

The Mayor,  
Hal Balzan Local Council,  
7/9, Dun Spir Sammut Street,  
Hal Balzan

**Kunsill Lokali:  
Hal-Balzan**

9 MAY 2018

**RECEIVED**

19 April 2018

**Financial Statements for the year ended 31 December 2017.**

During the course of our audit for the year ended 31 December 2017, 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. Follow up on prior year's issues**

**1.1 Accrued income**

Once again we identified errors in accounting for accrued income (refer to note 2.1).

**1.2 Payroll**

We again noted differences in the payroll reconciliation linked to errors in FSS reports and in the allocation and reporting of payroll costs in the Financial Statements (refer to note 3.3). On the other hand, we had no issues in relation to the performance bonuses and overtime accruals and in the allocation of the CIR liability.

**1.3 Fixed Assets**

The fixed asset register has not been updated with the location of assets acquired in previous years (refer to note 4.1) and the accountant proposed adjustments to clear differences between the cost per ledger and the cost per asset register (refer to notes 4.3 & 4.4).

We did not identify material errors in depreciation workings and the Council's insurance policy is line with Circular 33/2016.



#### **1.4 Bank and cash**

Whereas we were pleased to note that all bank accounts are being reconciled on a monthly basis, we noted again that reconciliations are not being prepared within the required time frame and are not being certified by the Executive Secretary (refer to note 5.1).

#### **1.5 Payables**

We again noted differences between supplier statements and the amount as per ledger (refer to note 6.1).

We also noted that the Council still had overdue payable balances at 31 December 2017 (refer to notes 6.3) and that it has debit balances in creditors as reported in 2016 (refer to note 6.6). On the other hand, we did not identify any issues with accounting for accruals.

#### **1.6 Expenses**

We again noted errors in the allocation of expenses (refer to notes 7.1 & 7.2).

#### **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 8).

#### **1.8 Income**

We did not identify any issues in accounting for income from Government allocation.

#### **1.9 Trade and other receivables**

We noted that receivables that were due for more than 365 days have been reduced to just EUR52 and prepayments were fairly reported.

#### **1.10 Procurement**

The Council indicated that it has effectively contacted the authorities in relation to its rental of premises, on the other hand, it did not rectify the procedure for appointing an accountant for the Council (refer to note 9.3).

We again identified differences between the actual and budgeted expenditure for the year (refer to notes 9.6 & 9.7).



### **1.11 Budget and business plan**

We did not identify differences between the budget and business plan.

### **1.12 Local Enforcement System**

The audited Financial Statements of the Birkirkara Joint Committee were not received (refer to note 10).

### **Current year issues**

## **2 Income**

### **Accrued Income**

- 2.1 From communication with the Department for Local Government, it transpired that the department will cover tipping fee shortages payable to WasteServ amounting to EUR11,761. We proposed an audit adjustment to recognise this amount as accrued income in the Statement of Financial Position and as income for the year. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.2 We also carried out a reconciliation between the amount due to WasteServ and the amount committed for shortages by DLG. We noted that the liability at year end amounts to EUR16,222 rather than EUR11,761 which indicates that shortages are understated by EUR4,462 of which EUR2,017 has been brought forward from previous periods. The Council has not recognised this amount as accrued income and is part of the Council's liabilities.
- 2.3 We recommend that the Council carries out an extensive exercise to recalculate the annual pending shortages and clarifies its position with WasteServ and DLG.

## **3 Payroll**

### **FS5 and FS 7 Reconciliation**

- 3.1 From our reconciliation of payroll costs to FSS forms, we noted in one instance, that the allowance booked as a cost in the ledger was net of EUR40 tax deduction. We also noted that as from August 2017, Councillors and employees agreed to donate the sum of EUR2.33 per month to the Malta Community Chest Fund. The gross income on each employee/Councillor FS3 was disclosed net of this deduction for a total impact of EUR93. The wages reconciliation is presented below:

	EUR	EUR
<i>Wages as per FS7</i>		71,480
<i>Council's share of NI</i>		4,808
<b>Accruals</b>		
Add Accruals 2017	4,422	
Less Accruals 2016	- 3,209	
		1,213
<b>Other Reconciling Items</b>		
Community Worker O/T as invoiced by Operator	499	
Councillor understated cost in ledger	- 40	
MCCF deductions reflected in FS3	93	
Additional NI in respect of prior years	149	
		701
		78,202
<i>as per Ledger</i>		78,204
Difference		- 2

- 3.2 The Council should ensure that all salaries and wages paid to its employees are reported in the respective FSS documents gross of any voluntary deductions for Charitable Institutions and net of other deductions. The Council should amend and submit revised FSS documents. We also recommend that periodical reconciliations between FSS reports the ledger are carried out to identify any differences on a timely basis.

### Payroll cost reporting

- 3.3 Our analyses of payroll costs in the ledger and Financial Statements indicated that the element allocated to the Executive Secretary was understated by EUR2,582 in the ledger and overstated by EUR70 in the Financial Statements. The differences emerged due to the allocation of the bonus element of the Executive Secretary's salary. An adjustment was proposed to reclassify EUR2,582 to Executive Secretary's salary and the necessary amendment proposed to the Financial Statements. The Council approved our adjustment and reflected it in the audited Financial Statements.



## **4 Property, plant and equipment**

### **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 Once again we recommend that the Council updates the fixed asset register with the location of assets, where applicable.

### **Reconciliation of fixed asset register to Financial Statements**

- 4.3 Whilst the register agrees to the nominal ledger, and most of the differences between the class of asset per fixed asset schedule and the register were cleared, the Council did not clear the differences of EUR19,328 between Construction and Special Programs. During the audit, the Council recommended a reclassification between the two classes to agree the class of asset to the register.
- 4.4 The difference between the net book value of assets per ledger and the net book value per asset register was reduced to EUR320. During the audit, the Council recommended an adjustment to eliminate the difference by increasing the depreciation provision by EUR320 to EUR815,673.

### **Disposal of assets**

- 4.5 Throughout the year, the Council agreed to dispose of a number of assets with an original cost of EUR19,309 on which accumulated depreciation amounted to EUR13,213. The loss arising on the disposal amounted to EUR6,096, whereas the Council disclosed a loss of EUR27 since adjustments to the agree the ledger to the fixed asset register were set-off against this loss. We proposed an adjustment to reclassify the difference of EUR6,069 to a separate account. The Council approved our adjustment and reflected it in the audited Financial Statements.

## **5 Bank and cash**

### **Bank reconciliations**

- 5.1 Whereas the Council has provided us with monthly bank reconciliations, we noted that these were not being prepared by the 10<sup>th</sup> working day of the following month as indicated in the table below. We also noted that the reconciliation provided were not signed by the Executive Secretary.

Account	Month	Date prepared
HSBC current - 002	January	26/02/2017
HSBC current - 002	April	16/07/2017
HSBC current - 002	July	16/09/2017
HSBC current - 002	November	21/01/2018
HSBC current - 002	December	21/01/2018
BOV Savings - 8028	January	01/05/2017
BOV Savings - 8028	April	16/07/2017
BOV Savings - 8028	June	16/07/2017
BOV Savings - 8028	October	04/12/2017
BOV Savings - 8028	December	21/01/2018
BOV Current - 8015	August	16/09/2017
BOV Current - 8015	November	21/01/2018
BOV Current - 8015	December	27/01/2018

- 5.2 We remind the Council that monthly bank reconciliations are required for all bank accounts held in the name of the Council and these are to be prepared by the 10<sup>th</sup> 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 WasteServ, the largest creditor for the year, and Smart Office Supplies Ltd highlighted differences of EUR 2,363 and EUR308 respectively, as tabulated below. We noted however, that these differences related to invoices and credit notes that were omitted from Council's ledger. We therefore proposed an adjustment to account for these invoices against the respective cost account. The Council approved our adjustment and reflected it in the audited Financial Statements.

	Balance as per Creditors List EUR	Balance as per Statement EUR	Difference EUR
WasteServ	11,138	13,501	(2,363)
Smart Office Ltd	1,195	887	308

- 6.2 Once again, we 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.



### Long outstanding trade payables

- 6.3 The following overdue creditors (outstanding for more than 365 days) are still pending at year-end:

Creditor	EUR
Court Fees	2,329
City Sport and Play Limited	5,590
WasteServ	2,014
Lino Micallef	1,024
Other creditors	1,516
Total	<u>12,473</u>

- 6.4 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 whereas the amount due WasteServ is meant to be covered by The Department for Local Government. (refer to note 2.2).
- 6.5 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

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

Supplier	EUR
EneMalta	333

We understand that the EneMalta balance results from an overpayment. This balance has been brought forward from previous periods and hence, we recommend that the Council determines whether the amount is recoverable or whether it needs to be written off.

## 7 Expenses

- 7.1 Upon vouching the cost of sales invoices, we noted that handyman services amounting to EUR9,981 were posted against the other repairs and upkeep account as opposed to the public property account. We proposed a reclassification to include the annual expense in one account. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 7.2 We also noted that expenses on road markings amounting to EUR1,763, traffic signs amounting to EUR257 and other support services amounting to EUR1,097 were posted against the road/streets pavement account. We also



identified a further expense of EUR224 relating to road markings that was recorded under traffic signs. We proposed a reclassification to transfer the amounts to the appropriate account. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 7.3 We recommend that expenses are analysed and classified according to their nature to ensure consistency and comparability in reporting.

## **8 Grants and deferred income**

### **Government Grants**

- 8.1 The sum of EUR4,027 received from LESA was credited to the deferred income account with the surplus funds from the Central Regional Committee. As indicated by LESA, these funds should be recognised directly in income whereas future distributions would be linked to projects in a similar format that is applied to funds received from the Central Regional Committee. We proposed an adjustment to recognise the amount with LES income for the year. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 8.2 We noted that the amount released from grants brought forward from 2016 (EUR37,817) was not in line with the depreciation charge on the related assets. We identified an overall difference of EUR56. We also noted that EUR2,871 of the amounts released were not deducted from the related deferred income account. We proposed an audit adjustment to reduce the release to EUR37,761 and hence align the release from the grant with the depreciation charge on the related asset. We also proposed a reclassification of EUR2,871 between the respective deferred income accounts to align the balances in the ledger with the respective workings. The Council approved our adjustments and reflected them in the audited Financial Statements.
- 8.3 We also noted that an amount of EUR319 relating to the release of the ERDF grant was credited to the other government income account rather than the specific ERDF grant release account. We proposed an adjustment to reclassify this amount to its correct account. The adjustment was approved by the Council and reflected in the audited 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.



### Timing of grants

- 8.5 The adjustments proposed against deferred income and amounts released from such income had an impact on the expected maturity of deferred income as well as an impact on the allocation between the separate elements of the current and non-current deferred income accounts. Hence, we proposed an adjustment to reclassify EUR2,584 between the respective deferred income accounts as well as EUR45 between the current and non-current allocations. The Council approved our proposed adjustment and reflected it in the Financial Statements.

### Unutilised funds

- 8.6 At the financial position date, the Council had unutilised grants amounting to EUR28,799. These have been received from the Central Regional Committee and are to be utilised against approved projects/expenditure. Whereas the funds have been recognised as deferred income, the amount has been deposited within the operational account rather than a separate account as required in such instances.
- 8.7 We recommend that the Council transfers the funds to a separate bank account to ensure that these are used for the respective approved projects rather than recurrent expenditure.

## 9 Procurement

### Payments made prior to approval

- 9.1 Our testing on payments made by the Council, indicated that the following payments were made prior to the approval of the respective Schedule of Payments on which they were disclosed:

Cheque No.	Supplier	Amount EUR	Cheque Cashed	Approval Date
8475	M. Cini	1,446	27/01/2017	07/02/2017
8583	M. Cini	1,158	28/04/2017	05/05/2017
8621	M. Cini	1,158	26/05/2017	29/05/2017
8789	M. Cini	1,158	29/09/2017	23/10/2017
8832	M. Cini	1,158	27/10/2017	23/11/2017
8863	M. Cini	1,158	24/11/2017	18/12/2017
8583	M. Cini	294	28/04/2017	05/05/2017
8621	M. Cini	415	26/05/2017	29/05/2017
8789	M. Cini	294	29/09/2017	23/10/2017
8832	M. Cini	299	27/10/2017	23/11/2017
8863	M. Cini	285	24/11/2017	18/12/2017
8901	The Computer Clinic	584	21/12/2017	17/01/2018



- 9.2 We remind the Council that expenses should first be approved by the Council before payment is issued to the supplier/contractor.

#### **Tendering and quotations**

- 9.3 In the 2016 management letter, we reported that the Council has revised the contract with the Council's accountant to cover also book keeping. As a result, the quarterly fee was increased from EUR349.41 to EUR500 per quarter. The annual fee was thus increased from EUR1,397.64 to EUR2,000. The change in the fee was agreed directly with the service provider without obtaining quotations from the market. In its reply to the management letter, the Council indicated formal procurement procedures would be carried out when a need to re-negotiate terms arises. Throughout 2017, the Council continued operating under the present agreement and reported a cost of EUR2,000.
- 9.4 In February 2017, the Council agreed to request 3 quotations for the installation of the office soffit. The Council only received one quotation and proceeded with awarding the quote to R. Cuschieri for EUR2,584 due to the urgency of the work.
- 9.5 In accordance with the provisions of the Local Councils (Tendering) Procedures, we recommend that the Council issues a call for tenders prior to their expiration. We also remind the Council that a formal request for quotations through the ePPS is required for procurement in excess of EUR1,164.69 and that tender procedures through ePPS are required for procurement in excess of EUR4,658.75.

#### **Budgeted vs actual expenditure**

- 9.6 The Council had budgeted a capital expenditure of EUR71,822 allocated as tabled below. However, expenditure only amounted to EUR28,035 and the Council incurred capital expenditure on categories for which such expenditure was not budgeted.

Capital expenditure	Actual EUR	Budgeted EUR	Difference EUR
Urban improvements	-	46,822	- 46,822
Construction works	9,042	25,000	- 15,958
Office furniture & equipment	16,101	-	16,101
Computer equipment	1,373	-	1,373
Office equipment	1,519	-	1,519
	28,035	71,822	- 43,787

- 9.7 A comparison between the Council's budgeted and actual income and expenditure identified discrepancies between the actual results and the forecasted items. Discrepancies were noted in income as well as expenditure.



Whereas the Council overall registered a higher surplus, we noted that in various instances income was higher than that budgeted for the respective income. Actual income exceeds the amount forecasted by EUR14,595. We also noted that in various instances expenditure was higher than that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation and loss on disposal.

	Actual EUR	Budgeted EUR	Difference EUR
<b>Government Income</b>			
Section 55 of Local Councils Act	277,092	277,092	-
Other Government Income	16,152	-	16,152
Other Supplementary Government Income	12,387	-	12,387
	305,631	277,092	28,539
<b>EU Financing</b>			
ERDF Financing	27,646	44,757	- 17,111
<b>Income Raised Under the LES</b>			
Income from LES Administration Fees	6,805	4,761	2,044
<b>General Income</b>			
Income from Tender Documents	100	350	- 250
Income from Permits	10,168	11,000	- 832
Sundry Contributions and Donations	2,278	73	2,205
	12,546	11,423	1,123
<b>Total Revenue</b>	352,628	338,033	14,595

	Actual EUR	Budgeted EUR	Difference EUR
<b>Personal Emoluments</b>			
Mayor's Allowance	7,345	7,244	101
Executive Secretary's Salary and Allowances	29,243		
Employee's Salaries	30,398	63,168	2,733
Councillors' Allowance	6,260		
Social Security Contributions	4,958	4,784	174
	78,204	75,196	3,008
<b>Operations and Maintenance</b>			
<i>Repairs and Upkeep</i>			
Signs	1,063		
Public Property	15,685		
Road Markings	3,653	37,432	- 10,987
Other Repairs and Upkeep	6,044		
	26,445	37,432	- 10,987
<i>Contractual Services</i>			
Refuse Collection	60,291	47,598	12,693
Bulky Refuse Collection	3,464	2,329	1,135
Road and Street Cleaning	22,905	28,436	- 5,531
Cleaning and Maintenance - Public Conveniences	3,333	2,500	833
Cleaning and Maintenance - Parks and Gardens	2,587	2,214	373
Street Lighting	3,476	3,000	476
Other	2,016	15,100	- 13,084
	98,072	101,177	- 3,105
<b>Total Operations and Maintenance</b>	124,517	138,609	- 14,092



	Actual EUR	Budgeted EUR	Difference EUR
<b>Administration and Other Expenditure</b>			
Utilities	3,503	8,600	- 5,097
Materials & Supplies	1,154	2,900	- 1,746
Rent	10,833	10,700	133
Memberships	100	300	- 200
Office Services	3,289	3,300	- 11
Consultation Fees	-	1,165	- 1,165
Lease of Equipment	-	800	- 800
Training	-	500	- 500
Incidental Expenses	-	250	- 250
Transport	6,374	6,574	- 200
Information Services	1,449	3,300	- 1,851
Professional Services	18,891	13,500	5,391
Community Services & Events	12,567	5,250	7,317
Local Enforcement Expenses	71	150	- 79
Sundry Expenses	18	-	18
	58,249	57,289	960
<b>Total Expenditure</b>	<b>260,970</b>	<b>271,094</b>	<b>- 10,124</b>
<b>Deficit for the Year</b>	<b>91,658</b>	<b>66,939</b>	<b>24,719</b>

- 9.8 Whilst we recognise that the Council has put more effort into preparing the budget, we re-iterate that 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 increases in income received.

## 10 Local Enforcement System

### Pooling period

- 10.1 The Birkirkara Joint Committee, of which Balzan Local Council formed part of up to 31 August 2011, had 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 amounts receivable to the turnover and debtors reports issued from the IT system. An audited set of Financial Statements as at 31 December 2017 is not available.
- 10.2 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.

## 11 Financial Statements

### Presentation of Financial Statements

11.1 In accordance with the DLG's communications and instructions, Councils are required to prepare their Financial Statements in conformity with International Financial Reporting Standards. During our audit we identified the following departures from IFRS's requirements:

- Quantitative disclosures required by IFRS 7, *Financial Instruments: Disclosures* including information about the Council's financial assets that are past the credit period but not impaired and the contractual maturities of financial liabilities were not fairly disclosed. The Council has amended these disclosures after our notification.
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council were not correctly disclosed in the audited Financial Statements. We proposed amendments to the Financial Statements to ensure proper disclosure. The Council has amended these disclosures after our notification.
- IAS 16, *Property plant and Equipment*; relating to capital commitments since the Council has budgeted capital expenditure of EUR2,500 for 2018, however this was not disclosed in the Financial Statements. The Council has amended these disclosures after our notification.
- IAS 17, *Lease* since the Council did not disclose fairly the amount of non-cancellable lease commitments at 31 December 2017 and the respective comparative figures as well as the expense recognized in the current year. The Council has amended these disclosures after our notification.



## **12 Minutes of meetings**

### **Binding of minutes**

- 12.1 The minutes of the Council meetings and schedule of payments were not bound.
- 12.2 The Council must ensure proper measures are taken to adhere to the provisions in the Local Council (Office) Procedures, 1996 and arrange for the minutes to be bound. The binding of minutes are an important permanent source of documentation for the Council and thus proper binding of the minutes will ensure that they remain intact and unchanged.

### **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 Riolo  
Partner  
for and on behalf of  
Mazars Malta