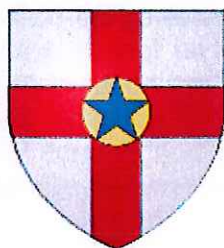


LOCAL COUNCIL MOSTA

Report to Management

for the financial year ended 31st December 2017





3a

MAY 21ST May 2018

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.

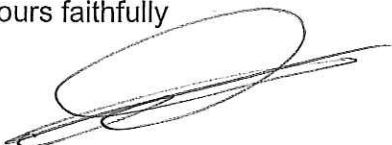
For clarity purposes, this report is distributed to your council, the National Audit Office and the Department of Local councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the period ended 31 December 2017, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding 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 black ink, consisting of a large, stylized loop followed by a horizontal stroke and a small upward flick.

Neville Cutajar
Partner

TABLE OF CONTENTS

1. FOLLOW-UP: MANAGEMENT REPORT PERIOD ENDED 31 DECEMBER 2016..	2
2. INCOME	6
3. PERSONAL EMOLUMENTS	9
4. EXPENDITURE	9
5. PROPERTY, PLANT AND EQUIPMENT	12
6. INVENTORIES.....	16
7. RECEIVABLES	16
8. CASH AND CASH EQUIVALENTS	17
9. PAYABLES	18
10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS	22
11. GENERAL.....	24

1. FOLLOW-UP: MANAGEMENT REPORT PERIOD ENDED 31 DECEMBER 2016

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 and invoicing

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

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 2.5 of our management report.

1.6. Personal Tax Deductions

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

1.7. Councillors' Allowances

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

1.8. Executive secretary salary and performance bonus

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

1.9. Other payroll shortcomings

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.

1.10. Reimbursement of mobile phone

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

1.11. Procurement procedures

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

1.12. Approval of Payments

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. Inappropriate documentation

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. Other expenditure shortcomings

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

1.15. 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 5.1 of our management report.

1.16. Depreciation

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.

1.17. Tangible Fixed Assets Labelling

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. Insurance Policy

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.

1.19. 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 5.6 of our management report.

1.20. Stock of books and maps

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.

1.21. Insurance on stocks

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

1.22. LES amount receivable

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

1.23. Trade receivables

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

1.24. Accrued income and prepaid expenditure

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

1.25. Supplier balances

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

1.26. Refundable deposits

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.

1.27. Other creditors

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

1.28. 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.

1.29. 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 9.4 of our management report.

1.30. 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.

1.31. Financial Statements presentation and variances between the Financial Statements and the Trial Balance

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.

1.32. 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 10.3 of our management report.

1.33. Twinning Projects

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

1.34. 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.

1.35. Council meetings

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

1.36. Attendance to Council Meetings

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.

1.37. Accountancy work

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 11.4 of our management report.

1.38. Liquidity position

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

1.39. Mid-term audit

There was no requirement for a mid-term audit during the year under review.

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 2017 reported income of €569.38 arising from Pre-Region contraventions, the income as per report 483 Pre-Regional amounted to €803.77.

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 variance of €234.39 with the LES report is 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 reconciliation should be prepared with the LES reports. Any discrepancies should be investigated, and corrective action should be taken. Such reconciliations should be kept for Council's records.

2.2. 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 €5,800 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:

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

Furthermore, the Council received income arising from skip permits amounting to €1,571.13, income from publications amounting to €50.10, and income from advertising on street furniture amounting to €23.74. This income has been disclosed under the income from permits and general income categories.

Issues Arising

Rent 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 have been informed that the Council has initiated the process of setting up such a bye-law.

Income arising from bye-laws is governed by General Bye-Law 'Skips (General Application) Regulations, 2000' (L.N. 241 of 2000), Local Council Bye-Law 'Advertisements on Street Furniture (Mosta Local Council) Bye-Laws' (S.L. 363.71), Local Council Bye-Law 'Organisation of Courses (Mosta Local Council) Bye-Laws' (S.L. 363.101), and 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, with reference to DLG circular 34/2016, focus its efforts to legislate a bye-law entitled "Use of facilities" in line with the requirement of having bye-laws set up to cover any income arising from non-government sources. Furthermore, the Council should ensure that income generated from bye-laws is accounted for and disclosed properly in its financial statements under the proper heading. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

2.4. Grants released to income

Observations

The Financial Statements show that the Council has released €92,993 from the deferred income account to the Statement of Comprehensive Income being release of grants provided to finance capital expenditure undertaken by the Council.

From the workings provided, in 2017, the Council released to income €8,476 from EU grant 'Archaeotur Project', €3,762 EU Grant 'Measure 313', €13,246 EU Grant 'Measure 323' and €8,157 Grant 'Cult project'. The release of these grants started prior to year 2017 but, as happened in previous years, the Council has still not provided a reconciliation of the amount of grants obtained with the grant agreements or with the total actual eligible costs refunded.

Issues Arising

Given the limitations specified above as well as the lack of information on the source workings and the basis and judgments undertaken by the Council in arriving to these amounts recognized in the financial statements, we could not confirm with reasonable assurance that the grants released to income were not materially misstated. Thus, our audit report was qualified on this matter.

Recommendations

The requirements of IAS 20-Accounting for Government Grants and Disclosure of Government Assistance, should be followed in order to apply the correct treatment with respect to recognition and measurement of grants received either for revenue expenditure or capital expenditure.

Furthermore, the Council should maintain adequate workings and supporting documentation of all grants obtained for capital expenditure items. Such workings should reflect the release of income on an annual basis to the depreciation of the asset covered by each respective grant.

2.5. Other income shortcomings

Observations

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

- The Council classified income received with respect to Greenpak Award 2016 as supplementary government income when this should have been classified as general income.
- 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. Summary of such items are as follows:
 - 1) €5,555 for refund of expenses;
 - 2) €250 in sponsorship income;
 - 3) €55 being other government income.

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 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 guide to users and decision-makers. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

2.6. Income not recorded in the appropriate accounting period

Observations

During the year under review, the Council received a rental contribution towards the running of the Mosta Day Centre for the Elderly in relation to 2016 amounting to €4,500 as well as a prize from Green Pak awarded in 2016. This income in both cases was recognised in the current year financial statements although it related to 2016.

Issues Arising

The Council is obliged to ensure that all revenue is properly accounted for and recognised in line with the requirements of IAS 18 Revenue Recognition. Income relating to a particular year, even though it is not yet received at year end, should be estimated and accounted for as accrued income. All such income should be accounted for appropriately in its financial statements, based on the requirements of the "accruals concept" of accounting and revenue recognition requirements arising from IAS 18 Revenue Recognition.

Recommendations

The Council should follow the provisions of IAS 18-Revenue Recognition and ensure that all income is properly recorded in the year in which it is generated as well as that all income is properly accounted for and properly categorised in the nominal ledger.

3. PERSONAL EMOLUMENTS

3.1. Payroll shortcomings

Observations

Further to our review of the payroll workings, we noted that the Council accrued for the statutory bonus and the government weekly allowance of one employee only, who terminated her employment on 31 January 2018. The amount of €23.14 was accrued for in relation to the statutory bonus for the month of January 2018, while €83.88 was accrued for with respect to the government weekly allowance for the period 1 October 2017 until 31 January 2018. The bonuses were paid to the employee upon termination in January 2018.

Issues Arising

The accrual for the bonuses of the employee is overstated by €46. On the other hand, the Council did not accrue for the bonuses of the other employees for the period 1 October – 31 December 2017, this resulting in an under-accrual of €424. For consistency purposes, the Council should not have accrued for statutory bonuses

Recommendations

The Council should prepare accounts in compliance with the "accruals concept" of accounting in line with the generally accepted accounting principles and International Financial Reporting Standards. Bonuses payable after year end should be checked carefully to determine if any amounts should be accrued for and included in the correct accounting period. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

4. EXPENDITURE

4.1. Procurement procedures

Observations

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

- The Minutes of Tenders' Opening I Appendix in respect of tender KLMT-05-2017 'Cleaning Services at the Mosta Local Council Premises in an Environmentally Friendly Manner' awarded to Elton John Zammit, and in respect of tender KLMT-06-2017 'Tender for the Provision of Service for the Cleaning and Upkeep of Public Conveniences in Mosta in an Environmentally Friendly Manner' awarded to G.3.B 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 Ivan Bartolo, Keith Cassar and Mark Micallef Costa KLMT-05-2017 'Cleaning Services at the Mosta Local Council Premises in an Environmentally Friendly Manner' awarded to Elton John Zammit, and in respect of tender KLMT-06-2017 'Tender for the Provision of Service for the Cleaning and Upkeep of Public Conveniences in Mosta in an Environmentally Friendly Manner' awarded to G.3.B.
- 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 on 29/07/2016. The Council procured €39,507.68 during the year under review.
 - Provision of services of a Maintenance Hand / Messenger for the Mosta Local Council expired on 31/05/2015. In 2017, the Council procured €35,982.41.
 - Maintenance of Traffic Signs and Road Markings contract expired on 31/08/2016. The Council procured €10,029.12 in 2017..
 - Tender for the provision of Accountancy Services for the Mosta Local Council expired on 14/11/2016. The Council procured €4,699 in 2017.
 - Tender for the provision of Insurance Services for the Mosta Local Council expired on 30/04/2017. No services were procured after the contract expired.
 - Tender for the installation and maintenance of street lighting contract was expired as well. In 2017, the Council procured €10,029.15 of such services.
- Direct orders awarded for IT services to 'PWC Malta Technology Services Limited' during January to June 2017 amounting to €3,180.

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 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.

In the case of the street lighting contract, the Council is quoting 19(1)(a) Subsidiary Legislation 363,160, as one of the functions of the Regional Committee should be to provide for the proper upkeep and maintenance of street lighting in accordance with national and international standards. However, Memo 34/2013 and directive 50/2016 required the issue of street lighting services tender for a full year with the possibility that such contract can be extended for a maximum of three years.

Recommendations

The Council should comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensure that all tender offers considered have their documentation fully in line with the procurement and tendering requirements. The Council should also issue calls for quotations or tender for the procurement of any good or for the provision of any service in value exceeding €1,165 in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996. Such requirement extends to same nature items procured from the same supplier over a period of four months.

4.2. 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 are the payments noted to be issued prior to approval:

<u>Supplier</u>	<u>Amount-€</u>	<u>Cheque no.</u>	<u>Cheque date</u>	<u>Council's approval date</u>
Civil Protection	3,299.72	5421	23/06/2017	24/07/2017
Philip Azzopardi	2,171.98	5500	03/08/2017	28/08/2017
Philip Azzopardi	2,386.28	5733	04/12/2017	18/12/2017
DP Road Construction Ltd	6,044.75	5315	28/04/2017	15/05/2017
DP Road Construction Ltd	7,574.31	5316	28/04/2017	15/05/2017
DP Road Construction Ltd	560.00	5488	25/07/2017	28/08/2017

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.

The Council informed us that the first payment was a deposit for a service and was urgent while the other payments had to be made since they relate to contracts and could not wait until the Council meeting.

Recommendations

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

4.3. Inappropriate documentation

Observations

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

<u>Description</u>	<u>€</u>	<u>Date</u>	<u>Nominal account</u>	<u>Supplier</u>	<u>Cheque no.</u>
Lift repairs	1,132.80	31/01/2017	2210/003	Topserv Ltd	5233
Noel Fabri	253.50	03/10/2017	2995/000	Malta Libraries	5619
Lift Repairs	2,997.20	15/05/2017	2310/003	Topserv Ltd	5404

The Council has provided an architect's certificate for the below two items of expenditure, however the purchase invoice was not provided. We also noted that although VAT receipts were provided by the service provider, they were not dated:

<u>Description</u>	<u>€</u>	<u>Date</u>	<u>Nominal account</u>	<u>Supplier</u>	<u>Cheque no.</u>
Waqqaqa patching	1,481.97	02/02/2017	2310/002	Ell's Urban Services Ltd	5219
Patching	1,925.96	17/04/2017	2310/002	Ell's Urban Services Ltd	5335

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

An appropriate tax invoice should be obtained for all the expenditure incurred by the Council in the future. This also applies even when the works are certified by an architect. The same concept applies to VAT fiscal receipts. 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.

5. PROPERTY, PLANT AND EQUIPMENT

5.1. Fixed Asset Register (FAR) upkeep and reconciliation

Observations

The Council has stated that a Fixed Asset Register is being maintained, however this has not been provided during the course of the audit to substantiate the amounts of fixed assets as recognised in the financial statements. The total net book value of the reported fixed assets as at year-end amounts to €2,680,480.

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.

In view of the lack of proper FAR being maintained by the Council, we have qualified our audit report on the basis that there were no practical ways of obtaining reasonable assurance on the completeness of the fixed assets recorded and the depreciation calculated and recorded in the financial statements.

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.
- The reconstructed FAR should agree with the amounts of the property, plant and equipment in the financial statements.

5.2. Depreciation

Observations

The depreciation charge for the year as per the unaudited financial statements amounts to €279,492. The depreciation charge is not being calculated and posted on a monthly basis through the FAR in Sage Pastel Evolution® as required by the Financial Procedures (1996 – Finance), but is being accounted for through a journal entry on an annual basis.

Upon analysis of the depreciation workings provided by the Council, it was also noticed that computer equipment assets were depreciated at the rate of 20% instead of 25% as per the Council's depreciation policy.

Issues arising

The Council is not maintaining depreciation calculations and posting requirements as mentioned in the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). In view of this, we have qualified our audit report.

Recommendations

The Council should rectify its position with respect to the recognition of depreciation by accounting for depreciation through the FAR incorporated within Sage Pastel Evolution® accounting software on a monthly basis after setting up a Fixed Asset Register as recommended in point 5.1 above.

5.3. 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 carry out an exercise to label all the fixed assets using the same FAR code. The assets tagged should be reconciled with the FAR as this makes it easier to trace assets that need to be disposed.

5.4. 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, urban improvements amounting to €120,000, and plant and machinery amounting to €47,000.

The Council's total cost of fixed assets, excluding amounts not yet capitalised and special programmes as disclosed in its unaudited financial statements amounts to €3,756,843 of which €166,626 relate to furniture and fittings, €152,021 relate to office and computer equipment, €52,544 relate to plant and machinery, €37,169 relate to trees, €588,656 relate to urban improvements and street signs, and €2,759,827 relate to construction works.

Issues Arising

Subsidiary legislation 363.01 clearly states that the above asset categories should be adequately covered by an insurance policy. Such requirement was further remarked 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 once the FAR has been fully reconstructed 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.

5.5. Capital Commitments

Observations

During our review of the financial statements, it was noted that the amount of capital commitments as per note 21 to the financial statements does not agree with the capital commitments as stated in the Annual Budget for 2018.

Issues Arising

Whereas in the note to the financial statements, no capital commitments were disclosed, the Annual Budget for 2018 shows a budgeted capital expenditure of €10,000. We were informed by the Council that the expenditure is not disclosed in the financial statements since it covers office equipment additions which might take place during the year.

Recommendations

We recommend that capital commitments are properly assessed and disclosed, so as not to misguide users of financial statements As well as that all such disclosures are consistent in the various financial reports issued by the Council.

5.6. Capital Expenditure vs Revenue Expenditure

Observations

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

- Purchase of a microwave (€119) .
- Purchase of house chair (€209.57)
- Purchase of Microsoft Office (€725.70)

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.

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

5.7. Categorization of assets and depreciation thereof

Observations

The Council has categorised the following assets in different incorrect asset categories, with the consequence that these are being depreciated with an incorrect depreciation rate:

- The Council purchased a chair, frames, blinds, a table and a separator glass amounting in total to €1,657.64. These have been recognised as Office equipment when these should have been allocated under Office furniture and fittings.
- The Council also purchased laptops, computers and back-up equipment amounting in total to €4,051.47. These were incorrectly categorised as Office equipment when they should have been recorded as Computer Equipment.

Issues Arising

Having assets categorised incorrectly in different asset categories will lead to incorrect calculation and posting of depreciation not in line with the accounting policy of local councils as stipulated in note 2 of the financial statements.

Recommendations

The Council should reclassify accordingly, in both the FAR and the financial statements, any assets wrongly categorised as well as undertake the necessary adjustments to the depreciation provision charged on such assets. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

6. INVENTORIES

6.1. Stock of books, maps and stickers

Observations

During the year under review, the Council has completely written off the stock of books and maps held-for-resale amounting to €14,882.87. The Council advised that the stock is still held at the Council's premises but given that few sales were noted a write-off was recorded.

Furthermore, the Council purchased reflective stickers costing €433.06 during the year. Although the Council advised us that these stickers are being held-for-resale, the purchase was recorded as an administrative expense in the accounts.

Issues Arising

IAS 2 – Inventories, states that the value should be recognised at the lower of cost and net realisable value. On an annual basis, the Council should undertake a review of the net book value of its stock to assess whether its net book value has failed below the cost of the stock in hand and therefore require adjustment.

In line with the requirements of IAS 2 Inventories, items classified as inventories consist of assets held for resale,. It is clear that both the publications of books, maps and reflective stickers falls within the scope of the definition as per IAS 2. The Council has therefore not followed properly the requirements of this standard, even in its approach in writing down the cost of its inventory. We have qualified our audit report in this respect.

Recommendations

The Council should value its stock in line with IAS 2 – Inventories and hold proper documentation to substantiate the stock value. It is also advised that the Council introduces a perpetual inventory control system to record the quantities of books being sold or given on a complimentary basis from time to time to reflect such movement in its accounting records. A list of any complimentary books should be tabled during a Council meeting for approval.

Furthermore, at the end of every financial period end, a stock count is to be carried out, a cost value is assigned to each stock item, and the balancing stock figure is recorded in the financial statements in line with the accounting policies on "Inventories" set out in the Appendix to the Local Councils Procedures (2006 Audit) and the provisions of IAS 2 – Inventories.

7. RECEIVABLES

7.1 Trade debtors' balances reconciliations

Observations

Receivable balances are not always being reconciled on a regular basis with the respective trade debtors. We noted that as per the Council's books, the amount due to the Northern Regional Committee amounts to €1,946.72. However as per amount due as per the Northern Regional Committee, this amount to €1,566.98, which was settled after year end. Hence a variance of €379.74 is arising between the Council's books and the books of the Northern Regional Committee.

Issues arising

The lack of proper reconciliation and the follow up of any variances could result in difficulties when trying to recover the debts due. In fact, the Council already has a number of debtors' balances, amounting to € 7,588 which it has provided for since they probably are not recoverable. The Council could therefore end up again in a situation where it must provide for such balances or write them off.

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 in its books. Such procedures will help to recover the dues and will be able to provide proof of outstanding debts in case of litigation.

7.2 Accrued Income

Observations

During our testing, it was noted that the Council has over accrued advertising income by €116.45. Furthermore, the Council has over accrued income in relation to refund by DLG in relation to tipping fees by €4,676.24.

Issues Arising

Although the amount in question is not material to warrant an adjustment, 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 accrued income.

Recommendations

The Council should ensure that a proper assessment is done at the end of every financial reporting in order to identify all the items of accrued income and that these have to be reflected accordingly in the financial statements. Further to our recommendations, the necessary adjustments with respect to the over-accrual of tipping fees were included and the financial statements were rectified by the Council accordingly.

8. CASH AND CASH EQUIVALENTS

8.1. Petty cash expenses

Observations

During the course of our audit, we noted instances whereby petty cash expenditure exceeded the maximum amount stipulated of €23.29 as follows:

<u>Date</u>	<u>Voucher no.</u>	<u>Description</u>	<u>Details</u>	<u>Amount-€</u>
08/03/2017	51	Grognet Pharmacy	First aid box	23.98
19/05/2017	118	C&X Ironmongery	Ironmongery	24.60
20/06/2017	131	C&X Ironmongery	Ironmongery	24.00

Issues Arising

It is important to note that petty cash disbursements cannot exceed €23.29 as per Local Council Procedures 1996 (Finance) – KLP 1/96 – P1.07 (b).

Recommendations

The Council should ensure that it abides with these procedures for all petty cash payments.

8.2. Variances in bank balances reconciliation

Observations

During our testing of the bank balances, we noted that in BOV current account 40019032061 there was an unreconciled variance amounting to €17.76 between the balance as per bank statement and the balance as per nominal ledger:

In addition, the bank reconciliation of the BOV bank account 40019021441 was not prepared properly as at 31 December 2017. As per the bank reconciliation, there were two reconciling items as at year-end amounting to €500 in total which consisted of two deposits received from permit holders which were not yet banked until year-end. Nevertheless, it was noted that these were deposited on 27 June 2017 and 28 November 2017 respectively.

After further investigation, the Council informed us that the reconciling item was in actual fact a cheque collected from a permit holder on 2 May 2017 of €500. The cheque was not deposited in the bank and was collected by the permit holder on 3 October 2017. We further noted that this cheque was originally credited in account 4053 'Refundable deposits account' however, due to an error in Sage Pastel, the Council could not extract the necessary information from the system for us to confirm whether or not this cheque was debited in the respective bank account upon receipt, and whether or not it was reversed in the accounts upon collection. From the list of refundable deposits kept by the Council, we noted that the cheque was still being listed as a deposit not yet refunded as at year-end.

Issues arising

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.

9. PAYABLES

9.1. 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 €54,436. The Council's administration also keeps a detailed list of the permit holders' deposits and movements in deposits refunded. A variance of €2,799 was noted between the balance as per the nominal ledger and the balance as per the list of refundable deposits. After further investigation, the Council provided us with an updated list whereby the variance was reduced to €61.

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 2017, in aggregate, €55,828 were held in these bank accounts.

The list includes deposits on permits covering the period 2007-2017. From a sample selected, we found that the list contains deposits for works that were completed by 31 December 2017. 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 €270 and €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.

9.2. Other creditors

Observations

An amount of €13,370 was recognised as other creditors with respect to 'Rent due to Lands Department'. No supporting documentation was provided for this balance.

Furthermore, the Council has a balance of €329 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. No supporting documentation was provided for this balance.

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

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

9.3. Deferred Income

Observations

No sufficient information and supporting documentation were provided as evidence of these deferred income balances:

- €80,237 - 'EU Grant - Archaeotur Project';
- €35,615 - 'EU Grant - Measure 313';
- €125,394 - 'EU Grant - Measure 323';
- €77,221 'EU Grant Cultural Exchange'.

During the prior year, €301,786 were reclassified from grants classified under 'Property, plant and equipment' to 'Deferred income'. The Council still has not provided the requested information to justify the basis for such reclassification and a detailed analysis of how this reclassified amount is split between 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.

Moreover, the following weakness was found in the workings of the deferred income provided by the Council for the year under review:

- The opening deferred income in 2017 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.

9.4. 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. The amounts should be payable as agreed till year 2020 for Batch 1 and till year 2018 for Batch 2.

In the financial statements, the Council has recognized €44,883 as short term 'Accruals – PPP' and €53,080 as a non-current liability 'Third party borrowings'.

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.

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1. Disclosures required in respect of certain IFRS

Observations

The financial statements prepared and approved by the Council are not compliant in all respects with the requirements of the International Financial Reporting Standards. Disclosures emanating from certain accounting standards appear to be missing.

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 20 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

Financial statements should be prepared in accordance with the International Financial Reporting Standards and all necessary prescribed formats and disclosures are to be shown.

10.2. Financial Statements presentation

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 12th February 2018 we noticed the following shortcomings:

- In the Statement of Comprehensive Income, 'Operating Surplus for the year' and 'Surplus for the year' should read 'Operating **profit** for the year' and '**Profit** for the year' respectively.
- The balance for Property, plant and equipment as at 31 December 2017 in the Statement of Financial Position does not agree with the balance in the Property, plant and equipment note (note 13).
- In the Statement of Cash Flows, the below amendments are required:
 - 'Surplus for the year' should read '**Profit** for the year'
 - The depreciation charge for 2017 is not agreeing to the depreciation charge in the Property, plant and equipment note (note 13)

- 'Decrease in payables and other payables' should read '**(Decrease)** in payables and other payables'
 - 'Decrease in long-term liabilities' should read '**(Decrease)** in long-term liabilities'
 - Under the section 'Cash Flows from Financing Activities', there should be a sub-total with the description: 'Cash used in financing activities'.
- In note 2 to the financial statements [page 8], please replace 'Regional Committee' with 'Local Council'.
 - In note 2 an accounting policy for 'Intangible Assets' should be included.
 - In note 2 to the financial statements [page 13], under the heading 'Profits and losses', please replace the word 'surpluses' with 'profits'.
 - In note 2 to the financial statements [page 13], under the heading 'Cash and cash equivalents', please replace 'Cash Flow Statement' with 'Statement of Cash Flows'.
 - In note 2 to the financial statements [page 13], under the heading 'Capital management', the sentence 'This ratio was negative at the reporting date.' should read 'This ratio was **positive** at the reporting date.'
 - In note 8 to the financial statements, please replace the word 'Surplus' with 'Profit'.
 - In note 9 to the financial statements, there is no disclosure for average number of employees.
 - In note 16 to the financial statements, please replace 'Cash Flow Statement' with 'Statement of Cash Flows'.
 - Note 17 to the financial statements does not include the analysis of trade creditors.
 - In note 24 to the financial statements [page 23], under the heading 'Credit risk', the first sentence should read 'Financial assets which... of cash at bank **and** debtors'.
 - In note 24 to the financial statements [page 24], under the heading 'Other risks', the second sentence should read 'However, the Council... since **it** does not have...'.

Recommendations

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

10.3. 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. Other items such as income from permits were classified as 'income raised from bye-laws' in the budget while in the financial statements these were classified under 'general income'.

Issues Arising

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.

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.

11. GENERAL

11.1. 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.

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.

Recommendations

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

11.2. Council meetings

Observations

Council meeting 38 which was held on 13 March 2017 lasted more than three hours. In the minutes, there is no reference that it was resolved unanimously to continue with the meeting after the three hours had elapsed.

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

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."*

Recommendations

The calling of, and procedures to be followed during Council meetings should be in accordance with the relevant provisions of the law.

11.3. Attendance to Council Meetings

Observations

It was observed that one councillor has failed to attend to four consecutive Council's meetings and to at least one third of the Council's meetings called within a period six months.

Issues Arising

The Council informed DLG that the councillor's absence was not justified. However, as noted and communicated by DLG, this issue had to be first discussed during a Council meeting. We noted that the Council subsequently discussed the councillor's absence, and this was resolved to be for a justifiable reason. Nonetheless, the Executive Secretary, in line with the provisions of the Local Council's Act, Article 18, and guidance by DLG circular 17/2016, should have re-informed the Minister of this fact and recommended if the post should be declared vacant or not.

Recommendations

We therefore recommend that in the future, the Council abides with the requirements of the Local Council's Act regulating such situations.

11.4. Accountancy work

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.