



Reply to Management letter for year ending 2017

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
2.1	Local Enforcement System (Pre-Regional)	<p>By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31 December 2017. During the year under review, the Council has been correctly recording any cash receipts received by the Joint Committees/LESA as well as receipts from Pre-Regional contraventions. However no proper distinction has been made between LES pooling and pre-pooling receipts. Income received in relation to LES pooling and pre-pooling receipts amounted to €856.</p> <p>One also has to note that the Joint Committee function ended in August 2011 in view that from September 2011 the Local Enforcement System was delegated to Regional Committees, which delegation has now been passed to LESA as from October 2015. The Council received an amount of €11,682 from LESA, which was also amalgamated with the above LES pooling and pre-pooling receipts.</p>	In view of the absence of an audited annual report from the North Joint Committee covering the period from the formation date to dissolution date, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the completeness of amounts being recorded in the financial statements as income and expenditure arising from the Local Enforcement System in relation to Pre-Regional contraventions. In this respect, we have qualified our audit report.	The Council should put pressure on the North Joint Committee so that the latter would produce the required financial reports outstanding 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.	This is an issue beyond Local Council's control and is a recurring issue. Issue should preferably be dealt with by the DLG.
2.2	Income from Bye-Laws	A portion of the income arising to the Council and being recognised in its financial statements consists of income from bye-laws. Included in this income is income arising from rent of the council hall. Income from this source amounted to €627.83.	The Council does not have a bye-law in place to regulate income derived from hire of council facilities. To this effect such income should have been recognised and disclosed as general income.	The Council should set-up a bye-law entitled "Rental of Council Hall" in line with the requirement of having bye-laws to cover any income arising from non-governmental sources. It should also ensure that all income arising from bye-laws should be properly disclosed in the proper note within the financial statements and other income should be disclosed separately.	Bye Law has since been drafted and approved and will be sent to the DLG for approval.
2.3	Classification of income	We noted 'Income from Permits' include income from skips, cranes, kiosks, outside and other activities and hoarding and scaffolding permits. The Council has a bye-law for skip permits only. All these were included under 'Income raised from Bye-Laws' in the financial statements.	The short-comings listed above distort the classification of income earned by the Council during the year under review as reported within the financial statements. It is important that income is properly categorised for better understanding and comparability by the users and decision makers of the Council.	The Council should ensure that income generated from bye laws is accounted for and disclosed properly in its financial statements under the proper heading. Therefore, we proposed to reclassify income raised from such permits for which no bye-law is in place, to 'General Income'. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified accordingly.	As noted by the Auditors adjustments were made and financial statements rectified as suggested by Auditors.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
2.4	Supplementary Government income	The Department of Local Councils (DLG) once again in 2017 has committed itself to make up for the difference between the annual allocation for tipping fees and the actual fees charged by Wasteserv Malta Ltd. The Council has accounted for such income on a cash basis and thus the income is only recognised in the accounting period when the DLG issues the payments.	Throughout 2017 the DLG has affected payments of €49,992.96 covering the 2015 and 2016 tipping fees difference. This was previously accrued for in 2016. However, payments by the DLG covering the remaining of 2016 and 2017 tipping fees difference has not been made by end of 2017 and this has been omitted from being reported as supplementary government income in the financial statements of 2017. The estimate of this accrued income is of € 41,353.	The “accruals basis” of accounting should always be applied by the Council and ensure that all accrued income is appropriately recognized in the financial statements. Further to our recommendations, the necessary adjustment in relation to the accrued income for 2016 and 2017 tipping fees not yet settled by end of year were included and the financial statements were rectified by the Council accordingly.	As noted by the Auditors adjustments were made and financial statements rectified as suggested by Auditors.
2.5	Income recognized on a cash basis rather than on an accrual basis	Following tests on the income of the Council, it transpired that income of €1,389.89 relating to crane permits, community services and renewal of directional sign for 2018 was fully recognised in 2017 when the amount should have been deferred to 2018.	Since a portion of the income received in the current financial year relates to the year 2018, this income should have been recognised as deferred income in the financial statements in line with the requirements of IAS 18-Revenue Recognition.	Income should be correctly recorded as it arises rather than when it is received, and recognition should be properly undertaken in line with the requirements of IAS 18-Revenue Recognition. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.	We feel that this is very much debatable since we believe that money collected for permits is for the service being provided at application stage. As a matter of fact permits are non-refundable and therefore any income from permits will not change. Still since we were in time to make adjustments, we did so as noted by the auditors.
2.6	Annual financial allocation	In its financial statements originally approved on 20th February 2018, the Council recognised the amount of €957,502 as annual financial allocation received from Central Government. According to official data published by the Department of Local Councils, the Council should have received the amount of €958,003.	Upon reconciling the difference, it transpired that adjustments for €120 representing the use of internet access for public and €381 representing MITA deductions, were omitted from the Council’s nominal ledger.	The Council should make sure that both on a quarterly and annual basis, the recognition and disclosure of the annual financial allocation should tally exactly with the official documentation published by the Department for Local Councils. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.	As noted by the auditors statements were rectified and adjustments done. For 2018 we will do our best to record them correctly.
3.1	Final Settlement System (FSS) payments on time	In the process of verification of the statutory requirements by virtue of Legal Notice 88 of 1998, which provides for the Final Settlement System (FSS) Regulations, it was noted that payments of FSS (income tax) and SSC (social security contributions) deductions for the month of October 2017 were not remitted to the Inland Revenue Department by due date.	These falls due by the end of one month following the month being paid. It should be highlighted that by virtue of Legal Notice 88 of 1998, the Inland Revenue Department may from time to time enforce penalties for late filing at 1% interest per month on FSS amounts due.	It is therefore important that all amounts due in relation to FSS/SSC are paid in accordance with the time frames stipulated by the law.	This was a one-off exception and the Council did not incur any penalties. Every effort will be made in the future to possibly eliminate such instances.
3.2	Personal Tax deductions	FSS was not deducted correctly with respect to some of the employees of the Council.	Having FSS calculated incorrectly will result in an under or over payment as at year end, which balance will need to be payable to the Inland Revenue Department or refundable by the Inland Revenue Department. The scope of the FSS system is that income tax is deducted correctly in order to avoid time consuming adjustments.	The Council should ensure that an FS4 is properly filed with IRD for every Councillor and employee and that proper FSS is deducted in line with the requirements of by the Income Tax Act.	Every effort is made to avoid any errors throughout the year however it is within human nature to do mistakes. It is for this reason that there are processes in place to be able to correct any errors (through end of year FSS reports). Once reconciliations are carried out, any noted errors are rectified accordingly in time for the end of year reports. We are not aware that there were any errors in the original financial statements.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
4.1	Tendering procedures	<p>We encountered the following shortcoming throughout in the tendering procedures in relation to procurement issued in the current year:</p> <p>☒ The evaluation report for tender 02/2017 ‘Tender for the provision of trees, shrubs, pots, and planting material’ awarded to Piscopo Gardens was not signed by the evaluators.</p>	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.	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 ensures that all tender offers considered have their documentation fully in line with the procurement and tendering regulations.	Auditors comments have been noted however we must point out that the actual and definite confirmation of approval of the report is done electronically on the epps system by each evaluator. This was in fact done as otherwise the Council would not be able to proceed with the award.
4.2	Renewal of contracts and expired contracts	<p>We have identified instances whereby contracts have expired but the services are still being provided without the issue of a new tender offer. The following are the expired contracts for which the Council is still in the process to issue a tender:</p> <p>☒ Upkeep and Maintenance of Parks and Gardens</p> <p>☒ Cleaning of Civic Centre</p> <p>☒ Public Convenience</p> <p>☒ Upkeep and Maintenance of Footpaths and pedestrian streets</p>	Each adjudicated contract shall remain valid for the contract period stipulated by the tender and once expired, a new tender offer needs to be issued.	We thus 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.	This issue is already being addressed. A new staff member has been tasked with the co-ordination of tenders and action to issue the mentioned tenders has already commenced.
4.3	Procurement for Maintenance of Street Lighting	During the year under review an amount of €18,579.42 was procured as service of installation and maintenance of street lighting under the terms of a contract which is expired. No new tender was adjudicated as the Council is expecting that such service will be formally taken over by the Regional Committee.	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 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.	The Council should follow the recommendations of Memo 34/2013 and initiate the process for issuing a tender to cover street lighting expenditure. The Council should also comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensure that all tender offers considered have their documentation fully in line with the procurement and tendering requirements	As agreed at Regional Committee level and approved by the DLG, the tender was issued from their end. We are aware that the process took much longer than expected however contract has now been awarded. One should appreciate that in the absence of a fresh contract, the Council had no option but continue offering services utilising previous contract which in actual fact meant a huge savings.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
4.4	Approval of Payments	<p>The following payments were made during the year under review prior to these being approved in a Local Council meeting:</p> <p>Payment to OHSA for fine amounting to €250 (chq 21260) – The Council received a letter which specified that the fine should be paid within 15 days from the date of letter.</p> <p>Payment to 21st Century Travel for the amount of €850 (chq 20845) – The Council stated that in case of flight tickets the Council has to pay immediately; otherwise the fees may get higher by the time they are approved.</p> <p>Payment for Health Scheme for the amount of €765 (chq 20368) – The Council stated that they are bound to offer a health scheme to all staff members and the DLG had, in the past, approved that Councillors too may benefit from health scheme. In this regard, the AKL had taken the initiative to get a group package and hence the reason the Council pays directly to AKL. The deadline for payment was 23/01/2017 and therefore the Council had no option but to pay prior to Council’s official approval.</p> <p>Payments to Jurgen Attard and Victor Mula of €1,587.69 and €1,760.26 respectively (chq 20591 and 21164) – the Council explained that the handymen are paid after the last working day of the month.</p> <p>Payment to GasanMamo Insurance Ltd amounting to €1,444.33 (chq 20346) - Being a fee related to a Court case, the Council had to pay such fine at the earliest possible so as to avoid further legal fees.</p>	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 should ensure that all payments to supplier are, where appropriate, first approved and sanctioned by Council prior to these being settled	Unless there are exceptional circumstances, NLC ensures that payments are effected only once they are approved by the Local Council. We are pleased that whilst noting these instances, the Auditors also included Council's justification. As a result we confirm the listed justifications.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
5.1	The upkeep of the Fixed Asset Register (FAR)	<p>The Council is maintaining a Fixed Asset Register however its composition is not in line with best practice and in terms of the Local Council Procedures (1996 – Finance) KLP 1/96, P1.16b. A number of deficiencies have been noted as follows:</p> <p>☐The description of the asset in the FAR card does not always contain the desired detail. For example, we noticed items such as “CONS019 – Tikhil u zebgha”; “CONS027 – Kurduna”; and “PAV010 – Concrete”. These generic descriptions defeat the ultimate scope of maintaining a FAR. We also noted items such as “PAV031- Triq is-Sejjieh and Triq San Gorg Paving works “which are included as one item in the FAR, when these should be identified separately.</p> <p>☐There is no common reference in the description of the asset in the FAR and the related transaction in the nominal ledger.</p>	<p>The upkeep of a proper Fixed Asset Register is of utmost importance to the Council. The Fixed Asset Register is deemed as one of the principal accounting ledgers of a Council, which enables the Council to maintain its control of capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.</p> <p>Asset recording as well as its specified location is of particular importance to tighten controls on physical existence and eventual asset disposals. There may be cases where the assets, especially those located in the outer environment, may be exposed to theft, vandalism, arson or extreme natural elements.</p> <p>The incorporation of a proper fixed asset register within the Council’s books is conducive to better safeguarding the assets and makes it easier to regularly reconcile the physical existence of the assets with the amounts in the nominal ledger.</p>	<p>The incorporation of a proper fixed asset register within the Council’s ledger is conducive to better safeguarding of the assets and makes it easier to regularly reconcile the physical existence of the asset with its record keeping in the ledgers.</p> <p>The Council should therefore take the following factors into consideration:</p> <p>☐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 reconciliations between the two ledgers easier in case of variances and discrepancies.</p> <p>☐The assets should be correctly categorised under specific asset category relating to their nature and the application of the depreciation rate should be in conformity with the accounting policies as noted in paragraph 5.3 below.</p> <p>☐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. This would be useful for insurance claims and asset disposal adjustments.</p>	<p>During the last and previous years a lot of work has been undertaken by the NLC to bring the FAR up to date. In fact to a large extent there was a marked improvement. We took note of the recommendations by Auditors and will do our best to comply accordingly. However one should keep in mind that correcting issues dating back years may not be so easy to adjust.</p>
5.2	Reconciliation of Asset Categories in Fixed Asset Register to Nominal Ledger	<p>We reconciled the fixed asset category amounts as per nominal ledger with the fixed asset category amounts in the Fixed Asset Register (FAR) and it was noted that the cost and the depreciation in the Financial Statements of certain asset categories do not agree with the corresponding amounts in the FAR.</p> <p>With regards to street signs these have been fully provided for in the nominal ledger and financial statements, however as per Fixed Asset Register, this was not the case. The following are the differences found: (see list)</p> <p>The variance of Euro 888,087 in the depreciation of Special Programmes should be offset with grants amounting to Euro 896,827. Furthermore, Street Lighting is stated as New Street Signs in Note 11 of the financial statements.</p>	<p>The Fixed Asset Register is a subsidiary ledger to the nominal ledger, and therefore it should be in agreement therewith at all times. Non-agreement can lead to a number of issues, such as variances arising, lack of proper depreciation on all assets as applicable and so forth.</p>	<p>The Council should reconcile and adjust the amounts as per FAR and nominal ledger and reallocate the balances from one asset category to another as required.</p>	<p>Action has already been taken to correct as per Auditors' recommendations.</p>

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
5.3	Depreciation	<p>Depreciation charge for year amounts to €164,458. The Council has a Fixed Asset Register, and depreciation is properly calculated and posted through the Fixed Asset Register in Sage Line 50 on a monthly basis, as required by the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002).</p> <p>However, we noted that the Council has categorised some assets in different incorrect asset categories, with the consequence that these are being depreciated with an incorrect depreciation rate. For example, trees and playing field equipment are being depreciated at 10% under special programmes, computer equipment is being depreciated under office equipment, street signs are depreciated under urban improvements when these should be written off and so forth.</p> <p>We have also noted that computer software has been separately categorised in the FAR, but it is not being separately disclosed in the financial statements in line with the requirements of IAS 38-Intangible Assets.</p>	The observations above indicate that asset depreciation of distinct assets is not being made in line with the policy disclosed in note 2 to the financial statements – Accounting Policies and Reporting Procedures - property, plant and equipment in view of incorrect categorisation of such assets. We have qualified our audit report in this respect.	The Council should rectify its position accordingly and carry out the necessary amendments and/or reclassifications so that the net book value of property, plant and equipment shows a true and fair value in line with the respective policies as well as ensure that depreciation rate is properly allocated and then depreciation commences from when an asset is placed in use.	The NLC would do its best to rectify its position however we would need Auditors' assistance to specify and clarify further especially as to whether to include all assets under one project or to separate each and every item from one complete project. We believe that it makes more sense to categorise one complete project as a whole rather than breaking it down to categorise different items of same project separately. With regards to the computer software, unless the auditors are referring to something different, we do not agree with the comment since it has been in fact disclosed separately as an intangible asset.
5.4	Accounting for intangible assets	The Council has invested, through the application of EU funding, in a Mobile Application amounting to €227,000 in 2015. This has been accounted for in the financial statements and in the Fixed Assets Register (FAR) under the “computer equipment” category.	Such applications fall under the definition of “Intangible assets” and are regulated by IAS 38 – Intangible Assets. This class of assets needs to be disclosed separately in the financial statements. We have qualified our audit opinion in this regard.	The Council should adopt the requirements of IAS 38 in this regard and adjust this amount both in the nominal ledger and in the financial statements. The Council should also ensure that the depreciation rate is properly allocated, and that depreciation commences from when an asset is placed in use.	Mobile application was in fact disclosed separately in the Financial Statements and therefore it is not very clear what the issue really is. Furthermore, categorising it under Computer equipment may not be correct however we are not aware of any other related category. We will seek clarification from Auditors.
5.5	Insurance policy	<p>We noticed that the Council is not properly insured in distinct categories of property, plant and equipment held by the Council. In fact, the Council has an insurance policy covering Council’s furniture and fittings for the amount of € 102,986; office and computer equipment for the amount of € 42,988 and Council’s property for the amount of € 80,000.</p> <p>The Council’s total cost of fixed assets, excluding amounts not yet capitalized and special programmes, as disclosed in its financial statements, amount to €964,683 of which €49,511 relates to furniture and fittings, €290,737 relates to plant and machinery, office and computer equipment, €529,241 relates to urban improvements and construction, €60,760 relates to trees €11,138 relates to street lights and € 23,296 relates to property improvements.</p>	The Council’s insurance policy in respect of assets insured needs to be reviewed on an annual basis to avoid having over and under insurance in distinct categories of property, plant and equipment.	The Council should review its insurance cover to avoid unnecessary over and under insurance cover for each respective asset categories. The insurance policy should detail better those areas to be covered under each asset category. In this manner, it will be easier to carry out a claim in case of damage to any particular asset.	The NLC reviews insurance cover annually however we do not agree that the value covered should match the value of the Fixed Assets.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
5.6	Capital Commitments	<p>During our review of the financial statements, it was noted that there is no disclosure of capital commitments in the Financial Statements. Upon inquiry with the Local Council it transpired that the Council had capital commitments amounting to €423,000.</p> <p>Furthermore, DLG has assigned €125,000 grant to Regjun Tramuntana to be distributed amongst the local councils making up the Northern Region for the asphalt of roads. Naxxar Local Council is to receive €17,202 for resurfacing works in Triq il-Markiz Scicluna. Some of the works had already started by year end and therefore the Council should have also included this as capital expenditure contracted but not provided for.</p>	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.	The Council should ensure that capital commitments are properly assessed and disclosed, and a proper reconciliation provided to ensure that capital commitments as disclosed in the Council's budget are in line with those being disclosed in the financial statements.	Comments have been noted for the future.
5.7	Accounting for disposals	During the year under review the Council authorised the disposal of items of property, plant and equipment during the Council meetings. However, the disposal of such assets was not recognised in the financial statements and such items are still showing in the Council's FAR.	This entails that the financial statements are being overstated by the net effect of the cost less depreciation of the said disposed assets. Other consequences could arise such as a higher insurance cost to cover such assets.	The Council should ensure that disposals of assets that are authorised during Council meetings are duly and properly accounted for and the assets are removed as well from the Fixed Asset Register. In this manner, the Council will be in line with the requirements of IAS16 Property, Plant & Equipment as well as the Council's accounting policy.	We confirm that through an oversight the disposals of three items were not recorded by end of year. Since when we so realised we had finalised the end of year reports, and since it will not have any effect on the statements, we had agreed to leave them to be recorded in 2018.
6.1	Stock of books	The Council has two books in stock which are available for sale. We noted that the book "Naxxar Viva l-Vitorja" is not being included with the cost of the inventory in the financial statements. Furthermore, the other book "Naxxar Walks" has been valued at €0.84 per book, when in actual fact the cost price is €0.80 per book. It should also be pointed out that the stock policy as per financial statements states that stock is to be valued at the lower of cost or net realisable value (NRV).	The value of the closing stock of the book "Naxxar Walks" that was recognised in the financial statements was overstated by €42.68. Furthermore, the Council should also recognise the cost of the stock in hand of the book "Naxxar Viva l-Vitorja" in line with the requirements of IAS 2- Inventories.	The Council should ensure that a perpetual inventory control system is properly maintained to individually record the amounts of books being sold/donated by entering the corresponding official Council receipt number. At the end of every financial year end, a stock count of the books is undertaken, a cost value is assigned to each book, and the balancing stock figure is recorded in the financial statements. Further to our recommendations, the financial statements were revised by the Council accordingly.	Point noted however the error was due to a typo by the officer who handed over the details. We still believe the difference is not material.
7.1	LES Debtors	The Council forms part of North Joint Committee for which it has signed a pooling agreement with the other members of this Committee as from 1st September 2002. One also has to note that the Joint Committee function ended in August 2011 since from September 2011 the Local Enforcement System was delegated to Joint/Regional Committees. The LES Debtors as per nominal ledger amounted to €27,506.72 with an equivalent amount as provision of bad debts. To confirm this amount, we requested report 622 from the Local Enforcement System (LES) titled "Tribunal Pending Payments" with a date range for contraventions issued from 1st January 2000 till 31st August 2011 and tribunal period 1st January 2000 till 31st December 2017. However, this report shows a pending balance of €26,947.76.	The amounts recognised by the Council in respect to LES debtors are not in agreement with LES reports issued for the same period. In this respect, LES debtors are consequently overstated by €558.96. From review of the accounts we noticed that this amount relates to income received for pre-regional contraventions which was incorrectly accounted as income rather than being credited against LES debtors. We also noted that no reference to this balance and related provision was included in Note 13 to the financial statements.	The Council should always ensure that the balances recognised in the financial statements are always supported by appropriate reports from the LES system. In the meantime, the Council should ensure that new controls are introduced to conduct regular reconciliations for the LES Pre-Regional receipts compared to LES report 483. Any variances should be investigated and justified. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified accordingly.	As noted by the Auditors adjustments were made and financial statements rectified as suggested by Auditors.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
7.2	Trade Receivables	From an analysis of the Council's general receivables, it transpired that the bulk of the outstanding balances were more than one year old. In fact, the Council has already provided for the amount of €20,891.86 in this regard. However, further to our review it transpired that one debtor had already been written off and another two debtors were actually paid in previous years.	On an annual basis, the Council should review its debtors and assess whether there is any impairment arising in relation to debtors which are not recoverable. Any balances which are impaired are to be provided for accordingly. Any variances and errors may distort the amount due to the Council at any point in time by its debtors. It could be a sign that certain debtors' balances are not being reconciled on a periodic basis with any variances or errors adjusted for accordingly.	The Council should ensure regular reconciliations are prepared in relation to its receivables and any amounts which are not recoverable are duly written off. The Council should also obtain legal advice on any balances which it deems should be recoverable through proper legal action. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.	As noted by the Auditors adjustments were made and financial statements rectified as suggested by Auditors.
7.3	Accrued income	The accrued income with respect to the amounts payable by DLG to WasteServ in relation to tipping fees due to WasteServ Limited was not recognised in the financial statements. In this regard, an amount of €41,353.49 should have been accrued for.	In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for accrued income correctly and completely.	It is important that the Council makes a proper assessment of its income accrued but not yet received at the end of every financial reporting period. Further to our recommended adjustments in this regard, the Council has duly updated its financial statements accordingly.	As noted by the Auditors adjustments were made and financial statements rectified as suggested by Auditors.
8.1	Stale Cheques	The Council had a number of cheque payments recorded in its BOV bank account number 16308006017 which had exceeded six months from the date of issue, but which had not yet been presented.	The period by which these cheque payments should have been presented at the bank exceeded six months and therefore legally they have become stale.	The Council should verify such cheque payments and transactions on a regular basis by undertaking proper bank reconciliations and adjust its records accordingly as required.	Action has already been taken to reverse such stale cheques.
9.1	Creditors Reconciliation	The value of balances due to suppliers as per note 15 to the financial statements amounts to €148,720. Overall the Council reconciles its creditors' balances on a frequent basis thus ensuring that balances as per suppliers' ledger agree with those as per suppliers' statements. However, we noted some shortcomings in relation to Wasteserv account reconciliation which balance is amounts to €36,413.45 as per Council books at year end.	A proper reconciliation system for all Council creditors is essential to be undertake on a periodic basis with any variances or errors adjusted for accordingly. Otherwise, variances may arise that may distort the amount due by the Council at any point in time to its creditors.	The Council should ensure that all supplier invoices are duly accounted for when received and payments are allocated against them when issued. On a regular basis, the Council should request the necessary supplier statements and confirmations from its creditors to ensure that its balances are correct and adequately reconciled.	As mentioned by Auditors the Local Council reconciles balances on a regular basis. The only issue was with Wasteserve due to an oversight of matching amounts.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues																					
9.2	Accrued Expenditure	<p>Following cut-off tests on creditors and accruals recognised in the financial statements, it transpired that a number of invoices were incorrectly included with creditors when in actual fact this should have been recognised as an accrual, as follows:</p> <table><thead><tr><th>Invoice Date</th><th>Supplier Details</th><th>Amount</th></tr></thead><tbody><tr><td>02/01/2018</td><td>Carol Cassar Tuition of Pilates classes, Yoga class & Aerobics class (Oct till Dec 17)</td><td>1,000</td></tr><tr><td>04/01/2018</td><td>Osyra Legal Legal services - Dec 17</td><td>116.67</td></tr><tr><td>02/01/2018</td><td>Dimbros Ltd Bulky refuse collection - Dec 17</td><td>61.62</td></tr><tr><td>01/01/2018</td><td>Vodafone Telephony monthly bill - Dec 17 (79404014)</td><td>7.27</td></tr><tr><td>01/01/2018</td><td>Vodafone Telephony monthly bill - Dec 17 (99370990)</td><td>2.40</td></tr><tr><td>01/01/2018</td><td>Charlie Mifsud Cleaning & weed cutting of non-urban roads - Nov & Dec 17</td><td>818.27</td></tr></tbody></table> <p>Furthermore, we noticed that the accounting of accruals has not been complete, and we found two instances where no accrual has been undertaken. One instance related to a fine of €250 the Council has incurred from the Occupational Health & Safety Authority for an incident which happened during 2017. The fine was paid in 2018.</p> <p>The other instance relates to the MITA deductions covering 2017, from the 1st tranche of financial allocation of 2018, amounting to €1,127.91.</p>	Invoice Date	Supplier Details	Amount	02/01/2018	Carol Cassar Tuition of Pilates classes, Yoga class & Aerobics class (Oct till Dec 17)	1,000	04/01/2018	Osyra Legal Legal services - Dec 17	116.67	02/01/2018	Dimbros Ltd Bulky refuse collection - Dec 17	61.62	01/01/2018	Vodafone Telephony monthly bill - Dec 17 (79404014)	7.27	01/01/2018	Vodafone Telephony monthly bill - Dec 17 (99370990)	2.40	01/01/2018	Charlie Mifsud Cleaning & weed cutting of non-urban roads - Nov & Dec 17	818.27	In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely.	The Council should ensure that accruals are accounted for all amounts which will be invoiced in the subsequent financial period but for which products/services have been expended in the current financial period. Further to our recommended adjustments in this regard, the Council has duly updated its financial statements accordingly.	Auditors comments have been noted and action has been taken accordingly.
Invoice Date	Supplier Details	Amount																								
02/01/2018	Carol Cassar Tuition of Pilates classes, Yoga class & Aerobics class (Oct till Dec 17)	1,000																								
04/01/2018	Osyra Legal Legal services - Dec 17	116.67																								
02/01/2018	Dimbros Ltd Bulky refuse collection - Dec 17	61.62																								
01/01/2018	Vodafone Telephony monthly bill - Dec 17 (79404014)	7.27																								
01/01/2018	Vodafone Telephony monthly bill - Dec 17 (99370990)	2.40																								
01/01/2018	Charlie Mifsud Cleaning & weed cutting of non-urban roads - Nov & Dec 17	818.27																								

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
9.3	Deferred Income	<p>The Council has recorded the amount of €371,100 as deferred income as at 31st December 2017, with an amount of €58,979 being released to the income statement. This deferred income liability and the release to the Statement of Comprehensive Income was also affected by the below issues:</p> <p>❑ Triq H Luke - A credit note has been deducted from the original cost immediately as from date of capitalization of asset, rather than having the value of the asset and release of deferred income adjusted accordingly when credit note was issued.</p> <p>❑ Public Access Terminal - Amount of release should have based on the actual cost of asset being €4,215.67 against which grant has been provided.</p> <p>❑ Online Streaming Scheme - Amount of release should have commenced based on date when the equipment was bought and installed.</p> <p>❑ Restoration Scheme - Amount of release should have been based on whether the corresponding expenditure had been capitalized in 2014. It is not evident that such expenditure has been capitalized and therefore in such circumstances where the expenditure is not capitalized, the grant should be expensed in the year the expenditure has been incurred.</p> <p>❑ Mobile application project - Amount of release is equivalent to one-month depreciation of €4,729 however the Council has depreciated this asset for a whole year.</p> <p>❑ Measure 313 - The grant of €5,667 is not being included in the Council's grant workings.</p> <p>❑ Triq Kastro – the non-current portion of Triq Kastro grant has been</p>	<p>In line with the income approach of IAS 20- Accounting for Government Grants and Disclosure of Government Assistance, grants should be recorded as deferred income and whenever the asset is placed in use, it should be amortised directly to the Comprehensive Income Statement at the same rate and from the same date from when the asset is being depreciated which should agree to the date of its capitalisation. Further to the above matters arising, the deferred income liability has not been properly recognised as well as correctly split in the current deferred income portion and the long term deferred income portion. We have qualified our audit report in this regard.</p>	<p>The Council should account for such grants in line with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, applying correctly the income approach. The Council should also ensure that the above issues are adjusted to ensure that the release to the Comprehensive Income Statement is accurate and therefore the deferred income liability recognised at year end is not misstated.</p>	<p>Action has been taken to account for deferred income properly.</p>
9.4	Deposits refundable on crane and machinery permits	<p>The Council withholds a deposit upon application for crane and machinery permits by any individual or body corporate. The deposit is refunded back in terms of the law if the site has been left in good condition. We noted a variance of €2,125 between the amount as per financial statements and the list provided by the Council in this respect.</p>	<p>The Council's administration keeps a detailed list of the applicants' deposits and movements in deposits refunded, however for some reason certain deposits date back to the year 2002. According to the Executive Secretary, these refunds are in process of being refunded to the contractors.</p>	<p>The Council should ensure 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 contractors 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.</p>	<p>It was actually the NLC who pointed out to the Auditors this variance since we encountered a difficulty in reconciling. An exercise had been undertaken prior to audit where it was found that the correct list was that kept as an XL file. It was concluded that throughout these last years, especially due to different systems adopted by different accountants, that amounts of deposits retained or returned were not always reversed correctly and hence the variance. We had requested the Auditors to give us their opinion on how to tackle this issue since any change may affect prior year statements. However the Auditors did not wish to make any recommendations. This is being discussed with the new accountant to be able to close it once and for all.</p>

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
9.5	Contingent Liabilities Disclosure	<p>The Council failed to disclose the following contingent liabilities:</p> <p>Case with Untours Limited whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for €6,500.</p> <p>Case with Gasan Mamo whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for less than €1,000.</p> <p>Case with Argus Insurance Agencies whereby the plaintiff is claiming damages of circa €900. In case plaintiff's claim is upheld, the Council would have to pay an additional €1,000 in court fees</p> <p>Case with Argus Insurance Agencies whereby the plaintiff is claiming damages of circa €700 for compensation due to pothole damage. In case plaintiff's claim is upheld, the Council would have to pay additional €1,000 in court fees</p> <p>Case with Gasan Mamo Insurance Limited whereby the plaintiff is claiming damages of circa 959.18. In case plaintiff's claim is upheld the Council would have to pay an additional €1,000 in court fees.</p> <p>Case with Mapfre Middlesea PLC whereby the plaintiff is claiming damages of circa €1,785.66. In case plaintiff's claim is upheld the Council would have to pay an additional €1,000 in court fees.</p> <p>In addition, the Council has disclosed a provision of €3,000 in note 17 to the financial statements in relation to the above court cases. However rather than accounting for this as a Provision for Liabilities in the Statement of Financial Position, the amount was deducted from the Trade Receivables balance.</p>	<p>The Council should assess on an annual basis whether as at year end there is any possible obligation depending on whether some uncertain future event can occur. A contingent liability needs to be disclosed only if this meets the definition of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and no contingent liability should be disclosed if such an obligation has already been recognised as a liability.</p> <p>With respect to provision these are to be separately disclosed under the Liabilities section of the financial statements in line with the disclosure requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.</p>	<p>The Council should therefore ensure that as at every financial year end, a review of such possible obligations is undertaken and accordingly disclose/account for them appropriately in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.</p>	<p>We confirm that this is an oversight from our end. We will do our utmost to ensure that contingent liabilities are disclosed in full.</p>

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues
10.1	Disclosures required in respect of certain IFRS.	<p>The Local Council (Financial) Procedures, 1996, requires 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.</p> <p>Amongst other things, omissions/issues were noticed in relation to a number of disclosures, as follows:</p> <p>❑ Lack of full disclosure of the applicable revised or new standards being adopted/not yet adopted in line with the requirements of IAS 1-Presentation of Financial Statements.</p> <p>❑ Lack of proper accounting and disclosure arising from the requirements of IAS 38-Intangible Assets in relation to the non-disclosure of an accounting policy for intangible assets as well as the non-separate disclosure of intangible assets additions, amortisation and net book value.</p> <p>❑ Disclosure of related parties and related party transactions in note 18 is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with.</p> <p>Other presentation and disclosure deficiencies have been duly noted in other areas of this management report.</p>	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.	The financial statements should be prepared in accordance with International Financial Reporting Standards and that all necessary disclosures are undertaken as required.	Point taken for the future.

Numb.	Heading	Observations	Issues Arising	Recommendations	Comments by Local Council - Actions to address issues																																				
10.2	Financial Statements presentation	During our review of the financial statements we noted a number of areas in the presentation of the financial statements which were incorrect or were not properly presented.	<p>¶ In the Statement of Financial Position, the net book value of non-current assets should be €1,429,018, in line with note 11. Further to our recommendations, this has been adjusted accordingly.</p> <p>¶ In the Statement of Cash Flows zero balances for both current year and comparative year should be removed. Further to our recommendations, this has been adjusted accordingly.</p> <p>¶ In the Statement of Cash Flows, ‘Decrease in receivables’, ‘Increase in payables’ should read ‘Decrease/(Increase) in receivables’, and ‘(Decrease)/Increase in payables’.</p> <p>¶ Note 2 to the financial statements does not include a policy on intangible assets.</p> <p>¶ Note 2 to the financial statements does not include disclosure of all the new and amended standards that are applicable to Local Council’s operations.</p> <p>¶ Bye-law signs amounting to €1,123.67 must be reclassified from Note 6 to Note 4. Since the Council has a bye-law in place. Further to our recommendations, this has been adjusted accordingly.</p>	The Council should ensure compliance with International Financial Reporting Standards, respective Memos and Local Councils Procedures in the preparation of the Financial Statements.	Point taken for the future.																																				
11.1	Comparison with the Annual Budget	<p>During our review of the annual budget 2017, it was noted that some expenditure incurred in 2017 varied significantly when compared to the budgeted amount.</p> <p>The variances identified are presented in the following table:</p> <table><thead><tr><th>Budget</th><th>Actual</th><th>Variance</th><th>Percentage Variance</th></tr></thead><tbody><tr><td>Operations and Maintenance</td><td>777</td><td></td><td></td></tr><tr><td>Materials and Supplies</td><td>5,970</td><td>5,644</td><td>741%</td></tr><tr><td>Repairs & Upkeep</td><td>30,800</td><td>47,583</td><td>16,78354%</td></tr><tr><td>Contractual Services</td><td>325,045</td><td>361,525</td><td>36,48011%</td></tr><tr><td>Administration & Other expenditure</td><td></td><td></td><td></td></tr><tr><td>Travel</td><td>2,500</td><td>2,751</td><td>1,25170%</td></tr><tr><td>Training</td><td>1,300</td><td>5,722</td><td>4,422340%</td></tr><tr><td>Incidental Expenses</td><td>500</td><td>5,041</td><td>4,541908%</td></tr></tbody></table>	Budget	Actual	Variance	Percentage Variance	Operations and Maintenance	777			Materials and Supplies	5,970	5,644	741%	Repairs & Upkeep	30,800	47,583	16,78354%	Contractual Services	325,045	361,525	36,48011%	Administration & Other expenditure				Travel	2,500	2,751	1,25170%	Training	1,300	5,722	4,422340%	Incidental Expenses	500	5,041	4,541908%	The Council should compile the annual budget with due care and diligence to use it as the basis on which its expenditure will be expended during the year as well as a tool of cost control. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure in other expense categories or increase in income received for that year.	In compiling a budget, each item of income or expenditure should be scrutinised to determine whether there is some form of agreement which gives certainty of the projection being presented. In the absence of a contract or an agreement, the item should be extrapolated over historic data to approximate the desired projections for the entire consolidation of the official final draft of the budget.	Point taken for the future.
Budget	Actual	Variance	Percentage Variance																																						
Operations and Maintenance	777																																								
Materials and Supplies	5,970	5,644	741%																																						
Repairs & Upkeep	30,800	47,583	16,78354%																																						
Contractual Services	325,045	361,525	36,48011%																																						
Administration & Other expenditure																																									
Travel	2,500	2,751	1,25170%																																						
Training	1,300	5,722	4,422340%																																						
Incidental Expenses	500	5,041	4,541908%																																						