

28 JUL 2021

RECEIVED

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

Grant Thornton
Fort Business Centre
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.grantthornton.com.mt

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20 July 2021

Dear Sir,

**Financial statements for the year ended 31 December 2020**

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils 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 from Joint committee**

We have again noted that the council did not obtain the financial statements of the joint committee (refer to notes 3.19 and 3.20).

1.2 Payroll

We again noted shortcomings in payroll (refer to notes 5.1, 5.3 and 5.5).

1.3 Tendering procedures

We are pleased to note that the council has rectified the issue during the year under review.

1.4 Fixed assets

We have again noted shortcomings in the upkeep of the fixed asset register (refer to note 6.1).

We are pleased to note that the council has rectified the discrepancies between the fixed asset register and the property, plant, and equipment schedule in the unaudited financial statements.

We are pleased to note that no discrepancies were noted between the unaudited financial statements and the books of account.

1.5 Accounting for grants

We are pleased to note that the council rectified the issue during the year under review.

1.6 Depreciation

We again identified shortcomings in depreciation (refer to note 6.6).

1.7 Expense classification

We are pleased to note that the council has rectified the issue during the year under audit.

1.8 Central Region funds

We noted that the council has rectified the issue during the year under audit.

1.9 Accounting for trade payables

Once again, we noted that the council failed to obtain suppliers' statements (refer to note 9.1).

We have once again identified discrepancies between the council's creditors' list and the balances as per suppliers (refer to note 9.3).

We have once again identified long outstanding payables (refer to notes 9.5 and 9.6).

1.10 Financial statements presentation

The unaudited financial statements had minor shortcomings in the presentation of financial statements (refer to note 13.1).

1.11 Capital Commitments

It was noted that the council has rectified the issue during the year under review.

1.12 Comparison of actual expenditure with the annual budget

We are pleased to note that the council has rectified the issue during the year under audit.

2 Opening balances

2.1 Whilst testing opening balances as at 1 January 2020, we noted that the amount of €106 which was posted in the cultural events account was included with the opening balances. As per enquiry with the council, it was explained that this pertained to a posting which was made in 2020 with a date prior to 1 January 2020. An audit adjustment was proposed to reverse this amount against creditors. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We advise the council to ensure that accounting entries are recorded in the year they relate to.



3 Income

Government Income

- 3.1 During the year under review, the council received the amount of €1,013 from the Adjustment Fund. It was noted that the council recorded this amount with the Government allocation. To this end, an audit adjustment was proposed to reclassify this amount to other Government income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 3.2 We recommend that the council allocates income receivable to the appropriate accounts so that the income of the council is properly reported.

Supplementary Government income

- 3.3 During the year under review, the council received the amount of €625 in relation to the LC Care Scheme 2019. Furthermore, it also received the amount of €1,652 from LES surplus which were used for a new zebra crossing, and the amount of €1,000 in relation to spinning photos. It was noted that the council recorded these amounts as other supplementary Government income. Furthermore, the council also recorded the release of deferred income amounting to €975 in relation to the LC Care Scheme in the other supplementary Government income account. Likewise, it also recorded as supplementary income, accrued income amounting to €3,000 and €326 in relation to scheme 5/2020 for Christmas decorations and LC Care scheme, respectively. An audit adjustment amounting to €7,578 was proposed to record these amounts as other Government income. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 3.4 The council should ensure that transactions are accounted for properly so that the revenue of the council is properly reported.
- 3.5 Whilst testing creditors, it was noted that a payment amounting to €1,476 was made by the Department for Local Government to WasteServ Malta Limited on behalf of the local council for tipping fees. This amount was omitted from the council's books of account. Therefore, an adjustment was proposed to record this amount as income and reverse it from creditors. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 3.6 May we remind the council that in accordance with circular 3/2018 this income should be disclosed with 'other supplementary Government income'.

Accrued income

- 3.7 On 30 December 2019 the council entered into an agreement with the LC Care Project Committee on behalf of the Ministry for the Environment, Sustainable Development and Climate Change, whereby the council was awarded the sum of €2,041, which is equivalent to 80% of the final cost of the project which amounted to €3,476. During the year, the council received €1,600 out of the total amount due. Up until year-end, the council had incurred the total cost of €2,551 on the project, 80% of which amounts to €2,041. Therefore, at year-end, the council was still due to receive the amount of €441. It was noted that the council recorded as accrued income the amount of €951. An audit adjustment of €510 was proposed to reverse the excess accrued income accounted for in the books of account. The adjustment was approved by the council and was properly presented in the audited financial statements.

- 3.8 It was further noted that the council recorded accrued income amounting to €2,050 in relation to the collection of organic waste for December 2019. In fact, the council issued invoice 16 on 10 January 2020. Therefore, an adjustment was proposed to reverse this amount from accrued income. Similarly, the council recorded as accrued income the amount of €2,315 in relation to the collection of organic waste for the month of October 2020. In fact, the council had issued invoice 29 on 3 December 2020. An audit adjustment was also proposed to reverse this amount from accrued income. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 3.9 After taking into consideration the audit adjustments discussed in note 3.8, accrued income for the collection of organic waste for the year should amount to €2,137, which is equivalent to the amount invoiced by WasteServ Malta Limited for the month of December, which invoice was issued on 3 February 2021. However, the balance remaining in the books of account amounted to €2,580 and therefore an audit adjustment amounting to €443 was proposed, to reverse the additional amount recorded as accrued income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 3.10 We remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.

General income

- 3.11 During our audit fieldwork, we noted that the council did not deposit its income on a regular basis. Examples include:

Description	Receipt number	Receipt date	Deposit date	€
Permit 4222	10330	27.11.2020	02.12.2020	15
Permit 4036 + 8 parking signs	10072	23.09.2020	29.09.2020	38
Permit 3658 + 6 no parking signs	9564	20.05.2020	27.05.2020	16
High-up permit 3615 + 1 no parking space	9496	28.04.2020	05.05.2020	11

- 3.12 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period since, apart from contravening the procedures, it can give rise to security concerns.
- 3.13 Furthermore, it was noted that the council recorded bank interest amounting to €25 as general income. An audit reclassification was proposed to record this amount as finance income. The audit reclassification was properly presented in the audited financial statements.
- 3.14 We would like to remind the council that correct classification is an integral part of the accounting system.

Income from LESA and regional committees

- 3.15 The following invoice was not sent to the regional committees or LESA in the first week of the following month:

Invoice month	Invoice date
December 2020	15.01.2021

- 3.16 In accordance with memo 91/2011 local councils are required to issue the regional committee and LESA invoices in the first week of the following month.

Custodial receipts

- 3.17 The council did not deposit custodial receipts on a regular basis. Some instances encountered during the audit are the following:

Description	Receipt number	Receipt Date	Deposit date	€
Lands Department	911386	23.01.2020	28.01.2020	20.96
LESA	4494311	17.03.2020	24.03.2020	23.29

- 3.18 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

Joint Committee

- 3.19 We also noted that Balzan Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 3.20 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to €5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 3.21 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

4 Expenditure

Petty cash payments

- 4.1 We noted that the petty cash summaries do not include all the necessary details, namely account numbers. This lack of information renders it difficult to identify to which nominal accounts the expense was allocated to.
- 4.2 We recommend that the council includes account numbers in the petty cash summaries to ensure payments are correctly allocated in the books of account.

Insurance policy

- 4.3 During our audit we identified the below discrepancies between the asset insurance cover and net book value of assets included in the prior year audited financial statements:

Asset	Sum insured €	NBV in books of account €
Land and buildings	103,008	97,465
Office furniture and fittings	35,711	18,084
	138,719	115,549

4.4 It is evident that some of the fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy to ensure that the council's insurance coverage is in line with current legislation.

4.5 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft, and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement cost of the assets.

Leases

4.6 Whilst testing IFRS 16 workings which were prepared by the council, it was noted that as at year-end the accumulated depreciation of the leased motor vehicles amounted to €14,086. The accumulated depreciation as per books of account amounted to €12,293. Consequently, the right-of-use (ROU) asset as at year-end amounted to €14,039 as per workings whilst the amount of €15,832 was recorded in the books of account. Therefore, an adjustment amounting to €1,793 was proposed to reflect the correct amount of the ROU asset in the books of account. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

4.7 We recommend that the council pays more attention to the calculations prepared, so that any releases from the ROU asset are stated correctly. This would ensure that the amounts are properly recorded in the books of account and are correctly reflected in the financial statements.

5 Payroll

Mayor Honoraria

5.1 Whilst reviewing the mayor honoraria for the year ending 2020, we noted that the council did not distinguish between the mayor honoraria and allowance in the books of account. Thus, we have proposed an audit adjustment amounting to €2,400 to separately record mayor honoraria and allowance. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

5.2 We recommend that the council keeps separate accounts for mayor allowance and mayor honoraria for ease of extraction.

Performance bonuses

- 5.3 We noted that the council did not distinguish between employee bonuses and wages and salaries in the books of account.
- 5.4 We reiterate our recommendation to keep separate accounts for bonuses and employee wages and salaries for ease of extraction.

Wages' reconciliation

- 5.5 Whilst reconciling the FSS tax declared in FS5 forms to that declared in the FS7 form, we came across the following differences:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
FSS full-time	72,980	96,334	(23,354)
FSS part-time	23,403	-	23,403
Total	96,383	96,334	49

- 5.6 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

6 Fixed assets

Upkeep of fixed asset register

- 6.1 When reviewing the fixed asset register, we noted that relevant details like invoice number, date of purchase, location and depreciation for the year are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail. Examples include:

Asset category	Asset code	Description	Net book value €
Urban improvements	URB00097	Ornamental lights	26,771
Office furniture and fittings	FFF00075	Air conditioner	654
Construction	CNS00090	Travertino windowsills	224
Construction	CNS00083	Soffits (gypsum)	1,622
Urban improvements	URB00096	Professional Services	1,820

- 6.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)

- Cost
- Depreciation method and rate
- Location of the asset
- Grants received

- 6.3 An updated fixed asset register enables the council to exercise proper control over the council's property, plant, and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.
- 6.4 Upon reviewing the council minutes, we noted that Infrastructure Malta provided the council with trees, amounting to €4,956 to be planted around the locality. It was noted that these were not included in the fixed asset register.
- 6.5 We recommend that the council includes these assets as part of the fixed asset register. The fixed asset register should mirror all the fixed assets that the council holds and therefore, even though it was financed by another entity and donated to the council, the asset should still be included in the register.

Depreciation of fixed assets

- 6.6 During the year under review, we noted that the council's depreciation charge for the year as per books of account amounted to €52,732, whilst the charge as per fixed asset register amounted to €54,505. This resulted in a discrepancy of €1,773. No adjustment has been proposed since this is an accounting estimate.
- 6.7 We reiterate our recommendation that the plant register is updated to agree to the nominal ledger. This will ensure that the depreciation charge calculated by the plant register is as stated in the books of account and is also correctly reflected in the financial statements.

7 Inventory

Stock list

- 7.1 Whilst testing stock, we noted that the following books were not included in the council's stock list and were also not accounted for in the council's books of account.

Book title	Quantity	Selling price	Amount
		€	€
Hal Balzan u l-Lunzjata	24	20.00	480
Hal Balzan Grajjietu sa' l-1999	27	13.98	377
Hal Balzan kif nafu jien	431	5.00	2,155
	482		3,012

- 7.2 The council should perform a stock count regularly, and any discrepancies identified between the stock list and the count should be investigated. All books which are being sold by the council should be included as part of the council's stock. In the case that some of the books are slow-moving or are given as complimentary and not sold, then write-offs or provisions of inventories might be necessary.

Stock insurance

- 7.3 Moreover, we also noted that the council failed to insure the stock of books.
- 7.4 May we remind the council that assets should be adequately insured. Unless stock is insured the council will not be able to recover any losses in stock in case of theft, fire, and any other accident.

8 Trade and other receivables**Overdue receivables**

- 8.1 The debtors' list includes overdue receivables from LESA, GO plc and WasteServ Malta Limited amounting to €82, €49, and €6,662, respectively. These balances have been outstanding for more than one year.
- 8.2 Furthermore, it was noted that the council is recording in its books of account the amount of €600 pertaining to old refundable deposits.
- 8.3 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due.

Credit balance in debtors' list

- 8.4 We have identified a credit balance in the debtors' list amounting to 34 (Local Councils Association) for which an audit reclassification was proposed to reclassify this amount to other creditors. The audit reclassification was properly presented in the audited financial statements.
- 8.5 We recommend that the council presents credit balances separately from debtors and includes them with other creditors in the financial statements. Furthermore, the council should investigate all credit balances in the debtors' list as these could indicate payments allocated to the wrong debtor account, invoices not recorded or overpayments.

Confirmation of debtors

- 8.6 The council's debtors' list at year-end included a receivable balance from WasteServ Malta Ltd amounting to €21,118. The statement which was obtained from WasteServ Malta Limited showed a balance amounting to €22,434. This resulted in a discrepancy of €1,316. Upon further investigation, it was noted that the council omitted from the books of account invoice 16 which was issued by the council on 10 January 2020, and which amounted to €2,050. This invoice pertains to the collection of organic waste for the month of December 2019. An audit adjustment was proposed in this regard. Moreover, it was also noted that WasteServ Malta Limited did not account for credit note 18 and invoice 25 which were issued by the council and amounted to €179 and €236, respectively. It was further noted that WasteServ Malta Limited accounted for invoice 22 amounting to €677 as a credit note. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.7 During our testing, it was also identified that on 23 December 2020 the council issued invoice 29 amounting to €2,315 which pertained to the collection of organic

waste for the month of November 2020. Whilst this invoice was recorded in the books of account, it was not taken into consideration by WasteServ Malta Limited. Furthermore, it was also noted that on 3 December 2020 the council issued another invoice with the reference number 29, amounting to €2,315 and which pertained to the collection of organic waste for the month of October 2020. Whilst this invoice was included in the WasteServ statement, it was noted that it was omitted from the council's books of account. Therefore, an audit adjustment was proposed to record this invoice. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

- 8.8 We recommend that all valid invoices issued by the council are properly recorded in the books of account thus ensuring that income and current assets are recorded in the correct financial year. Furthermore, we also recommend that the council contacts Wasteserv Malta Limited and ensures that all invoices and credit notes are recorded properly. Moreover, the council should perform regular reconciliations with all debtors to promptly highlight any differences and should continue to chase for payment.

Prepayments

- 8.9 During our audit fieldwork we noted that the council failed to account for the prepayment of the council insurance amounting to €431 in its books of account. An audit adjustment was proposed in this regard. The adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.10 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct period based on the accrual concept.

LES receivables

- 8.11 According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €52,415. No amount is recognised as an LES receivable in the council's books of account and in the financial statements. We did not propose an audit adjustment to account for LES debtors since it has no effect on the financial statements as LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 8.12 We recommend that the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council's books.

9 Trade and other payables

Supplier statements

- 9.1 The council did not obtain monthly statements from all its suppliers. Memos and circulars issued from time to time by the Department for Local Government specifically state that the council should obtain monthly statements from all suppliers.
- 9.2 We recommend that the council obtains monthly statements from all suppliers to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Confirmation of trade creditors

- 9.3 As part of our audit procedures we circularised confirmation letters to selected suppliers. The below issue was noted:

Creditor	Amount in books of account €	Amount as per creditor's Statement €	Difference €
WasteServ Malta Ltd	1,463	1,663	200

The council explained that this discrepancy is arising due to a difference in invoice 99429. No adjustment was proposed from our end. The council should ensure to reconcile with the supplier and record the correct amounts in its books of account.

- 9.4 We remind the council that circular 1/2020 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Long outstanding trade creditors

- 9.5 Whilst reviewing the council's aged supplier list we noted that the council has long overdue balance amounting to €8,605, which has been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

Supplier	In creditors' list €	Notes
Court fees	2,330	(a)
CitySport and Play Ltd	5,590	(a)
Omar Fenech	637	
Premier Business Limited	48	(b)
Total	8,605	

a) As per enquiry with the council, it was noted that these fees relate to a court case which was initiated against the council prior to 2006. The council explained that the case was never decided, and no correspondence was received by the council in recent years in this regard. Furthermore, the council was never approached by the company which initiated the court case for the payment of any fees due. Therefore, the council continued to record these as amounts due in creditors.

b) It was noted that these amounts pertain to extra charges which were invoiced to the council by the supplier and which the council refused to pay. The supplier never furnished a credit note for these amounts and hence these unpaid balances were never reversed from creditors.

- 9.6 Furthermore, whilst testing other creditors, we noted that the council had long overdue balances amounting to €14,256 in relation to temporary permits issued by the council.

- 9.7 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Unrecorded liabilities

- 9.8 During the audit fieldwork, it came to our attention that the council omitted two invoices for waste disposal services which were dated in 2020, and which service was provided during 2020 for the cost of €1,309. An audit adjustment was proposed to account for these omitted invoices. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 9.9 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

10 Cash and cash equivalents

Final withholding tax

- 10.1 During our fieldwork we noted that the BOV current account is subject to a final withholding tax.
- 10.2 Even though this bank account does not normally earn any interest it is still recommended that the council instructs the bank not to withhold tax since it is exempt from income tax.

11 Electronic site

Uploading of management letter and other documents

- 11.1 During the audit fieldwork we noted that the council uploaded the 2019 management letter and reply in accordance with Circular 21/2019.
- 11.2 We would like to remind the council of the General Data Protection Regulations as indicated in SPI7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 11.3 We therefore recommend that the council contacts the Department for clarification of this contradiction.

12 Schedules of payments

- 12.1 During our review of the schedules of payments, we noted that the council is not including account numbers as required by circulars. This is not in accordance with the template schedule of payment issued by the Department for Local Government.
- 12.2 The council should fill in all details in the schedules of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedules of payments and the expenses included in Sage.
- 12.3 It was further noted that the council failed to indicate in the schedules of payments that cheque 9868 was cancelled since it had bounced.

- 12.4 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the Executive Secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedules of payments. The cancelled cheques should be retained as evidence of their cancellation. Furthermore, during 2020 the council adopted directive 4/2020 which enables the council to make online payments. We encourage the council to include the payment date and transfer reference in the schedules of payments.

13 Financial statements

Presentation of financial statements

- 13.1 The following shortcomings were identified in the financial statements of the council:
- i. In note 8, 'Amounts receivable', the council did not distinguish between financial assets and non-financial assets. Similarly, in note 10, 'Trade and other payables', the council did not distinguish between financial liabilities and non-financial liabilities.
 - ii. In note 14, 'Classification of financial assets and financial liabilities', the council referred to IAS 39. It is to be noted that IAS 39 has been replaced by IFRS 9.
- 13.2 We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings were rectified in the audited financial statements.

Specimen chart of accounts

- 13.3 It was noted that the account numbers in the trial balances do not agree to the specimen chart of accounts that is standard to local councils and regional committees.
- 13.4 We recommend that the chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will enhance comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

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 Doriette Farrugia and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

