

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

9 March 2017

Financial Statements for the period ended 30 September 2016

During the course of our audit for the period ended 30 September 2016, 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 errors in accounting for accrued income (refer to notes 2.1 - 2.3).

1.2 Payroll

We could not reconcile the FS7 to the FS5s for the period, since the FS7 is only prepared and submitted at year end. However, we did identify errors in FS5 returns (refer to note 3.1). We did not come across other issues in relation to employee files and allocation of salaries.

1.3 Expenditure

In view of the clarification made by Circular 28/2016, we have no comments to make on petty cash payments.

1.4 Fixed Assets

The fixed asset register has not been updated with location of assets acquired in previous years (refer to note 4.1) and we again identified differences between categories of assets in the fixed asset register and the accounts (refer to note 4.14).

Kunsill Lokali:
Hal-Balzan

22 MAR 2017

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32, SOVEREIGN BUILDING, ZAGHFRAN ROAD - ATTARD ATD9012, MALTA
TEL: (+356) 213 45 760 - FAX: (+356) 213 45 759 - www.mazars.com.mt

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We still noted that the Council depreciated doggie bins capitalised in the prior year, even though the policy stated that the bins should be depreciated under a replacement basis (refer to note 4.8)

We have still noted discrepancies between the insurance cover and the cost as per nominal ledger of assets (refer to note 4.10)

Once again, the company has exceeded its budgeted capital expenditure. (refer to note 4.12).

1.5 Bank and cash

We noted again that certain accounts are still not being reconciled and reconciliations are not being prepared within the required time frame (refer to note 5.1).

We noted recurring reconciling differences in one of the BOV bank account (refer to note 5.2) however, we are pleased to note that representation issues have now been sorted.

1.6 Creditors

The Council had copies for all creditor statements we asked for as at 30 September 2016 and we did not identify any reconciling issues.

Similar to 2015, we identified instances of over/under accruing for expenditure (refer to notes 6.3 – 6.4).

We also noted that the Council still had overdue creditor balances at 30 September 2016 (refer to notes 6.6 – 6.7) and that it has the same debit balances as reported in 2015 (refer to note 6.9).

1.7 Grants and deferred income

In the current period we again noted an error in accounting for grants that also impacted the allocation to income and the allocation between current and non-current portions (refer to note 7).

The Council did not utilise funds from the surplus distributed by the Central Regional Committee.

1.8 Local Enforcement System

The audited financial statements of the Birkirkara Joint Committee were not received, as they are prepared annually (refer to note 9).

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 12).

Current period issues

2 Income

Accrued Income

- 2.1 On 13 August 2016, the Council received the sum of EUR4,480 in relation to the organisation of the Balzan Arts Festival carried out in 2015. At 31 December 2015, the Council had recognised the sum of EUR5,000 as accrued income. The sum received was not set-off against the opening accrued income but recognised as other government income for the period. Moreover, the difference between the amount accrued and the balance received amounting to EUR520 was deducted since the Council did not forwarding all required documents by the stipulated deadline, however, this was not reflected in the books of the Council. We proposed an adjustment to reverse the opening accrued income of EUR5,000 against other government income. The Council approved our adjustments and reflected them in the audited financial statements.
- 2.2 We also noted that the Council was allocated the sum of EUR 4,000 by the Department for Local Government to cover the Balzan Arts Festival held on 3 June 2016. Although the Council recognised this entry in its books, it was recorded wrongly as an expense for the period and a liability as at period end. We proposed an audit adjustment to reverse the entry and reflect it correctly. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.3 During the period, the Council recognised an addition to property, plant and equipment amounting to EUR46,822 (see note 4.3). This addition related to ornamental lights acquired from Mica Med and covered by a tender issued in the past. The Council recognised accrued income and deferred income under the UIF Grant in relation to this addition to fixed assets. However, we noted that this asset was not covered by the grants and hence, we proposed an audit adjustment to reverse this entry. The Council approved our adjustment and reflected it in the audited financial statements.

- 2.4 We encourage the Council to monitor accrued income regularly to ensure that amounts receivable are recognised timely and fairly whilst amounts received are set-off against the payment received

3 Payroll

FS5 Reconciliation

- 3.1 We prepared a payroll reconciliation between the ledger and FS5 returns which is attached below. We identified a difference of EUR2,140 of which EUR1,400 relates to the accrual for Councillor allowances for the period July – September (refer to note 3.3). Apart from the accrual, we noted that payments made to the outgoing Executive Secretary for the month of August amounting EUR714 was not included in the August FS5.

Month	As per FS5				Employer SSC €
	Gross €	Tax €	NI €	Net €	
January	7,552	785	391	6,572	195
February	4,069	765	521	3,044	260
March	4,356	806	416	3,342	208
April	3,830	580	416	2,942	208
May	4,163	733	521	3,170	260
June	6,888	1,406	416	5,274	208
July	4,172	731	416	3,233	208
August	3,466	589	520	2,616	260
September	5,100	999	459	3,872	229
	43,596	7,494	4,077	34,064	2,038
Less Performance Bonus	3,765				
	39,831				
As Per Ledger	41,971				2,039
Difference	- 2,140				- 1

- 3.2 The Council should ensure that FS5 forms are prepared for all personnel that are on its payroll and include all amounts payable in any particular month to that person, along with the appropriate NI and SSC deductions. We also recommend that periodical reconciliations between FSS reports the ledger are carried out to identify any differences on a timely basis.

Councillor Allowances

- 3.3 Councillor allowances recognised by the Council reflected only amounts paid and did not accrue for the period July – September 2016. Since there were no unexcused absences in Council meetings by any Councillor up to the period end, we proposed an audit adjustment to accrue for EUR1,400 in Councillor

allowances. The Council approved our adjustment and reflected it in the audited financial statements.

- 3.4 We encourage the Council to make appropriate provisions for salaries and allowances payable at each reporting period since expenses should be recognised in the period they are incurred rather than paid.

4 Fixed assets

Fixed asset register

- 4.1 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.
- 4.2 We recommend that the Council updates the fixed asset register with the location of assets, where applicable.

Additions for the period

- 4.3 We noted that some of the additions in fixed assets posted during the period were dated in 2015. These are listed below.

Date	Supplier	Invoice No	Description	Amount
21/04/2015	Mica Med	LED-03	Ornamental Lights	46,822.00
01/10/2015	Elbros PPB Ltd	13019	Idmejda Street - Concrete C20	508.88
01/10/2015	Elbros PPB Ltd	13020	Idmejda Street - Concrete C20	763.32
01/10/2015	Elbros PPB Ltd	13018	Idmejda Street - Concrete C20	-600.48

- 4.4 The outgoing Executive Secretary explained that the Mica Med invoice is to be paid in 2017 and was thus holding on to the invoice to be posted in 2017. This was later discussed with Council's accountant who explained that the invoice should have been posted when it was received, however by this time, the audit for 2015 was closed, and thus the invoice was posted in 2016. The invoices from Elbros PPB Ltd were not posted in 2015 due to disputes arising with the supplier. These were resolved in 2016 with a credit note issued by the supplier, and were posted once these disputes were finalised.
- 4.5 We remind the Council that re-current and capital expenditure should always be recorded in the period in which the service is provided.

Depreciation for the period

- 4.6 The initial Fixed Asset Register provided by the Council did not include any additions for 2016, and thus the depreciation charge in the ledger did not include depreciation on additions recognised in the period under review. On notification, the Council's accountant updated the Fixed Asset Register to include additions for the period, however, the ledger was not updated with the depreciation charge. As a result, we have proposed an audit adjustment for depreciation on additions, calculated as from invoice date, which amounts to EUR6,209 on Urban Improvements and EUR55 on Construction Works. The Council approved our adjustment and reflected it in the audited financial statements.
- 4.7 We remind the Council that under the Local Council (Financial) Procedures, depreciation must be calculated using the reducing balance method on a daily basis on all assets. This also needs to be computed within the financial package by using the appropriate fixed asset tool and thus urge the Council to ensure that all additions to property, plant and equipment to be included in the Fixed Asset Register in a timely manner.

Doggie Bins

- 4.8 In 2015, 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. Although the policies state that bins should be depreciated under a replacement basis, and we had informed the Council that these are not subject to depreciation, a provision for depreciation amounting to EUR190 was passed against this asset again. Since these bins were all new bins, we proposed an adjustment to reverse the depreciation charge for the period. The Council approved our adjustment and reflected it in the audited financial statements.
- 4.9 We remind the Council that assets should be depreciated at the rates and methods prescribed by the Local Council (Financial) Procedures.

Insurance Cover

- 4.10 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover issued in May 2016 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
			<u>201,504</u>

- 4.11 The above illustrates that some of the Council's assets are not adequately insured. The Council should adhere to circular 33/2016 that requires an insurance cover of its buildings and contents including fire, theft and damage. The circular also clarifies that community assets need to be insured.

Capital expenditure

- 4.12 We noted that the estimated capital expenditure for 2016 already deferred from the actual amounts to date as follows:

Asset	Estimated capital expenditure EUR	Actual expenditure EUR	Difference EUR
Furniture & fittings	-	-	-
Office equipment	-	-	-
Construction works	30,000	564	29,436
Urban improvements	-	46,822	(46,822)
	<u>30,000</u>	<u>47,386</u>	<u>(17,386)</u>

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

Reconciliation of fixed asset register to financial statements

- 4.14 Whilst the register agrees to the nominal ledger, we identified the following variances in the class of fixed assets which have been brought forward from previous periods:

Asset category	Cost per financial statements EUR	Cost per fixed asset register EUR	Difference EUR
Office furniture and fittings	20,310	20,307	3
Plant and machinery	1,944	1,944	-
Computer equipment	3,075	2,975	100
Office equipment	20,213	20,040	173
Urban improvements	697,295	697,397	- 102
New street signs	10,170	10,344	- 174
Construction works	662,534	681,862	- 19,328
Special programmes	273,458	254,130	19,328
Difference	1,688,999	1,688,999	-

- 4.15 We also noted that the net book value per ledger (EUR794,995) differs from the net book value per register (EUR800,820) by EUR5,825. The differences were identified in the depreciation provision as follows. On eliminating the effect of the proposed adjustment of EUR6,264 (refer to note 4.6) and EUR190 (refer to note 4.8), the remaining difference amounts to EUR249.

Asset category	Depreciation & grants per financial statements EUR	Depreciation & grants per FAR EUR	Difference EUR
Office furniture and fittings	13,588	13,448	140
Plant and machinery	1,114	1,115	- 1
Computer equipment	2,147	2,136	11
Office equipment	9,241	9,120	121
Urban improvements	181,514	175,837	5,677
New street signs	10,170	10,344	- 174
Construction works	446,745	446,694	51
Special programmes	229,485	229,485	-
Difference	894,004	888,179	5,825

- 4.16 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.

5 Bank and cash

Bank reconciliations

- 5.1 Apart from the HSBC Current account reconciliations at 30 September 2016, we were not provided with bank reconciliations for any bank accounts.

- 5.2 We also noted that the opening difference of EUR28 between the Council ledger (EUR47) and BOV Savings account 13416058015 bank balance (EUR19) remained unchanged.
- 5.3 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 10th working day of the following month. We recommend that the bank reconciliation is printed, approved by the Executive Secretary and filed with the bank statement for that month.

6 Creditors

Suppliers' statements

- 6.1 A reconciliation of the balance due to Mica Med, the largest creditor for the period highlighted the following difference:

	Balance as per Creditors List EUR	Balance as per Statement EUR	Difference EUR
Mica Med	47,405	47,148	257

- 6.2 We continue to encourage 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

- 6.3 We noted that the Council accrued for EUR4,029 in waste disposal costs due to WasteServ. This accrual was based on past invoices, however, on reconciling to actual invoices received for September 2016, it was understated by EUR1,057. We proposed an audit adjustment to increase the amount accrued. The adjustment was approved by the Council and reflected in the audited financial statements.
- 6.4 We also noted that the Council did not accrue for the audit fee for the period 1 January 2016 to 30 September 2016. We proposed an audit adjustment to accrue for EUR2,384. The adjustment was approved by the Council and reflected in the audited financial statements.
- 6.5 We recommend that the Council makes appropriate provisions for accrued expenditure supported by valid workings and subsequent documentation.

Long outstanding trade payables

6.6 The following overdue creditors are still pending at period-end:

Creditor	EUR
Court fees	2,329
City Sport and Play Limited	5,590
Other creditors	1,575
Total	9,494

6.7 We understand that the amount due to City Sport and Play Limited (including related court fees of EUR2,329) is subject to a warrant of seizure by the court and cannot be written back.

6.8 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

6.9 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.

7 Grants and deferred income

Government Grants

7.1 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 Council recognised a grant receivable and the deferred it on the property, plant and equipment capitalised on Mica Med invoice for EUR46,822 (refer to notes 2.3 and 4.3). This was reversed as noted in previous comments. The Council had released part of this newly created deferred income amounting to EUR1,951 and we proposed an audit adjustment to reverse it. The Council approved our adjustment and reflected it in the audited financial statements.

- 7.2 We also noted that the amount released from grants brought forward from 2015 was not in line with the depreciation charge on the related assets. This gave rise to an overall difference of EUR183. We proposed an audit adjustment to align the release from the grant with the depreciation charge on the related asset. The Council approved our adjustment and reflected it in the audited financial statements.
- 7.3 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.

Timing of grants

- 7.4 The adjustments proposed against deferred income and amounts released from such income had an impact on the expected maturity of deferred income. Hence, we proposed an adjustment to reclassify EUR5,013 from current deferred income to non-current balance. The Council approved our proposed adjustment and reflected it in the financial statements.

8 Trade and other Receivables

Debtors

- 8.1 We noted that the following amounts have been due to the Council for over 365 days:

Customer Name	Over 365 Days €
Gozo Regional Committee	128
North Regional Committee	354
South Regional Committee	125
Maltacom PLC	47
	<hr/>
	654

- 8.2 We recommend that the Council monitors its overdue debtors. The Council should hence consider whether to write off any differences or un-claimed amounts.

Prepayments

- 8.3 A new contact was entered into during the period with Mario Camilleri, who agreed to rent his garage to the Council for 4 months (September to December 2016) for EUR100 monthly. The rent expense recognised for the period was EUR300 rather than just EUR100 for the month of September. An audit adjustment for EUR200 was passed to correct this error. The Council approved our proposed adjustment and reflected it in the financial statements. Moreover, we were not provided with a signed contract between the lessor and the Council.
- 8.4 We recommend that the Council makes appropriate provisions for prepaid expenditure supported by valid workings and subsequent documentation.

9 Local Enforcement System

Pooling period

- 9.1 The Birkirkara Joint Committee of which Balzan 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. An audited set of financial statements as at 30 September 2016 is not available.
- 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 period. The Council updated the financial statements following our notification

11 Other accounting matters

- 11.1 At the beginning of our audit work, we noted that the accounting records of the Council were not up to date. This was evident since bank reconciliations were not up to date, payroll reconciliations were not carried out and the fixed asset register was not updated. We highlighted these issues and the Council made the necessary amendments that resulted in the following adjustments:
- 11.2 A reduction of EUR2,618 in overall payroll costs and an equivalent increase in the bank balance arising from the double posting of August payroll expense.
- 11.3 A reduction in depreciation charge and accumulated depreciation on Urban Improvement amounting to EUR97 arising from amendments to the fixed asset register.
- 11.4 A reduction in payables of EUR1,186, a reduction in bank balance of EUR5 a reduction in salary cost of EUR1,109, an increase in bank charges of EUR42, an increase in contravention income of EUR80 and in increase in interest income of EUR34. These also emerged from the updating of the bank reconciliations.
- 11.5 The above transaction were approved and recorded in the audited financial statements.
- 11.6 We remind the Council that the approved management accounts should be up to date as at the reporting period and all necessary accounting is carried out and reflected in those financial statements.

12 Minutes and meetings

- 12.1 We observed that the Council did not upload schedules of payments on the electronic site of the Council within two working days from their approval. The schedule of payments covering the period 23/08/2016 to 20/09/2016 was not uploaded to the system by 29th November 2016.
- 12.2 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 attention 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 Ms. Doriette Farrugia and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully



Ernestino Rioio
Partner
for and on behalf of
Mazars Malta