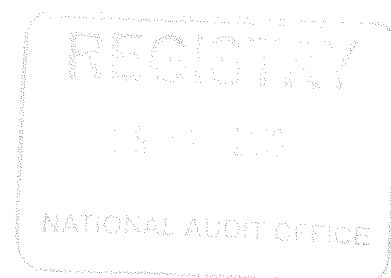
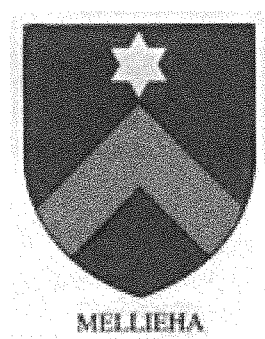


LOCAL COUNCIL MELLIEHA

Report to Management
for the financial year ended 31 December 2015



24th May 2016

The Mayor
LOCAL COUNCIL MELLIEHA
126
New Mill Street
MELLIEHA

Dear Sir,

REPORT TO MANAGEMENT

As you are well aware, our firm has been reappointed 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.

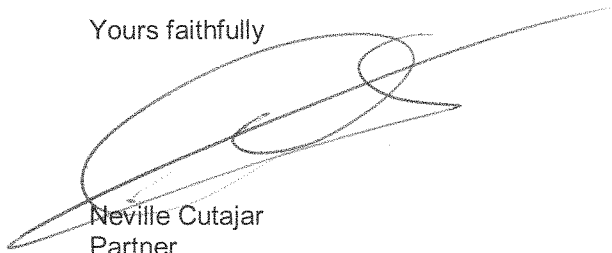
For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

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 this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

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

Yours faithfully

A handwritten signature in dark ink, consisting of a large, sweeping loop followed by a smaller, more intricate flourish.

Neville Cutajar
Partner

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

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. Income raised under Local Council Bye-Laws

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. LES Post Regional 10% Commission

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

1.4. System of Council Income Receipting and Invoices

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

1.5. Leave Request Forms

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

1.6. Procurement Procedures

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

1.7. Inappropriate Expenditure Documentation

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

1.8. Procurement of Street Lighting

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

1.9. Membership fees

The Council has addressed the matter during the year.

1.10. Jum il-Lokal Expenses

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.34.1 of our management report.

1.11. Reconciliation of the Fixed Asset Register and the Nominal Ledger

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

1.12. Insurance Policy

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

1.13. Accrued Expenditure and Payables

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

1.14. Accounting for Government Grants and Deferred 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.

1.15. Amount payable to supplier under the PPP agreement

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

1.16. Trade Payables

The Council has addressed the matter during the year.

1.17. Contingent Liabilities Disclosure

The Council has addressed the matter during the year.

1.18. Disclosures required in respect of Financial Procedures

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

1.19. Disclosures required in respect of certain IFRS

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

1.20. Financial Statements presentation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 8.3 of our management report.

1.21. Council Minutes and Schedule of Payments

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

1.22. Comparison with the Annual Budget

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

2. INCOME

2.1. Local Enforcement System

Observations

The Council has two revenue streams emanating from the Local Enforcement System (LES). In note 6 to the financial statements, the Council is recognising the amount of €9,000 as income received from contraventions. Receipts from contraventions for fines pertaining to post-region (1st September 2011 and after) were being appropriately transferred to the respective Regional Committees whereas receipts for paid fines pre-region (31st August 2011 and before), are deposited in the Council's bank accounts. Furthermore, the Council was collecting a 10% administrative fee on fines collected (post-region) on behalf of the Regional Committees/LESA.

One also has to note that the Joint Committee function ended in August 2011 in view that from September 2011 the Local Enforcement System was delegated to Regional Committees, which delegation has now been passed to LESA as from October 2015.

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 2015. During the year under review, the Council has been correctly recording any cash receipts received by the Joint Committee, as well as making the distinction between LES pooling and pre-pooling receipts. Income received in relation to the former amounted to € 862.

During the period, the Council charged the Regional Committees the amount of €7,589.48 with respect to administrative fees on contraventions collected for the period January to December 2015. As per the Financial Report 483 – Post Regional, the Council should have invoiced the Regional Committees the amount of €8,263.67 in view of the following:

- August 2015 South Region Invoice posted erroneously in account 0038 amounting to €85.01
- All Regions invoices for December 2015 posted erroneously after year end, amounting to €548.53

Issues Arising

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 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.

Furthermore, IAS 18-Revenue Recognition requires that income should be recognised when it arises rather than when it is actually received. During the year the Council did not account properly for December invoices issued leading to an understatement of €548.53. Following our proposed audit adjustments, the Council adjusted the Financial Statements accordingly in this regard.

Recommendations

The Council should put pressure on the North Joint Committee so that the latter would produce the required financial reports outstanding and the Council could then factor any accounting provisions as the case may be in its annual financial statements.

The Council should carry out the necessary reconciliations in order to determine that the amounts reported in the financial statements tally with the reports issued. At the end of each month, a reconciliation procedure should be undertaken in respect of each Regional Committee. The LES income received by the Council in relation to Pre-Region adjudicated contraventions, which have not yet been remitted to the Regional Committees, should be accounted for separately from the

10% administration income received by the Council in view of the 10% administrative fees arising on collection of post Regional contraventions.

2.2. Income raised under Local Council Bye-Laws

Observations

Upon our analysis of the nominal ledger account 0124, it transpired that €1,946.46 included in the Financial Statements under Bye-Law – Attivitajiet fil-Berah, should be reclassified to Income from Permits. This income category should also be reclassified under Income raised from Bye-Laws

Issues Arising

All income which falls under a bye law needs to be recognised accordingly and appropriately in the financial statements.

Recommendations

The Council should ensure that proper accounting and disclosure should be undertaken in the Councils' nominal ledger, as well as recognised separately in the Financial Statements. Following our recommendation to adjust the Financial Statements, the Council adjusted these accordingly.

2.3. Supplementary Government income

Observations

The Department of Local Councils (DLG) once again in 2015 has committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd.

Logistically the DLG is making the payments directly to Wasteserv Malta Ltd on behalf of the Council. Recurrent vote 40 in the budget 2016 of the Ministry for Justice, Culture and Local Government confirms the commitment by the DLG to effect other payments in 2016. The Council has accounted for such income on a cash basis and thus the income is only recognised in the accounting period when the DLG issues the payments.

Issues Arising

During 2015 the DLG has effected payments of €41,340 to Wasteserv Malta Ltd covering the 2014 tipping fees difference.

However payments by the DLG to Wasteserv Malta Ltd covering the 2015 tipping fees difference of €51,265 has not been made by end of 2015 and this has been omitted from being reported as supplementary government income in the financial statements of 2015.

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

Recommendations

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

3. PERSONAL EMOLUMENTS

3.1. Payroll workings shortcomings

Observations

The following payroll shortcomings were noticed:

It has been identified that the performance bonus of the Executive Secretary, amounting to €2842 was not accrued for.

It has also been identified that Mr Stephen Borg, who is a person assigned by the Department of Local Councils has been granted a 6% performance bonus. This expenditure was recognised under General & Administrative Expenses in the financial statements.

Issues Arising

The remuneration of the Executive Secretary should be recognized in full in view that the performance bonus related to 2015 even if this performance bonus was actually paid in January 2016 and included in the FSS forms of that month. A proper reconciliation should then be provided to reconcile the differences between the amounts as per FSS documentation and those as per nominal ledger.

The Council is not entitled to pay performance bonuses in this regard without an official directive by the Department. It is also imperative that such performance bonus is duly declared as employment income and reflected in the FSS documentation submitted to Inland Revenue.

Recommendations

The Council should ensure that all salaries inclusive of performance bonuses are duly recognized as they arise and in line with requirements of the Local Councils Regulations (Human Resources) and duly declared in line with the requirement of the FSS Regulations.

4. EXPENDITURE

4.1. Procurement Procedures

Observations

The Council abides with all tendering procedures when the amount of any expenditure exceeds €4,659. From the tenders reviewed the only minor shortcoming which was noticed, was that the signed tender form of Daniel Galea, with respect of the tender offer for the services of an Accountant, did not include the bid bond amount which was included with the tender offer.

In addition we noted to circumstances where the Council had procured or paid for expenditure amounting to more than €1,165 or purchased items from the same supplier within a consecutive four-month period and no call for quotations or public tender offers were issued, as follows:

Supplier	Expense	Aggregate amount in €	
TCTC	Computer courses	2,300.00	Services rendered Feb '15 / Jul '15
In Media Marketing	Provision of filming and related activities	3,599.00	Aug 2014 / Dec 2014 / Feb 15
Imperial Band Club	Provision of musical services	2,300.00	Mar / June / Aug / Sep 15
Societa Filarmonika La Vittoria	Provision of musical services	2,300.00	Apr / June / July / Sep 15

Issues Arising

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

Recommendations

The Council should issue calls for quotation or a tender for the provision of any service or supply of goods exceeding €1,165. Alternatively it should place its orders with different suppliers and therefore abide with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996

4.2. Approval of Payments

Observations

The following payments were made during the year under review prior to these being approved in a Local Council meeting as follows

- Payment to MITA, for the amount of € 445.16, for the supply of Office Pro Plus 2013 – The payment had to be prepared for MITA to be able to supply the Council with Office 2013 which was urgently needed for an office PC
- Payment to Directorate for Lifelong Learning, for the amount of € 629.24 – There was a deadline in respect of this payment
- Payment to Eco Pure Ltd for the amount of € 425 – The Council had finished its previous consignment and the company asked for the payment first before they could supply the Council with table water.

Issues Arising

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

Recommendations

The Council should ensure that as much as possible all such payments to such suppliers are first approved and sanctioned by Council prior to these being settled.

4.3. Jum il-Lokal Expenses

Observations

The Council incurred expenditure amounting to €5,779.24 in respect of Jum il-Lokal, thus exceeding the allowed threshold as per Memo 122/2010 by €557.80.

Issues Arising

Memo 122/2010 states that expenditure with respect of Jum il-Lokal should not exceed € 3,500 or 0.5% of the Government Annual Allocation, whichever is the higher.

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.

4.4. Procurement for Maintenance of Street Lighting

Observations

During the year under review an amount of €19,291.57 was procured as service of installation and maintenance of street lighting under the terms of a contract which is expired. No new tender was adjudicated as Council is expecting that such service will be formally taken over by the Regional Committee.

Issues Arising

Memo 34/2013 requires the issue of street lighting services tender for a full year with the possibility that such contract can be extended for a maximum of three years.

The current situation of the Council's street lighting contract is in breach of the procurement procedures. These clearly state that adjudicated contracts shall remain valid for the contract period stipulated by the tender/quote offer and once expired a new tender/quote offer is to be issued.

Recommendations

The Council should follow the recommendations of Memo 34/2013 and initiate the process for issuing a tender to cover street lighting expenditure. The Council should also comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensure that all tender offers considered have their documentation fully in line with the procurement and tendering requirements.

4.5. Donations in Kind

Observations

The Council has purchased loudspeakers amounting to Euro 1,150 for the benefit of the Mellieha Primary School which expenditure has been included under Community Services.

There was no basis for this expenditure except for the explanation that the School Council Hall is used by NGOs in Mellieha and sometimes by the Council itself.

Issues Arising

We sympathise with the fact that a Local Council has to fulfil its social and cultural obligations, however this does not exonerate the Council from abiding with the laws and regulations, with special reference to article 63A of the Local Councils Act, Memo 08/2005 and the Local Councils Procedures (Tenders) 1996, which request the Council to be more considerate in the manner of how it distributes its resources to organisations within the locality.

Recommendations

The Council should take note that unless specifically allowed by regulations or Memos, all donations, whether in cash or in kind are prohibited altogether and therefore the Council should not provide any further donations of this kind.

5. PROPERTY, PLANT AND EQUIPMENT

5.1. Reconciliation of the Fixed Asset Register and Nominal Ledger

Observations

The Councils' Fixed Asset Register (FAR) has the following variances arising in the fixed asset categories between the FAR and the Financial Statements:

Asset Category	As per FAR	As per Financial Statements	Variance	Comments
	€	€	€	
Special Programmes	7,494,484.53	8,545,438	-(1,050,953.47)	Variance arising in cost
Plant, machinery & equipment	31,360.89	33,863	(2,502.11)	Variance arising in depreciation
New Street Signs	76,623.85	73,322	3,301.85	Variance arising in cost
Urban Improvements & Construction	394,729.21	398,031	(3,301.79)	Variance arising in cost

The variance of Euro 1,050,853.47 in the cost of Special Programmes needs to be offset with capital grants amounting to Euro 1,351,898 which had been deducted directly from the cost of the assets.

Given that depreciation is being calculated through the FAR incorporated within Sage Pastel Evolution® accounting software, the above variances arising in the cost of the assets may lead to an incorrect depreciation provision being calculated and recognised in the financial statements.

Issues arising

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

Recommendations

The Council should reconcile and adjust the amounts as per FAR and nominal ledger and reallocate the balances from one asset category to another as required.

5.2. Insurance Policy

Observations

We noticed that the Council is not properly insured in different categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council's furniture and fittings for the amount of € 54,310, computer and office equipment amounting to € 28,000, Council premises amounting to € 341,759 as well as and "property in the open" for € 3,149,544.

The Council's total cost of fixed assets, excluding amounts not yet capitalised and land, as disclosed in its financial statements amount to € 9,785,198 of which € 160,961 relates to furniture and fittings, € 39,222 relates to office and computer equipment and machinery, € 568,224 relates to property, € 398,031 relates to urban improvements & construction and € 8,545,438 relates to Special Programmes and Projects.

Issues Arising

Although the Council's insurance policy in respect of assets insured is being reviewed on an annual basis, over and under insurance in different categories of property, plant and equipment is still arising.

Recommendations

The Council has reviewed its insurance policy during the year under review. We suggest that this exercise is kept and improved to avoid unnecessary over and under insurance cover for each respective applicable asset categories and to ensure that the Council is properly insured.

6. RECEIVABLES

6.1. Accrued income and prepaid expenses

Observations

Accrued income and prepaid expenses were not fully recognised in the financial statements. The Council over accrued the following:

- €39.65 in respect of bank interest.
- €60.01 in respect of On-line Streaming Agreement where the prepayment was calculated for the period 01/01/2016 – 30/09/2016 instead of 01/01/2016 – 31/07/2016.

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for all accrued income and prepayments correctly and completely.

Recommendations

The Council needs to make a proper assessment of its accrued income at the end of every financial reporting period and appropriately reflect these in the financial statements. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified accordingly.

7. PAYABLES

7.1. Accrued Expenditure and Payables Cut-off Errors

Observations

From our review of the accruals accounted for by the Council as at year end, the Council failed to accrue for the Performance Bonus of €2,842.27 of the Executive Secretary.

We also noted that an amount of €386.99 payable to Paramount Coaches as well as €380 payable to Mr Saviour Caruana were recorded as an accrual however, the invoices were dated in 2015 and should have therefore been recognised as a trade payable.

Furthermore an invoice by Paul Camilleri in relation to Projections undertaken for MLC New Year Eve Celebrations 2014/2015 which was dated 29.12.2014 was included in the nominal ledger dated 1.1.2015.

In addition the Council has failed to account for an invoice issued by Melita plc in relation to internet supply at Gnien Dun Anton Debono which invoice was dated 01.12.15 and amounted to €19.99.

Issues Arising

A clear distinction should be made between invoices to be recorded in the actual creditors' control account and accounting estimates in the form of accruals. All invoices arising during the year should be properly posted and included as creditors if payment is not yet affected. Furthermore, in line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely.

This kind of errors and omissions suggest also that the Council is not regularly reconciling the creditors' ledger individual balances to the supplier statements. Besides not being in line with generally accounting practice, the Council is also breaching the guidelines of the various memos on the matter issued by the Department from time to time.

Recommendations

The Council should ensure 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. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified accordingly.

7.2. Accounting for Government Grants and Deferred Income

Observations

The Council received a number of government grants in respect of the capital projects which have been undertaken during the year under review. The grants workings provided by the Council show a Current Liability of €172,223.12 and a Non-Current Liability of €1,631,827. However, the Financial Statements show a Current Liability of €170,641 and a Non-Current Liability of €1,685,596, leaving a variance of €1,582.

We noted various discrepancies between the grant workings as provided by the Council on which the release to the income statement has been computed and the nominal accounts in Trial Balance as at 31.12.15 as follows:

Grant	LC workings	Trial Balance	Variance
Gammieh Short Term	2,056.20	18,256.51	-16,200.31
Special Funds (LT)	137,605.33	121,402.02	16,203.31
EAFRD Paying Agency	835,666.47	887,854.19	-52,187.72

Our review have shown that various misstatements were reflected in both the government grants workings provided as well as in the book of accounts. For example, the Special Funds Grants grants received by the Council amount to €150,607 however the release on these grants has been calculated based on an amount of €166,811. Therefore, it transpired that the portion of the grant released to the Income Statement in this regard was incorrect.

Additionally, certain grants were recognised incorrectly on initial recognition such as the case of grants provided for Xehda open space - Hidmet Volontarjat capital works for which the Council recognised €203,706.60 whilst the Council has received 218,452 as grants related to these works.

We also noted circumstances whereby the release of deferred income was commenced from a different date to that where the related asset for which the grant relates has been capitalised, leading in an inconsistent and incorrect release to the Income Statement.

Issues arising

Please note that grants should be calculated and reflected in the accounts appropriately. Due care should be given to that amounts recognised as grant, released during the year and disclosed as Non-Current and Current Liability in the Financial Statements. In view of the pervasive deficiencies and misstatements noted in this regard, we have qualified our audit report.

Recommendations

The Council should properly recognise government grants in line with the income approach as per the requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance as well as properly recognise deferred income and release thereof based on grants received or receivable by the Council in respect to capital expenditure incurred.

7.3. Amounts payable to supplier under the PPP agreement

Observations

The Council has in 2011 availed of the PPP scheme launched through Memo 45 of 2010. Through this scheme, the Council has entered into a contract whereby the contractor has undertaken road resurfacing works amounting to €367,846 in 2011, being Phase 1 of the project and € 350,734 in 2012, being Phase 2 of the project. 80% of the amount under Phase 1 (€294,277) and 75% of the amount under Phase 2 (€263,051) have been settled by end of the year under review, with the balance to be paid in varying percentages over the next six years (in respect of Phase 1) and over seven years (in respect of Phase 2).

The Council's list of creditors show that the amount payable to the contractor has been fully settled. Furthermore it has recognised in the Financial Statements a Non-Current Liability of €99,891 in this respect due to the contractor as well as disclosed that the total amount due and payable up to 2019 (inclusive of interest) amounts to Euro 124,875.

From the workings provided by the Council, it transpires that the amount payable has been discounted, however the calculations undertaken were not properly derived. Based on the agreement, the calculations should have resulted in a total liability of €129,301.70 as at year end, being €24,988 recognised as a current liability, while €104,313.7 recognised as a Non-Current liability.

Issues Arising

IAS 39- Financial Instruments: Recognition & Measurement requires that such loans and receivables are accounted for at amortised cost. This entails that after initial recognition this liability is measured at amortised cost using the effective interest method, less provision for any impairment. In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital. Whilst we have noted that the Council has tried to account for this transaction in line with the requirements of this standard, we could not reconcile the workings provided with the amounts as per nominal ledger and we were not provided with any explanations on the variances raised according to our calculations. In this regard, we have qualified our audit report.

Recommendations

The Council should correctly apply the requirements of IAS 39 in relation to any financial assets or liabilities and that these be recognised, measured and disclosed appropriately. It should also undertake a revision of the amounts due to the supplier and revise them accordingly. Proper

workings should be prepared to reflect this which workings should be linked and agree to the transactions undertaken within the nominal ledger accounts.

8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

8.1. Disclosures required in respect of Financial Procedures

Observations

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

Issues Arising

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

8.2. Disclosures required in respect of certain IFRS

Observations

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

Amongst other things, omissions were noticed in relation to a number of disclosures, as follows:

- Lack of proper accounting and disclosure emanating from IAS 39-Recognition and Measurement in relation to the accounting and disclosure of the liability accounted for using amortised cost in relation to the PPP scheme;
- 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.

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

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

8.3. Financial Statements presentation

During our review of the financial statements we noted the following areas which needed attention:

- Statement of Cash Flows, page 7 – Receipt of Grant for 2014 reads €275,497 while that in Note 19 reads €218,455.
- Notes to the Financial Statements, Note 2 – The accounting policy for Local Enforcement System needs to be updated.
- In Note 11 and Note 13– Depreciation reads €719,763, while that in the Statement of Cash Flows and in Note 8 it reads €719,764. The amount does not agree by €1.
- Notes to the Financial Statements, Note 11 – Current figures cast to €909,968 and not €909,971.

9. GENERAL

9.1. Council Minutes and Schedule of Payments

Observations

We have confirmed that the Council's Minutes and Schedule of Payments are being uploaded on the website www.lc.gov.mt within the prescribed timeframes. However not all the minutes being uploaded are duly signed. The Schedule of Payments uploaded on the website were also not signed by the Mayor/Chairman and the Executive Secretary

Issues Arising

Memo 89/2010 requires the Executive Secretary to publish the minutes and the schedule of payments within 2 days of approval. The publishing of the schedule of payments was further regulated in Memo 102/2010. It is important that the minutes which are approved and signed (the originals) are published.

Recommendations

The Council should adhere to the requirements of these Memos and publish all minutes and schedule of payments fully updated and signed within the prescribed timeframe.

9.2. Comparison with Annual Budget

Observations

During our review of the annual budget 2015, it was noted that some expenditure incurred in 2015 was significantly higher when compared to the budgeted amount. The variances identified are presented in the following table:

	Budget	Actual	Variance	% Variance
	€	€	€	
<u>Operations and Maintenance</u>				
Street Lighting	9,000	19,292	10,292	114%
Refuse Collection	120,000	161,933	41,933	35%

Issues Arising

Whilst we appreciate that the Council compiles the annual budget with due care and diligence to use it as the basis on which its expenditure will be expended during the year as well as a tool of cost control any projected variances should be adjusted at least on a quarterly basis to ensure that

the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure in other expense categories or increase in income received for that year.

Recommendations

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

9.3. Opening Balances

Observations

The opening balances of the Council's nominal ledger were not in agreement with the approved and audited Financial Statements for the year ended 31 December 2014. Variances have arisen in items of the Non-Current and Current Liabilities and items of Property, Plant and Equipment.

Issues arising

Liabilities and Property, Plant & Equipment amounts in the financial statements are misstated due to the opening balances being incorrect. Distortions in the opening balances of a reporting period would 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 provide it with 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.