

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

**Kunsill Lokali:  
Hal-Balzan**

26 JUN 2020

**RECEIVED**

28 April 2020

### **Financial Statements for the year ended 31 December 2019**

During the course of our audit for the year ended 31 December 2019, 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 Property, plant and equipment**

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 issues relating to replacement or additions made during the year to PPE and depreciation was calculated fairly. On the other hand, we identified errors in accounting for grants (refer to notes 2.6 and 2.9).

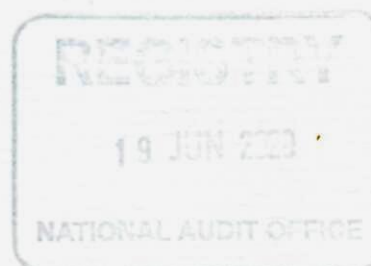
##### **1.2 Bank and cash**

We were pleased to note that the Council has started to prepare bank reconciliations within 10 working days from the end of the month.

##### **1.3 Payables**

We again noted that monthly supplier statements are still not being obtained by the Council (refer to note 3.1).

We also noted that the Council still had overdue payable balances at 31 December 2019 (refer to note 3.4).



#### 1.4 Procurement

As from 1 June 2019, the Council rectified the procurement issues identified during 2018 for services carried out by the accountant. The expense for accountancy services incurred during the first 6 months amounted to EUR833. On the other hand, the Council did not rectify the issue relating to the cleaning of the public conveniences (refer to note 4.1) and we again identified differences between the actual and budgeted expenditure for the year (refer to notes 4.3 – 4.4).

#### 1.5 Local Enforcement System

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

#### 1.6 Financial Statements

Once again, we identified shortcomings in the presentation of Financial Statements (refer to note 9).

### 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.

##### Reconciling fixed asset register and fixed asset schedule

- 2.3 We performed a reconciliation between the fixed asset register and fixed asset schedule in the unaudited Financial Statements and we identified an overall difference of EUR 8,052 arising mainly between the value of accumulated grants and depreciation. The difference is analysed in the table below:



	As per FAS in Draft FS			As per FAR			Difference		
	Cost EUR	Accum Grants/Depn EUR	NBV EUR	Cost EUR	Accum Grants/Depn EUR	NBV EUR	Cost EUR	Accum Grants/Depn EUR	NBV EUR
Office Furniture & Fittings	29,245	11,161	18,084	29,244	10,421	18,823	1	740	739
Plant & Machinery	1,944	1,944	-	1,944	1,944	-	-	-	-
Computer Equipment	6,848	4,301	2,547	30,370	5,477	24,893	1	5,881	5,880
Motor Vehicles - Right of Use	23,523	7,057	16,466						
Office Equipment	18,533	14,956	3,577	18,533	14,975	3,558	-	19	19
Urban Improvements	704,412	610,251	94,161	704,413	608,800	95,613	1	1,451	1,452
New Street Signs	10,170	10,170	-	10,170	10,170	-	-	-	-
Construction Works	701,959	638,630	63,329	835,087	674,131	160,956	1	1	-
Property - Right of Use	133,129	35,502	97,627						
Special Programmes	254,130	254,130	-	254,130	254,130	-	-	-	-
	<b>1,883,893</b>	<b>1,588,102</b>	<b>295,791</b>	<b>1,883,891</b>	<b>1,580,048</b>	<b>303,843</b>	<b>2</b>	<b>8,054</b>	<b>8,052</b>

2.4 We also reconciled the fixed asset schedule as presented in the unaudited Financial Statements to the ledger and we noted that accumulated depreciation on office furniture and right of use of property accounts were not agreeing by EUR2,220. Similarly, a difference of EUR25 was also noted on accumulated depreciation on office equipment and urban improvements. We proposed an audit adjustment to reclassify the amount of EUR2,245 between these accounts. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

2.5 We encourage the Council to clean up and correct these differences and to ensure that controls are in place to identify and correct such differences in a timely manner.

### Grants

2.6 During the year under review, the Council was expected to receive the sum of EUR3,537 from the Local Council Association in relation to a project to acquire and plant trees around the village. Although the amount was not yet received, the capital expenditure was incurred during 2019 and the cost recognised under Urban Improvements. The Council did not recognise the amount receivable and hence we proposed an audit adjustment to recognise the amount of EUR3,537 as accrued income and grant against the capital expenditure. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

2.7 From our review of depreciation workings, we noted that the asset mentioned above, amounting to a total cost of EUR4,378 was being depreciated at the rate of 10% whereas Councils are not expected to depreciate trees as stipulated in the Councils' accounting policies. The total depreciation charge for the year with respect to this asset amounted to EUR109.

2.8 We recommend that the Council monitors income that it is entitled to receive to ensure that such income is being accounted for in the correct period. We also recommend that any funding received is allocated against the respective fixed



asset which is acquired with such funding. We also remind the Council that depreciation rates on class of assets is prescribed by the Act and such assets should be classified separately to ensure that these are depreciated at the appropriate rates.

- 2.9 We also noted that the Council received funds amounting to EUR1,100 from EneMalta Corporation as refund of expenses incurred by the Council to repair damages. The Council included this amount with grants classified under Urban Improvements, however, the cost incurred to carry out these repairs had been expensed during 2018. We proposed an audit adjustment to reclassify the amount of EUR1,100 from grants to income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.10 As recommended above, the Council should adopt the necessary controls to ensure that any refunds of expenses are recognised in the period in which the expense is incurred and classified in line with the nature of the expense.

### **3. Creditors**

#### **Suppliers' statements**

- 3.1 Once again, we noted that the Council is not managing to obtain monthly statements from its creditors/suppliers.
- 3.2 Our testing on supplier balances identified a difference between the balance on the supplier's<sup>1</sup> statement which amounted to EUR504 and the balance due as per ledger which amounted to EUR252. Furthermore, from our testing on expenses incurred on Cleaning and Maintenance of Parks and Gardens, we noted that the annual expenses amounted to EUR2,775 whereas the expected expenses agreed terms should have been a total of EUR3,027. The difference of EUR252 related to the invoice covering the service provided during the month of August that was not recorded or paid by the Council. We proposed an audit adjustment to account for this invoice. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 3.3 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.

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<sup>1</sup> Environmental Landscapes Consortium Limited

### **Long outstanding trade payables**

- 3.4 At 31 December 2019, we identified 10 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 EUR12,059.
- 3.5 We understand that out of this amount, EUR5,590 is due to a creditor<sup>2</sup> (and related court fees of EUR 2,329) who is subject to a warrant of seizure by the court and cannot be written back, and an amount of EUR1,024 due to WasteServ which is meant to be covered by The Department for Local Government.
- 3.6 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.

## **4. Procurement**

### **Tendering and quotations**

- 4.1 As reported in the 2018 Management Letter, we noted that Cleaning of Public Conveniences is still 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 is equal to the overtime rate as stipulated in the handyman service tender. The total expense for 2019 was equal to EUR3,510.
- 4.2 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.

### **Budgeted vs actual expenditure**

- 4.3 The Council had budgeted a capital expenditure of EUR8,000 allocated as tabled below. However, expenditure amounted to EUR11,967 and the Council incurred capital expenditure on categories for which such expenditure was not budgeted.

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<sup>2</sup> City Sport and Play Limited



	Actual EUR	Budgeted EUR	Difference EUR
Office Furniture and Fittings	2,272	3,000	- 728
Computer Equipment	169	-	169
Urban Improvements	6,623	-	6,623
Construction Works	2,655	-	2,655
Plant and Machinery	-	1,000	- 1,000
Office Equipment	248	4,000	- 3,752
	11,967	8,000	3,967

- 4.4 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, overall, registered a higher surplus and we noted that in various instances income was higher than that budgeted for the respective income category. Actual income exceeded the amount forecasted by EUR16,431. 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
<b>Government Income</b>			
Section 55 of Local Councils Act	304,802	304,802	-
Other Government Income	24,665	23,400	1,265
Other Supplementary Government Income	4,536	-	4,536
	334,003	328,202	5,801
<b>Income Raised Under the LES</b>			
Income from LES Administration Fees	1,898	2,000	- 102
<b>General Income</b>			
Income from Permits	26,270	15,000	11,270
Sundry Contributions and Donations	2,012	2,550	- 538
	28,282	17,550	10,732
<b>Total Revenue</b>	364,183	347,752	16,431

	Actual EUR	Budgeted EUR	Difference EUR
<b>Personnel Emoluments</b>			
Mayor's Allowance	9,390	7,464	1,926
Executive Secretary's Salary and Allowances	30,586		
Employee's Salaries	38,015	75,413	2,888
Councillors' Allowance	9,700		
Social Security Contributions	5,826	5,826	-
	93,517	88,703	4,814
<b>Operations and Maintenance</b>			
<i>Repairs and Upkeep</i>			
Signs	2,674		
Public Property	13,907	14,900	5,070
Road Markings	1,187		
Other Repairs and Upkeep	2,202		
	19,970	14,900	5,070
<i>Contractual Services</i>			
Refuse Collection	67,885	77,470	- 9,585
Bulky Refuse Collection	8,444	7,162	1,282
Road and Street Cleaning	33,969	33,578	391
Cleaning and Maintenance - Public Conveniences	3,510	3,800	- 290
Cleaning and Maintenance - Parks and Gardens	3,027	3,027	-
Street Lighting	2,883	3,000	- 117
Other	2,042	13,900	- 11,858
	121,760	141,937	- 20,177
<b>Total Operations and Maintenance</b>	141,730	156,837	- 15,107
<b>Administration and Other Expenditure</b>			
Utilities	4,035	6,650	- 2,615
Cleaning	-	500	- 500
Materials & Supplies	660	900	- 240
Rent	1,850	10,250	- 8,400
Lease Interest	4,641	6,000	- 1,359
Memberships	1,231	500	731
Office Services	3,538	3,050	488
Training	462	500	- 38
Transport	1,535	700	835
Information Services	1,351	1,900	- 549
Insurance	-	1,400	- 1,400
Professional Services	22,804	20,250	2,554
Community Services & Events	8,611	10,940	- 2,329
Local Enforcement Expenses	254	70	184
Sundry Expenses	59	-	59
Office Hospitality	-	630	- 630
Incidental Expenses	-	250	- 250
Bank Charges	-	200	- 200
	51,031	64,690	- 13,659
<b>Total Expenditure excluding depreciation</b>	286,278	310,230	- 23,952
<b>Surplus for the Year before depreciation</b>	77,905	37,522	40,383



- 4.5 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.

## **5. Expenses**

- 5.1 Our testing on direct costs indicated that costs in relation to handyman services amounting to EUR13,393 and public convenience cleaning services amounting to EUR196 were allocated against the other repairs and upkeep account as opposed to the public property account and cleaning of public conveniences account respectively. We proposed an audit adjustment to reclassify the expenses to their respective ledger account. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 5.2 We recommend that expenses are analysed and classified according to their nature to ensure consistency and comparability in reporting.

## **6 Local Enforcement System**

- 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 2019 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 Payroll

### Allocation of payroll costs in the nominal ledger

- 7.1 Our testing on payroll indicated that the expense was not being appropriately allocated between the different categories in the Financial Statements. We noted that the Mayor's allowance was overstated by EUR200 and Councillors' allowances were understated by the same amount. We proposed the necessary audit adjustment to reclassify the costs accordingly. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 7.2 We recommend that the Council allocates payroll expenses against the appropriate nominal ledger accounts and ensures that these are properly reflected in the Financial Statements disclosure note.

## 8 Deferred income

### Central Region Funds

- 8.1 At the Financial Position date, the Council carried forward EUR37,312 in unallocated funds received from the Central Region Council to 2019. We recommend that the Council identifies projects to be financed from these funds.

## 9 Financial Statements

### Presentation of Financial Statements

- 9.1 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*, disclosures of new and amended IFRSs that have not yet been adopted by the Council were not correctly disclosed in the unaudited Financial Statements. We proposed amendments to the Financial Statements to ensure proper disclosure. The Council has amended these disclosures after our notification.
  - IAS 7 *Statement of Cash Flows*, relating to disclosures on movements in grants and lease payments were not presented correctly. We proposed amendments to the Financial Statements to ensure proper

disclosure. The Council amended these disclosures after our notification.

- The Council adopted IFRS 16, Leases effective as from 1 January 2019 however, an analysis of the workings identified errors in the calculation of lease interest cost and the disclosures presented in the unaudited Financial Statements were not in line with IFRS 16 requirements. The audited Financial Statements were amended to reflect the necessary disclosures and the following adjustments were proposed and approved by the Council:
  - Increased the value of the right of use (ROU) assets by EUR4,380
  - Increased the non-current lease liability by EUR20,677
  - Decreased the current lease liability by EUR2,833
  - Decreased accumulated depreciation on ROU by EUR449
  - Decreased depreciation charge for the year by EUR276
  - Increased finance cost recognised for the year by EUR3,640
  - Increased impact on opening reserves by EUR9,651

Disclosures relating to lease and adoption of IFRS 16 were also updated to be in line with the requirements of IFRS 16

### **Capital commitments**

- 9.2 The capital commitment note presented in the unaudited Financial Statements was not in line with the amounts presented in the Council's financial estimates for 2019. The estimates indicate a projected capital expenditure of EUR6,100 whereas the unaudited Financial Statements indicated an expenditure of EUR8,000. After our notification, the Council revised its capital commitments to EUR6,100.

### **Other issues identified in the Financial Statements**

- 9.3 We also identified the following error in the audited Financial Statements:
- The 2018 column of Administrative and other expenditure presented in note 6 on page 13 indicates that the amounts were restated and hence not in line with the audited results reported for 2018. This is incorrect.



## 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

	EUR
Court Fees	2,329
CitySport and Play Ltd	5,590
Lino Micallef	1,024
WasteServ Malta Ltd	1,024
Other	2,092
	<u>12,059</u>