

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



25 April 2019

Financial Statements for the year ended 31 December 2018.

During the course of our audit for the year ended 31 December 2018, 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

We did not identify any material issues in the accounting for accrued income in the current year or in the reconciliation of WasteServ balance.

1.2 Payroll

We did not identify any material differences in the payroll reconciliation and Financial Statement disclosures.

1.3 Fixed Assets

The fixed asset register has not been updated with the location of assets acquired in previous years (refer to note 2.1).

We did not identify any differences between the fixed asset register and the Financial Statements, apart from classifications between the accumulated depreciation and the grants.

We did not identify any material differences on the disposal of the assets during the current year.

**Kunsill Lokali:
Hal-Balzan**

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1.4 Bank and cash

Whereas we were pleased to note that all bank accounts are being reconciled and reviewed by the Executive Secretary on a monthly basis, we noted again that reconciliations are not being prepared within the required time frame (refer to note 3).

1.5 Payables

Whereas we did not identify any differences in creditors balances when compared to statements, we again noted that monthly supplier statements are still not being obtained by the Council (refer to note 4.1).

We also noted that the Council still had overdue payable balances at 31 December 2018 (refer to notes 4.3). On the other hand, debit balances in the creditors list were immaterial.

1.6 Expenses

We did not identify any errors in the allocation of expenses.

1.7 Grants and deferred income

Following the adoption of the capital approach to account for grants, we did not identify issues with the release of grants to income, however, we did identify errors in the allocation of grants against capital expenditure that also impacted the depreciation charge recognised for the year (refer to notes 2.5 – 2.7).

During 2018, the Council transferred the unutilised grants received from the Central Regional Committee to a separate bank account.

1.8 Procurement

We did not identified instances whereby payments were being made prior to the approval of the respective Schedule of Payments on which they were disclosed.

The Council did not rectify the procedure for appointing an accountant for the Council (refer to note 5.1) and we again identified differences between the actual and budgeted expenditure for the year (refer to notes 5.4 - 5.5).

1.9 Local Enforcement System

The audited Financial Statements of the Birkirkara Joint Committee were not received (refer to note 6).

1.10 Financial Statements

Once again, we identified shortcomings in the presentation of Financial Statements (refer to note 7).

1.11 Minutes of meetings

We did not identify any issues with the minutes of meetings.

Current year issues

2. Property, plant and equipment

Fixed asset register

- 2.1 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.
- 2.2 Once again, we recommend that the Council updates the fixed asset register with the location of assets, where applicable.

Replaced assets

- 2.3 During 2017, part of the CCTV system was written-off due to the damages caused by a storm. Such damages were claimed by insurance and replaced accordingly at an amount of EUR3,210. However, we noted, that the Council did not include the replacement assets in the year they were replaced. An adjustment was proposed in order to include the value of replaced assets as part of office equipment. The Council approved our adjustment and reflected it in the audited financial statements.
- 2.4 We recommend that all additions are accounted for in the year which they are made to ensure that all assets under the control of the Council are reflected in the fixed asset schedule and the fixed asset register.

Grants

- 2.5 Following the change in the accounting treatment of the grants from the income approach to the capital approach, we noted that the Council capitalised grants at the value of deferred income as at 31 December 2017 rather than the original value of the grant. The differences between the original value of the grant and the deferred income as at 31 December 2017 amounted to EUR143,995 on Urban Improvements and EUR7,120 on office equipment. We proposed an adjustment to reclassify the difference from the accumulated depreciation

accounts to the respective grant ledger account. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 2.6 We also noted that funds amounting to EUR1,036 received from another entity¹ for acquisition of assets were recognized in the Statement of Comprehensive Income. We also noted that at 31 December 2018, the Council had not fully utilized all these funds since EUR299 were utilized in 2019. In order to be consistent with the recognition of grants, we proposed an adjustment to reclassify EUR299 to deferred income and EUR737 were reclassified from income to grants related to office furniture and fittings. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.7 In previous periods, the Council had recognized grants on CCTV, however, this equipment was derecognized in 2017. Hence, we proposed an adjustment to reclassify the amount of EUR2,575 from grants to retained earnings since the impact was meant to be recorded in 2017. The Council approved our adjustment and reflected it in the audited Financial Statements.

Depreciation workings

- 2.8 We performed a re-calculation of the depreciation charge for the year and identified a difference of EUR7,903 between the depreciation charge for 2018 and our workings. We proposed an adjustment to increase the depreciation charge for the year by EUR7,912. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.9 We also noted that the net book value of assets that were past their expected useful life on the adoption of the straight-line method of depreciation amounted to EUR151,636. The Council wrote off this balance against retained earnings, effectively applying the change retrospectively. The change in the depreciation methodology is a change in accounting estimate and hence this amount was meant to be accounted for prospectively and included as part of the depreciation charge for the year under review. We proposed an adjustment to re-state the retained earnings and the depreciation charge for the year. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.10 The above entries increased the depreciation charge for the year from EUR38,622 to EUR198,161. We understand that these are one-time errors that emerged from the adoption of Directive 1/2017. We recommend that the Council updates its fixed asset register with the approved changes to ensure that the depreciation charge is calculated fairly in the future.

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3. Bank and cash

Bank reconciliations

- 3.1 Whereas the Council has provided us with monthly bank reconciliations, we noted that these were not being prepared by the 10th working day of the following month as indicated in the table below.

<u>Account</u>	<u>Month</u>	<u>Date Prepared</u>
<i>HSBC Current Account – 002</i>	January	04/03/2018
<i>HSBC Central Region – 050</i>	September	20/10/2018
<i>BOV Saving - 8028</i>	January	04/03/2018
	May	07/07/2018
	June	09/08/2018
	July	15/08/2018
	September	21/10/2018
<i>BOV Current - 8015</i>	January	04/03/2018
	May	07/07/2018
	June	09/08/2018
	July	15/08/2018

- 3.2 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 10th working day of the following month.

4. Creditors

Suppliers' statements

- 4.1 Once again, we noted that the Council is not managing to obtain monthly statements from its creditors/suppliers.
- 4.2 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

- 4.3 At 31 December 2018, we identified 8 creditors with balances that have been due for more than 365 days. A list of such creditors is included in appendix 1 to the management letter and the total amount outstanding for more than one year is EUR13,438.
- 4.4 We understand that the amount of EUR5,590 due to a creditor² (and related court fees of EUR 2,329) is subject to a warrant of seizure by the court and cannot be written back, whereas the amount due to WasteServ is meant to be covered by The Department for Local Government.
- 4.5 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.

5. Procurement

Tendering and quotations

- 5.1 In the 2016 management letter, we reported that the Council had 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 2018, the Council continued operating under the present agreement and reported a cost of EUR 2,000. A new tender was issued and awarded in 2019 and this will commence as from 1 June 2019.
- 5.2 We noted that Cleaning of Public Conveniences is being serviced by the same supplier providing handyman services as an extension of the service provided under the tender for provision of handyman service. The rate being charged are equal to the overtime rate as stipulated in the handyman service tender. The total expense for 2018 was equal to EUR 3,550.
- 5.3 We recommend that the Council ensures that its current agreements are in line with the respective procurement procedures that have since been revised by the Public Procurement Regulations and the respective Guidelines.

² City Sport and Play Limited

Budgeted vs actual expenditure

- 5.4 The Council had budgeted a capital expenditure of EUR2,500 allocated as tabled below. However, expenditure amounted to EUR9,112 and the Council incurred capital expenditure on categories for which such expenditure was not budgeted.

Capital expenditure	Actual EUR	Budgeted EUR	Difference EUR
Office Furniture and Fittings	1,900	1,000	900
Computer Equipment	3,290	-	3,290
Urban Improvements	392	-	392
Construction Works	320	-	320
Office Equipment	3,210	1,500	1,710
	9,112	2,500	6,612

- 5.5 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 category. Actual income exceeds the amount forecasted by EUR40,554. We also noted that in various instances expenditure was lower than that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation.

	Actual EUR	Budgeted EUR	Difference EUR
Government Income			
Section 55 of Local Councils Act	288,968	288,968	-
Other Government Income	-	-	-
Other Supplementary Government Income	22,060	-	22,060
	311,028	288,968	22,060
Income Raised Under the LES			
Income from LES Administration Fees	2,232	2,500	- 268
General Income			
Income from Tender Documents	-	350	- 350
Income from Permits	22,875	9,000	13,875
Sundry Contributions and Donations	5,310	73	5,237
	28,185	9,423	18,762
Total Revenue	341,445	300,891	40,554

	Actual EUR	Budgeted EUR	Difference EUR
Personal Emoluments			
Mayor's Allowance	7,464	7,464	-
Executive Secretary's Salary and Allowances	29,730		
Employee's Salaries	31,901	68,317	- 286
Councillors' Allowance	6,400		
Social Security Contributions	5,161	5,064	97
	80,656	80,845	- 189
Operations and Maintenance			
<i>Repairs and Upkeep</i>			
Signs	2,456		
Public Property	15,340	19,553	3,334
Road Markings	1,577		
Other Repairs and Upkeep	3,514		
	22,887	19,553	3,334
<i>Contractual Services</i>			
Refuse Collection	65,601	48,355	17,246
Bulky Refuse Collection	4,765	3,200	1,565
Road and Street Cleaning	33,184	32,496	688
Cleaning and Maintenance - Public Conveniences	3,550	3,600	- 50
Cleaning and Maintenance - Parks and Gardens	3,027	3,027	-
Street Lighting	2,869	3,500	- 631
Other	1,863	13,900	- 12,037
	114,859	108,078	6,781
Total Operations and Maintenance	137,746	127,631	10,115

	Actual EUR	Budgeted EUR	Difference EUR
Administration and Other Expenditure			
Utilities	6,958	11,350	- 4,392
Materials & Supplies	658	2,500	- 1,842
Rent	10,175	10,200	- 25
Memberships	648	650	- 2
Office Services	3,198	4,415	- 1,217
Consultation Fees	-	1,000	- 1,000
Lease of Equipment	-	6,000	- 6,000
Training	207	500	- 293
Incidental Expenses	-	250	- 250
Transport	6,306	800	5,506
Information Services	232	3,200	- 2,968
Professional Services	14,611	18,330	- 3,719
Community Services & Events	6,925	1,460	5,465
Local Enforcement Expenses	87	150	- 63
Office Hospitality	-	330	- 330
Insurance	-	1,400	- 1,400
Bank Charges	-	200	- 200
Cleaning of Council Premises	-	500	- 500
Hospitality	-	3,240	- 3,240
Twinning	-	3,500	- 3,500
	50,005	69,975	- 19,970
Total Expenditure	268,407	278,451	- 10,044
Surplus for the Year	73,038	22,440	50,598

- 5.6 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.

6. Local Enforcement System

Pooling period

- 6.1 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 2018 is not available.

- 6.2 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.

7. Financial Statements

Presentation of Financial Statements

- 7.1 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:

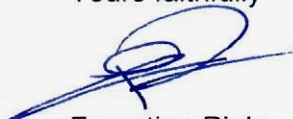
- *IAS 8 Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council and the relevant impact on adoption were not correctly disclosed in the audited Financial Statements. We proposed amendments to the Financial Statements to ensure proper disclosure. The Council has amended these disclosures after our notification.
- *IAS 8 Accounting policies, Changes in Accounting Estimates and Errors* regarding the adoption of Directive 1/2017 that resulted in a change in accounting policy for recognition of grants. The Council did not disclose clearly the nature and reason for the change and the impact of this change. Following our notification, the Council included note 18 which explains the nature and reason for the change and the impact on specific line items of the Statement of Comprehensive Income and Statement of Financial Position and the Statement of Cash Flows.

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

Appendices

Appendix 1: Payables due for over 1 year

Creditor	EUR
Court fees	2,329
City Sport and Play Limited	5,590
Lino Micallef	1,024
WasteServ	2,816
Others	1,679
	<u>13,438</u>