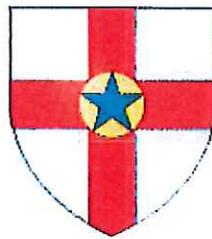


LOCAL COUNCIL MOSTA

Report to Management

for the financial year ended 31st December 2018





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MOSTA April 2019

The Mayor
LOCAL COUNCIL MOSTA
Civic Centre, Level 2
Constitution Street,
Mosta

Dear Sir,

REPORT TO MANAGEMENT

As you are well aware, our firm has been appointed 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 period 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 the above. We shall be happy to render assistance should you decide to implement any of the recommendations.

Finally, we take this opportunity to thank Ms. Lorraine Templeman and the 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 blue ink, consisting of a large, stylized 'C' followed by a horizontal line extending to the right.

Neville Cutajar
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT PERIOD ENDED 31 DECEMBER 2017

1.1. Local Enforcement System Pre-Regional

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

1.2. System of Council income receipting

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. Income from bye-laws

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

1.4. Grants released to income

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

1.5. Other income shortcomings

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.

1.6. Income not recorded in the appropriate accounting period

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

1.7. Payroll shortcomings

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

1.8. Procurement procedures

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

1.9. Approval of Payments

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.

1.10. Inappropriate documentation

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.

1.11. Fixed Asset Register (FAR) upkeep and reconciliation

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.

1.12. Depreciation

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.

1.13. Tangible Fixed Assets Labelling

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.

1.14. Insurance Policy

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.

1.15. Capital Commitments

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

1.16. 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 4.6 of our management report.

1.17. Categorisation of assets and depreciation thereof

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.

1.18. Stock of books, maps and stickers

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

1.19. Trade debtors' balances reconciliations

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

1.20. Accrued income

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

1.21. Petty cash expenses

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

1.22. Variances in bank balances reconciliations

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.4 of this report.

1.23. Refundable deposits

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

1.24. Other creditors

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

1.25. Deferred Income

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.4 of our management report.

1.26. Amounts 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 7.3 of our management report.

1.27. 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 8.1 of our management report.

1.28. Financial Statements presentation

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

1.29. Comparison of Actual Expenditure with the Annual Budget

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.

1.30. Schedule of payments

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.

1.31. Council meetings

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

1.32. Attendance to Council Meetings

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.

1.33. Accountancy work

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.

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 up to date of dissolution. 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 €1,829.07 arising from Pre-Regional contraventions, the income as per report 483 Pre-Regional amounted to €1,968.60.

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 variances noted with the respective LES reports are considered to be immaterial, this implies that the Council is not undertaking 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, reconciliations should be prepared with the respective LES reports. Any discrepancies should be investigated and corrective action should be taken.

2.2. System of Council income receipting

Observations

Although the income tested was supported by official manual receipts, and where appropriate an invoice was issued, we observed that there is still large dependence on manual systems for receipting.

Issues Arising

We are aware that the Council experiences a number of daily cash transactions. The current model adopted by the Council should work well, but since it is manual, and paper based, it may lead to human errors being made as well as being time consuming especially in view of the limited human resources available to the Council.

Recommendations

In the spirit of tighter controls and efficiency, we recommend that the Council considers the implementation of a centralised electronic receipting system. Such system would facilitate cash reconciliations, filtering of data and recording of income in the general ledger with much reduced human intervention. Furthermore, this requires less storage space and will prevent the risk of loss of data as long as backups of the system are done regularly.

2.3. Income from bye-laws

Observations

In note 5 to the unaudited financial statements, the Council recognised €10,523 as income from "Use of facilities". As remarked in previous years, there is no bye-law in place authorising the Council to receive rent from use of facilities or properties.

Currently, the Council has the following bye-laws in force, which however are not available on the Council's website:

- Advertising on Street Furniture.
- Organisation of Courses.
- Publications by Mosta Local Council.

Furthermore, the Council received income arising from publications amounting to €193 which has been disclosed under the general income category.

Issues Arising

Rent arising from use of facilities is a source of income that warrants the preparation of a specific bye-law entitled: "Use of facilities" in line with the provisions of article 61 of the Local Councils Act (Cap. 363). We were informed by the Council that the bye-law was published in 2019.

Income arising from bye-laws is governed by Local Council Bye-Law 'Publications (Mosta Local Council) Bye-Laws, 2003' (L.C.B.L. 39/8/2003). Thus, such income should have been classified as 'Income raised from bye-laws' and not as 'General income'.

Recommendations

The Council should ensure that income generated from bye-laws is accounted for and disclosed properly in its financial statements under the proper heading. The Council should also ensure that the bye-laws in place are made available on the Council's website. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

2.4. Other income shortcomings

Observations

The following shortcomings were also noticed in relation to the income received during the year under review:

- The Council receives a 10% administration fee on LES contraventions which are paid at the Council. Income arising from post-regional and LES contraventions of €3,800.46 was incorrectly accounted for with pre-regional income. On the other hand, accrued income with respect to pre-regional contraventions of €221.35 was classified with post-regional and LES contraventions income.

- Income received by the Council of €1,181.89 relating to the CIES Scheme was incorrectly recorded in the contraventions account when it should have been recorded in the account "Other government income".
- The Council generated income in relation to Christmas decorations. A portion of this income was correctly classified in the account Christmas decorations whereas €2,020 of this income was incorrectly classified under income from permits.
- In the unaudited financial statements, under the line item 'General income', the Council classified several transactions whose nature can be easily identifiable with more specific income categories. A case in point is other government income of €1,503.02.

Issues Arising

The shortcomings listed above distort the value of income earned by the Council and the correct classification of this income.

Incorrectly classified income is resulting in inconsistent and inappropriate disclosure of such income in the financial statements.

Recommendations

The Council should assess the source of the income generated and report it accordingly in the appropriate categories. Fair reporting of the Council's income activities guarantees a proper understanding to the users and decision-makers. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

2.5 Reimbursement for administrative fees on LES fines collected

Observations

As from 1st September 2011, the Council started to receive 10% administrative fee for LES fines collected on behalf of the Regional Committees/LESA. This administration fee should be invoiced on a monthly basis.

During the year under review, the invoices issued to the respective regional committees/LESA, amounted to €16,143. Based on the amounts collected as per LES report 483, the amount of LES administrative fees should have amounted to €16,025, leaving a variance of €118.

In addition, it was noted that this income has been duly recorded in account 0036, which relates to income from Pre-Regional contraventions rather than in account 0045, which relates to income arising from administrative fees charged on collection of LES contraventions.

Issues Arising

Variances between the amounts recognised in the accounts and its financial statements with that as reported in the LES reports may imply that income is not being properly recognised or correctly invoiced to the respective Regional Committees/LESA in line with the provisions of Memos 91/11 and 93/11.

Recommendations

The Council should ensure that apart from issuing regular invoices to the Regional Committees/LESA in line with the memos referred in the preceding paragraph, the invoices subsequently posted to the Council's debtors' ledger day book, should be regularly reconciled with the report 483 of the LES reporting system. Any variances should be analysed and remedied accordingly.

3. EXPENDITURE

3.1. Procurement procedures

Observations

Throughout our review of procurement procedures, we encountered the following shortcomings:

- The Minutes of Tenders' Opening I Appendix in respect of tender KLMT-01-2018 'Tender for the Provision of Insurance Services – Mosta Local Council' awarded to Island Insurance Brokers Ltd., and in respect of tender KLMT-04-2018 'Supply of Christmas street lighting decorations in various streets of Mosta during the Christmas period' awarded to D Street Lighting, were not properly signed and filled in, with items left blank.
- We were not provided with the Declarations of Impartiality and Confidentiality of the evaluators Keith Cassar, James Cassar and Mark Micallef Costa in respect of tender KLMT-01-2018 'Tender for the Provision of Insurance Services – Mosta Local Council' awarded to Island Insurance Brokers Ltd., and in respect of tender KLMT-04-2018 'Supply of Christmas street lighting decorations in various streets of Mosta during the Christmas period' awarded to D Street Lighting.
- With respect to tender KLMT-04-2018 'Supply of Christmas street lighting decorations in various streets of Mosta during the Christmas period' awarded to D Street Lighting, no mention was made in the Council meeting minutes as to who won the tender and for what reason.
- The Council is still making use of services from suppliers whose contract has expired and no new tender/quotation offer has been issued. Such services include:
 - Patching works in Mosta Local Council contract expired in July 2016. The Council procured €77,466.96 from the said supplier during the year under review.
 - Provision of services of a Maintenance Hand / Messenger for the Mosta Local Council expired in May 2015. In 2018, the Council procured €32,582.96 from the said supplier.
 - Maintenance of Traffic Signs and Road Markings contract expired in August 2016. The Council procured €16,841.05 in 2018 from the said supplier.
 - Tender for the provision of Accountancy Services for the Mosta Local Council expired in November 2016. The Council procured €5,259.50 in 2018 from this supplier.
 - Tender for the Construction of Footpaths and Culverts and Various Other Works expired in November 2015. The Council procured €33,610.59 during the year under review from this supplier.
- Furthermore, the Council is still making use of services from suppliers whose contract has expired, and where a new tender offer has been issued but the tendering process has not yet been completed. These include:
 - Services for the collection of bulky refuse in the locality of Mosta in an environmentally friendly manner.
 - Street sweeping services in the locality of Mosta, using an environmentally friendly service vehicle.
 - Provision of legal services to the Mosta Local Council.

Issues Arising

The Council is in breach of the Local Council (Tendering) Procedures of 2009 which regulate the way that the tendering process should be undertaken and require that the terms and conditions arising from the tender document should be duly adhered too. All tender forms need to be appropriately and completely filled in and bidders who submit inappropriate documentation should be immediately be disqualified and not considered in the adjudication process.

For expired contracts, although the Council might have its own valid reasons to continue procuring services using such contracts, the procurement procedures clearly states that adjudicated contract shall remain valid for the contract period stipulated by the tender/quote offer and once expired, it can either be renewed, or a new tender/quote offer is issued.

Recommendations

The Council should comply with the requirements of the procurement and tendering procedures in terms of the Public Procurement Regulations (SL 174.04) and ensure that all tender offers considered have their documentation fully in line with the procurement and tendering requirements.

We also recommend that a periodic review is undertaken of all contracts and services in operation by the Council and in cases where either the contracts are expired or the expenditure involved warrants a tender offer, the Council must ensure that tendering procedures are followed accordingly.

3.2. Approval of Payments

Observations

In some instances, payments to suppliers/service providers were carried out prior to the approval during a Council meeting. The following payment was noted to be issued prior to approval:

Supplier	Amount - €	Cheque no.	Cheque date	Council's approval date
Planning Authority	746.80	6372	31/10/2018	19/11/2018

Issues Arising

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

Recommendations

The Council needs to ensure that all payments are first approved and sanctioned by the Council prior to issue.

3.3. Inappropriate documentation

Observations

The following service providers have not provided the Council with a VAT fiscal receipt in terms of the VAT Act.

Description	€	Date	Nominal account	Supplier	Cheque no.
Handyman / messenger services	2,305.22	02/10/2018	3056	Phillip Azzopardi	6313
Road & street cleaning	13,400.00	30/09/2018	3051	Antoine Fenech	6346
Social events - music	3,540.00	06/09/2018	3360	Errol Sammut – Airport Impressions	6294
Jum il-Mosta – audio visual	1,931.78	19/09/2018	3361	MST Audio Visual Ltd	6362
Cleaning of culverts	1,350.00	22/11/2018	3050	EJ Mangion	6435
Librarian services	316.88	11/07/2018	2995	Malta Libraries	6232

Issues Arising

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

Recommendations

Although it is acknowledged that the Council has always asked for a VAT fiscal receipt against payment to its suppliers, it should take a proactive approach in this respect and avoid custom from suppliers/service providers not providing the referred appropriate documentation. Those suppliers who keep on not providing a VAT fiscal receipt should not be considered for future procurements as required by the Council from time to time, whether through a direct order, call for quotations or call for tenders.

4. PROPERTY, PLANT AND EQUIPMENT

4.1. Fixed Asset Register (FAR) upkeep and reconciliation

Observations

The Fixed Asset Register (FAR) is not being maintained in the appropriate manner as stipulated by the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b.

In the FAR, the below assets were classified in the wrong FAR categories:

FAR Code	Description	NBV €	Purchase date	FAR Category Classified
U169	Traffic Mirror	26.93	05/12/2006	Urban Improvements 10%
U170	Traffic Mirror	89.73	28/12/2006	Urban Improvements 10%
U172	Traffic Mirror	99.91	13/01/2007	Urban Improvements 10%
U173	Traffic Mirror	68.16	22/01/2007	Urban Improvements 10%
U179	Traffic Mirror	51.05	08/03/2007	Urban Improvements 10%
U180	Traffic Mirror	73.87	09/03/2007	Urban Improvements 10%
U243	Playing Equipment	43,558.41	02/04/2015	Urban Improvements 10%
PM020	Benches	940.93	08/07/2015	Plant & Machinery 20%
MSTOE13	Blinds	97.02	08/02/2018	Office equipment 20%
MSTOE14	Reception unit	94.10	27/08/2018	Office equipment 20%

Further shortcomings were noticed in the FAR as per below:

- Some of the descriptions lack fundamental details about the asset being capitalised, and its location. Descriptions used include: name of supplier as description; description named 'FIXED ASSET', 'UNIDENTIFIED', 'GOVERNMENT DONATIONS', 'MINISTRY FOR TRANSPORT', 'TRANSFERRED FROM ST PAULS'.
- The Council was inconsistent when recording office equipment and computer equipment in the FAR. We found computer equipment assets both in FAR category 6-Computer equipment and 9-Office equipment

Issues Arising

The upkeep of a proper FAR is of utmost importance to the Council. The FAR is deemed as one of the principal accounting ledgers of a Council, which enables it to maintain the control of capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals or impairment. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme nature elements.

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

Recommendations

The Council should make better use of Sage's Pastel Evolution® Fixed Asset Register integrated module to set up its Fixed Asset Register. A proper major reconstruction exercise should be undertaken, taking into consideration the following matters:

- The description of the asset in the FAR card should contain the highest possible degree of detail. The detail should not be of a generic nature as mentioned in the above observation.
- There should be a common reference in the description of the asset in the FAR and the related transaction in the nominal ledger. This makes the reconciliation between the two ledgers easier in case of variances and discrepancies.
- The FAR card should contain the exact location of the asset so that in case when the asset is subject to theft, vandalism, fire or any other damage, these could be identified without any problems. Such identification is useful for insurance claims and asset disposal adjustments.
- Assets should be recorded in the correct FAR category according to its nature.

4.2. Recognition of assets and depreciation thereof

Observations

The Council recognised as a fixed asset addition the purchase of a reception unit amounting to €985. The invoice provided for this purchase was dated in 2019 and, as confirmed by the Council, the unit was delivered and installed in 2019.

The fixed asset addition was recorded based on the quotation received by the supplier in 2018. Depreciation of €82.08 was provided in this regard in the financial statements.

Issues Arising

In line with 'IAS 16 – Property, Plant and Equipment', an item of property, plant and equipment shall only be recognised when the capitalisation criteria are met. In this case it is clear that this asset should have only been capitalised and depreciated as from 2019.

Recommendations

The Council should also ensure to follow the requirements of 'IAS 16 – Property, Plant and Equipment' and capitalise and depreciate assets when these are made ready to use to the Council. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

4.3. Tangible Fixed Assets Labelling

Observations

As was the case in previous years, the fixed assets have not been physically marked or labelled.

Issues Arising

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

Recommendations

Parallel with recommendations of point 5.1, the Council should continue the exercise of labelling all the fixed assets using the same FAR code as recorded in the Fixed Asset Register. The assets tagged should be reconciled with the FAR as this makes it easier to trace assets that need to be disposed.

4.4. 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 the Council's furniture and fittings for the amount of €53,000, computer and office equipment amounting to €25,900, and plant and machinery amounting to €57,000.

The Council's total cost of fixed assets, excluding amounts not yet capitalised and special amounts to €3,689,239 of which €170,986 relate to office furniture and fittings, €153,102 relate to office and computer equipment, €77,544 relate to plant and machinery, €37,316 relate to trees, €1,130 relate to improvements to premises, €128,450 relate to street signs and street lighting, €360,884 relate to urban improvements and €2,759, 827 relate to construction works.

Issues Arising

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

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

Recommendations

The Council should review its insurance cover in order to have adequate cover for each respective asset categories. In this respect, the Council should follow subsidiary legislation 363.01 and circular 33/2016.

It would also be beneficial to ensure that the insurance policy contains better details of the assets insured. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.

4.5. Capital Commitments

Observations

During our review of the financial statements, it was noted that the amount of capital commitments as per note 20 to the financial statements does not agree with the capital commitments as stated in the Annual Budget for 2019. Whereas in the note to the financial statements, capital commitments of €1,365,000 were disclosed, the Annual Budget for 2019 shows a budgeted capital expenditure of €1,380,000.

Issues Arising

Capital commitments need to be disclosed in their entirety in line with the requirements of 'IAS 16 – Property, Plant and Equipment'. Furthermore, it is important that a proper reconciliation is provided, which should tally with both the capital commitments as per financial statements and those as per the forthcoming Annual Budget. In this way, financial reports issued by the Council would be comparable.

Recommendations

The Council should ensure that capital commitments are properly assessed and disclosed in line with the requirements of 'IAS 16 – Property, Plant and Equipment'.

4.6. Capital Expenditure accounted for as Revenue Expenditure

Observations

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

- Purchase of a flagpole amounting to €1,130
- Purchase of Microsoft Office amounting to €295

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' and 'IAS 38 – Intangible Assets'.

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' and 'IAS 38 – Intangible Assets'. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

4.7. Assets not yet capitalised

Observations

We noted that the Council incurred development and other related fees payable to the Planning Authority in connection with the public convenience project, whereby the Council will be demolishing and building new public conveniences. The fees incurred in this regard were not capitalised as assets under construction in the financial statements but were expensed directly in the statement of comprehensive income.

Furthermore, we noted that the Council entered into an agreement with PAMA Shopping Village Limited whereby the latter has committed itself to undertake a number of projects in the locality of Mosta. The total value of works to be financed by PAMA amounts to €500,000 and the relevant projects are expected to be finalised in 2019. The projects under being undertaken under the authority of the Council and, upon completion, they will fall under the Council's responsibility. Such projects include playing fields and new pavements.

No recognition of these assets under construction have been recognised in the Council's books as assets not yet completed to be capitalised under the respective asset category once the project is completed, whereas the corresponding grant was not recorded as deferred income to be transferred to the respective asset category upon completion in accordance with the capital approach of IAS 20.

Issues Arising

Details of expenditure relating to large projects, should be accounted for in an account under the category "Assets not yet capitalised". A detailed breakdown, which includes items such as the actual construction works, studies and consultation fees, certification fees and other similar associated expenses should be kept by the Council. As soon as the project is finalised and ready for use, the total cumulative amount in the account is capitalised and included in one FAR card with the name of the project. The purchase date would 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 its relevant nominal account under the category "Assets not yet capitalised". This category of accounts would contain a total of the projects undertaken by the Council but not yet completed as at year end. 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 'Constructions Works', 'Road Resurfacing', 'Special Programmes' and others as required. Lack of information of the assets not yet capitalised list will not allow the Council to capitalise fully and properly the assets involved once the project is complete.

Recommendations

The Council should therefore follow the provisions of 'IAS 16 – Property, Plant and Equipment', and capitalises projects when they are completed and at the point when their economic useful life begins. In order for the Council to be able to do this, it is of utmost importance to keep full details of each item still to be capitalised. Further to our recommendations, the necessary adjustments with respect to the fees payable to the Planning Authority were included, and the financial statements were rectified by the Council accordingly.

With respect to the projects being undertaken by PAMA, the Council should treat these as assets under its responsibility and therefore recognise their costs in its financial statements, with an equivalent grant allocated against the cost (given that the full cost is being financed by PAMA). Certifications of work done should be undertaken at the end of every financial year and the equivalent assets and deferred income recognised. Once the projects are finalised they should be duly capitalised and the relevant deferred income be allocated against the cost accordingly.

4.8. Accounting for Grants

Observations

No sufficient information and supporting documentation were provided as evidence of the following grants:

- €72,571 - 'EU Grant - Archaeotur Project';
- €32,212 - 'EU Grant - Measure 313';
- €113,414 - 'EU Grant - Measure 323';
- €69,843 - 'EU Grant Cultural Exchange'.

During the prior years, €301,786 were reclassified from grants classified under 'Property, plant and equipment' to 'Deferred income'. The Council did not provide adequate information to justify the basis for such reclassification and a detailed analysis of how this reclassified amount is split between the different projects. We were simply informed that this adjustment was the result of a reconciliation between prior year balances of grants workings with prior year financial statements.

In line with Directive 1/2017, the balance on the deferred income account was transferred again to the category of non-current asset to which it relates in the current year financial statements.

Issues Arising

The amount of grants recognised in the Financial Statements should be equal to the amounts paid or approved for each specific capital project. Any discrepancies should be reviewed and adjusted on a periodic basis. In view of the matters noted above, we have qualified our audit report.

Recommendations

The Council should assess the basis for which these grants have been provided at first instance and against which costs should have been allocated as well as the reasoning on the reclassification thereof and undertake the necessary adjustments so these grant are properly allocated against the cost of projects for which they have been utilised.

5. RECEIVABLES

5.1. Prepayments and accrued income

Observations

We noted a variance of €1,677.50 between the list of prepayments provided and the prepayment as recognised in the financial statements. The variance relates to a rental fee prepayment which was included in the prepayments list but was not recognised in the accounts.

Furthermore, the Council received an invoice of €4,720 with respect to cleaning and maintenance services provided during the period from 11 December 2018 to 10 January 2019. The invoice was issued in January 2019 and the Council incorrectly recorded a prepayment of €1,573.33 for the January 2019 portion, when it should have recorded an accrual of €3,197.42 for the December 2018 portion.

In another instance, an invoice dated in 2018 for group health insurance coverage for the year 2019 of €1,170 was not recorded as a prepayment as at year-end. We further noted that the Council has over accrued income from DLG in relation to tipping fees by €7,355.19. Furthermore, an invoice of €900 issued by the Council in January 2019 with respect to an advert which featured in the December 2018 edition of the magazine 'Mosta Solidali' was incorrectly recorded as deferred income.

Issues Arising

The Council should ensure to comply with the requirements of International Financial Reporting Standards which requires the Council to account correctly and completely for its prepayments and accrued income.

Recommendations

It is important that the Council makes a proper assessment of its income accrued but not yet received and of its prepaid expenses at the end of every financial reporting period. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

5.2. Trade debtors' balances reconciliations

Observations

Trade receivable balances are not always being reconciled on a regular basis. For example, with respect to Transport Malta, the Council recognised a balance due of €3,107.74 as at year end, however, Transport Malta stated there is no balance due to the Council in their confirmation letter.

Issues arising

The lack of proper reconciliation and follow up of any variances arising will lead to a situation where the balance show as due are not factual and therefore it could result in difficulties when trying to recover such debts. In fact, the Council already has a number of debtors' balances, amounting to €6,583.09, which it has provided for since they deemed not to be recoverable..

Recommendations

The Council should ensure that a proper control system is applied for its receivables and that it keeps updated balances in its books of accounts. This includes periodic reconciliations, investigating any arising discrepancies and reflecting any required adjustments. Such procedures will help to recover the dues and provide proof of outstanding debts in case of litigation.

6. CASH AND CASH EQUIVALENTS

6.1. Petty cash shortcomings

Observations

We noted instances whereby petty cash vouchers were only signed either by the Executive Secretary or by the person who purchased the item.

Issues Arising

LN 269 of 2017 requires that monies are to be taken from petty cash only upon the presentation of fiscal receipts, which shall clearly indicate the purchased items. If the vendor cannot provide a detailed fiscal receipt, there shall be filled in a petty cash voucher so as to identify the purchased items, to which the fiscal receipt shall be attached. Such form shall be signed by whoever would have bought the items and the Executive Secretary, as a certification of such payment.

Recommendations

We recommend that the Council adheres to the above stated procedures.

6.2. Petty cash balance

Observations

The Council recognised a petty cash balance of €158.65 as at year-end.

Issues Arising

During our backward cash count exercise held on 3rd April 2019, we arrived at the amount of €58.58 which should have been held in the cash till as at year end when taking into consideration cash payments made of €500.43 and cash received of €463.48 during the period from 1st January to 3rd April 2019.

From a further review of the matter, it was revealed that a cheque (cheque 6073), amounting to €100.07, which was issued by the Council to reimburse the petty cash expenses of May 2018 was cancelled and a new cheque (cheque 6199) was issued in its stead. In the accounts, the cancelled cheque (cheque 6073) was not reversed. Taking into consideration this adjustment, the reconciled cash balance as at year-end should have amounted to €58.58.

Recommendations

The Council should undertake the necessary adjustments in its records and undertake appropriate reconciliation of its cash amounts with those in the accounts on a more regular basis. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

6.3. Withholding Tax on Bank Account

Observations

During our testing, it was noted that the Council had failed to instruct its bankers not to withhold tax on interest receivable on its BOV account 40019032061.

Issues Arising

Local Councils do not fall under the definition of a "person" under article 2 of the Income Tax Act and are therefore not subject to taxation. This means that the Council is increasing its expenses unnecessarily whenever interest income from this bank account is received, since the Council is not a taxable entity.

Recommendations

The Council should therefore ensure that for each bank account opened, the bank is instructed not to withhold tax.

6.4. Bank reconciliations

Observations

We noted that some bank reconciliations as at 31 December 2018 were not properly prepared. In the case of BOV account 40019032061, we noted that four cheques were reversed and re-posted in the accounts. The cheques were encashed however they were not manually cancelled against each other in the bank reconciliation and therefore, they are still included in both the unrepresented cheques and the outstanding deposits balances.

With respect to BOV account 40019021441, we noted outstanding deposits section dating back to 26 July 2017 and 5 April 2018. When inquired as to whether these were deposited, we were informed by the Council that these were in fact deposited in 2017 and 2018 respectively. Similarly, for BOV account 17211608022, we were informed that a number of outstanding deposits were actually deposited during the year under review.

Issues Arising

Since the bank reconciliations are not being properly prepared, they are not showing a true picture of the reconciling items as at year-end. As a result, it is difficult for the Council to keep track of any variances that might arise. It is important that bank balances are reconciled frequently so that variances are easily identified and adjusted for as necessary.

Recommendations

The Council should ensure that bank statements are obtained on a regular basis for all bank accounts and that the bank reconciliations are performed frequently, and any variances are duly investigated and adjusted.

6.5. Stale Cheques

Observations

In BOV account 40016751921, we noted two unpresented cheques dated 21 August 2017 and 19 June 2018, both amounting to €230. The cheques were not presented post year-end, hence it is evident that these cheques have become stale.

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.

Recommendation

We recommend that the Council verifies such cheque payments and transactions on a regular basis and adjusts its records accordingly when such cheque payments become stale.

7. PAYABLES

7.1. Refundable deposits

Observations

As a general procedure, the Council obtains a deposit upon application for permits of construction/work by any individual or body corporate within the Mosta locality. The deposit is refunded back if the site has been left in a good condition after works have been finalised.

According to the nominal ledger at year-end, the balance due by the Council to permit holders amounted to €56,276.47. The Council's administration also keeps a detailed list of the permit holders' deposits and movements in deposits refunded. Moreover, two specific bank accounts (one savings and one current) are maintained for receipts from permit deposits and for deposit refund payments. As at 31 December 2018, in aggregate, €57,810.07 were held in these bank accounts.

The list includes deposits on permits covering the period 2007-2018. From a sample selected, we found that the list contains deposits for works that were completed by 31 December 2018. The Council informed us that deposits are kept classified as pending until the permit holder claims back the deposit.

We also noted that, during the year under review, deposits of €500 each were obtained for permits of construction equipment work. Subsidiary legislation 441.04 of 2002 legislating deposits on permits, mentions that the deposit cannot exceed €232.94. The Council stated that such larger deposits were demanded as a cover for a higher risk of possible damage to public property.

Issues Arising

Although the Council's administration keeps a detailed list of the permit holders' deposits and movements in deposits refunded, this list is not being monitored regularly. The fact that the list contains deposits going back to 2007 indicates that it might be inflated either by deposits which have been forfeited or by deposits that need to be refunded but which have not yet been claimed by the permit holder.

The Council should maintain an equivalent amount of the pending permits deposits in a specific bank account which should only be used for refunds. Only when a deposit is forfeited should these be transferred to the ordinary bank account of the Council and become part of the Council's funds. At that stage, it should be treated as income.

Even if there could be reasonable reasons for the Council to obtain a deposit higher than €232.94, it should always follow the applicable legislation, which in this case, is the provisions of Subsidiary legislation 441.04 of 2002.

Recommendations

The Council should ensure that an ongoing reconciliation process is maintained by the Council's administration to ensure that these deposits are either forfeited in favour of the Council as penalties or refunded to the permit holders as soon as the work is finished, and the site has been inspected. The Council should, in no case, hold third party monies without a justifiable cause.

Legal advice should be obtained to check if any of the amounts included in the pending deposits list became time-barred and in that case recognise them as income accordingly. The legal advice should also specify if the Council has any legal obligations over the unclaimed deposits.

In respect of the deposits requested, the amount should never exceed €232.94. In order to cover itself from damage risk, it might be more appropriate by the Council to demand the permit holder to have insurance cover covering such risk. Alternatively, the Council can also demand a bank guarantee from the permit holder.

Prior to introducing such measures, the Council should always obtain the necessary legal advice to determine their legal validity as well as approval from the Department of Local Government.

7.2. Other creditors

Observations

An amount of €13,370 was recognised as other creditors with respect to 'Rent due to Lands Department'. This balance is being carried forward from previous years and no supporting documentation was ever provided.

Furthermore, the Council has a balance of €330.97 recognised as other creditors with respect to 'Library'. The Council explained that the income received from photocopying services done at the library is recorded in this account so that it is used to cover any expenses in connection with the library.

Issues Arising

The Council should be in a position to substantiate all payables which are due to be settled by the Council. Any items of an income or expenditure nature should be recorded appropriately in the Statement of Comprehensive Income. Given the lack of evidence for these payables, we have qualified our audit report in this regard.

Recommendations

The Council should ensure that all items in the Statement of Financial Position can be verified and supported by appropriate documentary evidence.

7.3. Amounts payable to supplier under the PPP agreement

Observations

In 2011 and 2012, the Council has availed itself of the PPP schemes launched through Memo 45 of 2010. Through these schemes, the Council has entered into a contract whereby two contractors have undertaken road resurfacing works. The total actual certified works for PPP Batch 1 was €598,432 while PPP Batch 2 certified works amounted to €1,428,487. PPP Batch 2 was paid in full during the year under review whereas PPP Batch 1 is payable till the year 2020.

In the financial statements, the Council has recognized €29,922 as short term 'Accruals – PPP' and €27,606.57 as a non-current liability 'Third party borrowings', both relating to Batch 2. From the workings provided by the Council, it transpired that the amount payable has been discounted, however the calculations undertaken were not properly derived.

Issues Arising

'IAS 39 – Financial Instruments: Recognition & Measurement' requires that such loans and receivables are accounted for at amortized cost. This entails that, after initial recognition, this liability is measured at amortized 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.

Given the fact that the workings were not prepared properly in accordance with the requirements of 'IAS 39 - Financial Instruments: Recognition & Measurement', we have qualified our audit report accordingly.

Recommendations

The Council should correctly apply the requirements of IAS 39 in relation to any financial assets or liabilities and these should be recognised, measured and disclosed appropriately.

7.4. Deferred Income

Observations

We noted that the opening deferred income in 2018 of grant PPP Batch 2 is incorrect. The Council obtained a grant of €150,000 related to PPP Batch 2 works and started the release of grant to income in 2015. From the architect's certifications provided, we noted that in 2015 the contractor concluded the works on the last two pending roads of batch 2 and the cost of such roads amounted to €70,073. The remaining roads were finished before 2015.

Total grants obtained from PPP Batch 2 scheme amounted to €1,350,000 compared to the total actual certified cost of works €1,428,487. This means that the starting point of the release of the €150,000 grant should have been in part prior to 2015 as it included roads completed prior to 2015 and therefore this should have been split and the related amount of grant of those road works

completed prior to 2015 should have been released to the Statement of Comprehensive Income in line with the appropriate depreciation rate of such assets.

Issues Arising

It is of utmost importance that all amounts recognised in the financial statements are appropriately supported by documentation and clear workings. Due care should be given to those amounts recognised as grant, released during the year, and disclosed as non-current and current liability in the financial statements.

The lack of appropriate information makes it difficult to assess if the grants were accounted for in line with the requirements of 'IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance'. Moreover, the Council was not able to provide explanations for the discrepancies found as mentioned above. We have qualified our audit report in this respect.

Recommendations

The Council should undertake a detailed exercise to reconstruct the grants workings by going through available documents such as: grant agreements; grant claims; actual expenditure covered by each grant; certifications to determine the starting date to release grant; grants received and deposited in bank statements.

From such information, the Council will be able to provide appropriate workings showing essential information for each grant and the accounting treatment for grants can be prepared in accordance with the income approach method as per the requirements of 'IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance'.

8. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

8.1. 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

The Council's financial statements lack certain disclosure requirements, as detailed throughout this management report in particular with respect to disclosure of related parties and related party transactions in note 22 which is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with as well as the disclosures, recognition and measurement in relation to accounting of effective interest for the amounts due under the PPP scheme are not in accordance with the requirements of 'IAS 39 – Financial Instruments: Recognition & Measurement'.

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

Recommendations

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

8.2. Financial Statements presentation and other matters

Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards.

Issues Arising

During our review of the financial statements approved on 11th March 2019, we noticed the following shortcomings:

- In the Statement of Comprehensive Income, from the line items 'Funds received from central government' and 'Administrative and other expenditure' in the 2017 column, deduct the 2017 release of grants to income of €92,993.
- The 2018 balance for 'Income raised under Local Council bye-laws' in the Statement of Comprehensive Income is not agreeing to the total balance in note 5 to the financial statements.
- The 2018 balance for 'General Income' in the Statement of Comprehensive Income is not agreeing to the total balance in note 7 to the financial statements.
- In the Statement of Financial Position, an additional column titled "As originally reported" should be included to show the audited balances as at 31 December 2017.
- In the Statement of Changes in Equity, the below amendments are required:
 - 'Surplus for the year' should read '**Profit** for the year'
 - 'Deficit for the year' should read '**Loss** for the year'
- In the Statement of Cash Flows, the below amendments are required:
 - From the 2017 line items 'Depreciation' and 'Grants released', deduct the 2017 release of grants to income of €92,993
 - The depreciation charge for 2018 is not agreeing to the depreciation charge in the Property, plant and equipment note (note 14)
 - The note number next to 'Cash and cash equivalents at the end of the year' should read **16** rather than 17.
- The disclosure regarding the change in the depreciation method, which was included at the end of page 10 should read as follows: *"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 Directive 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 retrospectively."*
- In note 8 to the financial statements, the disclosure for average number of employees should differentiate between Mayor & councillors and Employees.
- In note 14 to the financial statements, under the 'Depreciation' section of 2017, the total 'Adjusted' balance should read €488,289 rather than €1,292,460.

- The analysis of aged trade creditors in note 17 to the financial statements is not agreeing to the aged creditors list.
- Note 25 of the financial statements should be replaced with a note titled "Effect of Change in Accounting Policy" as follows:

"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 which, 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:"

A note showing the arithmetic implications of the change in accounting policy, similar in nature to a Prior Year Adjustment Note (2017 - As originally reported; Adjustments; 2017 - As restated) should be included here.

During our review of the audited financial statements which were approved on 29th April 2019, the following issues were noted:

- The addition for asset not yet capitalised should be shown under the category 'Assets not yet capitalised' in the PPE note rather than under the category 'Construction works'.
- The line item 'Inventories' in the Statement of Financial Position should be removed.
- The note 'Effect of Change in Accounting Policy' does not show the effect of the restatements in the Statement of Comprehensive Income.

Furthermore, it was noted that accounts 8008 and 8038 named 'Depreciation expense – Motor Vehicles' and 'Accumulated depreciation – Motor vehicles' amounting to €652.34 and €802.36 respectively relate to the depreciation of computer software. Therefore, the names of the accounts are misleading.

Recommendations

We recommend that financial statements are prepared in accordance with International Financial Reporting Standards and all necessary disclosures and adjustments are included. Most of the proposed adjustments were taken up by the Council in the revised financial statements.

9. GENERAL

9.1. Comparison of Actual Expenditure with the Annual Budget

Observations

Some items in the budget were classified as 'operations & maintenance expenses' while in the financial statements these were disclosed under 'administration expenses'. These include categories of expenditure such as rent, community, and hospitality.

Furthermore, we noted that some expenditure incurred based on the 2018 unaudited financial statements varied significantly (above 10%) when compared to the budgeted amounts. The variances identified are presented in the following table:

	Budget	Actual	Variance
	€	€	€
<u>Operations & maintenance</u>			
Repairs and upkeep	110,000	125,829	(15,829)
Contract and project management	7,500	26,344	(18,844)
Hospitality	32,000	50,776	(18,776)
LES related expenditure	1,000	1,285	(285)
<u>Administration & other expenditure</u>			
Information services	4,000	7,325	(3,325)
Office cleaning	4,019	5,182	(1,163)

Issues Arising

We bring to the attention of the Council the fact that the Council is regulated by paragraph P1.07 (b.05) of the Local Councils Procedures (1996 – Finance) KLP 1/96, which states that it should not spend more than its budgeted expenditure (usually based on the liquidity position and funds available). Furthermore, it is envisaged that if any expenditure category requires materially more funds than budgeted, an adjustment is undertaken to the said budget and duly approved by the Council.

The Council should compile the annual budget with due care and diligence to use it as a guideline to control its income and expenditure during the year. Using different reporting approaches will not guarantee uniformity in both documents and will be misleading to the users. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increase in income received.

Recommendations

In compiling a budget, each item of income or expenditure should be scrutinized 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 also 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.

9.2. Schedule of Payments

Observations

Various Schedule of Payments uploaded on the website www.lc.gov.mt had missing important information such as the invoice number, purchase order number, purchase request number, nominal account number.

Furthermore, we noted that the Schedule of Payments number 74 was not signed by the Executive Secretary on the second and third pages.

Issues Arising

The publishing of the schedule of payments is specified in Memo 89/2010, Memo 102/2010, Memo 59/2011 and Memo 10/2016. The template provided by the Local Councils Department specifies that information such as invoice number, purchase order number, purchase request

number and nominal account code should be listed on each schedule of payments. Furthermore, Schedule of Payments should be fully signed by the Mayor, Executive Secretary, Proposer and Seconder.

Recommendations

The Council should adhere accordingly to the requirements of the respective Memos.

9.3. Council meetings, minutes, and website

Observations

We noted instances whereby the Council's meetings started after 7.30pm without the unanimous consent of the Council.

We further noted that meeting number 58 was not held since a quorum was not reached however the Council failed to note this in the minutes section of the Council's website. The minutes of meeting number 58 do not include the time of the next Council meeting. Furthermore, we noted that the 2017 management letter was not uploaded on the Council's website.

Issues Arising

Chapter 363 Article 43(3) states that: *"Unless otherwise determined by the unanimous decision of the Councillors, meetings of the Local Councils shall not start before 5.30p.m. and later than 7.30p.m. and shall not last for more than three hours."*

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 and the provisions of the Local Councils Act accordingly.

9.4. Attendance to Council Meetings

Observations

It was noted that three councillors failed to attend to four consecutive Council's meetings or to at least one third of the Council's meetings called within a period six months.

Issues Arising

The Council has followed the requirements of the Local Councils Act in respect of one of the councillors. In the case of the other two councillors, however, the absences were not discussed during a Council meeting, and the Council did not inform the Minister of this fact and whether their post should be declared vacant or not.

Recommendations

We therefore recommend that, in the future, the Council abides with the requirements of the Local Councils Act regulating such situations and the guidance issued by DLG circular 17/2016.

9.5. Compilation of accounting ledgers in line with IFRS

Observations

All Local Councils' Financial Statements have to be prepared in line with the International Financial Reporting Standards (IFRS), however various deficiencies were noticed in the Financial Statements provided. Deficiencies were also found in the processing of the raw accounting data, in the accounts finalisation whereby fundamental reconciliations were not properly undertaken, while unknown balances were not appropriately tackled.

Issues Arising

Regular reconciliations need to be done when preparing the financial statements. Furthermore, financial statements should be prepared in line with the International Financial Reporting Standards.

Recommendations

The Council should ensure that financial statements are in line with the requirements of International Financial Reporting Standards and that the work provided by the accountant is prepared in conformity with the terms and conditions specified in Contract Document number KLM 06/2013.