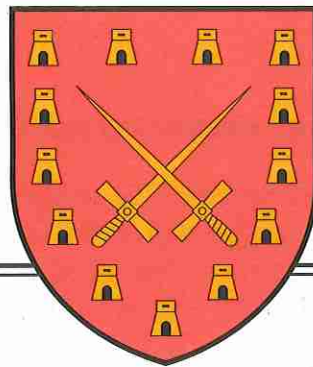


Kunsill Lokali Pembroke

Triq Alamein
Pembroke, PBK 1776,
Malta
Tel: (356) 2137 2111 Fax: (356) 2137 2555
Web: www.pembroke.gov.mt
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Pembroke Local Council

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Ref. Tagħna : 46/1794/17/O/94/370/205/333/264/366
Ref. Tiegħek :
Ref. Interna : 46/1575/17/I

30 ta' Mejju 2017

Dipartiment għall-Gvern Lokali

26,
Triq l-Arcisqof,
Valletta, VLT 1443.

Att: Id-Direttur Adrian Mifsud

Management Letter 2016

B'referenza għall-Management Letter għas-sena finanzjarja li għalqet fil-31 ta' Diċembru 2016 (**Kopja annessa**), f'isem il-Kunsill Lokali Pembroke nixfurmak li:

2.1. Income arising from the Local Enforcement System

Il-Kunsill dejjem jipprova jagħmel dak kollu possibbli biex il-Kumitat Kongunt jipprovdi Accounts Awditjati, iżda peress li s-sena finanzjarja tagħlaq l-istess bħal dik tal-Kunsill, kif diġa gie rrimarkat anke fi snin preċedenti, dan huwa mpossibbli.

2.2. Income from Bye Laws

Il-Kunsill ħa nota tal-kumment u fil-fatt kif indikat fir-rapport, il-Financial Statements ġew emendata waqt il-proċess tal-verifika.

2.3. LES Post Regional 10% Commission

Il-Kunsill ħa nota tal-kumment għalkemm, u kif diġa gie rrimarkat anke fi snin preċedenti, l-invoices tal-LES maħruġa mill-Kunsill huma ġġenerati mis-sistema stess u m'hemm ebda lok li l-Kunsill jista' jemenda dan ir-rapport. Għalhekk il-Kunsill ma kellu ebda kontroll fuq id-deskrepnza li qed issir referenza għaliha. Jirriżulta li d-differenza hija skond liema rendikont jiġi ġġenerat u taħt liema verżjoni, li t-tnejn huma provduta lill-Kunsill minn Loqus Ltd., kumpanija indipendentament mill-operat tal-Kunsill.

Mayor : Avv. Dean Hili Deputy Mayor : Raymond Lanzon
Councillors : Evelyn Vella Brincat, Mark Causon u Charles Cesare
Executive Secretary : Kevin Borg

2.4. System of Council Income Receipting and Invoicing

Kif diġa ġie rrimarkat anke fi snin preċedenti, il-Kunsill ħa nota tal-kumment u jixtieq jirrimarka li l-proċeduri finanzjarja jesigū li għal kull irċevuta li tinħareġ, din trid tkun fil-format tripliku fejn l-originali tingħata lill-klijent, kopja tinżamm fil-file tad-dħul u oħra tinżamm fil-ktieb ta' l-irċevuti, sistema li l-Kunsill għadu jadotta sallum il-ġurnata.

Is-sistema użata faċilment setgħet tigi vverifikata mill-Awdituri minħabba li jeżisti audit trail għal kull irċevuta tant li kull irċevuta hija mdaħla fis-Sage individwalment. L-awdituri setgħu faċilment għamlu testing rigoruż ta' verifika bejn dak li hemm fuq is-sage u l-kopji tal-irċevuti. Dan kollu jikkonkludi li l-Kunsill ma jarax il-ħtieġa li jinvesti f'sistema kompjuterizzata sakemm ma tkunx imposta mid-DGL.

2.5. Income not recorded in the appropriate accounting period

Il-Kunsill ħa nota tal-kummenti li saru tant li saru l-aġġustamenti mitluba. Ta' min jinnota li l-pagament lill-WasteServ mid-DGL sar fl-24 ta' Marzu 2017, ħafna aktar tard minn meta ġew finalizzata l-Financial Statements kif ukoll wara l-mawra li l-Awdituri għamlu fil-Kunsill u għalhekk il-Kunsill qatt ma seta' jinkludi dawn l-ammonti minn qabel fil-kotba tiegħu. Dan fid-dawl ukoll li qabel din id-data, il-Kunsill qatt m'ingħata ndikazzjoni ċara li kien ser ikun hemm tali pagamento u ta' kemm kien ser ikun.

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

Il-Kunsill ħa nota tal-kumment u fil-fatt kif indikat fir-rapport, il-Financial Statements ġew emendata waqt il-proċess tal-verifika.

2.7. Classification of Income

Il-Kunsill ħa nota tal-kumment u fil-fatt kif indikat fir-rapport, il-Financial Statements ġew emendata waqt il-proċess tal-verifika.

3.1. Procurement procedures

Rigward it-tender tal-Installazzjoni, Żamma u Manutenzjoni ta' Street Lighting ta' min jinnota li l-Kunsill mexxa ma' dak rakkomandat mid-DGL billi ddelega lir-Reġjun Tramuntana l-proċess li jinħareġ tender wieħed bħala Reġjun. Fid-dawl ta' dan u peress li l-proċess ma kellux jieħu fit-tul, il-Kunsill għażel li jibqa' jagħmel użu mis-servizzi tal-kuntrattur li kien intgħażel minn NHDJC, fejn skond informazzjoni li għandu l-Kunsill jirriżulta li l-kuntratt baqa' jiġġedded minn sena għal sena sakemm jinħareġ tender ġdid. Għalhekk il-Kunsill ma jistax jaqbel mal-kummenti ta' l-Awdituri li l-Kunsill qed jaħdem mingħajr kuntratt.

Rigward il-tender 07/2016 *'Tender for Upkeep and Maintenance of Road Markings'* li ngħata lill-Koptasin, id-dokument li qed issir referenza għalih huwa mimli u ffirmat kif mitlub. Dwar l-Evaluation Report huwa minnu li bi żvista ma gíex iffirmat mis-Segretarju Ezekuttiv u fil-fatt issa gie ffirmat.

4.1. Categorization of assets and depreciation thereof

Il-kategorija tal-assi li għandha x'taqsam mal-bini għanda rata ta' deprezzament ta' 1% fis-sena fuq bażi ta' 'reducing balance'. La l-pannelli fotovoltajċi, u lanqas l-blinds m'huma mistennija li jdumu għal 100 sena, għaldaqstant dawn qed ikunu deprezzati matul il-ħajja produttiva tagħhom.

Rigward il-blids ukoll, dawn kienu saru tal-qies għat-twieqi speċifiċi li hemm u għalhekk m'humex ser jiċċaqilqu. Kien għal dan il-għan li dawn gew inkluża mal-kostruzzjoni bħala diprezzament.

Ta' min jinnota wkoll li l-kummenti li saru, jirrigwardjaw assi l'ilhom fil-Kunsill għal aktar minn 8 snin u mhux li saru tul is-sena finanzjarja kurrenti.

4.2. Insurance Policy

Il-Kunsill ser jara li fejn ikun possibbli, iċ-ċifri jkunu aktar viċin il-valur attwali, għalkemm dan qatt ma jista' jkun eżatt peress li l-assigurazzjoni ma tgħalaqx mas-sena finanzjarja u għalhekk, bid-deprezzament dejjem ser ikun hemm avarija bejn l-ammont assigurat u l-ammont ta' l-assi fuq il-kotba tal-Kunsill.

Id-differenza prinċipali hija atribwita għall-proġetti ta' manutenzjoni li saret matul is-snin fejn id-DGL stess qed jirrakkomanda li dawn m'hemmx il-bżonn li jkunu assigurata bħala assi fosthom toroq, bankini, retaining wall, embellishments, eċċ.

4.3. The Upkeep of the Fixed Asset Register (FAR)

Huwa minnu li assi antiki għandhom referenzi xi ftit ġeneriċi, iżda l-assi kollha li żdiedu f'dawn l-aħħar snin huma kollha mniżla l-FAR bil-massimu ta' l-informazzjoni nkluża. Apparti minn dan jinżamm file separat fejn fih jinżammu l-fatturi kollha ta' l-Assi tal-Kunsill u għalhekk faċilment jistgħu jiġu identifikata. L-Awdituri iridu jkunu konxji wkoll li ladarba kienu ddaħħlu assi kif irrimarka, it-titlu qatt ma jista' jiġi emendat u huwa nutli li sena wara sena tibqa' ssir referenza għall-assi l'ilhom fil-kotba tal-Kunsill għal numru konsiderevoli ta' snin.

Ta' min jinnota li dan il-kumment huwa kopja ta' dak li ntqal fil-passat, iżda sfortunatament hija ħasra li ma saret ebda referenza li l-assi li ddaħlu ġodda saru kif mitlub.

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

Matul is-sena 2016 ser isir eżerċizzju biex naraw li l-valuri bejn l-FAR u n-Nominal Ledger ikunu l-istess. L-awdituri setgħu faċilment irrikonċiljaw li d-deprezzament qed isir komputerizzat mis-sistema tas-Sage, tant li l-Kunsill għamel talbiet lill-kumpanija ICT Ltd għal verifika tat-transazzjonijiet li jsiru ta' kull xahar mis-Sage Evoluzzjoni għas-Sage Pastel, li s'issa risposta għaliha għad ma waslitx.

4.5. Assets no longer used by the Council

Il-Kunsill jinnota li għalkemm hemm assi li mhux qed jintużaw dan ma jfissirx li għandhom jintremew. Issa li l-Awdituri għadhom qed jinsistu li dan għandu jsir, allura ser isir eżerċizzju biex dawn l-assi jintremew, xi haġa li l-Kunsill għandu riserva dwarhom.

4.6. Computer Software

Il-Kunsill ħa nota tal-kumment.

4.7. Assets received in kind

Il-Kunsill ħa nota tal-kumment u fil-fatt ittiegħdu l-passi biex jiġu rranġata.

4.8. Fixed Assets Labelling

Il-Kunsill ħa nota tal-kumment u fil-fatt ser jittiegħdu l-passi biex jiġu rranġata. Ta' min jinnot ali l-iżball kien li 3 kompjuters kienu nxtraw f'daqqa u ngħataw referenza waħda. Sussegwentament l-Awdituri kienu talbu li kull kompjuter kellu jingħata referenza separata. Kien hawn li fis-software sar l-aġġustament meħtieġ izda l-isticker fuq kull kompjuter bi żvista ma gewx mibdula.

4.9. Capital Commitments

Il-Kunsill ħa nota u saret ir-ratifika neċessarja fil-Financial Statements kif indikat mill-Awdituri.

5.1. Accruals

Il-fatturi li l-awdituri għamlu referenza għalihom kienu meqjusa bħala dovuti u mhux bħala kredituri peress li fiż-żmien ta' meta ġew iffinalizzati l-kontijiet f'Jannar 2017,

dawn xorta ma kinux għadhom waslu għand il-Kunsill. Eventwalment meta dawn kienu mibgħuta lill-Kunsill mill-fornituri, dawn kienu datati f'Diċembru 2016 iżda kull fattura li waslet fil-Kunsill hija ttimbrati bid-data ta' meta fil-fatt waslet, u dan kollu jista' faċilment jiġi vverifikat mill-awdituri stess.

5.2. Supplier Balances

Dak li qed jgħidu l-Awdituri irrizulta minħabba l'fatt li ċekk maħruġ f'Diċembru 2016, mibgħut mill-Kunsill lill-Wasteserv, sal-aħħar tas-sena 2016, kien għadu mhux inkluz fil-kontijiet ta' WasteServ, xi haġa li l-Kunsill m'għandux kontroll fuqha. Dikjarazzjonijiet mibgħuta mill-fornituri huma debitament ċekkkjati. Huwa minnu li l-Kunsill f'it li xejn jirċievi statements mingħand fornituri, u dan minħabba l-fatt li l-Kunsill jagħmel f'lasijiet kull xahar tal-kontijiet kollha li jirċievi, wara li dawn ikunu ġew approvata mill-laqqgħa tal-Kunsill.

6.1. Disclosures required in respect of certain IFRS

Napprezzaw ħafna jekk l-awdituri jispeċifikawlna liema kienu dwan l-IFRS's ħalli nkun nistgħu nirregolarizzaw il-pożizzjoni tagħna.


6.2 Financial Statements presentation

Il-Kunsill ħa nota u saret ir-ratifika neċessarja.

7.1. Comparison of Actuals with the Annual Budget observations

Ta' min jinnota l'iva l-Kunsill ma kellux pjanijiet li jagħmel infieq kapitali, iżda tali nfieq isir abbażi tal-andament finanzjari ta' maul is-sena.

Tislijiet,


Avv. Dean Hili
Sindku

Kopja : Awditur Ġenerali, NAO
Udituri Lokali – 3a


Kevin Borg
Segretarju Ezekuttiv

National Audit Office
Notre Dame Ravelin
Floriana FRN 1600
Malta

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Our Ref: NAO 107/2015/46
Your Ref:

11 May 2017

The Mayor and Executive Secretary
Pembroke Local Council
Pembroke

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2016**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2016.

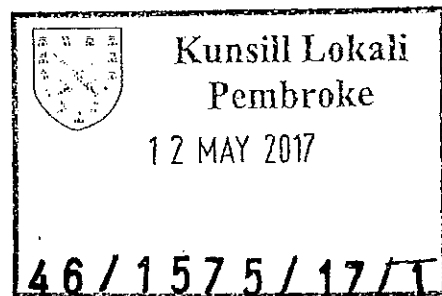
After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



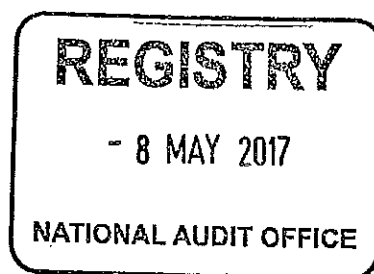
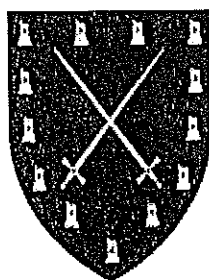
Tanya Mercieca
Asst. Auditor General

Encls.



LOCAL COUNCIL PEMBROKE

Report to Management
for the financial year ended 31 December 2016



25th April 2017

The Mayor
LOCAL COUNCIL PEMBROKE
Triq Alamein
PEMBROKE PBK 1776

Dear Sir,

REPORT TO MANAGEMENT

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

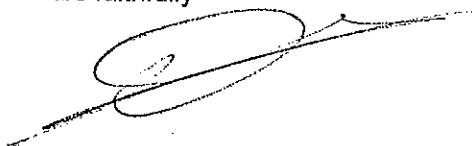
For clarity purposes, this report is distributed to your Council, the National Audit Office and the Department of Local Councils. The contents of this report shall not be quoted in part or in full or used in any way other than for the above-mentioned scope, without our prior written consent.

During the course of our audit for the period ended 31 December 2016, 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 and Circulars 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.

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

A handwritten signature in black ink, appearing to be 'Neville Cutajar', written over a horizontal line.

Neville Cutajar
Partner

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1. FOLLOW-UP: MANAGEMENT REPORT - YEAR ENDED 31 DECEMBER 2015

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. 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.

1.5. Income not recorded in the appropriate accounting period

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 2.5 of our management report.

1.6. 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 2.6 of our management report.

1.7. Personal tax deductions

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

1.8. Inappropriate documentation

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

1.9. Procurement procedures

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

1.10. Categorization of assets and depreciation thereof

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

1.11. Insurance policy

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.

1.12. 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 4.3 of our management report.

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

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.4 of our management report.

1.14. Assets no longer used by the Council

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

1.15. Computer Software

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.6 of our management report.

1.16. Assets received in kind

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 4.7 of our management report.

1.17. Stale cheques

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

1.18. Accruals

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.

1.19. Debit balances in list of creditors

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

1.20. Disclosures of Contingent Liabilities

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

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 6.1 of our management report.

1.22. Disclosures required in respect of Local Councils' Financial Procedures

As from 2016 the Council is no longer required to include the budget amounts within its financial statements.

1.23. Financial statements presentation

The Council has not addressed the matter during the year under review and we therefore draw your attention to paragraph 6.2 of our management report.

1.24. Attendance to Council Meetings

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

1.25. Comparison of Actuals with the Annual Budgets

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

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 2016. 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 € 150.35.

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 2016, 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 €1,387.50, income arising from courses, activities and outings amounting to €1,688.18, and income arising from skip permits amounting to €263.04. This income has been disclosed under the general income category.

Issues Arising

The Council has bye laws in place covering revenue arising from advertisements on street furniture, and revenue arising from courses, activities and outings. There is also a general bye law in place covering revenue arising from skip permits. Hence income generated from advertising on street furniture, from courses, activities and outings, and from skip permits falls under income generated from these bye laws 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 €5,834.21 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 2016 should have amounted to €5,778.30 resulting in an overstatement of €55.91.

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 received a sponsorship in relation to a Christmas activity held in 2015 amounting to €100. This income was recognised in the current year financial statements, even though it related to 2015.

Furthermore, we noted that income amounting to €11,166.01 relating to Wasteserv tipping fees for 2014/2015 was fully recognised in 2016, and no accrued income was accounted for in relation to the 2016 tipping fees amounting to €14,342.53.

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. Further to our recommendations, the necessary adjustments in relation to the accrued income for 2016 tipping fees were included and the financial statements were rectified by the Council accordingly.

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 €984 relating to advertising on street furniture for the period October 2016 to September 2017 was fully recognised in 2016 when a portion of this income amounting to €738 should have been deferred to 2017.

Issues Arising

Since a portion of the income received in the current financial year relates to the year 2017, 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.

2.7. Classification of Income

Observations

During our income testing we noticed an instance where inappropriate classification of income was presented in the financial statements.

Issues Arising

Income from contributions amounting to €420 has been included with general income.

Recommendations

Income should be correctly recorded in the year to which it relates and proper classification should be made in accordance with the requirements of IAS 1-Presentation of Financial Statements. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

3. EXPENDITURE

3.1. Procurement procedures

Observations

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

We noted that during the year under review two tenders were issued with the same tender number.

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

- The Statement of Exclusivity and Availability in respect of tender 07/2016 'Tender for Upkeep and Maintenance of Road Markings' awarded to Koperattiva Sinjali u Tabelli tat-Traffiku was not properly filled up with items left blank.
- The Evaluation Report in respect of tender 07/2016 'Tender for Upkeep and Maintenance of Road Markings' awarded to Koperattiva Sinjali u Tabelli tat-Traffiku was not signed by the Executive Secretary.

Issues arising

Memo 34/2013 issued in December 2013 requires Local 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 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.

Recommendations

The Council should follow the recommendation of Memo 34/2013 and initiate the process for issuing a tender to cover street lighting expenditure. The Council should also comply with the requirements of the procurement and tendering procedures in terms of the Local Councils Procedures (1996 – Tendering) KLP 3/1996 and ensure that all tender offers considered have their documentation fully in line with the procurement and tendering requirements.

4. PROPERTY, PLANT AND EQUIPMENT

4.1. 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. Even in the year under review, new pavements amounting to € 17,735.96 have been categorised under 'Urban Improvements' category. However, they should be categorised under 'Construction and Street Paving' category.

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.

4.2. 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 € 74,610, "property in the open" for the amount of € 204,820, computer and office equipment for the amount of € 47,420, 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 €1,201,374 of which € 24,583 relates to furniture and fittings, € 6,300 relates to plant and machinery, € 47,420 relates to office and computer equipment, € 11,787 relating to street signs and €481,530 and €612,447 relates to urban improvements and construction works 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.

4.3. 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.

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

Observations

We noted that the accumulated depreciation as per FAR for certain fixed asset categories 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	410,664.58	415,093.00	(4,428.42)
Office equipment	40,620.12	41,089.00	(468.88)
Furniture and fittings	13,714.31	13,846.00	(131.69)
Urban improvements	349,411.73	350,129.00	(717.27)

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 principal 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 provision of these asset categories within the FAR is duly reconciled and adjusted so that they agree with the amounts as per nominal ledger.

4.5. Assets no longer used by the Council

Observations

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 and in the financial statements. The Executive Secretary stated that these assets were discarded when replaced some years ago.

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 and such disposal duly reflected in its FAR.

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.

4.6. Computer Software

Observations

We noted that the Council does not have any computer software recognised in its financial statements. However, we noted that, in prior years, 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.

4.7. Assets donated in kind

Observations

During 2015, the Council received a laptop as a donation valued € 1,107.58. The Council recognised the fixed asset addition and the donation received in the current year financial statements, even though they should have been capitalised and the related donation recognised in 2015.

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.

4.8. Fixed Assets Labelling

Observations

Throughout our audit testing, we noted that the markings and labels of certain fixed assets included in the FAR such as 'COMP080 – HP Computer – Executive', 'COMP081 – HP Computer – Clerk', and 'COMP082 – HP Computer – Clerk' were not updated on the physical assets.

Issues Arising

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

Recommendations

We recommend the Council to carry out an exercise of updating the labelling all the fixed assets shown in the Fixed Asset Register (FAR) wherever practicable, so that apart from being in compliance with the financial procedures, whenever an asset is disposed, it would be easier to trace to its FAR card.

4.9. Capital Commitments

Observations

During our review of the financial statements, it was noted that there is no disclosure of capital commitments in the financial statements. During the course of the audit, we noted capital commitments approved but not provided for amounting to €9,152.09.

Issues Arising

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

Recommendations

The Council should ensure that capital commitments are properly assessed and disclosed and a proper reconciliation provided to ensure that capital commitments as disclosed in the Council's budget are in line with those being disclosed in the financial statements.

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

4.10 Capital Expenditure vs Revenue Expenditure

Observations

During the year under review, we identified an instance where expenditure of a capital nature was recorded as expenditure of a revenue nature. This related to a boundary wall in Triq Giorgio

Mitrovich (cheque 12556) amounting to €14,717.77 which was recognised as repairs to roads / street pavements.

Issues Arising

This item should have been capitalised rather than expensed directly to the Statement of Comprehensive Income in line with the requirements of IAS 16 - Property, Plant and Equipment.

Recommendations

Appropriate distinction should be made between items of revenue and capital expenditure throughout the bookkeeping process. Further to our recommendations, the necessary adjustments were included and the financial statements were rectified by the Council accordingly.

5. PAYABLES

5.1. Accruals

Observations

Following cut-off tests on creditors and accruals recognised in the financial statements, it transpired that invoices amounting to € 1,069.89 were incorrectly accounted for as accruals when in actual fact these should have been recognized as creditors. Furthermore, we noticed that the accounting of accruals as at year end has not been complete as follows:

- The accrual for Christmas decorations 2016 payable to C & G Street Light Decorations is overstated by € 390.
- The accrual for street lighting payable to Mica Med Limited is overstated by € 625.62.
- The accrual for street lighting of € 1,081.10 payable to Mica Med Limited not accounted by the Council.
- The accrual for asset not yet capitalised with respect to new lamps of €2,950.70 payable to Mica Med Limited not accounted for by the Council.

Issues Arising

In line with the concept of accrual accounting, accruals should be estimated and accounted for correctly and completely. Furthermore, creditors should be accounted in the correct financial period.

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.

5.2. Supplier balances

Observations

Throughout our audit testing, we noted a situation whereby the Council's balance did not agree with the balance maintained by the supplier. A variance of €1,084.19 was noted between the balance in the books of the Council and the balance as per the supplier statement of Wasteserv (Council's books more than supplier).

Issues Arising

This variance is distorting the amounts due by the Council at any point in time to its suppliers. Furthermore, supplier balances are not being reconciled on a periodic basis. Such a reconciliation involves the investigation of any variances and, if adjustments are required, these should be reflected in the books.

Recommendations

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.

6. OTHER DISCLOSURES IN THE FINANCIAL STATEMENTS

6.1. 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 and revised IFRSs adopted by the EU that are not mandatorily effective (but allow early application) for the year ending 31 December 2016 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 requirements 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.

6.2. 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 and in note 9 to the financial statements, zero balances for both current year and comparative year should be removed.
- In the Statement of Cash Flows, "Increase/(Decrease) in payables" and "Increase/(Decrease) in other payables" should read "**(Decrease)** in payables" and "**(Decrease)** in other payables" respectively, while "Decrease in trade and other receivables" should read "**(Increase)**/Decrease in trade and other receivables".
- At the end of the Statement of Comprehensive Income and the Statement of Cash Flows, the sentence should read: "The notes on pages 10 to 28 form an integral part of these financial statements".
- In note 2 to the financial statements, under the heading "New and amended standards adopted by the Local Council", a spelling mistake was noted. The first sentence should read: "During the year the Council has applied the following International Financial Reporting Standards as adopted by the EU which have become mandatorily effective for the year ending 31 December 2016."
- In note 2 to the financial statements, under the heading "New and amended standards adopted by the Local Council", a spelling mistake was noted in the third paragraph (starting with "On 18 December 2014..."). The second sentence of this paragraph should read: "It clarifies that... disaggregated and aggregated as **relevant** and additional guidance..."
- In note 2 to the financial statements, under the heading "Standards and Interpretations issued by the IASB but not yet adopted by the EU", a spelling mistake was noted. The first sentence should read: "At present, IFRS as adopted by the EU do not significantly differ..."
- In note 2 to the financial statements, under the heading "Standards and Interpretations issued by the IASB but not yet adopted by the EU", the following should be included to the list: "Amendments to IAS 7 Disclosure Initiative (issued January 2016)".
- The accounting policy for 'Computer Software' should be removed as there are no intangible assets in the Statement of Financial Position.
- The accounting policy for 'Payables and Borrowings' contains a spelling mistake: "When an invoice or request for payment is received from a supplier, this is checked to the purchase order previously issued or the services contract, before payment is released in favour of any vendor."
- The heading of the accounting policy 'Cash and Equivalents' should read 'Cash and **Cash** Equivalents'.
- In note 7 to the financial statements, the average number of people employed for Employees should be 3 rather than 3.25.
- In note 11 to the financial statements, the depreciation balance as at 1st January 2016/2015 and 31st December 2016/5 under the category "Special Programmes" is a negative figure of €263.
- In note 13 in the financial statements, "provision for bad debts" of €4,200 should read "provision for **general** bad debts".
- The heading of note 14 to the financial statements should read 'Cash and Cash Equivalents' rather than 'Cash and Cash Equivalent'.

- Note 18 to the financial statements should disclose 'Capital expenditure that has been approved but not provided for in the financial statements' of €9.152.09 in relation to the project for new underground installation in Triq Burma.
- Note 20 to the financial statements – Related party transactions should reflect the requirements of articles 25 and 26 of the said standard.
- In note 21 to the financial statements, the line item accruals should be removed from the summary of contractual maturities for both the financial years 2016 and 2015. This also applies to the amounts disclosed in note 22 "Summary of Financial Assets and Liabilities".
- Note 12 to note 18 to the financial statements (excluding note 17) – the heading should not be '1 Jan – 31 Dec', but should read 'as at 31 December'.

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.

7. GENERAL

7.1. Comparison of Actuals with the Annual Budget Observations

During our review of the 2016 annual budget, it was noted that capital expenditure incurred in 2016 exceeded the budgeted amount. In fact, according to the 2016 annual budget no capital expenditure had to be incurred. However, as per financial statements, capital expenditure amounted to €86,205.

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.