

The Mayor,  
Balzan Local Council,  
153, Main Street,  
Balzan BZN 1251

16 May 2016



## **Financial Statement for the year ended 31 December 2015**

During the course of our audit for the year ended 31 December 2015, we have reviewed the accounting system and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Council Act 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

### **1. Previous management letter**

#### **1.1 Income**

Once again we identified omissions in accrued income (refer to notes 2.1 and 2.2).

#### **1.2 Payroll**

The Council has submitted all FS5s within the respective time frames and properly accrued for the 2015 performance bonuses.

#### **1.3 Expenditure**

We noted that the Council is still supporting its petty cash expenditure with cash register chits (refer to note 4.1) but we did not encounter any instances in which the Council exceeded the limit of EUR23.29.

Once again, we also noted that the Council issued a cheque payment against a cash register chit (refer to note 4.3)

In the current year audit, we did not come across un-signed contracts and the use of mobile phone has been brought in line with Memo 21/2013.

We did not identify any material differences between the opening cost and provision for depreciation of non-current assets as reported in the 2015 forecasts and the figures disclosed in the 2014 audited financial statements. On

the other hand we noted differences between the forecasted capital expenditure and actual expenditure (refer to note 5.7).

The capital commitments disclosed in the audited financial statements agreed to the 2016 budget.

#### **1.4 Fixed asset register**

The fixed asset register has not been updated with location of assets acquired in previous years (refer to note 5.1) and we again identified differences between categories of assets in the fixed asset register and the accounts (refer to notes 5.9).

#### **1.5 Debtors**

The Council's overdue receivables are not material.

#### **1.6 Bank and cash**

We noted again that certain accounts are still not being reconciled (refer to note 6.1).

The situation with BOV accounts 8015 and 8028 related to representatives and reconciliations was again evident in the current year (refer to notes 6.4 and 6.2).

We did not identify any stale cheques in the current year bank reconciliations.

#### **1.7 Creditors**

The Council is still not obtaining statements from all suppliers (refer to note 7.1) and we again identified differences between the balance per WasteServ and the creditor's balance in the ledger (refer to note 7.2).

Similar to 2014, we identified instances of over/under accruing for expenditure (refer to note 7.4).

We also noted that the Council still had overdue creditor balances at 31 December 2015 (refer to note 7.6) and that it has the same debit balances as reported in 2014 (refer to note 7.9).

#### **1.8 Local Enforcement System**

Although audit financial statements of the Birkirkara Joint Committee were received, these presented a qualified audit opinion (refer to note 9.1).

The difference between the administrative fees per Loqus report and the amount reported as income for the year is not material.

Although the Council has correctly accounted for funds received from the Regional Committee Surplus, the allocation against projects and the release to income for the year was not correctly accounted for (refer to notes 8.5 to 8.8).

## **1.9 Financial statements**

Once again we identified deficiencies in the financial statements (refer to note 10).

## **1.10 Minutes**

Once again we noted weaknesses in the minutes (refer to note 11.1).

## **Current year issues**

## **2 Income**

### **Accrued Income**

- 2.1 In January 2016 the Department for Local Government transferred the sum of EUR4,521 to WasteServ for tipping fees in excess of the allocation to the Council. Although the amount relates to fees invoiced for 2014 and 2015, the Council did not accrue for this income in the year under review. We proposed an adjustment to accrue for this amount. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.2 We also noted that the Council was allocated the sum of EUR1,000 to cover live streaming expenses. The Council allocated this grant against accrued income, to reverse part of the opening accrued income. However, the grant relates to the period 1 May 2015 to 30 April 2016 and this amount did not form part of opening accrued income. We proposed an adjustment to re-instate the amount reversed from accrued income and allocate EUR667 against income for the year and deferral of the balance of EUR333 to be recognised as income in 2016. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.3 We remind the Council to make appropriate provisions for agreed grants receivable if these are not received by year-end as income should always be recorded in the period to which it relates and thus matching it against the related expense.

## Government subvention

- 2.4 We noted that the amount recognised in income as in terms of section 55 of the Local Councils Act was stated net of deductions for WIFI and MITA fees amount to EUR337. We proposed an adjustment to gross up income to EUR257,557 from EUR257,220 which is in line with the allocated budget for 2015.
- 2.5 We remind the Council that it is required to disclose income gross of any deductions effected on transfer of funds to the Council.

## 3 Payroll

### Payroll reconciliations

- 3.1 We performed a reconciliation of gross salaries as declared on the FS7 to the figures declared on the monthly FS5s and a further reconciliation between the FS7 and payroll expenses reported in the books of the Council. A difference of EUR782 emerged between the FS7 and FS5s and a further difference of EUR39 emerged on reconciling the FS7 to the ledger. The reconciliations are tabulated below:

#### *Reconciliation of FS5 to FS7*

Month	Gross Salary EUR	SSC EUR	Total EUR
January	8,863	713	
February	5,163	713	
March	5,020	891	
April	5,049	713	
May	5,262	720	
June	7,927	891	
July	4,399	713	
August	4,959	891	
September	5,062	713	
October	5,012	713	
November	4,932	897	
December	6,492	383	
	<hr/> 68,140	<hr/> 8,951	
Less: Opening Accruals	- 3,762		
Add: Closing Accruals	3,765	Employer portion 4,476	
	<hr/> 68,143		
Gross amount per FS7	68,927	4,474	
Difference	<hr/> - 784	<hr/> 2	- 782



<i>Reconciliation of FS7 to ledger</i>	<b>EUR</b>
Gross Salary as per FS7	68,927
SSC Payable by Employee	4,474
	<hr/> 73,401
Less: Opening Accruals	- 3,762
Add: Closing Accruals	3,765
	<hr/> 73,404
Amount as per Ledger	73,443
Difference	<hr/> - 39 <hr/>

- 3.2 We encourage the Council to investigate the difference between the FS5s and FS7 since these are usually identified by Inland Revenue and corrections to amounts reported would be necessary. We also recommend that periodical reconciliations between FSS reports the ledger are carried out to identify any differences on a timely basis.

#### **Employee files**

- 3.3 We also noted that the Council did not prepare and submit an FS4 form for Ian Spiteri and Andre Grech, who were elected to the Council in 2015.
- 3.4 The Council should ensure that FS4 forms are prepared for all personnel that are on its payroll and submitted to Inland Revenue. The form will also indicate clearly the employee/councillor's preferred rate of tax to be deducted from his/her remuneration.

#### **Allocation of salaries**

- 3.5 We noted that the allocation of salaries and allowances in the ledger does not reflect the actual amount paid to that relevant category. This was only partly reflected in the unaudited financial statements. Hence, we proposed an adjustment to reclassify EUR2,448 from bonuses to Executive Secretary emoluments. This adjustment was not required to be reflected in the audited financial statements. We also reclassified EUR40 from Councillor Allowances and EUR3 from Social Security Contributions to employee salaries (EUR42) and Mayor allowance (EUR1). The Council accepted our proposed adjustments and reflected them in the financial statements.
- 3.6 We recommend that salaries and allowances are properly allocated on a monthly basis and that this is reflected in the financial statements. We also recommend that a reconciliation of the cost per FS3 to the amount allocated for each category is carried out to identify and correct any differences.

## 4 Expenditure

### Petty cash expenditure

- 4.1 During our audit, we found that the source document for most petty expenditure is a cash register chit. Some instances which were encountered during our audit fieldwork are the following:

Date	Supplier	Details	Amount EUR
08/01/2015	Maltapost	Stamps	21.56
20/01/2015	Koia	Coffee for Office	4.67
05/02/2015	Maltapost	Stamps	19.76
11/02/2015	Steve Staionery Bazaar	Spiral Binding	17.50
14/04/2015	Macey Store	Refreshments	22.01
27/04/2015	Steve Staionery Bazaar	Binding	12.50
05/05/2015	Steve Staionery Bazaar	Binding	16.00
13/05/2015	Maltapost	Stamps	20.02
01/06/2015	Deguara Ironmongery	Cement	5.80
11/06/2015	Ace Services Express	Office Keys	9.60
17/07/2015	Maltapost	Stamps	19.50
22/07/2015	Maltapost	Registered Letters	11.60
20/08/2015	Falzon Service Station	Fuel for Generator	10.00
02/09/2015	Maltapost	Stamps	20.02
12/10/2015	G. Camilleri Petrol Station	Wheel Tubes	16.00
23/11/2015	Spotless	Detergents for PC	17.99
24/11/2015	Deguara Ironmongery	Cement	5.00
14/12/2015	Floriania Car Park	Car Park Ticket	3.00
14/12/2015	Maltapost	Stamps	9.88

- 4.2 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedure 1996 that supplies are only made on the provision of a valid tax invoice which is addressed to the Council. To this end we recommend that were possible the Council obtains a tax invoice or a VAT receipt addressed to the Council.

### Tax invoice

- 4.3 We noted that the Council paid the following suppliers against a cash register chit that does not satisfy fiscal requirements:

Supplier	Details	EUR
L'Agape	Christmas party	330

4.4 We also noted that although this receipt was issued in 2016 and although it related to the Christmas party held in 2015, the Council did not accrue for this expenditure. An adjustment was proposed to accrue for it in 2015. The Council approved our adjustment and reflected it in the audited financial statements.

4.5 We remind the Council that in accordance with the Local Councils (Financial) Procedures, the Council should support all purchases with valid tax invoices or VAT receipts duly addressed to the Council. We also remind the Council that appropriate provisions are required for expenses that are incurred in the year under review which are actually paid in subsequent periods.

## **5 Fixed assets**

### **Fixed asset register**

5.1 A number of asset items in the fixed asset register do not include information about the location of that asset. In the absence of this information, the Council is unable to individually identify assets and correctly account for their existence, impairment or disposal.

5.2 We recommend that the Council updates the fixed asset register with the location of assets, where applicable.

### **Doggie Bins**

5.3 We were informed that the Council installed 15 new doggie bins around the village and these were capitalised under 'Urban Improvements' by the Council. The cost of these bins amounted to EUR2,000 and a provision for depreciation amounting to EUR83 was passed against this asset even though the policies state that bins should be depreciated under a replacement basis. Since these bins were all new bins, we proposed an adjustment to reverse the depreciation charge for the year.

5.4 We remind the Council that assets should be depreciated at the rates and methods prescribed by the Local Council (Financial) Procedures.

### **Insurance Cover**

5.5 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and cost as per nominal ledger.



Category of asset	As per Ledger EUR	As per Insurance EUR	Difference EUR
Urban Improvements Project - Pjazza	36,888		
Upgrading of Playing Field	268,840	147,104	178,934
Office Furniture/Fittings	20,310		
Plant and Machinery	1,944	1,944	-
New Street Signs	10,170		
Benches New	2,935	25,945	8,505
Miscellaneous improvements	21,345		
Office and computer equipment	23,288	9,223	14,065
Other urban improvements, construction works and special programmes	1,255,893	-	1,255,893
	1,641,613	184,216	1,457,397

- 5.6 The above illustrates that some of the Council's assets are not adequately insured. In this regards, the Council should update its insurance policy to ensure that assets held are not under/over insured, as well as to include new assets bought by the Council during the year. The Council must comply with section LCP 1.15b.05 of the Local Councils (Financial) Procedures, 1996 by carrying out a periodic review to assess the adequacy of the Council's insurance coverage.

#### Capital expenditure

- 5.7 We noted that the estimated capital expenditure for 2015 deferred from the actual amounts as follows:

Asset	Estimated capital expenditure EUR	Actual expenditure EUR	Difference EUR
Furniture & fittings	-	1,150	(1,150)
Office equipment	1,200	14,065	(12,865)
Construction works	93,746	-	93,746
Urban improvements	-	107,354	(107,354)
	94,946	122,569	(27,623)

- 5.8 The Council should ensure that a fair capital budget is prepared and executed throughout the year. The capital expenditure incurred throughout the year should be in line with the estimated projects and approved expenditure.

#### Reconciliation of fixed asset register to financial statements

- 5.9 Whilst the register agrees to the nominal ledger, we identified the following variances in the class of fixed assets:



Asset category	Cost per financial statements	Cost in fixed asset register	Difference
	EUR	EUR	EUR
Special programmes	273,458	254,130	19,328
Construction works	661,970	681,297	(19,327)
Computer equipment	3,075	2,975	100
Office equipment	20,213	20,040	173
Urban improvements	650,473	650,575	(102)
New street signs	10,170	10,344	(174)
Difference			(2)

- 5.10 We also noted that the NBV per ledger (EUR817,206) differs to the NBV per FAR (EUR819,220) by EUR2,014. However, after adjusting the NBV as per FAR by the EUR2,000 grant allocated to capital (refer to note 8.7) and the reversal of depreciation of EUR83 (refer to note 5.3), the difference is reduced to EUR101. The difference was identified in the depreciation provision as follows:

Asset category	Dep & grants per FS	Depreciation per FAR	Difference
	EUR	EUR	EUR
Office furniture & fittings	13,176	13,036	140
Computer equipment	1,946	1,935	11
Office equipment	6,641	6,519	122
Urban improvements	136,534	134,619	1,915
New street signs	10,170	10,344	(174)
Difference			2,014

- 5.11 We understand that the Council reviewed these differences and determined that the error lies within the Fixed Asset Register. We recommend that the Council contacts the software providers to identify a way to amend the register.

## **6 Bank and cash**

### **Bank reconciliations**

- 6.1 Apart from the HSBC Current account reconciliations at 31 December 2015, we were not provided with bank reconciliations for any bank accounts.
- 6.2 We also noted that the opening difference of EUR28 between the Council ledger and BOV Savings account 13416058015 bank balance remained unchanged but a difference of EUR79 was noted on account 13416058028.
- 6.3 We remind the Council that monthly bank reconciliations are required for all bank accounts held in the name of the Council. The bank reconciliations are to be prepared by the 10<sup>th</sup> working day of the following month. We also recommend that the bank reconciliation is printed, approved by the Executive Secretary and filed with the bank statement for that month.

### **Accounts representative**

- 6.4 We noted again that the accounts representatives of BOV accounts 13416058015 and 13416058028 are still the outgoing Mayor and the ex-Executive Secretary, Ms Maria Zammit. There was little activity in these accounts during the year and at 31 December 2015, the balances held in the accounts amounted to EUR19 and EUR18,171 respectively. The former account is marked idle whereas the latter is active and used for the LES system.
- 6.5 We reiterate our recommendation that the Council should instruct the bank to update the signatures without further delay.

## **7 Creditors**

### **Suppliers' statements**

- 7.1 The Council did not manage to obtain monthly statements from all suppliers to confirm month end balances.
- 7.2 We reconciled WasteServ balance per ledger (EUR1,816) to the supplier statements (EUR5,246) and identified a difference of EUR3,430. From our reconciliation, we noted that invoice 61814 for EUR843 and DLG payment on behalf of the Council for EUR173 were not booked by the Council. We also identified a posting error of EUR10. The Council had an opening difference of EUR2,205 and posted an amendment to a 2013 transaction of EUR565. We proposed an adjustment to account for the missing invoice, posting error and missing DLG payment. We also proposed a reversal of the adjustment for EUR565 and a further adjustment to eliminate the opening difference of

EUR2,205. The Council approved our proposed adjustment and reflected it in the audited financial statements. As a result, the ledger now agrees to WasteServ statement.

- 7.3 The above highlights the need for the Council to obtain monthly statements from suppliers and reconcile them with accounts in the creditors ledger to verify the completeness and accuracy of creditors accounts. Any differences are to be investigated and resolved in a timely manner.

#### **Accruals**

- 7.4 We noted that the Council's accrual for waste disposal at EUR2,155 was overstated by EUR235 when compared to actual invoices received for December 2015. We proposed an audit adjustment to revise the amount accrued. The adjustment was approved by the Council and reflected in the audited financial statements.
- 7.5 We recommend that the Council makes appropriate provisions for accrued expenditure supported by valid workings and subsequent documentation.

#### **Long outstanding trade creditors**

- 7.6 The following overdue creditors are still pending at year-end:

<b>Creditor</b>	<b>EUR</b>
Court fees	2,329
City Sport and Play Limited	5,590
Dimbros Ltd	6,000
Other creditors	1,111
<b>Total</b>	<b>15,030</b>

- 7.7 We understand that the amount due to City Sport and Play Limited (including related court fees of EUR 2,329) is subject to a warrant of seizure by the court and cannot be written back. We also understand that the amount due to Dimbros Ltd. was held as retention money and was settled in 2016.
- 7.8 We recommend that the Council monitors its overdue creditors and reconciles these to supplier statements. The Council should hence consider whether to write back any differences or un-claimed amounts.

#### **Debit balances**

- 7.9 We noted that the Council's creditors' list includes the following debit balances:



Supplier	EUR
EneMalta	333
Kooperativa Tabelli u Sinjali	4

We understand that the EneMalta balance results from an overpayment. These balances have been brought forward from previous periods and hence, we recommend that the Council determines whether these amounts are recoverable or whether they need to be written off.

## 8 Grants and deferred income

### Government Grants

- 8.1 Our review of the deferred income arising from grants and other allocations made to the Council identified a number of weaknesses on which a number of adjustments were proposed. Initially, we noted that the 'Government Grants' nominal ledger account was overstated by EUR11,110 which was actually surplus funds distributed from the Central Regional Committee. We proposed an adjustment to reclassify the funds to the appropriate nominal ledger account. The Council approved our proposed adjustment.
- 8.2 Throughout the year, the Council was allocated the sum of EUR21,639 in ERDF funds in relation to a project embarked to regenerate the Village Square. The project was started in 2011 and concluded in 2015. The balance of ERDF funds brought forward as deferred income from previous periods amounted to EUR319,673. We noted that the amount of grant written back to income was calculated on the brought forward figure only. Hence, we proposed a further allocation of EUR2,164 to income to cover the additional funds received. The Council approved our proposed adjustment and reflected it in the financial statements.
- 8.3 In 2015, the Council also received EUR93,744 in UIF funds which were used to replace and upgrade street lighting within the village. The project was finalised towards the end of April 2015 and the cost was depreciated as from May 2015, however, the Council released 10% of this sum to income. We proposed an adjustment to reduce the amount recognised to income by EUR3,124 to cover only 8 months of the year. The Council approved our proposed adjustment and reflected it in the financial statements.
- 8.4 We encourage the Council to maintain more accurate procedures in accounting for grants. The Council should ensure that funds are accounted for in a timely manner and recorded in the appropriate ledger account. The Council should also ensure that release to income reflects the depreciation patterns of the related asset.

### **Central Regional Committee distributions**

- 8.5 Our testing revealed that the Council utilised EUR 14,064 from funds received from the Central Regional Committee to install a CCTV system in specific areas around the Village. This allocation was not reflected in the books of the Council and we have proposed an adjustment reclassifying this amount to a specific ledger account. We also proposed an adjustment to release the sum of EUR1,820 from this amount to income for the year. The Council approved our proposed adjustment and reflected it in the financial statements.
- 8.6 We also noted that the Council used additional funds received from the Central Regional Committee to finance pavement works costing EUR1,589. The cost of these works was recognised as an expense for the year. On the other hand, the Council recognised the sum of EUR1,825 as income under 'Contraventions'. We proposed an adjustment to reclassify EUR1,589 from 'Contraventions' to 'Other Government Income' and reverse the difference of EUR236 back to deferred income. The Council approved our proposed adjustment and reflected it in the financial statements.
- 8.7 We were also informed that the Council used Central Regional Committee funds to acquire 15 new doggie bins. As commented in note 5.3 above, doggie bins are to be depreciated under replacement basis. Hence, the cost is not depreciated whilst the replacement costs are recognised as an expense. Since the cost of these doggie bins is not being depreciated, we proposed an adjustment to recognise the EUR2,000 as a capital grant and included it within the fixed asset schedule. The Council approved our proposed adjustment and reflected it in the financial statements.
- 8.8 The Council should ensure that the books reflect the allocation and utilisation of funds in a timely manner to be able to identify available funds and match the allocation of income with the relevant cost.

### **Timing of grants**

- 8.9 We also noted that the ledger did not reflect the timing of expected maturity of deferred income. Hence, we proposed an adjustment to reclassify EUR365,003 from current deferred income to non-current. The Council approved our proposed adjustment and reflected it in the financial statements.

## 9 Local Enforcement System

### Pooling period

- 9.1 The Birkikara Joint Committee of which Baizan Local Council formed part up to 31 August 2011 has recently provided the Council with audited accounts for the period ending 31 December 2015. These accounts indicate retained earnings of EUR5,229 and cash at bank of EUR2,204. The audit report is also qualified since the auditor could not reconcile amount receivable to the turnover and debtors reports issued from the IT system.
- 9.2 The Statement of Financial Position of the Committee does not indicate that the Council is entitled to a material share from the profits of the pooling system and the qualification presented raises doubts on the reliability of the Committee's receivables (which are fully provided for). We have qualified our audit report since the amount recoverable from the joint committee cannot be fairly determined.

## 10 Financial statements

### Presentation of financial statements

- 10.1 In line with the Department's requirements, the Council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs).
- 10.2 The Council's financial statements are not compliant with IFRSs in the following instances:
- IAS 8, *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council did not make reference to standards adopted in the current year.
  - IAS 17, *Leases* disclosures did not cover all leased assets and agreements held by the Council. This was amended in the audited financial statements.
- 10.3 We qualified our opinion on the financial statements in respect of the first item above.
- 10.4 We also noted that note 14 of the audited financial statements presents financial assets and financial liabilities for each reporting period. However, the total financial assets under the total carrying amount and fair value column as at 31 December 2015 should read EUR219,444 rather than EUR183,452.



## 11 Minutes and meetings

- 11.1 We observed that the Council did not upload the minutes and schedules of payments on the electronic site of the Council within two working days from their approval. Minutes of meeting number 9 which were approved on 26 November 2015, minutes of meeting number 10 which were approved on 14 December 2015 and minutes of meeting number 11 which were approved on 7 January 2016 were not yet uploaded by 15 February 2016. These were uploaded after our notification.
- 11.2 We remind the Council of the requirement under memos 77/2009 and 102/2010 to upload the minutes and schedule of payments on the website within two working days from their approval.

## Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr. Mark Mallia and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully



Ernestino Riolo  
Partner  
for and on behalf of  
Mazars Malta