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

1.1. Local Enforcement System

Since the Council does not have direct control on this matter, as it is dependent on third party reports, it could not address the problem in full and therefore we draw your attention to paragraph 2.1 of our management report.

1.2. System of invoicing

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

1.3. Applications for Permits

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

1.4. Methodology of income recording

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

1.5. Administrative reimbursement for LES fines collected

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

1.6. Income cut-off errors

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

1.7. FSS documentation reconciliation variances

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

1.8. FSS forms

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

1.9. Performance bonus of the Council's employees

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

1.10. Purchase request forms and purchase order forms

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

1.11. Inappropriate expenditure documentation

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

1.12. Contract for street lighting repairs

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

1.13. Expense claim forms

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

1.14. Quantity Surveying

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

1.15. Hospitality expenses

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

1.16. Reconciliation of the Fixed Asset Register and Nominal Ledger

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

1.17. The upkeep of the Fixed Asset Register

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

1.18. Fixed Assets labelling

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

1.19. Depreciation

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

1.20. Accounting for Government grants

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

1.21. Capital Expenditure against Revenue Expenditure

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

1.22. Insurance coverage

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

1.23. Stock of books

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

1.24. Insurance on stock of books

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

1.25. Collection of receivables and provision for doubtful debts

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

1.26. Accounting for prepayments and accrued income

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.2 of our management report.

1.27. Cash deposits.

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

1.28. Petty cash transactions.

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

1.29. Reconciliation with supplier statements

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

1.30. Accrued expenditure

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

1.31. Chart of Accounts

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

1.32. Posting errors

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

1.33. Statutory documentation

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

1.34. Referencing of minutes

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

1.35. Accountancy work and ancillary contractual obligations

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.4 of our management report.

1.36. Mid-term audit

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

1.37. Disclosure of contingent liabilities

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

1.38. Disclosures required in respect of certain IFRSs

The Council has not addressed the matter during the year under review. We refer you to paragraph 11.11 of our report.

1.39. Financial statements presentation

The Council has not addressed the matter during the year under review. We refer you to paragraph 11.2 of our report.

2. INCOME

2.1. Local Enforcement System

Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31 December 2017. Albeit the fact that the operations of this Joint Committee had been taken over first by the Northern Regional Committee and later by LESA, there is no official information available showing that it has been dissolved as well as proper financial information in relation to the operations and income arising throughout the period this Joint Committee was operative.

Issues Arising

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

Recommendations

The Council should pressure the Joint Committee to provide audited financial statements for every financial year in order to have a basis on which to recognize all LES income due to the Council.

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.

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. 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 on average from two to three days.

Unfortunately, the income as disclosed in Note 5 to the Financial Statements is not properly classified. Several income items properly distinguished in the nominal ledger were grouped in one line item "General" with an amount of €561.23,.

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.

Recommendations

The Council should ensure to reflect the same proper income classification currently in place in the nominal ledger to be also disclosed in the financial statements notes. Further to our recommendations, the necessary adjustments have been undertaken in the Council's financial statements.

2.4. Administrative reimbursement for LES fines collected

Observations

Through Report 483 as generated from the LES Datatrak® software, the Council would have the exact amount of contraventions 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 for Post-Regional, Pre-Regional, and LESA for the period 1st January to 31st December 2017, the theoretical amount chargeable by the Council should have been €2,709.29.

Issues Arising

According to the pre-audit financial statements, in note 4 the Council recognised and disclosed the amount of €2,620.68. This leaves a total aggregate discrepancy of €88.61 understatement between the LES income recorded in the accounts, and those denoted in Report 483 in terms of Pre-Region, Post Regional, and also LESA.

Furthermore, a debit amount of €1,865.49 relating to the movement in the LES pre-regional LES share of joint committee results was included in the same note 4, the amount of which has been recorded under *Income raised under Law Enforcement System*.

Recommendations

Through the LES system, the Council is provided with the exact amount to invoice on a monthly basis. The Council should on a quarterly basis print the required version of LES Report 483 and regularly reconcile the amounts invoiced for each month with the theoretical income coming out of this report. Any variances coming out of the LES system should be immediately reported to Datatrak/Loqus®. On the other hand, any accounting mispostings or errors should be rectified and addressed immediately to present a fair view of the results. Further to our recommendations, the necessary adjustments have been undertaken in the Council's financial statements.

3. PERSONAL EMOLUMENTS

3.1. Application of proper Pay Scales

Observations

In the process of verification of the payroll workings according to the communicated pay scale notches, discrepancies were noted with respect to one of the Council's employees who is on the maximum notch of Scale 13 when comparing the salary to the 2017 Government pay scales.

Issues Arising

The Council is in breach of the Local Council's Financial and Human Resources regulations which specifically require the appropriate computation of every payroll which should be in line with the approved Government pay scales for that particular year.

Recommendations

Going forward we recommend that appropriate application of the designated pay scale of such employee is utilised, and that such position and pay rates are adjusted accordingly to the pre-determined Government pay scale notches.

3.2. Performance bonus of the Council's employees

Observations

As at 31st December 2017, the Council accrued for performance bonuses amounting to €4,121.19 for the annual performance bonus of the employees and the Executive Secretary. However, based on our calculations the performance bonuses to the employees and the Executive Secretary should have amounted to €4,098.11.

Issues arising

The performance bonus paid to the employees should have been calculated on the last basic salary paid for December 2017. In the case of the Executive Secretary, the bonus has been calculated as 10% of the total annual gross as per the communicated pay scale notch, while the bonuses for the employees have been calculated as 6% of the total basic pay for the year as extracted from the December 2017 pay slip.

Recommendations

The Council should ensure that all performance bonuses are properly calculated and make sure that they are prepared and settled in line with the relevant HR and Financial procedures.

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 a purchase order was either not issued or else was not made available with the related payment voucher and invoice:

Supplier		Amount €	Date	Chq no	Date of chq	Payment Voucher
IDPC		23.29	02.01.2017	14	10.01.2017	0013-17
Sidonia Enterprises Ltd		225.33	01.02.2017	104	01.03.2017	0091-17
Allied Newspapers		111.98	01.01.2017	120	01.03.2017	0112-17
TIK Communications		871.00	12.07.2017	558	16.11.2017	0656-17
Audio Visual Centre		600.00	06.11.2017	551	08.11.2017	0646-17
Daniel Bezzina		896.00	21.01.2017	123	01.03.2017	0117-17
Dimbros		431.90	05.09.2017	501	11.10.2017	0593-17
Victor Mizzi		1,152.35	05.12.2017	600	12.12.2017	0705-17
Correct Termination Ltd		1,003.00	10.04.2017	206	19.04.2017	0227-17
Downtown Restaurant & Café		425.25	13.06.2017	323	04.07.2017	0412-17
Socjeta' San Bartilmew		1,150.00	06.01.2017	45	01.02.2017	0036-17
Transient Ltd		397.66	01.01.2017	70	01.02.2017	0062-17
Emmanuel & Gordon Muscat		400.00	20.04.2017	215	20.04.2017	0241-17
Director General Works		465.88	19.09.2017	488	11.10.2017	0567-17
Bristow Potteries Ltd		64.90	24.01.2017	71	01.02.2017	0063-17

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 we recommend that purchase request forms are also 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 by direct order should have a purchase order issued prior to delivery of the good or service.

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), as follows:

- Cultural Activities – Ghaqda tan- Nar San Bartilmew (Chq 421 dated 21.08.2017) amounting to €1,000 – no fiscal receipt provided.
- Social Events – Socjeta' Filarmonika San Bartilmew (Chq 45 dated 01.02.2017) amounting to €1,150 – no fiscal receipt provided..
- Social Events – TIK Communications (Chq 412 dated 21.08.2017) amounting to €212.40 – no fiscal receipt provided.
- Cleaning of Public Conveniences – Victor Mizzi (Chq 600 dated 12.12.2017) amounting to €1,152.35 – no fiscal receipt provided..
- Street Lighting (decorative lanterns) – Calleja Ltd (Chq 402 dated 21.08.2017) amounting to €335.97 – no fiscal receipt provided.
- Newsletters and Publications – TIK Communications (Chq 558 dated 16.11.2017) amounting to €871 – no fiscal receipt provided.
- Advertising and PR – Allied Newspapers (Chq 120 dated 01.03.2017) amounting to €111.98 – no fiscal receipt provided..

- Legal Services – Bonnici Insurance (Chq 509 dated 11.10.2017) amounting to €550.32 – supporting documentation comprises mainly of an email correspondence so no proper invoice has been provided.

Issues Arising

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

Recommendations

An appropriate tax invoice should be obtained for all the expenditure incurred by the Council. This also applies even when the works are certified by an architect. The same concept applies to VAT fiscal receipts. Those suppliers who keep on not providing a VAT fiscal receipt should not be considered for future procurement as required by the Council from time to time.

4.3. 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 €5,342.66. The provision of this service is currently neither covered by a valid signed contract nor by a letter of extended/renewed contractual agreement, the main suppliers of which relate to 'The Lighthouse Keepers' and Mr. Daniel Bezzina.

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.

4.4. Jum il- Lokal 2017 expense

Observations

The Council incurred expenditure amounting to €3,751.03 in respect of Jum il-Lokal of 2017, thus exceeding the allowed threshold as per Memo 122/2010 by €251.03.

Issues arising

Memo 112/2010 states that expenditure with respect of Jum il-Lokal should not exceed € 3,500 or 0.5% of the Government Annual Allocation, which for this year for this Council would have amounted to €1,248.59, whichever is the higher. Hence, the Council did not adhere with the requirements of Memo 122/2010.

Recommendations

The Council should ensure that this threshold is maintained when organising such events in order for this expenditure not to exceed the amount as stipulated by the said Memo.

4.5. Hospitality & Social events expenses

Observations

During the financial year under review, the Council expended the amount of €16,401.64 in relation to expenditure for hospitality and social events purposes. For the financial year 2016, the Council was granted an annual financial allocation of €250,102.

Issues Arising

The Council is expending an average of €1,366.80 per month in hospitality items such as groceries as well as social events items, which, over a year, they represent approximately 6.5% of the annual financial allocation.

Recommendations

The Council should make sure that this amount of hospitality and other social events expenditure is justified and were possible reduced accordingly. If any part of these items includes 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)	(336,665)
Depreciation and grants in FAR (understated)	(295,915)
Net Book Value in FAR overstated	40,750

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

We have identified various short comings with respect to asset allocation in the respective correct category of the FAR, examples of which are listed below:

- *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-Paci* – 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. Some examples include the following:

- *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 properly with the respective fixed asset code. Consequently, certain assets were not readily identifiable. Other items were physically identified and were not included within the list, such as the additions of an Interactive Board and Projector.

Issues Arising

Besides not being up-to-date and reconciled with the nominal ledger as explained in point **Error! Reference source not found.** 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 version available through Sage Line 50 is not an updated reflection of the fixed assets of the local council; hence we cannot fully determine the balances and physical items from such list. We have qualified our audit report in his respect.

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

The Council should therefore take the following factors into consideration:

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

- ✓ The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. This would be useful for insurance claims and asset disposal adjustments.

5.3. Fixed Assets labelling

Observations

Throughout our audit testing it was noticed that fixed assets are not being permanently marked or labelled.

Issues Arising

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

Recommendations

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

5.4. 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 16th February 2018, the Council had an opening balance of deferred income amounting to € 168,866.

In our previous year audit report, we have qualified our audit report on this deferred income balance in view that the prescribed adjustments proposed were not properly reflected as well as in view of other arising variances and incorrect accounting and disclosures as required by IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, which issues were duly detailed in our previous year management letter as well.

During the year under review, the Council recognised grants received for the amount of €19,510, relating to a UIF Grant re Gnien ta' Zaghruna, received on 30.11.2017. Furthermore, grants amounting to €4,893.76 in relation to Gnien ta' Zaghruna have not been accounted for as accrued income for the period (refer to Point 7.2 below).

Variances were also noted between the Deferred Income workings provided, and the disclosure as per Note 16 in the Financial Statements. Non-current deferred income as per the Financial Statements amounted to €148,726.21, while the long term deferred income balance as per the Council workings tallies to €144,572.20; effectively realising a discrepancy of €4,154.01.

Furthermore, current deferred income for the year as per adjusted Council workings amounts to €42,166.99, while the balance denoted in the Financial Statements in Note 16 amounts to €19,698; resulting in discrepancy of €22,468.99.

Issues Arising

It is of utmost importance that all amounts recognised in the Financial Statements are appropriately supported by documentation and clear workings. Due care should be given to that

amounts recognised as grants, released during the year and disclosed as Non-Current and Current Liability in the Financial Statements.

The issues raised above shows that grants are not being properly accounted for in line with the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance. We have qualified our audit report in this respect.

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

We identified instances where expenditure of a capital nature, was recorded as expenditure of a revenue nature. The invoices in question relate to the following, amounting in total to €2,188.09:

- The Lighthouse Keepers – Installation of street hump (Chq 62 – 01.02.2017) - €991.20
- Signmark Ltd – Speed humps (Chq 359 – 13.07.2017) - €1,196.89

Issues Arising

These items should have been capitalised rather than expensed directly to the Statement of Comprehensive Income in line with the requirements of IAS 16 - Property, Plant and Equipment. .

Recommendations

Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process by following the provisions of IAS 16 - Property, Plant and Equipment. Further to our proposed adjustments, the Council has revised its financial statements accordingly.

5.6. Categorization of assets and depreciation thereof

Observations

We noted that a number of tangible assets are being wrongly categorized with the implication that the wrong depreciation rate is being applied to them.

- Various works re capitalisation of a building hosting the BOV ATM to the degree of €12,234.52 have been categorised under Urban Improvements, rather than Property.
- Electrical Services and lighting relating to the same project, amounting to €700, have also been categorised under Urban Improvements, rather than Property.

Furthermore, depreciation is not being correctly generated by the FAR and subsequently posted to the respective nominal ledgers; especially in light of the fact that, as aforementioned, the Fixed Assets Register is not being updated by the Local Council. Rather, depreciation is being computed manually on a monthly basis.

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

Recommendations

The Council should review all its items recorded in the FAR and checks whether the correct depreciation rates are being applied. As a second step, the Council should rectify its position with respect to the recognition of depreciation by accounting for depreciation through the FAR incorporated within Sage Pastel Evolution® accounting software on a monthly basis after setting up a Fixed Asset Register as recommended in point 5.2 above

5.7. Insurance coverage

Observations

We noticed that the Council is not properly insured in different categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council's furniture and fittings for the amount of € 28,900; computer and office equipment amounting to € 21,695, plant and machinery for the amount of € 28,655 and Council premises for the amount of € 107,992.

The Council's total cost of fixed assets, excluding amounts not yet capitalised and special programmes as disclosed in its financial statements amounts to € 681,125 of which € 30,979 relates to furniture and fittings, € 22,584 relates to office and computer, € 31,846 relates to plant and machinery, € 14,908 relates to street signs, € 134,354 relates to urban improvements. € 120,927 relates to Buildings and € 325,527 relates to Construction Works.

Issues Arising

Subsidiary legislation 363.01 clearly states that the above asset categories should be adequately covered by an insurance policy. Such requirement was further remarked in DLG circular 33/2016.

The insurance policy in respect of such assets needs to be reviewed on an annual basis to avoid having over and under insurance in different categories of property, plant and equipment. Under insurance coverage is detrimental when the Council has to file an insurance claim following a particular accident or event.

Recommendations

The Council should review its insurance cover once the FAR has been fully reconstructed in order to have adequate cover for each respective asset categories.

In this respect, the Council should follow subsidiary legislation 363.01 and circular 33/2016. It would also be beneficial to ensure that the insurance policy contains better details of the assets insured. In this manner, it will be easier to carry out a claim in case of damage to any particular asset

6. INVENTORIES

6.1. Insurance on stock of books

Observations

The Council is not insuring the stock recognised in the financial statements amounting to €2,393.

Issues Arising

In case of theft, fire or any other accident, the Council will not be in a position to recover the cost of the stocks in question since the insurance policy cover does not cover these.

Recommendations

The Council should revise its insurance policy document accordingly to include its stock as part of the items insured as required by subsidiary legislation 363.01.

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 16th February 2018, the Council provided for the amount of €5,693.60 against doubtful receivables.

Issues Arising

The Council has not taken the appropriate legal measures to avoid that the debt becomes unrecoverable. Legal action would have possibly ensured that such debtors become recoverable or at least it would not become time-barred.

Recommendations

More effective controls should be introduced for the receivable balances to ensure that what is due to the Council is recovered. Such measures should also include legal remedies to be taken within the timeframes established by the law.

7.2. Accounting for Prepayments & Accrued income

Observations

In 2017, the Northern Region issued a Memorandum of Understanding whereby funds were to be allocated to local councils located in the North of Malta, for the utilisation of road resurfacing. As per the Commitment Letter signed by both the Executive Secretary and Mayor, the amount due to the Gharghur Local Council amounts to €3,490, which amount was received in 2018.

Furthermore, the amount of €4,893.76 was awarded by the Planning Authority in relation to Gnien ta' Zaghruna. Again, this income was actually received in 2018.

From the accrued income list provided by the accountant, no such records of the above was recorded as accrued income in the Council's accounts.

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 PPP *Grants made by Council* and disclosed as such in Note 14 (Note ii) to the financial statements.

Issues Arising

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 our opinion, the prepaid amount to be released to income and expenditure for future years, should be reclassified as a prepayment, duly discounted in line with the requirements of IAS 39.

In relation to the income due from MEPA and Northern Region the Council is obliged to ensure that it complies with the requirements of International Financial Reporting Standards and account for accrued income correctly and completely, and in the year to which it relates to using the accruals basis rather than cash accounting basis of transaction recording. The Council should have accounted for such income as accrued income if the related capital expenditure was incurred during the year under review.

Recommendations

The Council should follow the provisions of IAS 18 - Revenue Recognition and ensure that all income is properly recorded in the year in which it is generated as well as that all income is properly accounted for and properly categorised in the nominal ledgers. Further to our proposed adjustments, the Council has revised its financial statements accordingly.

7.3. Administrative reimbursement for LES fines collected

Observations

Through Report 483 as generated from the LES Datatrak® 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 for the period 1st January to 31st December 2017, the theoretical amount chargeable by the Council should have been €2,709.29.

Issues Arising

According to the pre-audit financial statements, in Note 4 the Council recognised and disclosed the amount of €2,621. This leaves a total aggregate discrepancy of €88.29 understatement between the administrative commission earned on collection of contraventions as recorded in the accounts, and the amount that should have been charged based on the payments collected as per the relevant LES reports.

Recommendations

Through the LES system, the Council is provided with the exact amount to invoice on a monthly basis. The Council should on a quarterly basis print the required version of LES Report 483 and regularly reconcile the amounts invoiced for each month with the theoretical income coming out of this report. Any variances arising should be immediately reported to Datatrak/Loqus®. On the other hand, any accounting mispostings or errors should be rectified and addressed immediately.

8. CASH AND CASH EQUIVALENTS

8.1. Petty cash balance

Observations

During our audit fieldwork it was noticed, that the Council is properly maintaining a petty cash float, which amounts to circa €233, as stipulated by the Local Council's Regulations. However, when reconciling this amount to the trial balance, it was noted that the petty cash as per accounting records was nil.

Issues Arising

During our backward cash count exercise, we estimated that the actual cash balance as at 31.12.2017 amounted to €232.08.

It was noted that reimbursement of the petty cash balance as at year end was issued by way of Cheque 660 to the amount of €232.84, which has been satisfactorily traced to the bank statements after year end.

Recommendations

We therefore suggest that the Council carries the necessary adjustments in its records and undertakes appropriate reconciliation of its cash amounts as per accounts with those held on a regular basis, to ensure that the cash float is adequately topped up to cover expenses as well as properly reconciled to the accounting records.

9. PAYABLES

9.1. Reconciliation with supplier statements

Observations

From an analysis of the trade creditors list as at 31.12.2017, we noted a number of creditors' balances having a debit amount, the amount of which is as follows:

	€
Banda San Bert	120.00
Central Trading Co Ltd	33.50
ESS Ltd	650.00
Focal Point	82.60
JM Vassallo Steel Limited	59.00
M. Quip Co Ltd	150.00
Rabat Marbles	270.64
	<hr/>
	1,365.74
	<hr/>

Issues Arising

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

Recommendations

We recommend that all supplier invoices are duly accounted for when received and payments are allocated against them when issued. On a regular basis the Council should request the necessary supplier statements and confirmations from its creditors to ensure that its balances are correct and adequately reconciled. Further to that, the Council should undertake an exercise to review all creditors and ensure that all balances at year end are correct.

9.2. Accrued expenditure

Observations

The Council has not adequately accrued for all expenditure pertaining to the financial year under review. Several issues were noted during our testing, summarised as follows:

Socjeta' Filarmonika San Bartilmew (Chq 45 dated 01.02.2017) amounting to €1,150. This invoice relates to December 2016, the amount of which was not recorded in trade payables or accruals in 2016.

Allied Newspapers (Chq 120 dated 01.03.2017) amounting to €111.98. This invoice relates to December 2016, the amount of which was not recorded in trade payables or accruals in 2016.

Trasient Ltd (Chq 188 dated 19.04.2017) amounting to €1,039.09. Invoice relates to December 2016, the amount of which was not recorded in trade payables or accruals in 2016.

Transient Ltd (Chq 70 dated 01.02.2017) amounting to €397.66. Invoice relates to December 2016, the amount of which was not recorded in trade payables or accruals in 2016.

WasteServ (Chq 73 dated 01.02.2017) amounting to €1,281. Invoice relates to December 2016, the amount of which was not recorded in trade payables or accruals in 2016.

We also noted instances where trade payables in relation to expenditure incurred for which an invoice was issued by end of year, were accounted for as accrued expenditure.

Issues Arising

The Council is not honouring the fundamental concept of accrual accounting thus providing an incomplete and misleading picture of the Council's financial position.

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 long-term deferred income and other income.

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 possible incorrect financial reporting and disclosures.

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.

10.2. Posting errors

Observations

We identified certain posting errors in the nominal ledger accounts as follows:

- Nominal account 0036 – Income from Contraventions – Debit balance of €1,865.49. relates to the movement in LES reports debtors.
- Nominal account 0066 – General income various – Debit balance of €561.23. Balance is the result of 2016 reversals.
- Cash balance as at year end in the nominal accounts was Nil when it should have been €232.08
- Urban Improvements amounting to €2,188.09 have been expensed under Repairs and upkeep, rather than capitalised and depreciated accordingly.

Issues Arising

The nominal ledger is not being regularly scrutinised and checked for such errors which will result in inaccurate accounting and reporting thereof. We have proposed audit adjustments in relation to the above which the Council have reflected accordingly in its financial statements.

Recommendations

The Council should make sure that it reviews 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

It is to be noted that, for all local councils, the uploading of council meetings minutes, schedules, etc are being transferred from the previous www.lc.gov.mt to www.localgovernment.gov.mt.

The following shortcomings were noticed in with respect of minutes, schedule of payments and other documents:

- Budget Documents for 2017, 2018 and work plan for 2018-2020 are not uploaded on the website.
- Replies to Management Letters are not uploaded on the website
- Meeting 37 held on 02.05.2017 – schedule of payments is not uploaded on the website.
- Meeting 45 held on 12.12.2017 – schedule of payments is not uploaded on the website.
- Meeting 46 held on 27.12.2017 - schedule of payments is not uploaded on the website.

- Meeting 47 held on 17.01.2017 - schedule of payments is not uploaded on the website.
- Meeting 48 held on 16.02.2017 – schedule of payments is not uploaded on the website.
- Subsequent meetings and schedule of payments after Meeting 48 have not been uploaded on the website.

Issues Arising

Memo 89/2010 requires the executive secretary to publish and upload the minutes and the schedule of payments within 2 days of approval.

The Sixth Schedule of the Local Councils Act requires in paragraphs 14(A)(6) and 14(A)(7) that the minutes become public once they have been approved and signed by the Mayor and the Executive Secretary and that these should be initialled by the Mayor.

Recommendations

While it is appreciated that it is no longer the sole responsibility of the Local Council to upload such documents on the Local Government website, the Council should adhere to the requirements of these memos and the provisions of the Local Councils' Act accordingly and monitor such uploading of documents to ensure that documentation is available in relation to of all Council meetings.

10.4. Accountancy work and related controls

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.

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.

10.5. Opening Balances

Observations

The opening balances of the Council's nominal ledger provided were not entirely in agreement with the approved and audited Financial Statements for the year ended 31 December 2016.

Issues arising

Such distortions in the opening balances of a reporting period may have a direct repercussion on the actual financials generated during that period.

Recommendations

The Council should ensure that the opening balances are in agreement with the last audited Financial Statements otherwise any reports issued by the Council will portray misleading information. The Council should also ensure that adequate supporting documentation is kept at all times to support any entries or adjustments passed in its accounting ledgers.

11. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

11.1. 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.

For example, omissions were noticed in relation to disclosure of new/revised accounting standards which became effective in the current financial year or which were issued but are not yet effective in the current financial year in line with the requirements of IAS 1-Presentation of Financial Statements.

Disclosure of related parties and related party transactions in note 20 is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with.

No separate disclosure has been made of Financial Assets and Financial Liabilities under this category in line with the requirements of IFRS 7-Financial Instruments: Disclosure.

Furthermore, with respect to the Non-current portion relating to Note 16 in the Financial Statement, this has not been split into the following three categories:

- Between 1 and 2 years
- Between 2 and 5 years
- More than 5 years

No proper accounting policy has been included in view that the Council has intangible assets in line with the requirements of IAS 38-Intangible Assets.

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

Issues Arising

All disclosures need to be undertaken in line with the requirements of International Financial Reporting Standards. These disclosures are not simply quantitative but also descriptive and we noted that the latter have sometimes been omitted as noted above. In this respect, we have qualified our audit report.

Recommendations

Financial statements should be prepared in accordance with the International Financial Reporting Standards and all necessary prescribed formats and disclosures are to be shown.

11.2. Financial Statements presentation

Observations

During our review of the initial set of signed unaudited financial statements as approved on 16th February 2018, we noticed the following shortcomings:

- 1) As a general note, page numbers are not being updated, and some pages were left blank during document alignment.
- 2) General note – presentation of figures and alignment is distorted and 'Total' rows not properly underlined. Specific reference is being made to the following:
 1. Table of Contents – alignment of figures
 2. Statement of Financial Position – alignment of figures
 3. Statement of Changes in Equity – underlining of totals missing
 4. Note 3 – Funds Received from Central Government (overlapping figures of 2016 on top of the current year figures)
 5. Note 6 – Profit for the year – excessive spacing
 6. Note 8 – Repairs and Upkeep – alignment of figures
 7. Note 11 – Property, Plant and Equipment (2017 table)
 - Depreciation balances do not include brackets
 - Nil balances columns left blank
 - Depreciation rates and Assets classes not properly aligned
 - Part of the 2016 comparative table included in the same page as the 2017 comparative
 - 2016 comparative table – alignment issues and Nil balances were left blank.
 8. Notes 12-17 – alignment of figures and excessive spacing
 9. Note 20 – alignment of figures
 10. Note 22 – excessive spacing
- 3) Statement of Financial Position – Note 11. Figures to be updated due to casting errors noted (see below).
- 4) Statement of Financial Position – Total assets and Total Reserves and Liabilities should read €835,799, not €835,798. Furthermore, figure total is to be updated following the proposed audit adjustments.
- 5) Statement of Changes in Equity – Total comprehensive profit for the year under the Total Earnings column should equate to €17,703, not €17,171. Furthermore, total Earnings as at 31.12.2017 should equal €579,848, not €479,316.
- 6) Statement of Cashflows – Note 12 should be changed to "Note 11". Furthermore, as per Note 11, additions of Property, Plant and Equipment total to €43,591, not €44,813. Furthermore, the Cashflow statement is to be updated following updates from the proposed audit adjustments.
- 7) Note 5 – General Income. Other general income for 2016 should read €1,724, not €1,725; casting error of €1.
- 8) Note 8 – Contractual Services. Total for 2017 should read €77,035, not €73,035.
- 9) Note 9 – Administration and other Expenses. The 2016 comparative for Utilities should read €5,536, not €5,535; casting error of €1.
- 10) Note 11 – Property, Plant and Equipment (2017 Comparatives)
 1. Total cost as at 01.01.2017 should read €1,875,154, not €1,875,153; casting error of €1.
 2. Additions for 2017 should read €45,054, not €45,053; casting error of €1.
 3. Total cost as at 31.12.2017 should read €1,918,746, not €1,918,744; casting error of €2.

4. Depreciation as at 01.01.2017 should read €759,921, not €760,101. This balance does not tie up to the 2016 comparative; difference of €180.
 5. Total depreciation as at 31.12.2017 should read €814,083, not €814,263.
 6. New Street Signs – total depreciation as at 31.12.2017 should read (€14,908), not left blank.
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- 11) Note 11 – Property, Plant and Equipment (2016 Comparatives)
 1. Depreciation charge for 2016 should read €55,573, not €55,753.
 2. Total depreciation as at 31.12.2016 should read €759,921, not €760,101.
 - 12) Note 14 – Trade and other receivables. 2016 comparative total should read €25,912, not €25,913; casting error of €1.
 - 13) Note 16 – Deferred Income. Non-current deferred income for 2017 as per Statement of Financial Position reads €148,727, while the total as per the Note amounts to €148,726; difference of €1.
 - 14) Note 17 – Trade and Other payables. Total for 2017 as per Statement of Financial Position reads €107,224, while the total as per the Note amounts to €108,965; difference of €1,741.
 - 15) Note 22 – Financial Risk Management. Total for 2017 should amount to €6,593, not €6,583; difference of €10.

Issues Arising

The Financial Statements and Trial Balance should be in agreement at all times to ensure that there is an exact correlation between the final trial balance in the general ledger of the Council and the financials being presented in the annual financial report.

Additionally, casting errors and misstatements in the financial statements creates difficulties in understanding the results being portrayed in the Financial Statements.

Recommendations

The Council should ensure that the accounts ledger is up to date and correct prior to reflecting this in the financial statements and any adjustments undertaken need to be reflected in both accounts ledger and financial statements simultaneously in order to avoid variances arising. Following our recommendations as noted above, the Council has reflected the necessary changes in the adjusted financial statements.