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Our Ref: NAO 107/2015/37
Your Ref:

29 May 2018

The Mayor and Executive Secretary
Mellieha Local Council
Mellieha

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2017**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2017.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,

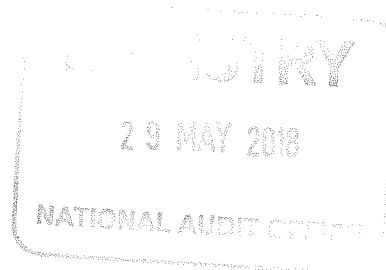
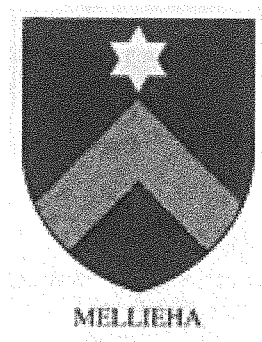


Tanya Mercieca
Asst. Auditor General

Encls.

LOCAL COUNCIL MELLIEHA

Report to Management
for the financial year ended 31 December 2017





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 2017, 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 several overlapping loops and a long horizontal stroke extending to the left.

Neville Cutajar
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT YEAR END 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. Reimbursement for administrative fees on LES fines collected

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

1.3. Inadequate invoice details

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

1.4. Reclassification of Income released from Grants

The Council has not addressed the matter during the year under review, and we therefore draw your attention to paragraph 2.5 of our management report.

1.5. FS7 and FS5 reconciliations

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.1 of our management report.

1.6. Disclosure of Executive Secretary's Remuneration

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

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 paragraph 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 paragraph 4.3 of our management report.

1.9. Donations

The Council has addressed this matter during the year under review

1.10. Expenditure incurred on Social/Cultural Events

The Council has not addressed the matter during the year under review, and we therefore draw your attention to paragraph 4.4 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 under review 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 under review and we therefore draw your attention to paragraph 5.2 of our management report.

1.13. Assets not yet capitalised reconciliation

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

1.14. Capital Expenditure vs Revenue Expenditure

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

1.15. Capital Commitments

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

1.16. 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.

1.17. Trade creditors

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

1.18. Accrued expenditure and payables cut-off errors

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

1.19. 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.

1.20. 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.

1.21. 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 10.1 of our management report.

1.22. 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.

1.23. 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.

1.24. 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.

1.25. Opening Balances

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.3 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 2017. 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. 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 2017 reported income of €263.25 arising from Pre-Regional contraventions, the income as per report 483 Pre-Regional amounted to €744.95.

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 Pre-Regional contraventions settled. In this respect, we have qualified our audit report.

Recommendations

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

2.2. 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 and by LESA, who eventually took over the system. This reimbursement has to be invoiced by the Council on a monthly basis.

During the year under review, the Council charged the Regional Committees/LESA the amount of €9,125.59 with respect to the 10% administrative fees on contraventions collected for the period January to December 2017. As per the Financial Report 483 – Post Regional, the Council should have invoiced the Regional Committees/LESA the amount of €8,949.34 as follows:

- Post-regional contraventions amounting to €322.64,
- LESA contraventions amounting to €8,626.70

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..

Recommendations

The Council should ensure that besides issuing regular invoices to the Regional Committees and LESA, 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. Further to our proposed audit adjustments, the Council adjusted the Financial Statements accordingly in this regard

2.3. Reclassification of Supplementary Government Income

Observations

During our Government Income testing, we noted that an amount of €30,773 were recorded within Supplementary Government Income, rather than Annual Government Income. The above is made up of a €10,000 allocation relating to an additional allocation in view that the locality falls under Tourism/Commercial Zones, while the remaining €20,772.63 relates to additional allocations as a result of residents increases in the locality.

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, such classes of income are allocated in their respective nominal accounts.

2.4. Income cut-off procedures

Observations

The Council has not applied proper controls to properly ensure correct cut-off recognition for its income. From tests carried out, we have encountered instances where funds for income relating to 2016 have not been recognised in that financial period but have been included within the 2017 income. Two such examples include the following:

- 2nd payment i.c.w Premju Nazzjonali ghal Appogg lill- Intrapriza 2016 - €4,000
- Financial contribution re Christmas Lights decorations along Triq il- Kbira and Triq Gorg Borg Olivier il- Mellieha during Christmas period 2016 - €2,000

Issues Arising

In this case, besides breaching the provisions of IAS 18 – Revenue Recognition, the Council has not accounted for its income on an accruals basis, but rather on a cash basis. In order for the Council to comply with the requirements of International Financial Reporting Standards, it needs to account for accrued income correctly, completely, and in the year to which it relates to.

Recommendations

Any amounts received during a particular financial year, have to be fully recorded as income in the period to which they relate rather than in the period in which they were deposited in the bank account. Appropriate reconciliations should be carried out to ensure that the income received is matched with accrued income brought forward.

2.5. Reclassification of income released from grants (deferred income)

Observations

During the year, the company received an amount of €15,163 from MTA relating to the Embellishment of steps in Triq San Publiju, Mellieha, the amount of which has been recorded in Other Government Income. The expenditure related to this capital project was duly capitalised and depreciated as from June 2017.

Issues Arising

It is to be noted that this project relates to Tender P/4/17, the amount of which has been capitalised in 2017. Such amount received therefore relates to a grant which should be accounted for in line with the requirements of IAS 20- Accounting for Government Grants and Disclosure of Government Assistance using the income approach, with an equivalent amount released to the Income Statement and the remaining balance recognised as deferred income, rather than the whole amount being treated as Other Government Income.

Recommendations

The Council should ensure that all such grants are accounted for in line with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, applying correctly the income approach. Further to our proposed audit adjustments, the Council adjusted the Financial Statements accordingly in this regard

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 2017 varied from those submitted in the FS7 of 2017. The following variances were identified.

	Gross salaries full-time	FSS	National Insurance
Totals as per FS5	153,125	18,015	20,326
Totals as per FS7	154,014	18,225	20,447
Variance	889	210	120

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 or FSS.

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 2017.

3.2. Disclosure of Executive Secretary's Remuneration and Bonus Workings

Observations

We noted that the honoraria for the Executive Secretary for the year, taking into account the adjustment in relation to the 2016 and 2017 performance bonus should have been disclosed at €33,656. As per Note 9 to the Financial Statements, this is being disclosed as €33,729.

Furthermore, when re-computing the annual bonuses applicable it was noted that the Council approved a bonus of €2,986.40, however, as per our workings the performance bonus should have amounted cumulatively to €2,788.61.

Issues Arising

The remuneration and applicable annual bonus of the Executive Secretary should be disclosed properly and the Council should ensure that the performance bonus paid to the employees should have been calculated on the last basic salary paid for December 2017.

Recommendations

The Council should ensure that the disclosure of the relevant salaries expenditure is properly split in the financial statements and such disclosure should be correct so that not to mislead users of the Council's financial statements. The Council should also ensure that all performance bonuses are properly calculated and settled in line with the relevant HR and Financial procedures.

3.3. FSS calculations discrepancies

Observations

When re-working the FSS charge for the year with the amounts paid and declared by the Local Council, it was noted that when compared to the Tax Rates for Basis Year 2017, discrepancies of €271.60, mainly arising in relation to two employees, were noted in our workings.

Issues Arising

While appreciating the fact that a number of employees have joined the Council part-way through the year, it is important to note that FSS due should be computed in such a manner as to reflect the true amounts due by such individual during the time of employment in that specific financial period.

Recommendations

The Council should ensure that it adheres to calculating FSS due by its employees and Councillors in line with the rates as stipulated by the Inland Revenue Department.

4. EXPENDITURE

4.1. Jum il-Lokal Expenses

Observations

The Council incurred expenditure amounting to €5,887.33 in respect of Jum il-Lokal, thus exceeding the allowed threshold as per Memo 122/2010 by €464.14.

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 €5,423.19; 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. Inappropriate documentation

Observations

Throughout our administrative expenditure and fixed assets additions testing, we identified several instances whereby selections were not supported by adequate supporting documentation, as well as variances between settlements made and actual amounts recorded in the accounts. Such examples include the following:

- Part-use personal vehicle – J.Helm – Ref 043-11-17 - €218.19. No fiscal receipt has been made available to the Local Council.
- Cultural events – Mr Eugenio Buhagiar – Ref 024-01-18 - €956.98. No fiscal receipt has been made available to the Local Council.
- IT Development services – App Raiser – Ref 012-09-17 - €950. No fiscal receipt has been made available to the Local Council..
- Spare parts – Multi-Net Co. Ltd – €1,032.50 – Ref PO 106934. No fiscal receipt has been made available to the Local Council.
- New Street Lighting – The Lighthouse Keepers – Inv 2094 - €259.59. No fiscal receipt has been made available to the Local Council.
- Office equipment – Multi-Net Co Ltd – PI007785 - €462.09. No fiscal receipt has been made available to the Local Council.
- Office equipment – Multi-Net Co Ltd – PI007786 - €157.49. No fiscal receipt has been made available to the Local Council.
- Computer hardware – Multi-Net Co Ltd – GRV0207 - €434.89. No fiscal receipt has been made available to the Local Council.

Issues Arising

It should be assured that all expenditure and payments by the Council should only be affected against an appropriate invoice or request for payment and where necessary, after an architect's or engineer's certification (as the case may be) is obtained. A fiscal receipt should also be obtained at all times.

Recommendations

Although it is acknowledged that the Council has always asked for a proper invoice and a VAT fiscal receipt against payment to its suppliers, it should take a proactive approach in this respect and avoids custom from suppliers not providing the referred appropriate documentation.

4.3. Procurement for Maintenance of Street Lighting

Observations

During the year under review an amount of €20,360 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 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 ensures that all tender offers considered have their documentation fully in line with the procurement and tendering requirements

4.4. Expenditure incurred on Social/Cultural Events

Observations

During the year under review, the Council, in collaboration with various other entities, organised several cultural events including Iljieli Melliehin, Milied Melliehi, as well as Festa San Gwann tal-Hgejjeg. The noted costs for these events were as follows:

- Iljieli Melliehin – Income of €5,750 and Expenditure of €22,259 – overall loss of €16,509
- Milied Melliehi – Income of €7,000 and Expenditure of €19,489 – overall loss of €12,489
- Festa San Gwann tal- Hgejjeg – Expenditure and overall loss of €4,916

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 €33,914.

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 when compared to the to the fixed asset categories as recognised in the Financial Statements:

Asset Category	As per FAR	As per Financial Statements	Variance
	€	€	€
Special Programmes (accumulated depreciation)	4,832,014.32	3,852,667	979,347.32
Special Programmes (cost)	9,137,633.49	9,138,265	(631.51)
Office furniture (accumulated depreciation)	65,797.87	65,811	(13.13)
Urban Improvements & construction (cost)	541,839.64	545,142	(3,302.36)
Urban Improvements & construction (accumulated depreciation)	540,086.67	599,947	(59,860.33)
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 (cost)	46,908.78	46,917	(8.22)
Plant, Machinery and equipment (accumulated depreciation)	35,578.28	37,921	(2,342.72)
Property (cost)	568,222.51	568,224	(1.49)

It was also noted that with respect to Note 13 to the Financial Statements, Urban Improvements and Construction has the depreciation provision in excess of €54,805 over the cost of such assets; thereby leaving a negative Net Book Value as at year end.

Depreciation has been calculated through the FAR incorporated within Sage Pastel Evolution[®] accounting software up to September 2017 after which date the Council introduced Sage Evolution. ,

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.

In furtherance to the previous statement re excess depreciation of €54,805 in the Urban Improvements and Construction asset category, incorrect classifications in the FAR leading to variances in depreciation charges as a result of different depreciation rates, we have qualified our audit report.

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 € 169,611, computer and office equipment amounting to € 47,000, Council premises amounting to € 297,175 as well as and "property in the open" for € 4,640,963.

The Council's total cost of fixed assets, excluding amounts not yet capitalised as disclosed in its financial statements amount to € 10,560,249 of which € 189,613 relates to furniture and fittings, € 45,683 relates to office and computer equipment and machinery, € 568,224 relates to property, € 545,142 relates to urban improvements & construction, € 73,322 relates to street signs and € 9,138,265 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. Accounting for intangible assets

Observations

We noted instances whereby intangible assets have been classified and recognised as tangible assets.

This relates to purchase of software Microsoft Office 2016 amounting to €269 as well as purchase of Windows Server software amounting to €803.30.

Issues Arising

Although the net effect on the Balance Sheet as at year end remains the same and the reclassified variance is immaterial, the Council should recognise and classify such assets in the correct asset class and apply amortisation accordingly in line with the requirements of IAS 39-Intangible Assets.

Recommendations

The Council should ensure that it recognises software separately as intangible assets in line with the requirements of IAS 38 and undertake the necessary adjustments and reclassifications to its financial statements.

5.4. 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 2018.

Issues Arising

The capital commitments figure disclosed in the financial statements for the year amounts to €684,898, whereas the budgeted figure for 2018 amounted to €1,518,073; a material difference of €833,175.

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 Annual Budget, tallies with the reported capital commitments to ensure consistency in reporting.

5.5. Capital Expenditure and Revenue Expenditure

Observations

An instance has been identified where expenditure of a capital nature was recorded as expenditure of a revenue nature as follows:

- Amount of €1,032.50 relating to the installation of a computer server system,

Another instance was noted however where revenue expenditure was recorded as capital expenditure as follows:

- Amount of €157.49 relating mainly to installations and other computer configurations, rather than actual additions.

Issues Arising

These items should have been capitalised or expenses, as necessary 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.

5.6. Assets not yet Capitalised

Observations

During our review of the fixed assets additions, we noted several instances where assets were not capitalised in previous years, in relation to when such capital expense has been incurred.

Specific examples noted include the following:

- Capitalisation of Council office refurbishment works - €17,022.15
- Triq il- Kbira/Triq San Gorg Borg Olivier – Storm water culvert - €79,497.77
- Capitalisation of Manikata Parish church area floor - €53,814.43
- Triq it- Tumbrell/Tunnagg/Kahli/Klamari resurfacing - €104,468.82

We also noted that one of the items making up the list of assets not yet capitalised relates to an item titled "journal entry 2017" amounting to €149,060.37. No details have been provided in relation to this item.

Issues Arising

IAS 16 – Property, Plant and Equipment, states that an asset is capitalised when it is completed and at the point when its economic useful life begins. It is important that such capital projects are capitalised when they are put in use, that is, when the Council and the people of the locality can commence benefiting from such capital expenditure.

Recommendations

Details of expenditure related to large projects such as the ones mentioned, should be accounted for in the account “Assets not yet capitalised”. A detailed breakdown should be kept in a spreadsheet, which would include items such as the actual construction works, studies and consultation fees, certification fees and other similar associated expenses. As soon as the project is finalised and ready for use, the total cumulative amount in the account and the spreadsheet is capitalised in one FAR card, with the name of the project. The purchase date would merely be the date when the project was first capitalised and put in use.

If a project is not finalised by a particular financial year-end, its cost will be retained in the nominal account bearing the name of “Assets not yet capitalised”. This account would merely contain a total of the projects undertaken by the Council but not yet completed. An analysis of this account would be represented in the spreadsheets created for each particular project.

When the project is completed, the same cumulative amount used to create the FAR card is transferred from the “Assets not yet capitalised” account to the identifiable cost account such as “Construction Works”, “Road Resurfacing”, “Special Programmes” and others.

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 €11,123 as stock of books and CDs.

Based on the cost prices provided to us by the Local Council in previous years, the value of inventories as at year end should equate to €10,813.12. Given that the carrying value in the accounts amounts to €11,123.06; there is a discrepancy in value of €309.94.

Issues Arising

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

The Council should be 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 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, a stock count of the books is to be undertaken with a cost value assigned to each item of stock and the total stock figure 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 €118,923.32.

During the year under review however both LES Debtors balance as well as the equivalent provision for bad debts should have decreased to the amount to €118,562.30 as at year end. 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 what legal backing the Council has to ensure that these receivables are attributable to the Council.

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

Observations

During our testing of the tipping fees charged by Wasteserv to be refunded by DLG, we noticed that the amount of accrued income was understated by € 3142.68

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for accrued income correctly and completely. When accounting for accrued income, the Council needs to ensure that benefits will actually be spread on the years for which the accrued income would have been paid for.

Recommendations

It is important that the Council makes a proper assessment of its accrued income at the end of every financial reporting period and ensures that such accrued income is correctly accounted for. To this effect we have proposed an adjustment which the Council have reflected accordingly in its financial statements.

7.3. Debtors list variance

Observations

It was noticed that the Council's list of trade receivables is not in agreement with the amount recognised in the Financial Statements by €1,080.82. The debtors list, after deducting doubtful debts provision amounts to €20,806, whilst Note 15 in the unaudited Financial Statements disclosed a balance of €21,887.

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to ensure that it regularly reconciles trade receivables and their eventual recording in the Financial Statements, in order to present a true and fair view as at year end.

Recommendations

The Council should ensure that it reconciles the amount included as Receivables in the Financial Statements with the amounts reported in the Council's trial balance and debtors' list.

8. CASH AND BANK

8.1. Bank reconciliation

Observations

During our bank reconciliation testing, we noted that HSBC Current account as per the trial balance (Nominal account 5000) amounted to €86,069.41, while the reconciled balance amounted to €86,157.10 leaving a discrepancy of €87.69.

Issues arising

Through discussion with the Local Council, it was revealed that part-way through the year, the accounting system had been changed from Sage Pastel to Sage Evolution, and an error had occurred in this account during the data migration process, resulting in this variance.

Recommendations

The Council should ensure that when undertaking data migrations, it reconciles the balances from the accounting software it has been using to the one it has migrated to and any variances arising are duly reviewed and revised as appropriate.

9. PAYABLES

9.1. Trade creditors

Observations

From an analysis of the trade creditors list as at 31st December 2017 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 ELC Limited – We noted a variance of €826 between the amounts owed by the Council to ELC Limited and the supplier confirmation provided by ELC Limited.
- Amounts owed to WasteServ – We noted a variance of €6.21. The Local Council records show a balance of €50,391.90, while the supplier statement denoted a running balance of €50,398.11.

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 in required in line with the requirements of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Were 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. The Council should introduce procedures to obtain a statement at all times prior to issue of payments as this facilitates the reconciliation process.

9.2. Creditors' list variance

Observations

It was noticed that the Council's list of trade payables is not in agreement with the amount recognised in the Financial Statements by €1,047.29..

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to ensure that it regularly reconciles trade receivables and their eventual recording in the Financial Statements, in order to present a true and fair view as at year end.

Recommendations

The Council should ensure that it reconciles the amount included as Payables in the Financial Statements with the amounts reported in the Council's trial balance and creditors' list.

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 €140,927 and a Non-Current Liability of €1,350,824. 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.

Furthermore, during the year under review, the Council has recognised a grant for the amount of € 11,572 which in reality were related to grants for road resurfacing which in effect were carried out in February 2018. The grant was also paid in 2018. To this effect this grant should not have been recognised in the 2017 financial statements.

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.

In 2017, the Northern Region issued a Memorandum of Understanding, whereby funds have been allocated to designated Local Councils located in the Northern Region of Malta in relation to the provision of funds for roads resurfacing. The Mellieha Local Council was allocated € 11,572. As noted above such grant should not have been accrued for and treated as deferred income. Further to our proposed adjustment in this regard, the Council has revised its financial statements accordingly.

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

In 2011, the Council 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. 90% of the amount under Phase 1 (€331,061) and 85% of the amount under Phase 2 (€298,124) have been settled by end of the year under review, with the balance to be paid in varying percentages over the next two years (in respect of Phase 1) and over three 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 €53,241.48. Furthermore, it has recognised in the Financial Statements a Non-Current Liability of €45,496 in this respect due to the contractor bringing a total liability of € 98,737.

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 €89,058 as at year end, being €35,817 recognised as a current liability, while €53,241 recognised as a Non-Current.

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 20th February 2018, we noticed the following areas which needed attention:

- Statement of Financial Position – Retained funds balance reads €3,986,634, while balance in the Statement of Changes in Equity amounts to €3,986,633; difference of €1.
- Statement of Cash Flows – casting error with respect to Operating Profit before Working Capital Changes. Amounts aggregates to €350,984, rather than €352,364. Further to our proposed adjustments, the Council rectified this matter accordingly.
- Note 2 – Policy on intangible assets have not been included.
- Note 13 - Property Plant and Equipment. The Net Book Value as at year end of 'Urban Improvements and Construction' amounts to €54,805.
- Note 20 – Capital Commitments – Casting error of €1 noted in *Section (i) – Contracted for but not provided for in the Financial Statements*. Embellishment of Stepped Streets balance for 2017 should read €164,105, rather than €164,104. The detailed amount of the *Section Contracted for but not provided for in the Financial Statements* discloses a total amount of € 344,140 whereby the summary section of the same discloses a total amount of € 425,217.

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

It is to be noted that, for all local councils, the uploading of council meetings minutes, schedules, etc are being transferred from the previous website to the new one. We noted that in certain cases Council meetings exceeded the stipulated three hours without any noted justification, as follows:

- Meeting 69 dated 10th January 2017 – council meeting from 6pm – 10.15pm (exceeds 3 hours)
- Meeting 70 dated 31st January 2017 – council meeting from 6pm – 10.15pm (exceeds 3 hours)
- Meeting 71 dated 16th February 2017 – council meeting from 6pm – 10.15pm (exceeds 3 hours)
- Meeting 73 dated 28th March 2017 – council meeting from 6pm – 10pm (exceeds 3 hours)
- Meeting 81 dated 28th August 2017 – council meeting from 6pm – 9.30pm (exceeds 3 hours)
- Meeting 82 dated 12th September 2017 – council meeting from 5.30pm – 9.30pm (exceeds 3 hours)

- Meeting 83 dated 23rd October 2017 – council meeting from 5.30pm – 9.30pm (exceeds 3 hours)
- Meeting 87 dated 18th December 2017 – council meeting from 6pm – 10pm (exceeds 3 hours)

Issues Arising

The Local Councils Act (Cap. 363) requires that unless otherwise determined by the unanimous decision of the Councillors, meetings of the Local Councils shall not start before 5.30pm and later than 7.30pm and shall not last more than 3 hours.

Recommendations

The Council should adhere to the requirements of these memos and the provisions of the Local Councils' Act accordingly.

11.2. Comparison with Annual Budget

Observations

During our review of the annual budget 2017, it was noted that some expenditure incurred in 2017 was significantly higher when compared to the budgeted amount. Some of the main such variances identified are presented in the following table:

Details	Budget '17	Actual 2017	Variance	Variance
	€	€	€	%
Repairs & Upkeep	107,400.00	124,465.00	17,065.00	16%
Refuse Collection	172,000.00	178,394.00	6,394.00	4%
Bulky Refuse	18,300.00	22,993.00	4,693.00	26%
International Memberships	1,300.00	3,651.00	2,351.00	181%

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 2016. Variances have arisen in items of the Non-Current and Current Liabilities and items of Property, Plant and Equipment and Receivables.

Issues arising

As a general note, it was noted that certain variances are the result of an unadjusted 2016 balances, while other variances arose out of a change in accounting system utilised by the Local Council part-way during the year, which action may have triggered such differences when comparing the nominal activity balances to the financial statements. Such 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.