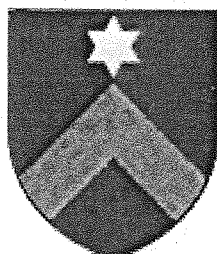


LOCAL COUNCIL MELLIEHA

Report to Management
for the financial year ended 31 December 2016



MELLIEHA





3a

MALTA

3rd May 2017

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 2016, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

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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 large, stylized handwritten signature in dark ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Neville Cutajar
Partner

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

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

1.2. Income Raised under Local Council Bye-Laws

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

1.3. Supplementary Government income

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

1.4. Payroll Workings Shortcomings

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

1.5. Procurement Procedures

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

1.6. Approval of Payments

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

1.7. Jum il-Lokal expenses

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

1.8. Procurement for Maintenance of Street Lightning

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

1.9. Donations in Kind

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

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

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

1.11. Insurance Policy

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

1.12. Accrued income and prepaid expenses

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

1.13. Accrued expenditure and payables cut-off errors

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

1.14. Accounting for Government Grants and Deferred Income

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.3 of our management report.

1.15. Amount payable to supplier under the PPP agreement

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 9.4 of our management report.

1.16. Disclosures required in respect of Financial Procedures

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

1.17. Disclosures required in respect of certain IFRS

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

1.18. Financial Statements presentation

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

1.19. Council Minutes and Schedule of Payments

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.1 of our management report.

1.20. Comparison with the Annual Budget

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

2. INCOME

2.1. Local Enforcement System Pre-Regional

Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31 December 2016. 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 €684.70.

One also has to note that the Joint Committee function ended in August 2011 as from September 2011 the Local Enforcement System was delegated to Regional Committees and then to the Local Enforcement System Agency (LESA). Whilst the Council in 2016 reported income of €684.70 arising from Pre-Region contraventions, the income as per report 483 Pre-Regional amounted to €722.02.

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.

Although the difference with the LES report is considered to be immaterial, it implies that the Council is not preparing adequate reconciliation with the LES reports.

Recommendations

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

On a regular basis reconciliation should be prepared with the LES reports. Any discrepancies should be investigated and corrective action should be taken. Such reconciliations should be kept for Council's records.

2.2. Reimbursement for administrative fees on LES fines collected

Observations

As from 1st September 2011, the Council started to receive 10% administrative reimbursement for LES fines collected on behalf of the Regional Committees. This reimbursement has to be invoiced by the Council on a monthly basis.

During the year under review, the Council charged the Regional Committees the amount of €9,318.44 with respect to administrative fees on contraventions collected for the period January to December 2016. As per the Financial Report 483 – Post Regional, the Council should have invoiced the Regional Committees the amount of €9,154.21 as follows:

- Post-regional contraventions amounting to €495.87,
- LESA contraventions amounting to €8,658.34

Issues Arising

These variances may imply that this particular income is not being correctly invoiced to the respective Regional Committees/LESA in line with the provisions of Memos 91/11 and 93/11. Furthermore, it is of utmost importance that all invoices issued to the regional committees are appropriately accounted for in the accounts and accordingly reflected in the financial statements. Following our proposed audit adjustments, the Council adjusted the Financial Statements accordingly in this regard.

Recommendations

The Council should ensure that besides issuing regular invoices to the Regional Committees and LESAs, the invoices subsequently posted to the Council's debtors' ledger day book, should be regularly reconciled with report 483 of the LES reporting system. Any variances should be analysed and remedied accordingly.

2.3. Inadequate invoice details

Observations

During our income testing we noticed an instance where a supporting invoice requested and provided by the Local Council did not bear any details as to what the transaction relates to.

Issues Arising

An invoice of €232 has been issued on 29.08.2016 (Ref 5321) and has been recorded within 'Income from Permits'; however, this invoice does not bear any service description details as to what the nature of this transaction relates to.

Recommendations

The Councils should ensure that invoicing is issued properly detailing the nature of the income, the persons/entity from whom the income is arising and such other details pertinent to reflect the transaction.

2.4. Reclassification of Income released from Grants

Observations

During our grants release testing we noticed that the release of government grants during the year were being recorded within the 'Community Services' nominal account, rather than within an account related to the release of such grants during the year.

Issues Arising

While we understand that the net effect on the financial statements will be nil, such income should be properly classified and comparable within the trial balance for reconciliation purposes.

Recommendations

In furtherance to the latter, we recommend that going forward a separate nominal account is opened specifically for such grants.

3. PERSONAL EMOLUMENTS

3.1. FS7 and FS5 reconciliations

Observations

When we analysed the FSS documentation submitted with the Inland Revenue Department, the values as submitted in the FS5s of 2016 varied from those submitted in the FS7 of 2016. The following variances were identified.

	Gross salaries full-time	Final Settlement System
	€	
Totals as per FS5	122,506	13,460
Totals as per FS7	122,561	13,471
Variance	55	11

Issues Arising

The total of the monthly FS5s and the FS3s should always agree with those of the FS7 so that when the latter is submitted there will be no under or over-payment of Social Security Contributions of Final Settlement System.

Recommendations

The Council should ensure that it checks the annual FSS documentation thoroughly before submitting it to the Inland Revenue Department and that the postings in the nominal ledger properly reconcile with the said documents. We also recommend that the Council ensures that the correct amount has been settled with Inland Revenue in respect of NI/FSS due for 2016.

3.2. Disclosure of Executive Secretary's Remuneration

Observations

We noted that the honoraria for the Executive Secretary for the year, taking into account the adjustment in relation to the 2015 and 2016 Performance Bonuses, should have been disclosed at €32,977.28. As per Note 9 to the Financial Statements, this is being disclosed as €32,906 which reflects the amount recorded in the FS3 document.

Issues Arising

The remuneration of the Executive Secretary should be disclosed properly and a proper reconciliation should be prepared to reconcile the differences between the amounts as per FSS documentation and those as per nominal ledger.

Recommendations

The Council should ensure that the disclosure of the relevant salaries expenditure properly split should be undertaken and such disclosure should be correct so that not to mislead users of the Council's financial statements.

4. EXPENDITURE

4.1. Jum il-Lokal Expenses

Observations

The Council incurred expenditure amounting to €6,585.46 in respect of Jum il-Lokal, thus exceeding the allowed threshold as per Memo 122/2010 by €1,241.26.

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, whichever is the higher. 0.5% of the DLG allocation for the year equates to €5,344.21; hence, as aforementioned in the paragraph above, the threshold has been exceeded.

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.

4.2. Procurement for Maintenance of Street Lighting

Observations

During the year under review an amount of €14,348.74 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.

4.3. Donations

Observations

We noted that several donations, including donations in kind, have been made during the year in support of specific events or for other purposes.

Specific examples noted include the following:

1. Festa tal- Qara Ahmar – a contribution of €400 has been forwarded in respect of this activity.
2. Books and CDs valued at €29 have been donated as part of promotional material to the American Ambassador and staff who visited the locality during the year.

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.

4.4. Expenditure incurred on Social/Cultural Events

Observations

During the year under review, the local council was involved in the organisation of several social events including “Iljieli Melliehin”, “Festa San Gwann tal- Hgejjeg”, and also “Milied Melliehi”. When analysing the flows of income and expenditure from these activities, we noted the following results:

1. Iljieli Mellehin – a net expenditure of €27,883.16 was incurred (Income generated amounted to €10,920, while expenditure incurred amounted to €38,803.16);
2. Milied Melliehi – an expenditure of €17,217.71 was incurred; and
3. Festa San Pawl tal- Hgejjeg – an expenditure of €5,237.94 was incurred.

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 being more considerate in the manner of how it distributes its public funds for such activities, which in total amounted to €50,338.81.

Recommendations

Going forward, the Council should take note to minimise the costs relating to such events; ensuring that such cost savings can be applied for other important projects such as road maintenance and other capital projects.

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
	€	€	€
Special Programmes (accumulated depreciation)	4,395,282.20	3,429,248	966,034.20
Urban Improvements & construction (cost)	535,259.83	538,562	(3,302.17)
Urban Improvements & construction (accumulated depreciation)	533,312.09	534,190	(877.91)
New Street signs (cost)	76,623.85	73,322	3,301.85
New Street signs (accumulated depreciation)	76,623.85	73,322	3,301.85
Plant, Machinery and equipment (accumulated depreciation)	33,343.34	35,845	(2,501.66)

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 as disclosed in its financial statements amount to € 9,952,902 of which € 169,109 relates to furniture and fittings, € 40,225 relates to office and computer equipment and machinery, € 568,224 relates to property, € 538,562 relates to urban improvements & construction, € 73,322 relates to street signs and € 8,563,460 relates to Special Programmes and Projects.

Issues Arising

Although the Council's insurance policy in respect of assets insured is reviewed on an annual basis, 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.

5.3. Assets not yet Capitalised Reconciliation

Observations

We noted a discrepancy of €188 between the assets not yet capitalised figure denoted in the financial statements, and the list forwarded to us by the council.

Issues Arising

IAS 16 – Property, Plant and Equipment, states that an asset is only capitalised when it is completed and at the point when its economic useful life begins. Since the project is not yet completed, the amounts spent should have been included under the category of assets not yet capitalised.

Recommendations

Although not material, the Council should take note in maintaining a reconciled list throughout the year, the balance of which is in agreement to the financial statements, and any assets completed during the year duly re-classified in their respective classes.

5.4. Capital Expenditure vs Revenue Expenditure

Observations

Instances were identified where expenditure of a capital nature was recorded as expenditure of a revenue nature as follows:

- Purchase of whiteboard (€171.10) accounted for as maintenance expenditure in nominal code 2210 (Operating Materials) instead of Furniture & Fittings.
- Cordless drill (€155) accounted for as maintenance expenditure in nominal code 2210 (Operating Materials) instead of Plant & Machinery.

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. In this regard audit adjustments were proposed, which the Council has taken up accordingly.

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.

5.5. Capital Commitments

Observations

During our review of the financial statements, it was noticed that the capital commitments note does not agree with the capital expenditure stated in the Annual Budget 2017.

Issues Arising

The capital commitments figure denoted in the financial statements for the year amounts to €396,400, whereas the budgeted figure for 2017 stands at €1,030,381; a material difference of €633,981.

Recommendations

The Council should assess the level of capital commitments and properly disclose these within its financial statements as well as ensure that all other reports issued by the Council, such as the Budget, tallies with the reported capital commitments to ensure consistency in reporting.

6. INVENTORIES

6.1. Valuation of Stock of books and CDs

Observations

In note 14 to the financial statements, the Council has recognised the amount of €11,699 as stock of books and CDs. During our physical testing on site, a variance was noted between the stock list provided and the actual number of books and CDs counted on site. This variance resulted in stock as at year end being overstated by the amount of €387.21

Issues Arising

Inventories should be valued at the lower of cost and net realisable value in terms of IAS 2 - Inventories.

The Council is not maintaining a proper inventory system in terms of the Local Councils Procedures. Proper updates of the stock amounts need to be undertaken on a monthly basis, which movements will then need to be reflected in the books of accounts. It should also be noted that stock donated should also be reflected in the books of accounts and such donations should be undertaken with the explicit approval of the Council.

Recommendations

The Council should ensure that a perpetual inventory control system is properly maintained to individually record the amounts of books being sold by entering the corresponding official Council receipt number. Any books given on a complimentary basis should be approved during a Council meeting. These should also be recorded in the perpetual inventory control system and reference should be made to the Council meeting number approving the distribution thereof.

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

7. RECEIVABLES

7.1. LES amount receivable

Observations

The Council has been recognising LES Debtors for contraventions issued up to 31st August 2011 (Pre-Regional) and against this recognising an equivalent provision for bad debts of the same amount in view that these receivables were deemed to be fully impaired. The balance brought forward in this regard, both in relation to LES Debtors and the equivalent provision for bad debts amounted to €18,819.

During the year under review however both LES Debtors balance as well as the equivalent provision for bad debts have been increased to amount to €118,923 as at year end.

The Council has explained that this amount reflects LES Debtors for contraventions incurred in the Mellieha locality transferred by the North Regional Committee, whose role was terminated and delegated to L.E.S.A as from October 2015.

These amounts agree to the LES report 483, showing contraventions adjudicated by the Tribunal up to the period in which the Joint Committee had its delegation in this respect.

Issues Arising

Whilst we understand the approach taken by the Council to reflect these as receivables in its favour albeit with a full provision against them due to the requirements of IAS 36- Impairment of Assets, given that the Joint Committee is now being dissolved, it is unclear was legal backing the Council has to prove that these receivables are attributable to the Council.

We have not been provided with any such supporting evidence and short of this, we are of the opinion that it would be prudent not to recognise any such receivables, albeit with a full bad debt provision.

Recommendations

A formal query should be raised with the necessary authorities to clarify this matter and obtain the needed legal backing so that the Council would rightfully have title to such receivables.

7.2. Accrued income and prepaid expenses

Observations

We noted an instance where accrued income was not adequately recognised in the financial statements. This relates to bank interest receivable which was over-accrued by €272.90. We also noted a discrepancy of €2,607.25 between the prepayments and accrued income workings provided by the Council and the amount as disclosed in the financial statements.

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 in the financial statements.

8. CASH AND BANK

8.1. Stale Cheques

Observations

The Council had some cheque payments recorded in its current bank account which has become stale. These cheque payments amount to €1,240.

Issues arising

The period by which these cheques should have been presented at the bank, exceeded 6 months and therefore legally they have become stale.

Recommendations

The Council should verify that such cheque payments and transactions are still valid on a regular basis and adjusts its records accordingly when such cheque payments become stale.

8.2. Petty Cash Balance

Observation

It was noted that the Council has €116.47 as petty cash in the nominal ledger and another €116.47 Euro Cash float, for a total cash in hand as at year end of €232.94. We confirmed such balance with the petty cash sheet kept by the Council. We also noted that there was a petty cash expenditure which exceeded €23.29, details of which are as follows being a petty cash purchase from Marianna Stationery for €24.43.

Issues arising

Although the petty cash sheet is being updated regularly, it is also important to note that petty cash disbursements cannot exceed €23.29 as per Local Council Procedures 1996 (Finance) – KLP 1/96 – P1.07 (b).

Recommendations

We therefore suggest that the Council abides with these procedures for all petty cash payments.

9. PAYABLES

9.1. Trade creditors

Observations

From an analysis of the trade creditors list as at 31st December 2016 it transpires that the Council is not always carrying out regular reconciliations with supplier statements. We noted the following instances where variances have arisen between the amounts as per Council's books of accounts and the amounts as per supplier statements/confirmations:

- Amounts owed to Arms – We noted a variance of €3036.44 between the amounts owed by the Council to Arms and the supplier confirmation provided by Arms.
- Amounts owed to ELC Limited – We noted a variance of €826 between the amounts owed by the Council to AELC Limited and the supplier confirmation provided by ELC Limited.

Issues Arising

The Council should perform formal checks with the suppliers on a regular basis, in order to make sure that no payments or claims are outstanding or disputed. In case were invoices or amounts due are being disputed, the Council should assess whether disclosure of such amounts is required in line with the requirements of IAS 37-Provisions, Contingent Liabilities and Contingent Assets. Where relevant, audit adjustments have been proposed which the Council has reflected accordingly in its financial statements.

Recommendations

The Council should intensify its thorough exercise of the reconciliation of its creditors after which, it should carry out the necessary adjustments, including prior period adjustments where necessary. Only such reconciliation process will provide to the Council a true and fair picture of its payables. Council should introduce procedure to obtain a statement at all times prior to issue of payments as this facilitates the reconciliation process.

9.2. Accrued expenditure and payables cut-off errors

Observations

We noted that there were some transactions relating to 2015 which were not accrued for in the previous period, and have been recorded in 2016. Specific examples include the following:

1. ARMS Ltd - €703.36. This invoice covers the period from 05.12.2015 to 24.02.2016; however, the 2015 portion had not been accrued for in 2015.
2. Mr. Anthony Caruana - €1,048. This invoice relates to services rendered relating to Christmas 2015 decorations, which has not been accrued for in 2015 and subsequently included within the 2016 accounts.

We also noted some minor errors in accrual estimates in relation to water & electricity accruals where the net amount of under accrual amount to € 120.18.

Issues Arising

The Council is obliged to ensure that all expenses are properly accounted for and recognised in the period to which they relate (accruals concept) rather than simply when they were actually incurred or invoices (cash basis).

Recommendations

The Council should prepare accounts in compliance with the "accruals concept" of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Invoices received and dated after year end should be checked carefully to determine if any amounts should be accrued for and included in the correct accounting period. Audit adjustments were proposed in this respect and these was reflected by the Council accordingly.

9.3. 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 both in previous years as well as during the year under review. The grants workings provided by the Council show a Current Liability of €155,778 and a Non-Current Liability of €1,491,212. Further to our previous year management letter comments, the Council have undertaken revisions which brought the grant workings provided in line with the amounts disclosed as per financial statements.

However certain matters arising from the previous years are still not yet resolved. For example, the Council received Special Funds Grants in relation to various construction and restoration projects, amounting to €150,607, however the release on these grants has been calculated based on an amount of €166,811. Therefore, the portion of the grant being released to the Income Statement on an annual basis in this regard is 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

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

Recommendations

The Council should undertake a reconciliation listing all grants received against capital projects in the last few years. The Council should then confirm the date when the related capital project was capitalised and ensure that grants released to Comprehensive Income Statement is commenced accordingly. Furthermore, the Council should ensure that the grants workings are based on actual grants received for each specific project.

9.4. 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. 85% of the amount under Phase 1 (€312,669) and 80% of the amount under Phase 2 (€280,587) have been settled by end of the year under review, with the balance to be paid in varying percentages over the next three years (in respect of Phase 1) and over four years (in respect of Phase 2).

The Council's list of creditors shows that the amount payable to the contractor as at year end amounts to €67,861. Furthermore, it has recognised in the Financial Statements a Non-Current Liability of €73,787 in this respect due to the contractor, bring a total liability of 141,648.

From the workings provided by 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 €152,702 as at year end, being €46,642 recognised as a current liability, while €106,060 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 are not in agreement with the Council's workings and we were not provided with any explanations on the variances raised according to our calculations.

Recommendations

The Council should correctly apply the requirements of IAS 39 in relation to any financial assets or liabilities and that these are 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 and these should be linked and agree to the transactions undertaken within the nominal ledger accounts.

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1. Disclosures required in respect of certain IFRS

Observations

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

Issues Arising

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.

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.

10.2. Financial Statements presentation

Observations

During our review of the financial statements approved on 16th February 2017, we noticed the following areas which needed attention:

- With respect to Note 13 – Property, Plant and Equipment, it is to be noted that the current year's figures (2016) should be presented first, with the (2015) comparatives to follow;
- In terms of Note 15 – Receivables, while we appreciate the fact that the trade receivables figure is stated correctly at €8,754 (2015: €9,163) this should be disclosed as Trade receivables of €16,499 (2015: €16,909) and Provision for doubtful debts of €7,745 (2015: €7,745) for disclosure purposes.

While the above have been amended by the Council, it was further noted that the date of signing of the audited financial statements, that is 3rd May 2017, was not included in Note 1 to the financial statements.

Recommendations

We recommend that financial statements are properly prepared and all necessary disclosures and adjustments are included as well as ensure that all castings agree and the amounts as per notes reconciles to the amounts included in the primary statements.

11. GENERAL

11.1. 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.

11.2. Comparison with Annual Budget

Observations

During our review of the annual budget 2016, it was noted that some expenditure incurred in 2016 was significantly different when compared to the budgeted amount. Some of the variances identified are presented in the following table:

	Budget	Actual	Variance	Variance
	€	€	€	%
Repairs and upkeep	165,400	106,526.85	(58,873.15)	-36%
Street lighting	12,000	14,348.74	2,348.74	20%
Open skips and bring-in sites	2,000	818.80	(1,181.20)	-59%
Public conveniences	78,000	49,198.12	(28,801.88)	-37%
Parks and gardens	75,000	50,989.23	(24,010.77)	-32%
Community and hospitality	112,000	138,668.49	26,668.49	24%
Office services	7,600	3,228	4,372	-58%
Travel	4,800	699	(4,101)	-85%
Information services	15,444	7,897	(7,547)	-49%
Training	7,200	2,460	(4,740)	-66%
Incidental expenses	4,200	1,899.43	(2,300.57)	-55%
Twinnings	16,032.62	1,135	(14,897.62)	-93%

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 changes 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.

11.3. 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 2015. Variances have arisen in items of the Non-Current and Current Liabilities and items of Property, Plant and Equipment.

Issues arising

These variances have arisen mainly in receivables and between short and long term payables. Whilst these variances cancel each other out, 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.