



Kunsill Lokali

NAXXAR

Local Council

Our ref: NLC/201/00

1st July, 2019

Director,
Local Government Department
Triq I-Arċisqof,
Valletta CMR 02

Sir,

REPLY TO MANAGEMENT LETTER – FINANCIAL STATEMENTS FOR THE YEAR 2018

In terms of the Local Council (Audit) procedures I hereby attach a copy of the management letter by the Local Government Auditors whilst including hereunder Council's comments on observations made. The management letter was discussed during Council meeting of 11th June 2019 and the following comments were approved. Numbers and titles of comments correspond to those on the management letter.

Allow me to point out that the Auditors, once again, failed to provide us a draft copy of the management letter. We believe that it is quite unethical and some comments could have been avoided.

2.1 Local enforcement system (pre-regional)

The Local Council will keep making pressure on the Northern Region Committee to provide the audited financial statements on time as recommended by the Auditors. However we kindly ask your Department to take necessary action accordingly so that this issue is finally resolved soonest possible.

2.2 Classification of income

With reference to the comment that bye laws are not listed the auditors are not correct since both bye laws are listed accordingly. This following in fact is a copy and paste from the site:

🕒 S.L. 363.66 Organisation of Courses (Naxxar Local Council) Bye-Laws

🕒 S.L. 363.67 Advertisements (Naxxar Local Council) Bye-Laws

In the meantime, in future, income from skip permit will be listed under income from bye laws.

2.3 Income recognized on a cash basis rather than on an accrual basis

Shortcoming rectified and for future Financial Statements any income for next year will be cut-off accordingly.

2.4 LES Post Regional 10% Commission

Ironically invoices and report 483 are issued from the same system which is not under Council's responsibility! Therefore, if anything, it is something which should be dealt with centrally by the Agency.

In the meantime however we will be doing our utmost to re-concile as best as we can and if any discrepancies are noted we report to LESA.

3.1 Final Settlement System (FSS) payments on time

Action will be taken accordingly to minimise such occurrences.

3.2 Personal tax deductions

This issue should now be solved following the purchase of a payroll system as from the beginning of 2019.

3.3 Performance bonus of the Council's employees

Auditors' statement is totally incorrect. It is not true that the two employees were awarded performance bonus for the whole year. As a matter of fact employee 1 was paid Eur792 covering period mid-march to December and employee 2 was paid Eur338 covering period August to December.

Further to Auditors' recommendation regarding accruals, Financial Statements were rectified accordingly.

4.1 Tendering procedures

This was an oversight and has been rectified. There is still however a lot of registered documentation showing when tender was awarded.

4.2 Approval of payments

As stated by the Auditors the Council has provided justifications for most of these payments. With regards to the last two payments one should appreciate the fact that it would not make sense and neither would it be fair to hold refundable guarantees when it is confirmed that no damages were caused. With regards to the DOI payment, unless we pay upfront, they will not publish the adverts.

5.1 The upkeep of the Fixed Asset Register (FAR)

The Council will take up the recommendations of the Auditors.

5.2 Reconciliation of Asset Categories in FAR to Nominal Ledger

Noted and action will be taken accordingly.

5.3 Depreciation

Street lights will be changed to 100% depreciation instead of 10% depreciation.

5.4 Insurance policy

All efforts will be continue to be made to make the necessary adjustments but in a reasonable way.

5.5 Fixed Asset additions

These relate to the council van which was entirely sponsored.

6.1 Stock of books

We are quite surprised with Auditors' statement since it was agreed on site that there is no need to take out the boxes and count the books physically since there were other heavy boxes. However we do confirm that the amount stated was correct.

7.1 Trade debtors' balances reconciliations

Noted and action will be taken accordingly.

7.2 LES Debtors

Noted and action will be taken accordingly.

7.3 Accrued income

Action will be taken accordingly.

8.1 Stale cheques

Noted and action will be taken accordingly.

9.1 Accrued Expenditure

Noted and action was taken already.

9.2 Accounting for Grants

Noted and action will be taken accordingly.

9.3 Deposits refundable on crane and machinery permits

Noted and action will be taken accordingly.

9.4 Contingent Liabilities Disclosure

Noted and action will be taken accordingly.

10.1 Disclosures required in respect of certain IFRS

Noted and action will be taken accordingly.

10.2 Financial Statements presentation

Noted and action will be taken accordingly.

11.1 Comparison with the Annual Budget

Noted and action will be taken accordingly.

11.2 Council Meetings, Minutes, Agenda and Schedule of Payments

Noted and action will be taken accordingly.

11.3 Management letter and reply

Noted and action will be taken accordingly.

A handwritten signature in blue ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

Anne Marie Muscat Fenech Adami

Mayor

cc: National Audit Office

LOCAL COUNCIL NAXXAR

Report to Management

for the financial year ended 31 December 2018





Date 23rd April 2019

The Mayor
LOCAL COUNCIL NAXXAR
Civic Centre
21st September Avenue
NAXXAR

Dear Madam,

REPORT TO MANAGEMENT

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. This report will also be used by the National Audit Office to compile its own report on Local Councils.

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

During the course of our audit for the year ended 31 December 2018, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

We remain at the Council's disposal for any clarification required regarding this report. We shall be happy to render assistance should you decide to implement any of the recommendations.

3a Certified Public Accountants

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Malta, EU

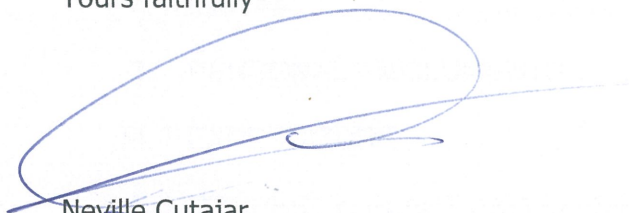
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the Accountancy Profession Act with warrant number AB/26/84/62

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Finally, we take this opportunity to thank Mr. Paul Gatt and his Council's administrative team for their valuable assistance and co-operation rendered to us at all times during the course of our audit.

Yours faithfully

A handwritten signature in blue ink, consisting of a large, sweeping loop followed by a horizontal line and a small flourish.

Neville Cutajar
Partner

TABLE OF CONTENTS

1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2017 ...	2
2. INCOME.....	5
3. PERSONAL EMOLUMENTS.....	7
4. EXPENDITURE.....	8
5. PROPERTY, PLANT AND EQUIPMENT.....	9
6. INVENTORIES.....	12
7. RECEIVABLES	13
8. CASH AND CASH EQUIVALENTS	14
9. PAYABLES	15
10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS	18
11. GENERAL.....	20

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

1.1. Local Enforcement System

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

1.2. Income from Bye-Laws

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

1.3. Classification of income

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.

1.4. Supplementary Government income

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

1.5. Income recognized on a cash basis rather than on an accrual basis

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.

1.6. Annual financial allocation

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

1.7. Final Settlement System (FSS) payments on time

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

1.8. Personal tax deductions

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

1.9. Tendering procedures

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

1.10. Renewal of contracts and expired contracts

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

1.11. Procurement for Maintenance of Street Lighting

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

1.12. Approval of payments

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 4.2 of our management report.

1.13. The upkeep of the Fixed Asset Register (FAR)

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

1.14. Reconciliation of Asset Categories in Fixed Asset Register to Nominal Ledger

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

1.15. Depreciation

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 5.3 of our management report.

1.16. Accounting for intangible assets

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

1.17. Insurance Policy

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

1.18. Capital Commitments

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

1.19. Accounting for disposals

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

1.20. Stock of books

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

1.21. LES Debtors

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

1.22. Trade Receivables

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

1.23. Accrued income

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 7.38.1 of our management report

1.24. Stale Cheques

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

1.25. Creditors Reconciliation

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

1.26. Accrued Expenditure

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

1.27. Deferred Income

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

1.28. Deposits refundable on crane and machinery permits

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

1.29. Contingent Liabilities Disclosure

The Council has not addressed the matter during the year and therefore we draw your attention to paragraph 9.4 of our management report.

1.30. Disclosures required in respect of certain IFRSs

The Council has not addressed the matter during the year and we therefore draw your attention to paragraph 10.1 of our management report.

1.31. Financial Statements presentation

The Council has not addressed the matter during the year 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 and we therefore draw your attention to paragraph 11.1 of our management report.

2. INCOME

2.1. Local Enforcement System (Pre-Regional)

Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the North Joint Committee for the year ended 31 December 2018. During the year under review, the Council has been correctly recording any cash receipts received by the Joint 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 €558.

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.

Issues Arising

In view of the absence of an audited annual report from the North Joint Committee covering the period from the formation date to dissolution date, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the completeness of amounts being recorded in the financial statements as income and expenditure arising from the Local Enforcement System in relation to Pre-Regional contraventions. In this respect, we have qualified our audit report.

Recommendations

The Council should put pressure on the North Joint Committee so that the latter would produce the required financial reports outstanding 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.

2.2. Classification of income

Observations

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.

Furthermore, it was noted that a list of applicable bye-laws for the Council is not available on the Local Government website.

Issues Arising

The short-comings listed above may 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. Furthermore, it is pertinent to have all bye laws applicable to the locality available on the Local Government website to be easily accessed by whoever needs to use the Council's services.

Recommendations

The Council should ensure that income generated from bye laws is accounted for and disclosed properly in its financial statements under the proper heading. 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.

2.3. Income recognized on a cash basis rather than on an accrual basis

Observations

Following tests on the income of the Council, it transpired that income of €1,451.30 relating to crane permits, skip permits, community services and renewal of a directional sign, which permits was in relation to dates in 2019, was fully recognised in 2018, when the amount should have been deferred.

Issues Arising

Since this income received in the current financial year relates to the year 2019, this income should have been recognised as deferred income in the financial statements in line with the requirements of IAS 18-Revenue Recognition.

Recommendations

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.

2.4. LES Post Regional 10% Commission

Observations

As from September 2011, the Council is entitled to 10% administration fee for LES fines issued from September 2011 onwards and which are paid at the Council's office. During the year under review, the Council has issued invoices amounting to €10,202 to the LES Regional Committees and to the Local Enforcement System Agency (LESA) which amount is in agreement to the income recognised in the financial statements in this respect.

We noted however that according to Report 483 – Post Regional Tickets and LESA Tickets, the Council's share of commission for 2018 should have amounted to €9,938.17 resulting in an overstatement of €264.16.

Issues Arising

This variance arising between the amounts as per Report 483 – Post Regional Tickets and LESA tickets and the invoices issued by the Council to the Regional Committees/LESA indicates that the Council is not always undertaking a proper reconciliation of the amounts as per LES reports to the actual amounts invoiced and received.

Recommendations

The Council should ensure that a proper ongoing system of reconciliation is maintained between the invoices issued to the Regional Committees/LESA and Report 483 – Post Regional Tickets and LESA Tickets.

3. PERSONAL EMOLUMENTS

3.1. Final Settlement System (FSS) payments on time

Observations

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 months of January and July to October 2018 were not remitted to the Inland Revenue Department by due date.

Issues Arising

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.

Recommendations

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.

3.2. Personal tax deductions

Observations

FSS was not deducted correctly with respect to some of the employees of the Council.

Issues Arising

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.

Recommendations

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.

3.3. Performance bonus of the Council's employees

Observations

The Council has not calculated properly the performance bonus of its employees for 2018. When calculating performance bonuses that should have been awarded it was noted that performance bonuses for two employees who were engaged during 2018 was given in full rather than pro-rata to the period they have worked during the year. Furthermore, the Council only accrued for part of the performance bonuses due, given that these were settled in January 2019. To this effect, the recognition of performance bonuses for 2018 was understated by €2,136.

Issues arising

The Council has to calculate performance bonuses correctly based on the pay scale attributable to each employee, the prescribed bonus percentage as well as the dates in which an would have

worked. In addition, such performance bonuses need to be accrued in full should they be settled in the following year.

Recommendations

The Council should ensure that accruals are accounted for all bonuses relating to 2018 which will be paid in the subsequent financial period as well as these are to be calculated correctly in line with the established guidelines. Further to our recommendations, the necessary adjustments were included, and the financial statements were rectified by the Council accordingly.

4. EXPENDITURE

4.1. Tendering procedures

Observations

We encountered the following shortcoming throughout in the tendering procedures in relation to procurement issued in the current year. The signed contract for tender NLC/02/2018 'Professional services of an Architect for the Naxxar Local Council' did not include the date of signing.

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 a contract is duly signed and dated signalling the commencements of the specified tender terms and conditions.

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 ensures that all tender offers considered have their documentation fully in line with the procurement and tendering regulations.

4.2. Approval of Payments

Observations

The following payments were made during the year under review prior to these being approved in a Local Council meeting:

- Two payments to 21st Century Travel for the amounts of €1,160 (chq 21577) and €2,200 (chq 21789) – The Council stated that in case of flight tickets the Council had to settle immediately otherwise the fares would get higher by the time they are approved.
- Two payments to Robert Arrigo & Sons for the amounts of €1,820 (chq 21890) and €4,834.78 (chq 22000) – The Council stated that the Council had to book the rooms of the hotel, which rooms could only be secured solely upon payment in advance.
- Payments to Jurgen Attard and Victor Mula of €3,812.81 and €1,775.16 respectively (chq 21933 and 22093) – The Council explained that the handymen were always paid in the beginning of the following month.
- Bank transfer of €1,387 to Kunchev 2004 Ltd - The Council had to book the rooms of the hotel, which rooms could only be secured solely upon payment in advance.
- Payment to Noel Gatt for €480 (chq 22165) which relates to remuneration for the period July to Dec 2018.
- Payment to Lawrence Zammit of €120 (chq 22145) which relates to refundable guarantee.
- Payment to DOI of €9.32 (chq 22155) which relates to advert made on government gazette.

Issues Arising

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

Recommendations

The Council should ensure that all payments to supplier are, where appropriate, first approved and sanctioned by Council prior to these being settled

5. PROPERTY, PLANT AND EQUIPMENT

5.1. The upkeep of the Fixed Asset Register (FAR)

Observations

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:

- 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.
- There is no common reference in the description of the asset in the FAR and the related transaction in the nominal ledger.

Issues Arising

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.

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.

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.

Recommendations

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.

The Council should therefore take the following factors into consideration:

- ✓ 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.
- ✓ 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.
- ✓ 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.

5.2. Reconciliation of Asset Categories in Fixed Asset Register to Nominal Ledger

Observations

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 asset categories do not agree with the corresponding amounts in the FAR.

During the year under review, the Council applied the requirements of Directive 1/2017 whereby the NBV has been adjusted to reflect the deferred income allocated against the respective asset categories and depreciation was calculated on the NBV based on the remaining useful life of each item using the straight-line method. When comparing the NBV as at 31st December 2018 of the distinct asset categories as per financial statements and those as per FAR, the following variances have arisen:

Asset Category	NBV As per FS	NBV As per FAR	Variances
	€	€	€
Property	20,733	20,733	-
Street signs & Lights	7,787	14,355	(6,568)
Urban Improvements & constructions	238,418	47,895	190,523
Plant, machinery & equipment	11,186	12,387	(1,201)
Office Furniture & fittings	10,677	10,676	1
Trees	68,732	68,732	-
Motor Vehicles	9,349	9,349	-
Special Programmes	502,416	686,371	(183,955)
Total	869,298	870,498	1,200

The variance in urban improvements and special programmes has resulted from assets which have been classified differently in the financial statements and FAR. With regards to street signs these have been fully provided for in the financial statements in 2017, however as per Fixed Asset Register and financial statements in 2018, these have been depreciated by 10%.

The overall variance remaining is of €1,200. This may be arising from asset COMP029 in view that the amount financed by way of grant for the Public Access Terminal was higher than the actual cost of the asset. However, given that this matter has not been confirmed by the Council, we have refrained from proposing any adjustment in this regard.

Issues Arising

The Fixed Asset Register is a subsidiary ledger to the nominal ledger, and therefore it should be in agreement therewith at all times. Non-agreement can lead to a number of issues, such as variances arising, lack of proper depreciation on all assets as applicable and so forth.

Recommendations

The Council should reconcile and adjust the amounts as per FAR and nominal ledger and reallocate the balances from one asset category to another as required as well as undertake the necessary adjustments needed.

5.3. Depreciation

Observations

Depreciation charge on tangible fixed assets for year amounts to €554,101. The Council has a Fixed Asset Register, and depreciation is properly calculated as per Directive 1/2017 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).

However, we noted that the Council is depreciating street lighting at the rate of 10% when according to the Local Council (Financial) Procedures (P1.X1) street lights should be fully depreciated. We also 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.

Issues Arising

The observations above indicate that asset depreciation of street lighting and other assets which are improperly categorised is not being made in line with the policy disclosed in note 2 to the financial statements – Accounting Policies and Reporting Procedures. We have qualified our audit report in this respect.

Recommendations

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.

5.4. Insurance policy

Observations

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 € 57,340 and Council's property for the amount of € 80,000.

The Council's total cost of fixed assets, excluding amounts not yet capitalized and special programmes, as disclosed in its financial statements, amount to €922,497 of which €52,097 relates to furniture and fittings, €68,561 relates to plant and machinery, office and computer equipment, €679,477 relates to urban improvements and construction, €68,732 relates to trees €20,827 relates to street lights. €9,507 relates to motor vehicles and € 23,296 relates to property improvements.

Issues Arising

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.

Recommendations

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.

5.5. Fixed Asset additions

Observations

The Council has included two transactions from SOS Malta as motor vehicles additions amounting to €2,000 each. We were informed that the Council paid SOS Malta directly for the purchase of a van. No information and supporting documentation have been provided on this expenditure.

Issues Arising

In view that no supporting documentation has been made available, we could not confirm on what basis such a transaction has been made, what assets constitute these € 4,000 and whether they really are in use at the Council, why such transactions were treated as assets and whether they were correctly classified as well as whether proper procurement procedures have been maintained.

Recommendations

The Council should make sure that there is sufficient documentation to support any acquisition of assets. Furthermore, it should be assured that all expenditure and payments by the Council should only be affected against an appropriate invoice or request for payment and where necessary, after an architect's or engineer's certification (as the case may be) is obtained.

6. INVENTORIES

6.1. Stock of books

Observations

The Council has included the book "Naxxar Viva I-Vitorja" with the cost of the inventory in the financial statements for 2018. However, during the stock count we only managed to count 565 books while the stock sheet shows an amount of 611 books. The variance of 46 books represent 3 boxes. The Council's personnel explained that such boxes could be stored behind other boxes and therefore not easily accessible to count them.

Issues Arising

Stock records should be updated and reconciled at least every quarter with the amount of physical stock held at the Council and any variances checked and adjusted. This will enable the Council to ensure that the amount of stock physically in hand agrees to its records.

Recommendations

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.

7. RECEIVABLES

7.1. Trade debtors' balances reconciliations

Observations

The Council has trade receivables amounting to €26,579. From an analysis of the trade receivables list as at 31st December 2018 it transpires that balances are not always being reconciled on a regular basis with the respective trade debtors.

In addition, from this balance, the Council already has provided for the amount €18,210 in view that they are not deemed to be recoverable.

Issues arising

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.

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. LES Debtors

Observations

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 €26,947.76 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 2018. However, this report shows a pending balance of €277,014.

Issues Arising

The amounts recognised by the Council in respect to LES debtors are not in agreement with the respective LES reports issued for the same period. We were not provided with information why such a variance has resulted. We also noted that no reference to this balance and related provision was included in Note 13 to the financial statements.

Recommendations

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 it maintains proper controls to conduct regular reconciliations for the LES Pre-Regional receipts compared to LES report 483. Any variances should be investigated and justified.

7.3. Accrued income

Observations

The Council has correctly accrued income with respect to the amounts payable by DLG to WasteServ in relation to tipping fees due to WasteServ Limited. However, when we checked the amount accrued with the supporting documentation provided by Department of Local Government, we noticed that accrued income was under stated by €177.

Furthermore, the Council also recognised income with respect to the Project Solidarity for Heritage which project is being funded partly through EU funding. To this effect, the amount due from EU funds amounted to €22,920, of which € 9,168 was received during 2018 and the balance has been accrued for it in full.

Issues Arising

In order for the Council to comply with the requirements of International Financial Reporting Standards it needs to account for accrued income correctly and completely. With respect to the accrued income with respect to the Project Solidarity for Heritage, we have been informed that the project was not fully completed as of 31st December 2018. The Council should have only taken pro-rata accrued income up to the percentage completed of the said project. We were not provided with enough information in this regard to be able to undertake such an adjustment.

Recommendations

The Council should ensure that it makes a proper assessment of its income accrued but not yet received at the end of every financial reporting period to ensure that all its accrued income is proper and correct. Further to our recommended adjustments in this regard, the Council has duly updated its financial statements accordingly.

8. CASH AND CASH EQUIVALENTS

8.1. Stale Cheques

Observations

The Council has one cheque payment recorded in its BOV bank account number 16308006017 which has exceeded six months from the date of issue, but which had not yet been presented.

Issues arising

The period by which these cheque payments should have been presented at the bank exceeded six months and therefore legally they have become stale.

Recommendations

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.

9. PAYABLES

9.1. Accrued Expenditure

Observations

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:

Invoice Date	Supplier	Details	Amount
03/01/2019	Charlie Mifsud	Non-urban works roads Nov + Dec 2018	2,818.27
07/01/2019	Melchior Dimech	Bulky refuse collection - Dec 18	2,034.32
14/01/2019	Tal-Maghtab Construction	Grating works at Naxxar as per quote submitted on 08.11.2018	5,900.00
14/01/2019	Tal-Maghtab Construction	Trenching works at Naxxar as per quote submitted on 08.11.2018	2,882.45

Furthermore, we noticed that the accounting of accruals has not been complete, and we found instances where no accrual has been undertaken, as follows:

Invoice Date	Supplier	Details	Amount
01/01/2019	D Street Lighting	Christmas lights for Naxxar Local Council - Christmas 2018	2,386.43
04/01/2019	Gasani Mamo Insurance	Court Case 136/17 Gasani Mamo vs Naxxar LC GVZH REF: GMI K42	1,189.17
09/01/2019	Jennings Falzon	Nativity Crib installation	950.00
09/01/2019	Jennings Falzon	Milied Malti events - Stalls design and manufacturing	3,900.00
12/01/2019	Prickly Pear Works	Graphics for Christmas Activity 2018	407.10
22/01/2019	Ghaqda Muzikali Marija Bambina Banda Vittorja	Kiri ta' arbli ghad-dekorazzjonijiet tal-Milied 2018/2019	400.00

Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely.

Recommendations

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

9.2. Accounting for Grants

Observations

The Council received a number of government grants in respect of a number of capital projects over the last few years. A number of shortcomings were noticed in previous years as explained below:

- 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.
- 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.
- Online Streaming Scheme - Amount of release should have commenced based on date when the equipment was bought and installed.
- 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.
- Measure 313 - The grant of €5,667 is not being included in the Council's grant workings.
- Triq Kastro – the non-current portion of Triq Kastro grant has been recorded as €38,655 in the accounts, however as per workings provided from the Council, the non-current portion amounted to €33,385.

The Council has accounted for government grants in line with Directive 1/2017, whereby the balance on the deferred income account was transferred against the relevant category of non-current assets to which it relates. However, the following issues were noted:

- Special Programmes – The amount released to income up to 2016 amount to €145,896.58 according to Council's previous workings. However, the actual amount of grant released deducted from depreciation recorded in note 11 of the financial statements, amounted to €182,944.92. Not enough information was provided with regards to this variance to understand the reason of this variance as well as if any adjustment was required.
- Computer Equipment – The amount released to income up to 2016 amount to €3,605.27 according to Council's previous workings. However, the actual amount of grant released deducted from depreciation recorded in note 11 of the financial statements, amounted to €3,335.74. Not enough information was provided with regards to this variance to understand the reason of this variance as well as if any adjustment was required.

Issues Arising

The amount of grants recognised in the Financial Statements should be equal to the amounts paid or approved for each specific capital project. Any discrepancies should be reviewed and adjusted on a periodic basis.

Furthermore, in line with the requirements of IAS 20, under the capital approach, grants related to assets shall be presented in the Statement of Financial Position by deducting the grant in arriving at the carrying amount of the asset. The grant is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense.

Recommendations

The Council should follow the requirements of 'IAS 20 – Accounting for Government Grants and Disclosure of Government Grants' in this regard.

9.3. Deposits refundable on crane and machinery permits

Observations

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 €8,463 between the amount as per financial statements and the list provided by the Council in this respect.

Issues Arising

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.

Recommendations

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.

9.4. Contingent Liabilities Disclosure

Observations

The Council failed to disclose the following contingent liabilities:

- 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.
- 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
- Case with Mapfre Middlesea PLC whereby the plaintiff is claiming damages of circa €1,785.. In case plaintiff's claim is upheld the Council would have to pay an additional €1,000 in court fees.

In addition, the Council has recognised a provision of €3,000 in note 16 to the financial statements in relation to the above court cases.

Issues arising

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.

Recommendations

The Council should therefore ensure that as at every financial year end, a review of such possible obligations is undertaken and accordingly the proper disclose/recognition is undertaken as applicable in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

10. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

10.1. Disclosures required in respect of certain IFRS.

Observations

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.

Amongst other things, omissions/issues were noticed in relation to a number of disclosures, as follows:

- 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.
- Lack of proper disclosure in the statement of financial position of the comparatives prior to the prior year adjustment and then the comparatives as restated after the prior year adjustments (a third balance sheet) in line with the requirements of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors.
- 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.

Other presentation and disclosure deficiencies have been duly noted in other areas of this management report.

Issues Arising

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

Recommendations

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

10.2. Financial Statements presentation

Observations

During our review of the financial statements we noted a number of areas in the presentation of the financial statements which were incorrect or were not properly presented.

Issues arising

- In the Statement of Cash Flows, 'Cash generated from/(used in) investing activities should read 'Cash (used in) investing activities'. Further to our recommendations, this has been adjusted accordingly.
- 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.

- Income from Permits amounting to €60,642 must be reclassified from Note 4 to Note 6 Since the Council has no bye-law in place. Further to our recommendations, this has been adjusted accordingly.
- Under 'Property, plant and equipment' note in page 11 after paragraph beginning 'Subsequent costs are included in the carrying amount...', include the following paragraph:
 - Up to the year 31 December 2017, depreciation was accounted for using the reducing balance method according to IAS 16 Property, Plant and Equipment. On 1 January 2018, the straight-line method, according to IAS 16 has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting estimate, which according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors it has been accounted for prospectively.
- On page 12, under 'Government Grants' add the following sentence after the sentence 'By means of Directive 1/2017...':
 - This is a change in accounting policy, and, according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it has been accounted for retrospectively
 Further to our recommendations, this has been adjusted accordingly.
- Under Note 7 on page 16, the average number of employees should be disclosed. Further to our recommendations, this has been adjusted accordingly.
- Under Note 8 on page 16, under the heading 'Contractual Services' line item 'Support Service' can be removed.
- After Note 15, add another note titled "Effect of Change in Accounting Policy" to show the effect of the application of Directive 1/2017. A further note should be included with the below showing the arithmetic implications of the change in policy, similar in nature to a Prior Year Adjustment Note (2017 as originally reported, Adjustments, 2017 As restated):
 - "On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively.
 Further to our recommendations, this has been adjusted accordingly.
- Note 18 of the Notes to the Financial Statements – Related party transactions, should reflect the requirement of articles 25 and 26 of the said standard.
- Note 21 of the financial statements, under the heading 'Classes of financial assets – carrying amounts' the 2017 figure for 'Trade and other receivables' should read €55,616 rather than €52,616. Further to our recommendations, this has been adjusted accordingly.
- With respect to the Statement of Financial Position, the current 2017 comparative column should be renamed to "31 Dec 2017 As Restated", and an additional column to be included showing the original position as per the audited position as at 31 December 2017, to clearly show the effect of the change in the accounting policy in line with the changes required in the application of Directive 1/2017. Further to our recommendations, the Council has included a note on the effect of the change in policy. However, Statement of Financial Position does not include the third column.

Recommendations

The Council should ensure compliance with International Financial Reporting Standards, respective Memos and Local Councils Procedures in the preparation of the Financial Statements.

11. GENERAL

11.1. Comparison with the Annual Budget

Observations

During our review of the annual budget 2018, it was noted that some expenditure incurred in 2018 varied significantly when compared to the budgeted amount for the same year. The variances identified are presented in the following table:

	Actual	Budget	Variance	Percentage Variance
	€	€	€	
<u>Operations and Maintenance</u>				
Contractual Services	454,887	381,384	73,503	19%
<u>Administration & Other expenditure</u>				
Transport	4,096	3,550	546	15%
Travel	22,364	5,300	17,064	322%
Insurance	2,287	1,963	324	17%

Issues Arising

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.

Recommendations

In compiling a budget, each item of income or expenditure should be scrutinised to determine whether there is some form of agreement which gives certainty of the projection being presented. In the absence of a contract or an agreement, the item should be extrapolated over historic data to approximate the desired projections for the entire consolidation of the official final draft of the budget.

11.2. Council Meetings, Minutes, Agenda and Schedule of Payments

Observations

The Council's Minutes and Schedule of Payments uploaded on the website <https://localgovernment.gov.mt/en/lc/Pages/Local-Councils-Landing-Page.aspx> are being uploaded late. Furthermore, we noticed that agenda for meetings 78, 79 and 80 were sent to councillors in less than five working days.

Issues Arising

Memo 89/2010 requires the Executive Secretary to publish the minutes and the schedule of payments within two days of Council's approval. The publishing of the schedule of payments was further regulated through Memo 102/2010. Paragraphs 14(A)(6) and 14(A)(7) to the Sixth Schedule of the Local Councils Act (Cap. 363) require that the minutes become public once they have been approved and signed by the Chairman and the Executive Secretary.

Furthermore, Memo2/2014 states that the agenda for Councils meetings is to be sent to all council members five working days before each Council meeting.

Recommendations

The Council should ensure adherence with the requirements of the specified Memos.

11.3. Management letter and reply

Observations

We noted that the management letter and the Council's reply to the management letter of the prior year are not being uploaded on the Council's website.

Issues Arising

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

Recommendations

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