actual reconciliations should be carried out. Those suppliers who do not have a proper accounting set-up or they keep manual book-keeping records, the Council should seek confirmation in writing at least on a quarterly basis that the supplier in question is agreeing with the records of the Council. This kind of exercise is mostly applicable to suppliers who furnish goods or services to the Council on a regular basis.

9.2. Accrued expenditure

Observations

The Council has not adequately accrued for all expenditure pertaining to the financial year under review. During our payables' cut-off testing, the following items were identified where accrued expenditure was either not correct or completely omitted:

<i>Expenditure details</i>	<i>Amount in €</i>
Adjustment to estimate for domestic refuse November – December 2015	(154.84)
Adjustment to Tipping fees for December 2015	280.66
Adjustment to Road and street cleaning for December 2015	(322.00)
Reversal of double posting of accounting fees for December 2015	(150.00)
Adjustment to telephone expenses for December 2015	3.33
15 FT Hinged Xmas Tree	900.00
Xmas decorative street lighting for December 2015	1,165.00
Hire of light and sound – December 2015	397.66
Repair to street lamps during December 2015	22.36
Repair to decorative street lamps December 2015	204.00
Rent sublease for the period 21 January 2014 to 31 December 2015	1,102.52
Adjustment to employees' performance bonus for 2015	338.97

Adjustment to Acting Executive Secretary's performance bonus for 2015	587.64
Deferred income adjustment to lease of Semaphore Tower 1 st till 18 th January 2016	88.77

TOTAL	€4,464.07

The last invoices received for street lighting maintenance was on 12th October 2015. Up to the date of our audit visit, we did not come across any invoices received. There was no reasonable assurance to confirm that the Council is actually reconciling the faults being reported, repaired and certified by the appointed engineer, with the actual invoices being received by the same Council. Any known values for fault repairs in a particular period should be accrued for in that period.

Issues Arising

As explained in paragraph 7.2 of this report, the Council is not honouring the fundamental concept of accrual accounting thus providing an incomplete and misleading picture of the Council's financial position. In this respect, we have proposed audit adjustments to rectify the total omitted amount of €4,464 above. The Council has approved and posted this audit adjustment.

Recommendations

The Council should seek a thorough and correct assessment of its accounting estimates including the appropriate and complete recording thereof in the general ledger and financial statements.

10. GENERAL

10.1. Chart of Accounts

Observations

The Council employs a long list of nominal codes for the bookkeeping of its accounting records. Some of the nominal codes also bear a description which is not related to what is being recorded therein. Typically we observed this matter in the nominal account range pertaining to short-term deferred grants.

Issues Arising

The Chart of Accounts is not in line with the provisions of P.1.1 of Appendix P1.I to the Local Councils Procedures (Finance) KLP 1/96 and unclear nominal description tends to create confusion leading to unfair results.

Recommendations

The Council should abridge its Chart of Accounts to be in line with the Chart of Accounts as specified by the Local Councils Procedures and regrouping should be duly considered. Any analytical information for management purposes should be recorded through the assignment of departmental costing system embedded in the same Sage Line 50[®] software which is in use by the Council.

The names of the nominal ledger accounts directly affected by an audit adjustment should be amended accordingly in line with the final audited trial balance as forwarded to the Council prior to the approval of audit adjustments.

10.2. Posting errors

Observations

While going through the financials for 2015 in the process of analytical review, we identified certain posting errors and negative balances in the list of expenditure nominal accounts.

Rent accrued on account of Grien il-Paci and amounting to €108 was posted in the nominal account 3110 – IT Development Services.

Items of pots and plants amounting to €125 were posted to nominal account 3366 – Social Events – SKZS Youths.

Issues Arising

The nominal ledger is not being regularly scrutinised and checked for this kind of errors which may be misleading. We have proposed a set of audit adjustments to rectify some of the above observations accordingly.

Recommendations

The Council should make sure that it scrutinises its ledgers for allocation errors and mispostings after analysing and comparing the actual figures with budgeted figures. In this manner, the financial results being presented show a true and fair picture in line with generally accepted accounting principles.

10.3. Statutory documentation

Observations

The Budget Document for 2016 as approved by Council and presented to us for review, was presented in a customised format not in line with the requirements of the Local Councils Act and ancillary procedures. Up to the date of this report, the Budget Document for 2016 was still not uploaded on the web-site www.lc.gov.mt.

According to minutes of Council meeting number 7, dated 20th July 2015, the Quarterly Management Report for the first quarter period January to March 2015 was still not completed and submitted. Even in this case, the last report uploaded on the web-site www.lc.gov.mt was that for the period January to September 2014. Nevertheless, the quarterly reports for the 2nd and 3rd quarters 2015 were approved by the Council during sitting number 9 on 1st September 2015 and sitting number 13 on 13th November 2015 respectively.

E-mails and letters received from Councillors to excuse themselves from attending Council meetings are not being uploaded with the minutes on the web-site. Likewise, the minutes being uploaded are not signed.

Issues Arising

Statutory documentation approved during Council sitting should be exposed to the public by translating them in the appropriate templates in line with Local Council Procedures (Finance) and uploading them on the web-site www.lc.gov.mt in terms of Memos 89/2010 and 102/2010.

Recommendations

The Council should remedy the situation at the earliest possible by uploading all the reports approved during Council meetings. It should ensure that the minutes are also signed.

10.4. Approval of minutes

Observations

During Council sitting number 6 held on 6th July 2015, the Council has approved the minutes of Council sitting number 5 held on 22nd June 2015.

Then, during Council sitting number 7 held on 20th July 2015, the Council again approved the minutes of Council sitting number 5.

Issues Arising

Through the sequence of events described above, it transpires that the minutes of Council sitting number 6 held on 6th July 2015, were never approved. Given that the minutes of Council sitting number 5 were approved twice, one needs to check whether there was an oversight or misprint in the minutes of Council sitting number 7.

As things stand, the minutes of Council sitting number 6 were never approved and therefore all the decision taken therein are currently null and void.

Recommendations

The Council should make the necessary verifications on the issues highlighted above and make sure that it rectifies its position.

10.5. Disclosure of contingent liabilities

Observations

In the minutes of Council sitting number 72 of the 1st April 2015, it was reported that the outgoing Executive Secretary, presented the Council with a legal letter because her performance bonus was not paid.

Although the Council is confident that there are no claims to pay as its actions were justified, we were given to understand that discussions are still ongoing with the plaintiff's lawyer.

Issues Arising

In note 18 to the financial statements, disclosing contingent liabilities, there is no mention of this case and the possible impact and quantification of the liability on the Council. This is not in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Recommendations

The Council should make all necessary disclosures of any contingent liabilities as at the date of the financial statements being approved, in line with the respective accounting standard.

10.6. Accountancy work and ancillary contractual obligations

Observations

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

We were provided with the contract signed with the current Council's accountancy firm and if one had to scrutinize the specific conditions of the tender, in particular clause 3, which obliges the duties of the Council's accountant, it could be concluded that most of them are not being addressed.

Despite having a record of performance, the Council, as with other tender adjudication processes, opted to choose the cheapest bid, when, in our opinion, account should have also been given to previous years' management reports, including those prepared by different Auditors.

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

10.7. Disclosures required in respect of certain IFRS.

Observations

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

Issues Arising

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

- ✓ IAS 1 – Presentation of Financial Statements.
- ✓ IAS 2 – Inventories.
- ✓ IAS 7 – Statement of Cash Flows
- ✓ IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.
- ✓ IAS 16 – Property, Plant and Equipment.
- ✓ IAS 20 – Accounting for Government grants and disclosures.
- ✓ IAS 24 - Related Party Disclosures.
- ✓ IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

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

Recommendations

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

10.8. Financial Statements presentation

Observations

Following our review of the financial statements for compliance in line with IFRS and Local Councils Procedures (Audit) we identified areas which need attention for the next financial year.

Issues Arising

- Statement of Council Members' and Executive Secretary Responsibilities and Statement of Financial Position – surname of the Acting Executive Secretary is incorrect.
- Statement of Comprehensive Income – Net Operating Profit for the year should read €28,474 and not €28,475. Given that there was a surplus for both years, the word “(loss)” should have been removed. Consequently, the Net Profit/Loss for the year should read €28,567 and not €28,568. The term “loss” should be removed from this line as well. This variance seems to be the fruit of a rounding error which should have been addressed.
- Statement of Financial Position – *Total Reserves and Liabilities*, Current Year Figures, do not cast with Total Reserves and Total Liabilities by €1.
- Statement of Financial Position and Statement of Changes in Equity – Presentation of Prior Year Adjustment not in line with the provisions of IAS 1 and IAS 8.
- Statement of Changes in Equity – Balance of reserves as at 31 December 2015 has a casting rounding error of €1.
- Statement of Cash Flows – Purchase of Property, Plant and Equipment does not agree with Note 11.
- Grants received of €2,329 disclosed in the Statement of Cash Flows and Note 15 to the financial statements does not reflect the real amount of grants received in the Council's bank account during the year.
- Page 6: Accounting Policies and reporting Procedures – the text does not reflect the current updates and developments with IFRS adoption and implementation.
- Page 13: Council discloses accounting policies with respect to Inventories, when these are not even recognised by the Council (refer to paragraph 6.1 of this report).
- Note 5: Comparative Year Figures, do not cast by €1.
- Note 6: Comparative Year Figures, Personal Emoluments does not agree with corresponding amount in the Statement of Comprehensive Income and analysis in note 7 in the same page.
- Note 7: Not properly analysed as detailed in paragraph 3.3 to this report and not in line with the official template of the Local Councils Procedures (Audit) 2006.
- Note 11 – 2015 figures, contains casting errors and negative polarity figures not in brackets.
- Note 13 – Disclosure for impairment analysis of receivables not in line with the requirements of IAS 1.
- Note 14 – Casting error of €1 in the Current Year figures.
- Note 15 – line item “Other adjustments re audit adjustments / PPP creditor” has no basis of rationale within the movements of grants during the current year and prior year.
- Note 16 – Casting error by €1.
- Note 19 – North Regional Committee has joint control with the Council. There is no disclosure about key management personnel fees.
- Note 21 – Text alignment errors all throughout the page.
- Page 27 – Budget to Actual Comparison for the year – total actual capital expenditure for the year does not agree with Note 11.
- Statement of Cash Flows – not properly compiled in line with IAS 7 and contains various errors in the representation of purchase of property, plant and equipment, as well as movement in doubtful debts, payments of long-term liabilities, receipt of grants and movements in deferred grants. Most of the leading balances represented in the Statement of Cash Flows does not agree with other parts of the financial statements.
- Disclosures related to financial assets and financial liabilities in terms of IFRS 7 are missing. No split is made between financial assets and financial liabilities in notes 13 and 16.
- Note 4 – supplementary Government Income is nil, when during the year under review, the Council received the amount of €12,270 from various schemes and other income, including that financing the short-fall with Wasteserv Limited.

- Note 4 – Contraventions of €34 should have been classified as LES share of Joint Committee Results.
- Note 5– the term “Other general Income” should have been analysed and broken down in the actual description of the income it represents.
- Note 7 – the item “Mayor’s Honoraria & Allowance” should be replaced by “Mayor’s Honoraria” since the allowance should be included with the Councillors’ Allowances.
- Note 7 – Average number of Councillors and employees is missing.

Recommendations

The council should be fully compliant with the International Financial Reporting Standards, respective Memos and Local Councils Procedures (2006 Audit) for the presentation of the Financial Statements.