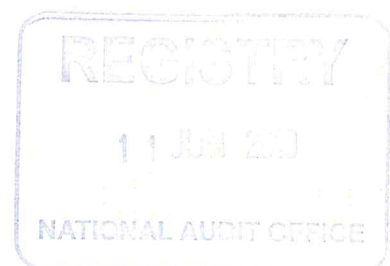


LOCAL COUNCIL MELLIEHA

Report to Management
for the financial year ended 31 December 2018



MELLIEHA





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MALTA

29th April 2019

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 2018, 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



Neville Cutajar
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT YEAR END 31 DECEMBER 2017

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 this matter during the year under review, and we therefore draw your attention to paragraph 2.2 of our management report.

1.3. Reclassification of Supplementary Government Income

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

1.4. Income cut-off procedures

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

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

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

1.6. 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.

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

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.

1.8. FSS Calculation discrepancies

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 3.3 of our management report.

1.9. Jum il-Lokal expenses and gifts awarded

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.

1.10. Inappropriate documentation

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

1.11. Procurement for Maintenance of Street Lighting

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

1.12. 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 4.2 of our management report.

1.13. 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.

1.14. 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.

1.15. Accounting for intangible assets

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

1.16. Assets not yet capitalised

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.

1.17. 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 5.3 of our management report.

1.18. Capital Commitments

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

1.19. Valuation of Stock of books and CDs

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

1.20. LES amount receivable

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

1.21. Accrued income

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.

1.22. Debtors' list variance

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

1.23. Bank Reconciliation

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

1.24. 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.

1.25. Creditors' list variance

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.

1.26. 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.

1.27. 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.

1.28. 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.

1.29. 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.

1.30. 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.

1.31. 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.

1.32. 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 2018.

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 2018 reported income of €501.56 arising from Pre-Regional contraventions, the income as per report 483 Pre-Regional amounted to €547.43.

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 €6,958.09 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 €6,972.85 as follows:

- Post-regional contraventions amounting to €127.97,
- LESA contraventions amounting to €6,844.88

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 Other Government Income

Observations

During our Government Income testing, we noted that an amount of €100.11 has been recorded within Annual Government Income, rather than Other Income.

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 and to this effect should be properly allocated to the income accounts reflecting its nature.

Recommendations

The Council should ensure that such classes of income are allocated in their respective nominal accounts. Further to our recommended audit adjustments in this regard, the Council has duly updated its financial statements accordingly

2.4. Income cut-off procedures

Observations

The Council has not always applied proper controls to ensure correct cut-off recognition for its income. We noted the following instance where funds for income relating to 2017 have not been recognised in that financial year but have been included within the 2018 income:

- Rent receivable from Ghaqda Korali u Orkestrali Maria Bambina with respect to WWII Shelters Rent for 2017 amounting to €233 has been included within the 2018 accounts.

Issues Arising

In this case, besides breaching the provisions of IAS 18 – Revenue Recognition, the Council has not accounted for its income on an accrual 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.

3. PERSONAL EMOLUMENTS

3.1. Payroll reconciliation variances

Observations

When we analysed the FSS documentation submitted with the Inland Revenue Department, the values as submitted in the FS7 of 2018 (as adjusted for accruals) varied from that as recognised in the financial statements, as follows:

	€
Totals as per Financial Statements	170,364
Totals as per FS7	170,564
Variance	200

Issues Arising

The total of the FS7, taking into consideration the effect of opening and closing accruals mainly relating to performance bonuses, should tally to the figures disclosed in the Trial Balance and ultimately the Financial Statements.

Recommendations

The Council should ensure that it checks the annual documentation and reconcile any variances which may have been noted in a timely manner, to eliminate any unexplained variances especially with regulatory authorities.

3.2. Executive Secretary's Remuneration and Bonus Workings

Observations

When re-computing the annual bonuses applicable, it was noted that the Council approved a bonus of €3,061.40 to the Executive Secretary, however, as per our workings the performance bonus should have amounted cumulatively to €2,861.20.

Effectively, the above difference of €200 relates to the variance denoted in point 3.1 above of this report.

Issues Arising

The remuneration and applicable annual bonus of the Executive Secretary should be calculated properly, and the Council should ensure that the performance bonus paid should be calculated on the last basic salary paid for December of the year in which the bonus is being paid for.

Recommendations

The Council should ensure 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 2018, discrepancies have arisen with respect to the FSS tax deducted in relation to two employees.

Issues Arising

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 and Gifts awarded

Observations

The Council incurred expenditure amounting to €6,163.28 in respect of Jum il-Lokal, thus exceeding the allowed threshold as per Memo 122/2010 by €513.76.

Issues Arising

We are of the understanding that the purpose of this event is to further promote the Mellieha locality, and to recognise the efforts and contributions of residents in respect thereof.

Memo 112/2010 states however 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 €5,649.52; hence, as aforementioned in the paragraph above, the threshold has been exceeded.

Furthermore, it was noted that a gift amounting to €300 (painting) was awarded to the Minister who was invited to the occasion; this exceeds the €200 limit imposed on the presentation of such gifts.

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. 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 as well as Festa San Gwann tal- Hgejjeg.

The noted costs for these events were as follows:

- Iljieli Melliehin – Expenditure of €33,589.08
- Festa San Gwann tal- Hgejjeg – Income of €700 and Expenditure of €4,852.36 - overall loss of €4,152.36

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.

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.

4.3. Other expenditure shortcomings

Observations

The following shortcomings were noted during our testing:

- Expenses related to maintenance of road markings undertaken in November 2017 for the amount of €4,464.08 was not recognised in the previous year accounts but the transaction has been dated 01.01.2018 and recognised in the 2018 accounts.
- Traffic Management (Police Department) expenses has been recognised as Road & Street repairs for the amount of €1,746.64 whereby the nature of the expense suggests that this is Local Enforcement expenditure relating to traffic management rather than actual repairs and maintenance expenses.

Issues Arising

Amounts of invoices received are to be recorded in the accounts as per invoice and not as per payment made by the Council or as per allocation. This may lead to a mismatch between the supplier and the Council's records and in an understatement in the expenses and creditors amounts.

With respect to books purchased from MCCF the expense should have been split between library expenditure category and gifts expenditure category

Recommendations

The Council should ensure that expenses are recorded as per invoice issued by the supplier and that the Council properly allocates expenditure to its appropriate cost account.

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)	7,492,217.72	5,904,789	1,287,428.72
Special Programmes (cost)	8,454,703.86	6,992,959	1,461,744.86
Office furniture (accumulated depreciation)	90,497.49	85,397	5,100.49
Office furniture (cost)	190,306.70	184,878	5,428.70
Urban Improvements & construction (cost)	672,706.81	694,616	(21,909.19)
Urban Improvements & construction (accumulated depreciation)	602,104.90	649,067	(46,962.10)
Plant, Machinery and equipment (cost)	46,908.78	46,553	355.78
Plant, Machinery and equipment (accumulated depreciation)	39,905.29	41,514	(1,608.71)

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, for better presentation of and control when preparing the financial statements.

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 €189,942, computer and office equipment amounting to €54,200, Council premises amounting to €205,523, "property in the open" for €2,055,275, and inventories insured for €11,123.

The Council's total cost of fixed assets, excluding amounts not yet capitalised as disclosed in its financial statements amount to €8,560,551; of which €184,878 relates to furniture and fittings, €46,553 relates to office and computer equipment and machinery, €568,224 relates to property, €694,616 relates to urban improvements & construction, €73,322 relates to street signs and

7. RECEIVABLES

7.1. Amounts receivable from Transport Malta

Observations

We noted a material balance due from Transport Malta, amounting to €144,207.79 the amount of which has not been confirmed nor received after year end.

Issues Arising

From representations received by the Council it seems that there are some issues/disputes related to this recognised amount, however we did not receive clarity on these matters as well as the possible effects on the recoverability of this amount receivable.

Furthermore, Transport Malta have not confirmed the pending balance from their end in light of the aforementioned case. In view of the above, we have qualified our audit report in this regard.

Recommendations

The Council reviews these balances and unless it receives a clear confirmation that the amount is due to the Council, it should either provide for a provision for bad debts or write off the amounts.

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 € 212.37.

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. Further to our recommended audit adjustment in this regard, the Council has duly updated its financial statements accordingly.

8. CASH AND BANK

8.1. Bank reconciliation

Observations

We noted that HSBC Current account amount as per the trial balance (Nominal account 5000) amounted to €31,256.86, while the reconciled balance amounted to €31,309.52; leaving a discrepancy of €52.66.

Issues arising

It is very important that proper bank reconciliations are prepared on a regular basis and any variances are investigated immediately. The postings of the bank payments should be done on a timely basis in order to anticipate from before any possible cash flow issues that might arise.

Recommendations

The Council should ensure that when undertaking bank reconciliations, it reconciles the balances from the accounting software, and periodic monitoring of unpresented cheques exceeding 6 months from issue is a useful exercise in maintaining control and accuracy of such balances.

9. PAYABLES

9.1. Trade creditors

Observations

From an analysis of the trade creditors list as at 31st December 2018 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 Central Asphalt Ltd- We noted an understatement of €26,315 between the amounts owed by the Council to Central Asphalt Limited and the supplier confirmation provided by Central Asphalt Limited.
- Amounts owed to Mica Med Ltd-We noted an understatement of €2,751 between the amounts owed by the Council to Mica Med Limited and the supplier confirmation provided by Mica Med Limited.
- Amounts owed to WasteServ Ltd We noted an understatement of €7,426 between the amounts owed by the Council to WasteServ Limited and the supplier confirmation provided by WasteServ Limited.

Issues Arising

The Council should perform formal checks and reconciliations with the suppliers on a regular basis, in order to make sure that no payments or claims are outstanding or disputed. In case where 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.

In view of the material variances arising from the samples reviewed, we have qualified our audit report in this regard.

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 €169.18.

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 in previous years. During the year under review, the Council has implemented Directive 1/2017 which entailed allocating all such grants still showing as deferred income directly against the respective assets which they had been provided to finance.

However certain matters arising from the previous years are still not yet resolved. For example, 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.

Issues arising

Grants should be calculated and reflected in the accounts appropriately. Due care should be given to the amounts recognised as grants, as well as those which are maintained as deferred income on the premise that an asset would not yet be capitalised and those which are actually allocated against the asset they were given to finance.

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 provided in relation to such capitalised projects have been accounted for using the capital approach arising from IAS 20- Accounting for Government Grants and Disclosure of Government Assistance' accordingly. Furthermore, the Council should ensure that the grants being allocated are based on the 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. 95% of the amount under Phase 1 (€349,454) and 90% of the

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 22nd February 2019, we noticed the following areas which needed attention:

- With respect to the Statement of Financial Position in page 5 to the financial statements, the current 2017 comparative column should be renamed to "31 Dec 2017 As Restated", and an additional column to be included showing the original position as per the audited position as at 31 December 2017, to clearly show the effect of the change in the accounting policy in line with the changes required in the application of Directive 1/2017. In effect, the Statement of Financial Position should have 3 columns.
- Note 2 – Policy on intangible assets have not been included.
- In note 2 to the financial statements, at the end of the "Property, Plant and Equipment" note in page 10, the following explanatory note should be included to explain the effect of Directive 1/2017:

"Up to the year ended 31 December 2017, depreciation was accounted for using the reducing balance method according to IAS 16 – Property, Plant and Equipment. On 1 January 2018, the straight-line method, according to IAS 16 has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting estimate, which according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for prospectively."

- Page 20 – Cash and Cash equivalents. Note number should read 17, not 16.
- Page 21 – Payables. Note number should read 18, not 17
- With respect to the Contingent Liabilities note on Page 23 of the financial statements, the following additional paragraph should be added:

"The council also recognises a variance of €26,315 with respect to amounts due to Central Asphalt; the variance of which is mainly due to disputes on certain invoices with Water Services Corporation on works carried out in Triq il- Qortin."

- A new note titled "Effect of Change in Accounting Policy" to be numbered as Note 19, should be included after the trade payables note in page 21 to the financial statements, whereby the below disclosure note should be included and a further note showing the arithmetic implications of the change in policy, similar in nature to a Prior Year Adjustment Note (2017 as originally reported, Adjustments, 2017 As restated):

On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively.

The effect of the restatement on these financial statements is summarised below:"

- Page 21 – Borrowings. Note number should read 20, not 18
- Page 22 – Deferred Income. Note number should read 21, not 19
- Page 23 – Capital Commitments. Note number should read 22, not 20
- Page 23 – Contingent Liabilities. Note number should read 23, not 21
- Page 24 – Related Party Transactions. Note number should read 24, not 22
- Pages 25-26 – Financial Risk Management. Note number should read 25, not 23
- Page 26 – Fair value of financial assets and financial liabilities. Note number should read 26, not 25
- Page 26 – Prior year figures. Note number should read 27, not 26.

Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary disclosures and adjustments are included. Further to our recommendations, the above changes have been included and the revised financial statements were rectified by the Council accordingly.

funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increase in income received.

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. More consistency should be applied when preparing the budget and the financial statements to record the items in the most appropriate categories. The Council should ensure that all expenditure is kept in line with the amounts originally budgeted for, and that in case of any essential over expenditure, the required procedure is undertaken to adjust the budget accordingly.

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 2017.

Issues arising

It was noted that certain variances are the result of unadjusted 2017 balances, while other variances arose out of the change in accounting policy, undertake as per Directive 1/2017 issued by the Department for Local Government whereby all local councils were required to change from the income approach to the capital approach with respect to the accounting for government grants.

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 and it should also ensure that any prior year adjustments undertaken to adjust for a change in accounting policy is properly reconciled and disclosed in the financial statements in line with the requirement of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors.

11.4. Uploading of Documents on Local Government website

Observations

We noted that the Management Letters and their respective replies, and the audited Financial Statements from 2016 onwards are not being uploaded on the Local Government website.

Issues arising

Memo 7/2016 requires that the management letter and the Council's reply to the management letter should be uploaded on the website as soon as they are approved by the Council.

Recommendations

The Council should adhere to the requirements of Memo 7/2016 accordingly.