

The Mayor,
Lija Local Council,
27, Triq Robert Mifsud Bonnici,
Lija

26 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 Previous management letter

1.1 Income

Regional committee surplus

Although the Council properly deferred all income received from the Central Regional Committee throughout 2017, the amount allocated to income based on amount spent throughout the year was once again understated (refer to note 2.1)

Tipping fees

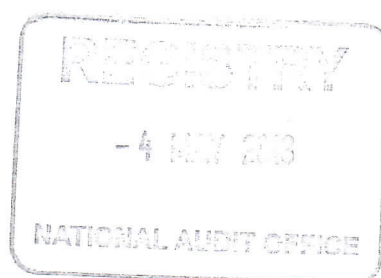
At the financial position date, the Council was not allocated any funds from the budget allocated for shortages by DLG since the expense for the year was lower than the amount allocated to the Council.

Accrued income

Once again, we noted errors in the accrued income balance at year end (refer to note 2.7).

Deposits

We were pleased to note that the Council is now adhering to the procedures relating to depositing of cash.



1.2 Payroll

Whereas we noted differences between the actual payroll costs per category and the amounts reported in the ledger, we noted that such differences were in their majority corrected and reduced to an insignificant amount of EUR38 in the unaudited Financial Statements. Also, we were pleased to note that the Council did not have any discrepancies in its payroll reconciliations.

1.3 Expenditure

Approval of petty cash expenditure

We noted that the Council is uploading petty cash schedules with the minutes and other schedules, however, these are being uploaded as a scan of the original signed document (refer to note 3.1).

Missing tender file

The tender of the contracts manager has now expired and has not been re-issued or renewed.

Tendering process

Whereas the CV of every member of the evaluation committee is now being kept by the Council, we still identified another weakness in the tendering process (refer to note 3.3).

Insurance

We noted that the Council is now insuring its assets in line with Circular 33/2016 except for the Council's motor vehicle (refer to note 3.5).

Rent Contract

Rent of the office premises from University Residence is still not covered by a rental agreement (refer to note 3.7).

Budget vs actual expenditure

Once again, we noted differences between actual and budgeted figures for 2017 (refer to notes 3.9 – 3.10).

1.4 Property, plant and equipment

Fixed asset register

The Council has not yet updated the fixed assets register and related tagging (refer to note 4.1)

Depreciation

Depreciation was again calculated manually (refer to note 4.3).

We did not identify any instances in which the capital approach was applied in accounting for grants.

1.5 Bank and cash

Once again, we noted weaknesses in the bank reconciliation process (refer to note 5).

1.6 Trade and other payables

Deferred income

We again noted errors in releasing deferred income to income for the year (refer to note 6.1).

Accrued expenses

We again noted that accruals for the year were not complete and we proposed the necessary adjustment (refer to note 3.15).

1.7 Birkikara Joint Committee

The situation with the Birkirkara Joint Committee remained unchanged (refer to note 7).

1.8 Inventory

We were pleased to note that the Council has adopted the necessary controls on inventory.

1.9 Financial Statements

We again noted deviations from IFRS requirements (refer to note 8).

1.10 Liquidity position

The Council's Financial Situation Indicator is now more than 10%.

1.11 Business plan

We were pleased to note that the three-year business plan was prepared by the Council.

Current year issues

2 Income

Regional committee surplus

2.1 During 2017, the Council received EUR13,499 from the Central Regional Committee and these were correctly accounted for as deferred income however, these were recognised gross of legal letter fees amounting to EUR620 incurred by the Central Regional Committee. We also noted that during the year, the Council utilised EUR6,384 from such funds to carry out works around the village. However, the Council released only the sum of EUR4,508 to income. We proposed an adjustment to release an additional amount of EUR1,876 to income and to recognise the funds net of legal fees amounting to EUR620. The Council approved our adjustment and reflected it in the audited Financial Statements.

2.2 We recommend that the Council recognises such income in line with the relevant expenditure as required by the matching concept. We also remind the Council that it still has EUR16,256 in funds that are to be assigned to projects and allocated accordingly.

Tipping fees

2.3 The Council brought forward accrued income amounting to EUR6,072 in relation to tipping fee shortages that were to be covered by DLG. During the year, DLG contributed the sum of EUR5,717 towards Lija account with WasteServ, however, the Council only reversed the sum of EUR4,240 from opening accrued income. We proposed an adjustment to reverse the amount of EUR1,477 from accrued income. The Council approved our adjustment and reflected it in the audited Financial Statements.

2.4 We also noted that at 31 December 2017, DLG did not commit any additional funds towards Lija and hence we proposed an additional adjustment of the remaining balance of EUR355 from accrued income. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 2.5 We also noted that for 2017, the Council was allocated with a budget of EUR13,006 for tipping fees whereas the value of invoices received from WasteServ in relation to 2017 amounted to EUR11,423. Although the amount invoiced was less than the allocation, the Council still paid the allocation in full. Hence, at the financial position date, Lija had over paid WasteServ the sum of EUR6,137. After deducting the accrued invoices at year end, the overpayment amounts to EUR5,338.
- 2.6 We recommend that the Council monitors this account to recover the amount over paid from invoices payable in 2018 and that the Council settles invoices at face value if these are lower than the budgeted allocation.

Accrued income

- 2.7 At the financial position date, the Council had recognised the amount of EUR47,223 in UIF funds as accrued and deferred income since these funds were allocated to the Council but not yet tied to a project. Of these, EUR12,491 were brought forward from 2016. Following clarification sought from DLG, it transpired that such funds may only be recognised once they are tied to a project and such project is underway. As a result, we proposed an adjustment to reverse the amount of EUR47,223 and retain it as an off-balance sheet amount. The Council approved our adjustment and reflected it in the audited Financial Statements.

3 Expenditure

Approval of petty cash expenditure

- 3.1 We noted that the Executive Secretary is duly preparing a schedule itemising petty cash expenditure and that the Council meeting minutes indicate that these are being approved. We also noted that that this schedule is now being uploaded on the Council website, however, we noted that the Council is uploading a scanned copy of the original document that includes the original signatures. This is not in line with Memo 10/2016 which requires any uploads to be signed as "IFFIRMATA" instead of including the original signatures.
- 3.2 We recommend that the petty cash schedules are up-loaded as a PDF version with "IFFIRMATA" instead of the original signatures to be in line with the Memo.

Tendering process

- 3.3 We tested tenders and quotations that were issued and awarded during 2017. We noted that according to Directive 1/2016, the members of the Evaluation Committee, including the Chairman and Secretary are required to read and sign a declaration of impartiality and confidentiality. During our testing we

noted that the declaration of impartiality and confidentiality was signed by the Evaluators and the Chairperson, but it was not signed by the Secretary of the Evaluation Committee.

- 3.4 We recommend that the Council should adopt procedures to ensure that all the procedural requirements emanating from Directive 1/2016 are followed.

Insurance

- 3.5 We have reviewed the Council's insurance policies and noted the Council's motor vehicle was insured under a separate third party, fire and theft policy for EUR3,000.
- 3.6 As clarified by Circular 33/2016, motor vehicles are required to be insured at their market value under a comprehensive policy. In this regard, the Council should ensure that assets are insured as required by the Circular.

Rent contract

- 3.7 The rent of the office premises from the University Residence for EUR700 monthly is still not covered by a rental agreement. We understand that the Council is still working on resolving the situation whilst respecting its procurement procedures.
- 3.8 Once again we recommend that the Council continuous to work on this area and conclude on the different options in hand to ensure that the Council comes in line with all procedural requirements.

Budget vs actual expenditure

- 3.9 The Council did not budget a capital expenditure for 2017 as tabled below. However, actual expenditure amounted to EUR370..

	Actual EUR	Buidgted EUR	Difference EUR
Capital expendture			
Office equipment	370	-	370

- 3.10 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. The Council registered an overall higher surplus and we noted that in various instances income was higher than that budgeted for the respective income. Actual income exceeds the amount forecasted by EUR24,045. 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 impairment.

	Actual EUR	Budget EUR	Difference EUR
Income			
Funds received from Central Gov			
In terms of Section 55 of Local Councils Act	267,802	257,800	10,002
Other government income	8,896	-	8,896
Other supplementary government income	7,384	10,000	- 2,616
General income			
Income from tender documents	-	-	-
Income from permits	10,053	10,300	- 247
Income from LES Admin fee	4,653	3,855	798
Income from Joint Committee distribution	3,929	-	3,929
Sundry contributions and donations	7,626	5,280	2,346
Income from insurance claim	711	-	711
Other income	232	6	226
	311,286	287,241	24,045

	Actual EUR	Budget EUR	Difference EUR
Expenditure			
Personal Emoluments			
Mayor's Allowance	7,345	7,244	101
Councillor's Allowance	6,334	6,400	- 66
Employees' and ES Salaries	70,860	69,169	1,691
Social Security Contributions	5,708	5,640	68
	90,247	88,453	1,794

	Actual EUR	Budget EUR	Difference EUR
Operations & Maintenance			
Repairs & upkeep			
Road/street pavements	906		
Signs and road markings	4,182	46,000	- 39,116
Other repairs and upkeep	1,796		
	6,884	46,000	- 39,116
Contractual Services			
Refuse Collection	46,949	47,894	- 945
Bulky Refuse Collection	2,796	2,880	- 84
Road and street cleaning	16,427	20,112	- 3,685
Cleaning and maintenance of public convenience	4,227	4,740	- 513
Cleaning and maintenance of parks & gardens	7,508	7,308	200
Street lights	4,502	4,000	502
Other	2,008	-	2,008
	84,417	86,934	- 2,517
Administration			
Office utilities	2,988	2,368	620
Office rent	8,850	8,800	50
Memberships	445	300	145
Office services	2,011	2,760	- 749
Motor Vehicles Insurance /licence	1,281	2,530	- 1,249
Publications/Advertising	257	1,532	- 1,275
Professional Services	13,543	9,632	3,911
Community Services & Events	1,502	4,750	- 3,248
Bank interest & charges	72	104	- 32
Insurance/Licences	1,896	1,767	129
Other Expenses	634	840	- 206
	33,479	35,383	- 1,904
Surplus/(deficit) prior to depreciation	96,259	30,471	65,788

- 3.11 While 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 increase in income received.

Other expenses

- 3.12 We reviewed invoices raised by the contractor for the provision of Cleaning of Public Convenience. The contractor had tendered at an annual fee of EUR4,740 inclusive of the 5% contracts manager fee, however, the contract manager fee was not deducted from the monthly invoices resulting in an over payment of EUR19.75 per month. In respect of 2017, the Council overpaid EUR237, whereas the overpayment from the beginning of the tender period, which amounts to 26 months, was quantified at EUR513 (inclusive of 2017). On notification, the Council contacted the contractor and terms were agreed to deduct the extra amount from 2018 payments. We proposed an adjustment to account for the amount recoverable at 31 December 2017. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 3.13 We reviewed the contract for Road and Street Cleaning which commenced in 2016. We noted that the contractor had tendered at EUR57.50 per day inclusive of VAT and 5% contract manager fees. The Contractor was deducting the 5% contract manager fee in his invoice but, he was also charging VAT on the agreed rate. We notified the Council about this procedure and also noted the risk that the contractor was invoicing for extra days. The Council held meetings with the contractor and quantified the additional billed amount since September 2016 at EUR4,201. The parties agreed to deduct this amount from 2018 payments. We proposed an adjustment to account for the amount recoverable at 31 December 2017. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 3.14 We recommend that the Council should adopt control procedures to ensure that Suppliers invoice the Council at agreed rates and the Council is not invoiced for extra services that it did not receive.

Accruals and prepayments

- 3.15 We noted that the Council renewed its Insurance policies in December 2017 and the period covered by these policies is 5 December 2017 to 5 December 2018. The Council did not account for these policies that carry a value of EUR1,739. We proposed an adjustment to account for the invoices and back to back adjustment to recognise EUR1,611 as prepaid element on these policies. The Council approved our adjustments and reflected them in the audited Financial Statements.
- 3.16 We also noted that the Council included an accrued expense for MITA expenses amounting to EUR1,114 whereas these relate to 2018. We proposed an adjustment to reverse the accrual. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 3.17 We encourage the Council to account for all invoices received during the year and apply the related prepayments provisions as applicable. We also recommend that expenses are accrued for only if they relate to the year under review.

4 Property, plant and equipment

Fixed assets register

- 4.1 In accordance with memo 1/2014 the Council is obliged to prepare the fixed asset register which reconciles with the nominal ledger. During the current year, we were not provided with a fixed asset register. We understand that the Council changed its accountant and that such schedules were not handed over even though the Council should retain a copy of these. We also noted that the previous register was held on a Sage Pastel system whereas the Council is currently using a Sage Line 50 software.
- 4.2 We recommend that the Council should obtain copies of the last fixed asset register and update this for these last years from the time when there has been the changeover from the accountant.

Depreciation

- 4.3 The Council has once again computed depreciation manually and recorded the charge for the period by means of a journal entry.
- 4.4 In accordance with the Local Councils (Procedures) Regulations, 1996 the Council must use the month-end facility in the Sage accounting package to calculate depreciation on fixed assets and allocate it to the specific accounts.

Impairment

- 4.5 At the financial position date, the Council had a motor vehicle carried at a net book value of EUR3,384. However, we noted from the minutes of Council meetings that the vehicle had broken down beyond repair since the parts necessary to repair the vehicle are out of production. We also noted that the Council scrapped the vehicle in 2018 and recovered EUR100 from this process. As a result, we proposed an adjustment to impair the vehicle and reduce its net book value at 31 December 2017 to EUR100. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 4.6 As required by IAS 16, *Property, Plant and Equipment*, we recommend that the Council assesses all its assets for impairment at least on an annual basis and impairs as necessary to ensure that the book value of assets recognised by the Council is fairly reported.

5 Bank and cash

Bank reconciliations

- 5.1 The Council has 6 separate bank accounts at BOV and HSBC banks. Its two main accounts held at HSBC are reconciled monthly however, the reconciliations for the months June to September were not signed as approved by the Executive Secretary. BOV accounts 2016 and 3029 were only reconciled at the end of June and the end of December whilst HSBC account number 5051 was only reconciled at the end of June and the end of September.
- 5.2 We remind the Council that the Local Council (Financial) Regulations require that all bank accounts are reconciled on a monthly basis. Such reconciliations are to be prepared by the 10th working day of the following month. We also recommend that all reconciliations are printed, approved by the Executive Secretary and filed in the bank file.

6 Trade and other payables

Deferred income

- 6.1 The Council did not update correctly the deferred income balance at year-end since the only portion released to income was that of expenses done from the Regjun Centru funds (refer to note 2.1). Consequently, we prepared the necessary calculations to determine the necessary movements for the year and proposed a number of adjustments to the deferred income balance. The Council approved our proposed adjustments and reflected them in the Financial Statements. These are:
- EUR3,556 was released to income from UIF Deferred Income
 - EUR276 was released to income from Live Streaming Deferred Income
 - EUR5,064 was released from PPP Deferred Income
- 6.2 We also noted that the Deferred Income balances in the Statement of Financial Position were not apportioned appropriately between current and non-current portions. Consequently, we proposed a reclassification of EUR873 between current and non-current amounts. In addition, we also proposed a reclassification of EUR2,883 from non-current deferred Regional Committee funds to current deferred income in line with the expenses approved to date for 2018. The Council approved our proposed adjustments and reflected them in the Financial Statements.

- 6.3 The Council also defers income received from selling of advertising space in line with the period of advertising. Movement in this income was passed through the wrong deferred income account and hence we proposed a net adjustment to reclassify EUR328 between the advertising deferred income account and other deferred income account. The Council approved our proposed adjustment and reflected it in the Financial Statements.
- 6.4 We remind the Council that it should keep a separate record of all deferred income received and its amortisation schedule to enable it to update the records on a regular basis. This would ensure that proper accounting of deferred income is made for each reporting period.

Creditors' statements

- 6.5 We requested copies of statements of a sample of creditors and although we were provided with all the supplier statements we requested, we noted that the Council did not obtain monthly statements from all its suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.
- 6.6 We remind the Council that these statements are important for a sound accounting system to ensure that creditors are fairly recorded in the accounts. Statements from suppliers will highlight any differences from recorded accounts. Any differences could then be promptly investigated.

Debit balances in payables

- 6.7 From a review of the creditors' list, we identified two suppliers with debit balances. These are WasteServ (EUR5,338 – refer to note 2.5) and Falzon Service Station (EUR40). We proposed an adjustment to reclassify EUR5,378 from payables to receivables in line with their status. The Council accepted our proposed adjustment and reflected it in the audited Financial Statements.
- 6.8 The Council should monitor payables and investigate material debit balances to either avoid over payment or recognise the respective expense in a timely manner.

7 Birkirkara Joint Committee

- 7.1 The Birkirkara Joint Committee of which Lija 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 the amount 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.

- 7.2 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.

8 Financial Statements

- 8.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).

- 8.2 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 cover all the changes in the unaudited Financial Statements. The Council has amended these disclosures after our notification.
- IAS 7 *statement of cash flows* relating to disclosure on capital creditors and grants received is not presented correctly to reflect the actual cash flow movement. The Council amended the statement after our notification.
- The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the Council.

- 8.3 Our audit opinion has been qualified in respect of the unadjusted shortcoming mentioned above.

9 Budget and business plan

- 9.1 The Council has prepared both the 2018 budget and the business plan for 2018 – 2020. However, we noted that whereas the Council did not budget any capital expenditure for 2018, the business plan forecasts a capital expenditure of EUR11,000 for 2018.

- 9.2 The Council should apply consistency between the budget and the business plan.

10 Council meetings

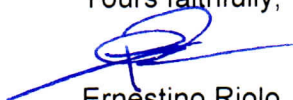
- 10.1 From a review of the Councillor attendance and apology letters, we noted that a Councillor missed a meeting due to severe illness and he was excused by the Council. However, we were not provided with a copy of the sickness certificate as support for the claim made by the Councillor.
- 10.2 As required by Circular 6/2017, absences due to sickness is to be attested by a medical certificate to be classified as excused rather than absent. The Councillor did not provide a medical certificate, and therefore the Council should have deducted the amount of EUR 100 from his allowance, given that the Councillor missed 1 out of 6 meetings held during the 6 month period.

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 Ms. Georgette Borg 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