

LOCAL COUNCIL PEMBROKE

Report to Management

for the financial year ended 31 December 2015





3a

MALTA

26th April 2016

The Mayor
LOCAL COUNCIL PEMBROKE
Triq Alamein
PEMBROKE PBK 1776

Dear Sir,

REPORT TO MANAGEMENT

As you are well aware, our firm has been reappointed by the National Audit Office to carry out the annual audit of the financial statements of your Council. Our engagement includes the obligation on our part to prepare a report addressed to the Council, explaining weaknesses and recommendations that emanate from the review of your systems as part of our audit. You will understand that our examination cannot be expected to disclose every weakness and therefore the matters dealt with in this report are not necessarily the only shortcomings, which exist. This report is intended as a source of guidance for the Council to refine its systems for better compliance, internal controls and governance. 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 period ended 31 December 2015, we have examined the principal accounting records, systems and controls in use by the Council to enable it to ensure as far as possible, the accuracy and reliability of its records and to safeguard its assets. Additionally, we also examined the level of your Council's compliance with the Local Councils Act (1993), the Financial Procedures (1996), the various Legal Notices and Local Councils Department Memos globally issued to Local Councils in the Maltese Islands.

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

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3A is a civil partnership duly registered as an audit firm under
the Accountancy Profession Act with warrant number 18/26/81/62

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

Yours faithfully



Neville Cutajar
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2014

1.1. Local Enforcement System

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

1.2. Income from bye-laws

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.2 of our management report.

1.3. LES Post Regional 10% Commission

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

1.4. Other supplementary Government Income

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

1.5. System of Council Income Receipting and Invoicing

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

1.6. Inappropriate documentation

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

1.7. Procurement Procedures

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

1.8. Other expenditure short comings

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

1.9. Prepayments and Accrued Income

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

1.10. Taxation of Investment Income

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

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

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

1.12. Categorisation of assets and depreciation thereof

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

1.13. Depreciation

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

1.14. Reconciliation of financial statements to FAR

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

1.15. Computer Software

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 5.6 of our management report.

1.16. Insurance policy

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

1.17. Classification of payables

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

1.18. Trade Payables

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

1.19. Disclosures of Contingent Liabilities

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 7.3 of our management report.

1.20. Disclosures required in respect of Financial Procedures

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

1.21. Disclosures required in respect of certain IFRSs

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

1.22. Financial statements presentation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 8.3 of our management report.

2. INCOME

2.1. Income arising from the Local Enforcement System

Observations

By the date of conclusion of our audit work, the Council had still not received the audited annual report of the Joint Committee for the period ended 31st December 2015. During the year under review, the Council has been correctly recording any cash receipts received by the Joint Committee, as well as making the distinction between LES pooling and pre-pooling receipts. Income received in relation to the former amounted to € 311. 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 for the Joint Committee as at 31st December 2015, we could not rely on third party financial information as provided by the Joint Committee to provide reasonable assurance on the amounts being recorded in the financial statements as income from the Local Enforcement System. We have qualified our audit report in this respect.

Recommendations

The Council should pressure the Joint Committee to provide audited financial statements for every financial year in order to have a basis on which to recognise all LES income due to the Council.

2.2. Income from Bye Laws

Observations

The Council received income arising from advertising on street furniture amounting to €590.50. This income has been disclosed under the general income category.

Issues Arising

The Council has a bye law in place covering revenue arising from advertisements on street furniture. Hence income generated from advertising on street furniture falls under income generated from this bye law and should therefore be disclosed accordingly.

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

2.3. 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 €5,843 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.

However during our testing we noted that according to Report 483 – Post Regional Tickets and LESA Tickets, the Council's share of commission for 2015 should have amounted to €5,883 resulting in an understatement of €40.

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 full reconciliation of the amounts as per LES reports to the amounts actually received.

Recommendations

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

2.4. System of Council Income Receipting and Invoicing

Observations

We noted that the Council issues proper official receipts for the income received. However the system used by the Council is manual based, and therefore the system does not provide a proper electronic audit trail.

Issues Arising

The current system used by the Council is working well because no major issues were identified. However it should be noted that this system could lead to errors in view of human intervention and requires more physical space to keep track and storage of the paper documents. Furthermore, more effort is needed to find information when required.

Recommendations

The Council may consider adopting an electronic based receipting system. Such system will help the Council to be more efficient in keeping its financial records and requires less storage space. Furthermore, this will prevent loss of data if backups of the system are done regularly.

2.5. Income not recorded in the appropriate accounting period

Observations

We noted that during the year under review the Council recognised income of €1,000 received on 29th January 2015 in relation to the 'GreenPak Award for 2014'. The Council was informed of this award in June 2014. Furthermore, during 2015 the Council received a re-imbursement of staff costs from the Malta Communications Authority amounting to €1,427.72. All of this income was recognised in the current year financial statements, even though it related to 2014.

Issues Arising

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

Recommendations

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

2.6. 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 €1,662 relating to advertising on street furniture for the periods April 2015 to March 2016 and for October 2015 to September 2016 was fully recognised in 2015 when a portion of this income amounting to €1,071.50 should have been deferred to 2016.

Issues Arising

Since a portion of the income received in the current financial year relates to the year 2016, this portion 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.

3. PERSONAL EMOLUMENTS

3.1. Personal tax deductions

Observations

FSS was not deducted correctly with respect to one of the employees of the Council in view that FSS has been deducted not in accordance with the relevant tax bracket rates as stipulated by the Income Tax Act.

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.

4. EXPENDITURE

4.1. Inappropriate documentation

Observations

Throughout our audit testing on the expenditure undertaken by the Council, we have identified instances whereby the expenditure was not supported by a proper invoice in terms of the VAT Act 1998.

We noted that a payment was made for an invoice amounting to €9,453 issued from Ellis Urban Services. The invoice is not in conformity with the VAT Act 1998. Furthermore, some of the fiscal receipts issued by the supplier Mr Charlie Mifsud do not include the date when the receipt was issued.

Issues Arising

It should be assured that all expenditure and payments by the Council should only be affected against an appropriate invoice and where necessary, after an architect's or engineer's certification (as the case may be) is obtained. A fiscal receipt should also be obtained at all times.

Recommendations

The Council should ensure that an appropriate tax invoice, as required by the respective procedures, is obtained for all the expenditure incurred by the Council in the future. Payments unsupported by an appropriate invoice, should not be made.

4.2. Procurement procedures

Observations

We noted that the expenditure for Street Lighting incurred by the Council is neither covered by a tender or by an extended contract as per Memo 34/2013.

Furthermore we also noted the below shortcomings throughout our procurement testing:

- The Non-Collusive Certificate provided in respect of tender 03/2015 'Tender for Cleaning & Maintenance of Parks & Gardens', awarded to Mr Charlie Mifsud was not properly filled up with an item left blank.
- The performance guarantee in respect of the supplier awarded the tender 03/2015 'Tender for Cleaning & Maintenance of Parks & Gardens', awarded to Mr Charlie Mifsud was not provided within 7 days from the date of the letter of acceptance. We found a letter from Mr Charlie Mifsud stating that the acceptance letter did not arrive on time from the Council.
- No copy of the contractor's third party liability insurance was provided with respect to the tender 03/2015 'Tender for Cleaning & Maintenance of Parks & Gardens', awarded to Mr Charlie Mifsud.

Issues arising

Memo 34/2013 issued in December 2013 requires Councils to issue a new Tender for a full year in relation to Street Lighting services which contract may be extended to a maximum of three years.

The Council is also 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 to.

All tender forms need to be appropriately and completely filled up and bidders who submit inappropriate documentation should be immediately be disqualified and not considered in the adjudication process.

The Local Council (Tendering) Procedures of 2009 – K.L.P. 3/96 – P3.06 states that within 7 days of acceptance of a contract, the contractor is to submit a guarantee equal to 10% of the awarded contract value.

Recommendations

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

5. PROPERTY, PLANT AND EQUIPMENT

5.1. Categorization of assets and depreciation thereof

Observations

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, Photovoltaic panels installed on the Council's roof amounting to €10,140 and various vertical and micro blinds purchased for the Council's administrative offices amounting to €1,232.24 have been recognised under the 'Construction' asset category when these should have been allocated under 'Buildings' asset category and 'Office Furniture & Fittings' asset category respectively.

Issues Arising

The calculation and posting of depreciation is regulated by the Financial Procedures (1996 – Finance) KLP 1/96 P1.01, h.07 (as amended by Legal Notice 323 of 2002). The measurement of depreciation undertaken by the Council is in conflict with the depreciation accounting policy of local councils as in fact stipulated in note 2 of the financial statements. We have qualified our audit report in this respect.

Recommendations

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

5.2 Insurance Policy

Observations

The Council is not properly insured in certain 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 € 72,560, "property in the open" for the amount of € 190,000, computer and office equipment for the amount of € 45,370, plant and machinery for €6,300 and Council's buildings for the amount of € 74,100.

The Council's total cost of fixed assets, excluding special programmes, as disclosed in its financial statements, amount to €1,132,838 of which € 24,583 relates to furniture and fittings, € 6,300 relates to plant and machinery, € 46,312 relates to office and computer equipment, € 11,787 relating to street signs and €438,534 and €589,175 relates to urban improvements and construction respectively.

Issues Arising

The Council is exposed to a risk of theft and fire or damage for assets held by the Council. This is mainly evident with respect to office furniture and fittings, plant and machinery and office and computer equipment, and to a certain extent urban improvements.

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 different categories of property, plant and equipment.

Recommendations

We recommend that the actual value of all insurable and material non-current assets held and maintained by the Council are provided to the insurance company for an adequate cover. The Council has reviewed its insurance policy during the year under review. We suggest that this exercise is kept on an ongoing basis to avoid unnecessary over and under insurance cover for each respective applicable asset categories and to ensure that the Council is properly insured.

It would be appropriate that the insurance policy details better those assets 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

5.3 The Upkeep of the Fixed Asset Register (FAR)

Observations

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

Some descriptions lack fundamental details about the asset being capitalised. In some cases, the description of the FAR card only includes a very generic description thus not providing relevant information about the asset and its location, example 'URBAN054 – Wrought iron hand railing', 'URBAN003 – General works' and 'SPFUN031 – Road Resurfacing'.

Issues Arising

Proper asset description 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 nature elements and one would need to identify them to be able to correctly dispose of them.

Recommendations

The Council should undertake an exercise so that the description of the asset in the FAR card should contain the highest degree of detail possible. The detail should not be of a generic nature, such as 'road resurfacing' and 'general works'. Furthermore, 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 can be identified easily. This would be useful for insurance claims and asset disposal adjustments.

5.4 Reconciliation of the Fixed Asset Register (FAR) to the Financial Statements

Observations

We noted that the accumulated depreciation as per FAR for the fixed asset categories 'Construction' and 'Office equipment' is not in agreement to the accumulated depreciation in the financial statements. The below variances were identified:

Category of assets	Depreciation as per FAR	Depreciation as per FS	Variance
	€	€	€
Construction	392,352.84	392,826.00	(473.16)
Office equipment	38,610.94	38,913.00	(302.06)

Issues Arising

The upkeep of a proper Fixed Asset Register is of utmost importance to the Council. A Fixed Asset Register is deemed as one of the principle accounting ledgers of a Council, which enables the Council to maintain its control of its capital expenditure by recording the value, depreciation as well as the location of the particular asset being recorded.

Recommendations

The Council should ensure that any such variances in the depreciation charge of these asset categories is duly reconciled and adjusted so that they agree with the amounts as per nominal ledger.

5.5 Assets no longer used by the Council

Observations

During our testing we noted that certain fixed assets such as '**COMP012 -Scanner and Zip Drive**' purchased in 1998 at a cost price of €743.07 and '**COMP023 – New Computer/Tel /Fax Network**' purchased in 2000 at a cost price of €391.33 are included in the Fixed Asset Register. The Executive Secretary stated that although these assets are not currently being used by the Council, they are still held at the Council's premises.

Issues Arising

IAS 16 Property, Plant and Equipment and IAS 36-Impairment of Assets require that assets are assessed for impairment on an annual basis and any asset which is no longer in use should be duly disposed of accordingly in the accounts of the Council.

Recommendations

The Council should undertake an exercise whereby all Council's assets are reviewed to confirm whether any impairment provision should be undertaken and to dispose of assets which are no longer in use in line with the requirements of IAS 16 and IAS 36.

5.6 Computer Software

Observations

During our testing we noted that the Council does not have any computer software recognised in its financial statements. However, we noted that, during the year under review, the Council incurred an expense of €188.80 for the upgrading its' Sage Pastel Partner.

Issues Arising

Computer software falls under the definition of "Intangible assets" and has to be accounted for in line with the requirements of IAS 38 – Intangible Assets. This class of assets needs to be disclosed separately in the financial statements.

Recommendation

The Council should ensure that the requirements of IAS 38 are properly applied with respect to any computer software purchased by the Council.

5.7 Assets received in kind

Observations

During the year under review the Council received a laptop as a donation valued between €400 - €500. The Council neither recognised the laptop as a fixed asset addition during the year, nor recognised the donation received.

Issues Arising

IAS 16 – Property, Plant and Equipment states that items of property, plant and equipment should be recognised as assets when it is probable that the future economic benefits associated with the asset will flow to the entity and when the cost of the asset can be measured reliably.

The donation should be initially recognised as long term deferred income with the income then recognised in the Statement of Comprehensive Income on a systematic basis over the useful life of the asset, that is, in accordance with the amount of depreciation released to the Statement of Comprehensive Income for every period.

Recommendations

The Council should ensure that all assets given in kind are properly recognised and depreciation is provided accordingly. Furthermore, the Council should release systematically the deferred income using the monthly reducing balance method in line with the depreciation charge. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly

6. CASH AND CASH EQUIVALENTS

6.1. Stale Cheques

Observations

The Council has an unpresented cheque recorded in its bank current account dated 23rd September 2014 amounting to €98.22. It is evident that this cheque has become stale.

Issues arising

The period by which these cheques 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 and adjust its records accordingly when cheque payments become stale.

7. PAYABLES

7.1. Accruals

Observations

Further to our review of the accruals accounted for by the Council as at year end, we noticed that the accounting of these accruals has not been complete as follows:

- The accrual for the cleaning and maintenance of Parks for December 2015 payable to Charles Mifsud is understated by €193.33.
- The accrual for grass cutting for December 2015 payable to Charles Mifsud is understated by €71.25.
- The accrual for the cleaning of non urban roads for December 2015 payable to Charles Mifsud is understated by 71.25.
- The accrual for Bulky Refuse for December 2015 payable to Charles Mifsud is overstated by €99.21.
- The accrual for replacement of traffic signs payable to B Grima & Sons is overstated by €170.95.
- The accrual for tipping fees for December 2015 payable to Wasteserv is overstated by €148.80.
- The accrual for court fees of €120 re the court case of Alternative Technologies Limited judged on 25th November 2015 not accounted by the Council.

Issues Arising

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

Recommendations

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

7.2. Debit balances in list of creditors

Observations

From an analysis of the suppliers' list as at 31st December 2015, we noted a negative balance of €2,360.68 relating to Infinite Fusion Technologies. Upon further analysis it transpired that this situation arose because an invoice was received and paid but had not been posted in the supplier's ledger. This invoice was dated 18th December 2014.

Issues arising

Such negative balances may be distorting the amount due and shown by the Council at any point in time. It could also be a sign that creditors' balances are not being reviewed on a periodic basis with any variances or errors adjusted for accordingly. This practice may lead to an understatement of creditors of the Council as well a lack of information on the creditors of the Council at any point in time.

Recommendations

All supplier invoices are to be 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. In addition, the Council should undertake an exercise to review all creditors and ensure that all balances at year end are correct. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly

7.3. Disclosure of contingent liabilities

Observations

The Council has disclosed €1,100 by way of contingent liabilities. This amount is in relation to a dispute with Alternative Technologies Limited. However we noted an invoice dated 25th January 2016 showing that the Council had to pay the amount of €1,348 in court fees relating to this case.

Issues arising

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets requires that any possible obligation depending on whether some uncertain future event can occur should be disclosed by way of a note to the financial statements. Anything which is deemed probable to be incurred is recognised in the accounts as liability and therefore such payables do not need to be disclosed as contingent liabilities.

Recommendations

We recommended that the Council applies the requirements of IAS 37 in this regard and properly discloses all contingent assets and liabilities at period end and provides for liabilities as required. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly

8 OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

8.1 Disclosures required in respect of certain IFRS Observations

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements are not compliant in all respects with the requirements of these standards and in fact disclosures emanating from certain accounting standards are missing or not in line with the relevant accounting standard.

For example, omissions were noticed in relation to disclosure of new/revised accounting standards which became effective in the current financial year or which were issued but are not yet effective in the current financial year in line with the requirements of IAS 1-Presentation of Financial Statements.

Disclosure of related parties and related party transactions in note 20 is not complete in view that the requirement of articles 18, 25 and 26 of the said standard have not been complied with.

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

Issues Arising

The financial statements should be prepared in a consistent manner, whereby 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. Going concern note should be removed accordingly.

8.2 Disclosures required in respect of Local Councils' Financial Procedures

Observations

The financial statements prepared and approved by the Council do not contain the corresponding budget figures for the year under review.

Issues Arising

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the period. However, in line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements. In this respect, we have included a note to this effect in our audit report.

8.3 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

- Accounting policies pgs 10-17 do not include disclosure of all the new and amended standards that are applicable to Local Council's operations.
- Note 24 of the Notes to the Financial Statements – Related party transactions, should reflect the requirement of articles 25 and 26 of the said standard.
- In the Statement of Cash Flows zero balances for both current year and comparative year should be removed.
- The financial statements contain a casting error in Note 15 'Deferred income'. Summing up the deferred government grants gives €51,595 rather than €51,164
- Depreciation balance as at 1st January 2015 and 31st December 2015 under the category 'Special Programmes' in Note 11 to the financial statements, is a negative figure of €263
- Note 11 of the Notes to the Financial Statements– In the comparatives figure of the current year financial statements, the disposals under the urban improvements category amounts to €5,378 and the disposals under the trees category amounts to €1,994. According to prior year financial statements, the disposal under the urban improvements category amount to €7,372 and there was no disposal under the trees category. No note was included in the financial statements stating that certain amounts of the comparative figures were re-classified.
- Note 13 in the financial statements, 'provision for bad debts' of €4,200 should read 'provision for general bad debts'
- Note 20 – the executive secretary emolument for both the financial years 2014 and 2015, amounting to €26,852 and €27,876 respectively, is not agreeing to the executive secretary salary and allowances disclosed in Note 7 amounting to €26,909 for 2014, and €27,936 for 2015.

- Note 21 – the carrying amount of the trade and other receivables in the note 'Classes of financial assets – carrying amounts' for the current financial year should read €12,104 rather than €8,990. This also applies to the amounts disclosed under Note 22 'Summary of Financial Assets and Liabilities'.

Recommendations

The Council should ensure compliance with *International Financial Reporting Standards, respective Memos and Local Councils Procedures (2006 Audit)* in the preparation of the Financial Statements.

9 GENERAL

9.1. Attendance to Council Meetings

Observations

It was noted that one of the Councilors failed to attend one third of the meetings called within a period of six months.

Issues Arising

Although these absences were assessed to be for a justifiable reason by the Council, the Executive Secretary, in line with the provisions of the Local Council's Act, Article 18, should have informed the Department of this fact.

Recommendations

The Council should ensure that it abides with the requirements of the Local Council's Act in this respect.

9.2. Comparison of Actuals with the Annual Budget

Observations

During our review of the annual budget 2015, it was noted that some expenditure incurred in 2015 exceeded the budgeted amount. In fact according to the annual 2015 budget no capital expenditure had to be incurred. However as per financial statements capital expenditure amounted to €87,665.

Furthermore, the budget expenditure for operations & maintenance and administration expenditure according to the annual 2015 budget amounted to €283,309. However the actual expenditure incurred in this respect amounted to €330,811.

Issues Arising

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

The Council should compile the annual budget with due care and diligence to use it as a guideline to control its expenditure during the year. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increase in income received.

Recommendations

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